

# City of Dixon

*Ad Hoc Committee Kick-Off Meeting  
for Cost-of-Service Rate Study*

**January 25, 2024**



## Meet our Team



### **Habib Isaac**

21 Years Experience

BS in Applied Mathematics with Emphasis in Computational Science

Actively involved in the industry and commonly speaks at industry conferences

Specializes in creative solutions, rate design, and skilled facilitator working with stakeholders



### **Andrea Boehling**

18 Years Experience

BS in Business Administration with Major in Accounting

Co-Authored Chapter 13 – Rates for Reuse or Reclaimed Water (WEF Manual)

Specializes in financial planning, model development, quality control, and client relationships

# Cost-of-Service Study

## Main Objectives



Develop a long-term financial plan based on City policies and best management practices to ensure revenue sufficiency (operating, asset management plan, and reserves)



Perform comprehensive cost-of-service analysis to allocate a proportionate share of cost to each customer that complies with Proposition 218



Develop equitable rate alternatives that are **viable** and fair to the City's constituency, reflecting the service area's unique characteristics



Guide and support the City through rate adoption and implementation



Prepare comprehensive administrative record

# Tentative Schedule

## Water Rate Study

RAC	Timeline
RAC Kick-Off Meeting	Jan 25 <sup>th</sup>
Rate Policy Workshop (Joint)	Feb 20 <sup>th</sup>
Financial Plan Development	Feb – Mar
Financial Plan Workshop	Mar 11 <sup>th</sup>
Community Financial Workshop	Mar 18 <sup>th</sup>
Cost-of-Service / Rate Design	Mar – Apr
Rate Workshop #1	Apr 8 <sup>th</sup> / 10 <sup>th</sup> / 11 <sup>th</sup>
Rate Workshop #2 (If needed)	Apr 25 <sup>th</sup>
Rate Study Report	May
Community Rate Workshop	Jun 3 <sup>rd</sup>

City Council	Timeline
Rate Policy Workshop (Joint)	Feb 20 <sup>th</sup>
Financial Plan Development	Feb – Mar
Community Financial Workshop	Mar 18 <sup>th</sup>
Financial Plan Workshop	Mar 19 <sup>th</sup>
Cost-of-Service / Rate Design	Mar – Apr
Rate Workshop	May 7 <sup>th</sup>
Rate Study Report	May
Community Rate Workshop	Jun 3 <sup>rd</sup>
Public Hearing	Jul 16 <sup>th</sup>

# Agenda

## Rate Study Components



# Legal Requirements

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## **Proposition 218 (Arts. XIII C and D of State Constitution)**

- An agency cannot collect revenue beyond what is necessary to provide service
- Revenues derived by the charge shall not be used for any other purpose other than that for which the charge was imposed
- The amount of the fee may not exceed the proportional cost-of-service for the parcel
- No charge may be imposed for a service unless that service is actually used or immediately available to the owner of property
- A written notice of the proposed charge shall be mailed to the record owner of each parcel at least 45 days prior to the public hearing

# Approach to Evaluating Rate Options



## Existing Rates

What's working and what's not working?



## Rate Objectives

What should be achieved with new rates?



## Rate Alternatives

Uniform Rates, Tiered Rates, Budget-Based Rates



## Strategic

Fixed vs. variable revenue recovery, special considerations, any other strategic objectives

