

Sacramento Suburban Water District

Water Service Charges and Rate Setting Policy

Adopted: September 15, 2014; September 19, 2016

Revised: July 17, 2017

100.00 Purpose of the Policy

It is important for the District to have cost-based rates that are fair, equitable, and defensible. The basis for establishing water rates that are fair, equitable, and defensible has traditionally been cost of service principles and methodologies.¹ At the same time, the courts have historically recognized that municipal entities can take into account policy items other than strictly cost of service when establishing rates (e.g., conservation, efficient use, ability to pay, accrual of prudent reserves, etc.). The people of California, however, have established certain legal constraints on setting water rates pursuant to Proposition 218. Therefore, this policy has been developed to provide guidance and consistency in District financial planning and the rate setting decision-making process for the Board and staff. Also, this policy provides a foundation for the long-term financial sustainability of the District, while providing the outside financial community with a better understanding of the District's commitment to managing the District in a financially prudent and sustainable manner.

200.00 Policy

The District's water service charges and rates will be assessed biennially by staff, to confirm sufficient funding, and to assess needed adjustments to reflect inflation, construction needs, maintain bond covenants, and/or to avoid immediate or major rate adjustments. This does not imply that rates will be adjusted biennially, simply that the rates are reviewed and a determination is made of their adequacy in funding the District.

The District will establish water rates and charges using "generally accepted" rate setting and costing methodologies, including establishing appropriate cost bases for any existing or future water rate structure imposed or proposed to be imposed on District ratepayers, and in compliance with all appropriate laws (i.e., Proposition 218). The District will be viewed on a "stand-alone" basis to help assure self-sufficiency and sustainability. The analyses associated with "generally accepted" rate-setting techniques include the following analyses:

- A. Revenue Requirement Analysis – Establishes the overall level of financial needs of the District. In developing the revenue requirements for the District, the District will consider the following:

¹ Generally-accepted cost of service principles and methodologies are best defined and discussed within the American Water Works Association M-1 Manual, Principles of Water Rates, Fees and Charges.

1. Revenue requirements, including anticipated external funding, will be established on a “cash basis” approach that will include all District programs, operation & maintenance expenses, any applicable taxes/transfer payments, debt service (P&I), and capital improvements funded from rates.
2. Revenues and costs will be annually projected for a five year period (the proposed budget year plus four additional projected years).
3. Projections of Operations & Maintenance (O&M) costs should include any estimated incremental O&M costs associated with increased service levels (or future capital improvements.)
4. District staff will review the five year capital improvement plan and update it regularly by way of its Asset Management Plans and Water System Master Plan.
5. On an annual basis, the District will fund, through its rates and other available revenues, an amount to adequately maintain the existing infrastructure of the District. To achieve this goal, the District will fund selected capital projects based on the District’s Capital Asset Replacement Management Plans and the Water System Master Plan.
6. The system’s capital improvement program will consider growth related capital improvements, and replacement capital improvements.
7. The level of any proposed rate adjustment(s) will reflect all of the above costs (direct, indirect and costs of administration), such that rates will be cost-based and provide for full cost recovery of providing water services to customers and to other local water retailers.

B. Cost of Service Analysis – Determines the equitable allocation of costs (revenue requirements) between the various customer groups.

1. When possible, a cost of service study will be utilized to equitably allocate the District costs to the customer classifications of service.
2. The cost allocation methodology will utilize techniques that are “generally accepted” by the industry (e.g. American Water Works Association) including conservation-based methodologies. The cost of service for the District will consider the specific circumstances and unique characteristics of the District in the cost allocation methodology.
3. A cost of service analysis will be conducted at least once every five years to determine if rates remain equitable between different customer classes of service.

C. Rate Design Analysis – The District will design rates to collect the appropriate level of revenue that reflects the rate design goals, objectives and policies of the District, including water conservation policies established by the District Board.

1. Rate designs will be reflective of system needs, and also reflect the greater public purpose and policy goals of the District Board.
2. Rate structures will be developed to promote understanding by the District’s customers (e.g. bills that are easy to understand).

3. Rates will be set at a level that recovers necessary costs, by customer classification, yet flexible enough to accomplish the District's objectives. As deemed appropriate, rate structures will be designed to reward the preservation of valuable resources (conservation), the efficient use of resources, while discouraging excessive or wasteful usage. (e.g. public purpose programs).
4. Rates will be designed to be equitable, and detailed to a level to reflect the service provided (e.g., private fire protection, multi-family services, etc).
5. Rates will balance the overall goals and objectives of the rate design process with any administrative or District billing issues. Providing rates that are easy to understand and administer is beneficial to both the customer and the District.
6. It shall be the a policy of the District to set rates at the lowest responsible rate.

300.00 Revenue Diversification

The District has limited ability for revenue diversification. Where possible, the District will explore additional revenue sources such as grants, developer contributions, etc.

400.00 Reviews and Updates

The District will closely monitor the financial/rate performance of the District to help maintain adequate rates and charges through:

- A. Annual Reviews - District rates will be reviewed annually as part of the budget process, to determine the adequacy of revenues, and, as necessary, adjustments made to reflect inflation, construction needs, maintain bond covenants, and avoid major increases.
- B. Comprehensive Rate Studies - District rate studies will be conducted, at a minimum, every five years to update assumptions and plan for the long-term solvency and viability of the District's water services.

500.00 Authority

The General Manager and District Treasurer are responsible for adherence to this policy and regular reporting of the District's financial status. Board oversight will be accomplished through regular reporting of financial status and review of this Policy.

600.00 Policy Review

This Policy will be reviewed at least biennially.