

City of Dixon

*Rate Setting Policy Workshop
for Cost-of-Service Rate Study*

February 20, 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

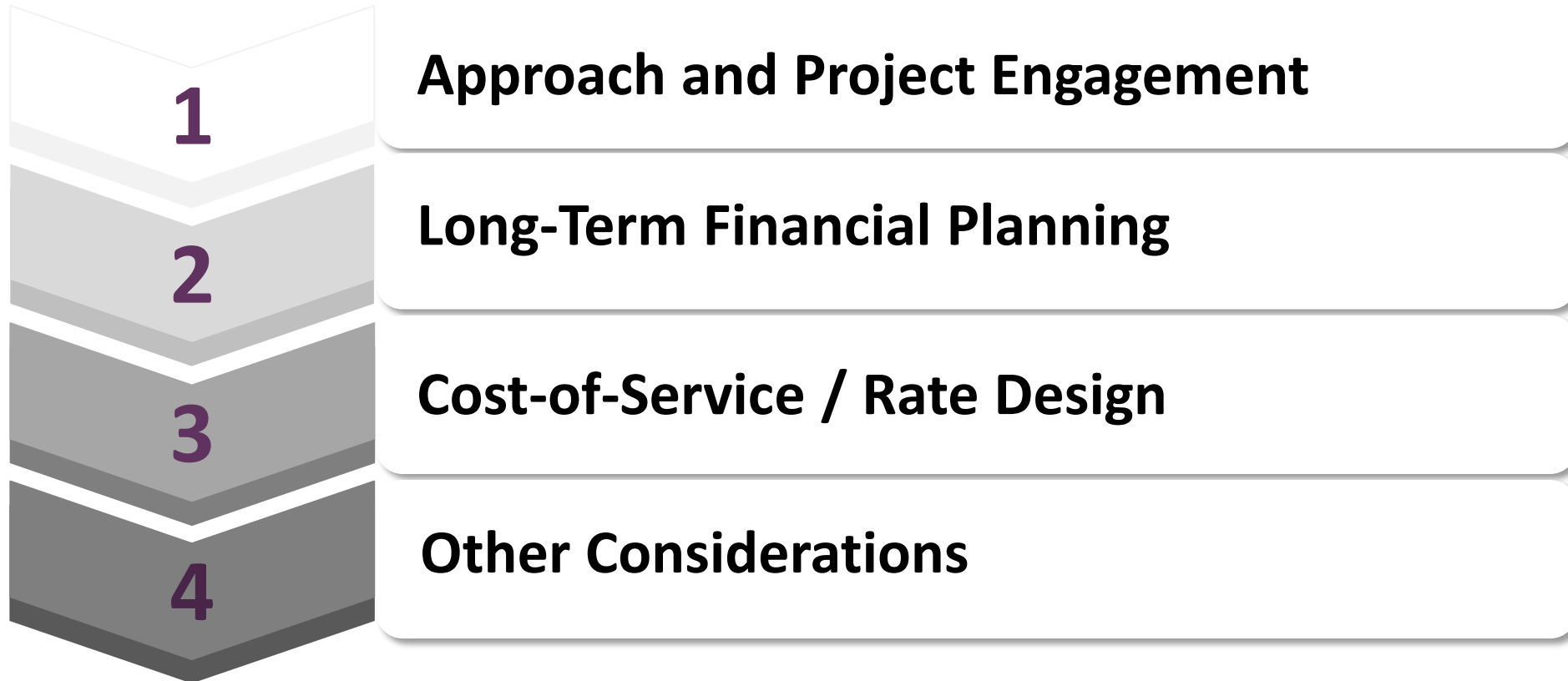
BS in Business Administration with Major in Accounting

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

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

Agenda

Approach and Rate Study Components



Cost-of-Service Study

Main Objectives



Develop a long-term financial plan based on 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 customers, reflecting the service area's unique characteristics



Guide and support the City through rate adoption and implementation



Prepare comprehensive administrative record

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

Engagement with Ratepayer Advisory Committee

RAC Kick-Off

- Held kick-off meeting with RAC members on January 25th and discussed:
 - Study Approach
 - Timeline
 - RAC involvement and expectations
 - IB Consulting will develop viable financial plan and rate design options
 - RAC Workshops
 - ❖ RAC workshops will be held prior to meetings with City Council
 - ❖ City Council workshops will include feedback from RAC
- IB Consulting will identify the primary drivers causing the need for rate increases
- Walk through the rationale on how rates should be structured and clearly explain our recommendations regarding proposed rates