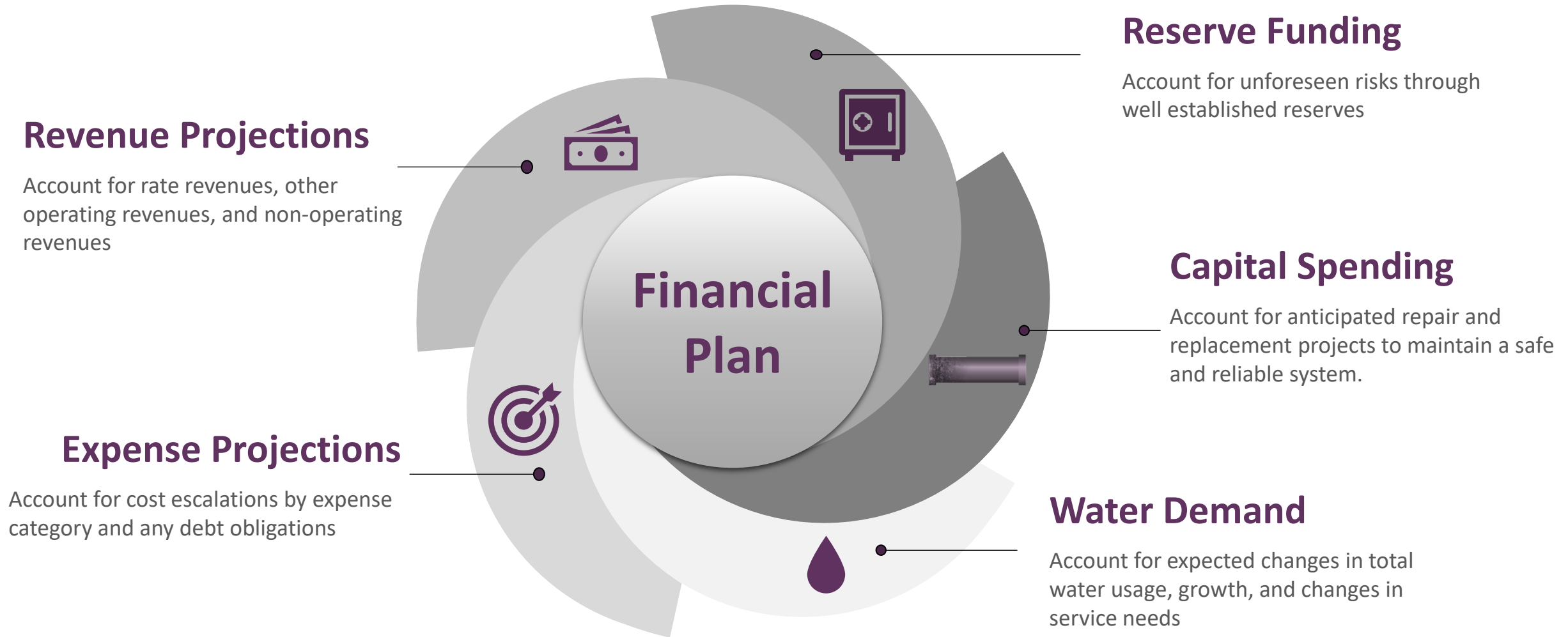
# Long-Term Financial Planning





# Long-Term Financial Planning

## Factors Impacting the Financial Plan





# Financial Plan Considerations

## Policy Decisions Influencing Rates

- Level of Capital Spending
  - Current rates are not sufficient to cover capital needs
  - City has deferred capital replacement
  - Water system annual depreciation = ~**\$660,000**
- Utilizing debt financing to fund capital
  - Overall cost of the project increases from incurring interest
  - Project costs amortized over 30 years in line with the useful life of the improvement
    - ❖ Generates inter-generational equity
- Reserve Funding
  - Operating Reserve
  - Capital Repair & Replacement Reserve
  - Emergency Reserve
- Timing on meeting revenue requirements
  - Phase-in increases (high-to-low / low-to-high)
  - Level increases over the 5 years
  - Certain obligations may drive rate increases in a specific year

# Rate Alternatives



# Water Rate Alternatives

## Rate Design



Rate Alternative	Description
Flat Rates	Flat or fixed charge, does not vary based on usage
Uniform Rates	Rate per unit of water applied to all customers
Uniform Rate by Customer Class	Rate per unit of water that varies by customer class
Tiered Rates *	Traditional Tiers, as usage increases the per unit rate increases
Budget-Based Rates	Customers are given individual budgets. Usage above the budget incurs a higher rate - Not recommended

\* *Current SFR Rates*



# Rate Structure Considerations

## Policy Decisions Influencing Rates

### ➤ Fixed cost recovery

- Prior to the 2015 drought, utilities recovered approximately 30% of total costs through fixed-charges
- Current trend is now averaging over 40%
- Dixon's current fixed cost recovery is around 35%
- Adjusting the fixed cost recovery can generate different rate alternatives

### ➤ Variable Rates

#### Residential

- Tiered rates require a clear allocation of costs to each tier
- Can't arbitrarily set tiers solely to achieve conservation signaling
- Breakpoints between tiers should have a sound rationale
  - ❖ Based on usage characteristics, water supplies, or how expenses are incurred as usage increases

#### Non-Residential

- Difficult to develop a tiered rate structure that fits all the various commercial types
  - ❖ Non-Residential uses water very differently from one another
  - ❖ i.e. Starbucks vs. Industry vs. Retail Store

# Strategic Objectives





# Strategic Objectives

## Considerations

- Level of capital funding
- Reserve funding
- Determine fixed / variable revenue recovery split
- Consider more than one rate alternative to evaluate
- Discount rates for low income
  - Must be funded by non-rate revenue
- Any other objectives?

# Rate Advisory Committee

## Timeline

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