Tentative Schedule

Water Rate Study

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

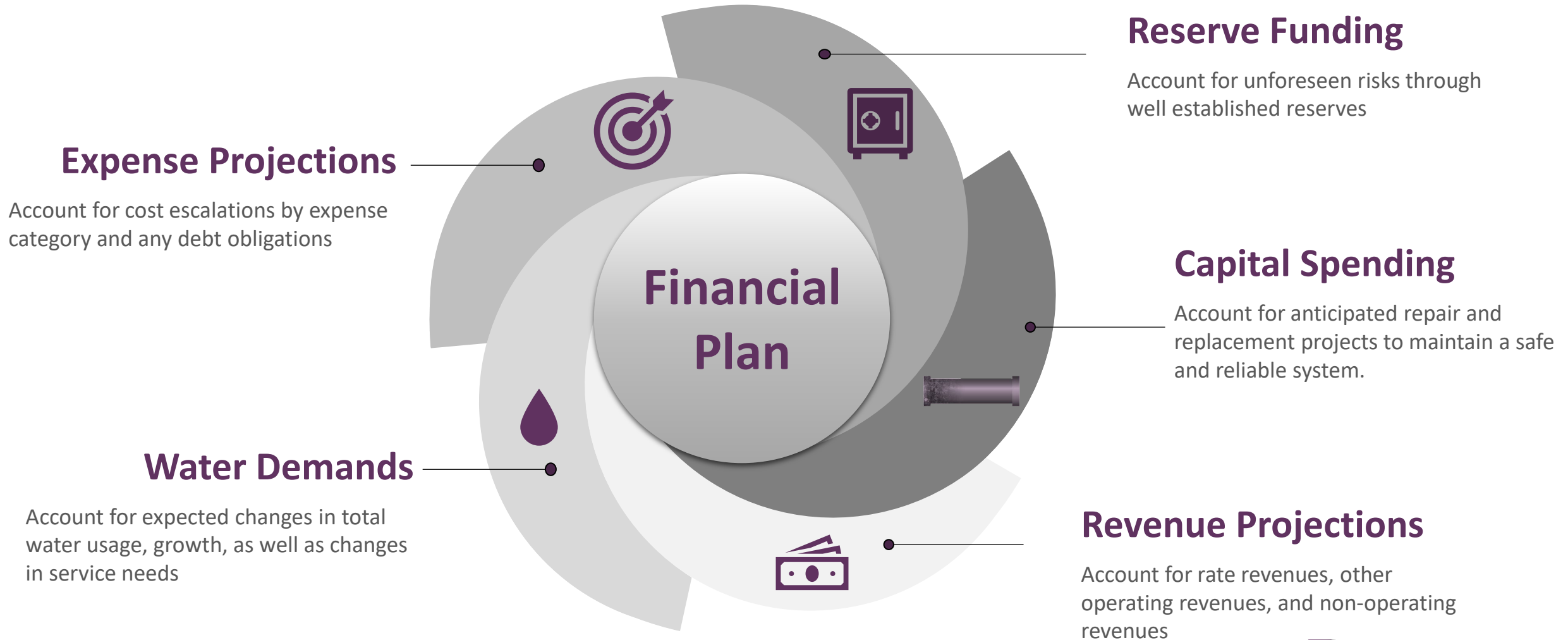
City Council	Timeline
Rate Policy Workshop (Joint)	Feb 20th
Financial Plan Development	Feb – Mar
Community Financial Workshop	Mar 18 th
Financial Plan Workshop	Mar 19th
Cost-of-Service / Rate Design	Mar – Apr
Rate Workshop	May 7th
Rate Study Report	May
Community Rate Workshop	Jun 3 rd
Public Hearing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

Long-Term Financial Planning



Financial Plan Summary

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

Cost-of-Service/ Rate Design



Legal Requirements



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

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 <i>- Not recommended at this time</i>

* *Current SFR Rates*

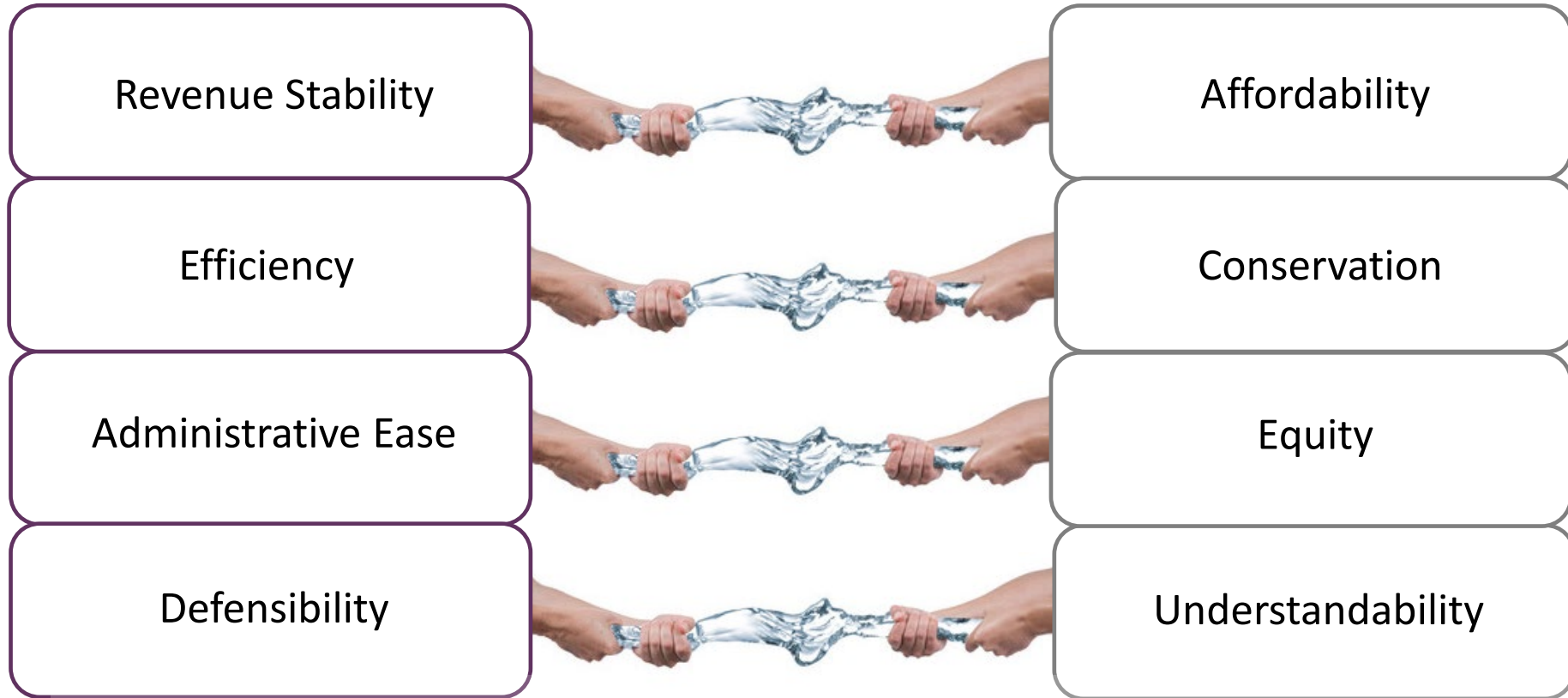
Rate Objectives

Summary

Rate Objectives	Description
Administrative Ease	Easily administered / explained by staff and implemented into the billing system
Affordability	Maintaining the price of water for essential use at the lowest cost possible
Conservation	Aims at reducing total water use (irrespective of efficiency)
Defensibility	Must be cost-based with a sound methodology
Efficiency	Aims at reducing wasteful water use (based on a determined benchmark for efficiency)
Equity	Rates are perceived as fair and costs are allocated based on customers proportionate share
Revenue Stability	Ability to generate stable and predictable revenues from year to year
Understandability	Ability for the rate structure to be understood by customers, including bill impacts

Competing Rate Objectives

What's most important?



Rate Objectives

Influence on Rates



#1 Ranking

#2 Ranking

#3 Ranking

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 customers use water very differently from one another
 - ❖ i.e. Starbucks vs. Industry vs. Retail Store

Other Considerations



Other Considerations

Review and Feedback

- 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/concerns?

Habib Isaac

IB Consulting

Principal | Managing Partner

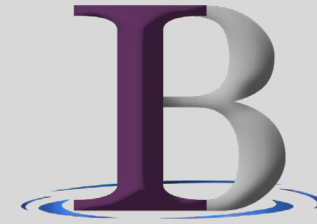
Phone: 951-595-9354 | Email: hisaac@IBConsultingInc.com

Andrea Boehling

IB Consulting

Principal | Managing Partner

Phone: 615-870-9371 | Email: aboehling@IBConsultingInc.com



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