Groveland Community Services District

Overview of Water and Sewer Rate Study

April 16, 2025

NBS
helping communities fund tomorrow

Overview of a Rate Study

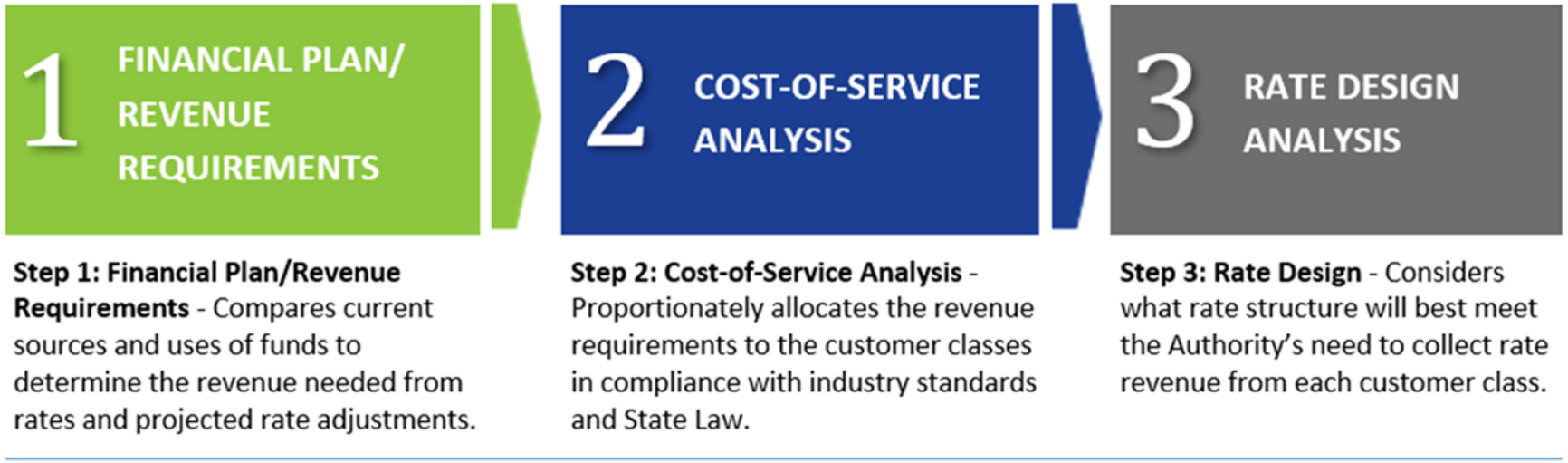
NBS
helping communities
fund tomorrow

Rate Study Purpose & Methodology

Why Prepare a Rate Study?

1. Required to comply with Prop 218
2. Typically prepared every 5 years
3. They demonstrate the fairness & equity of customer rates

General Rate Study Methodology:



Step 1: Financial Plan/Revenue Requirements - Compares current sources and uses of funds to determine the revenue needed from rates and projected rate adjustments.

Step 2: Cost-of-Service Analysis - Proportionately allocates the revenue requirements to the customer classes in compliance with industry standards and State Law.

Step 3: Rate Design - Considers what rate structure will best meet the Authority's need to collect rate revenue from each customer class.

Rate Study Methodology – Financial Plan

What are "Net Revenue Requirements"?

The Financial Plan estimates the costs to be recovered from customer rates:

O&M Costs

+ Debt Service

+ Capital Costs

- Non-Rate Revenues*

Net Revenue Requirements

* *licenses, fines, application fees, etc.*

These costs should also include funding for adequate levels of reserves.

Rate Study Methodology – Financial Plan

Financial Plan

Utility Revenue: The total income generated from customer service rates to cover operational expenses, debt repayments, and capital projects, minus alternative income sources like fees and fines. It includes a provision for reserves to ensure the utility's long-term financial stability and service reliability.

Operations and Maintenance (O&M) Bucket: This is the first bucket. It covers the costs of running and maintaining the service or infrastructure. The day-to-day expenses to keep things going.

Capital Reserves Bucket: Once O&M is funded, the money can flow to the next bucket. This bucket is for capital reserves, used for future significant investments or infrastructure upgrades.

Rate-Funded Capital or Other Expenditures Bucket: If there's money left over after filling the first two buckets, it can then be allocated to other areas in the water enterprise such as pay-as-you-go rate-funded capital projects.

Rate Study Methodology – Cost of Service

How Are Water Costs Assigned to Customers?

Cost of Service Analysis (COSA) allocates costs based on the cost to serve each type of customer.

Water Costs are typically allocated by:

1. System Capacity Costs (based on system peaking factors)
2. Commodity Costs (annual consumption)
3. Customer Costs (number of accounts)

Cost Allocations – Costs are then allocated to each customer class based on their proportional share of the above criteria.

Rate Study Methodology – Cost of Service

How Are Sewer Costs Assigned to Customers?

Sewer Costs are typically allocated to customers based on:

1. Flow-Related Costs (the amount of effluent generated)
2. Effluent Strength-Related Costs
   - Biochemical Oxygen Demand (BOD/COD)
   - Total Suspended Solids (TSS)
3. Customer Costs

What are Customer Classes? – Customers with similar characteristics (effluent strength, volume, system demands, etc.) are grouped into classes.

(Note: Costs, rates and Prop 218 requirements are focused on Classes, not individual customers or properties)

Rate Study Methodology – Rate Design

What are Rate Design Objectives?

- Rates are proportional to cost of service (i.e., the cost to serve each customer or customer class)
- The San Juan Capistrano court decision (2015) mandated that rates "demonstrate the cost basis" in order to comply with Prop 218
  - Primarily related to tiered water rates
  - Basic principles apply to all rates
- Equitable & non-discriminating
- Ease of administration and understanding
- Provide revenue stability

Water Rate Study Overview

NBS
helping communities
fund tomorrow

Water Rate Study Objectives

Purpose of a Water Rate Study:

- Ensuring water rates will be able to cover all operating and maintenance costs.
- Ensuring sufficient funding for essential Capital Improvement Projects.
- Maintaining appropriate reserve funds.
- Complying with legal requirements of Prop 218.

NBS
helping communities fund tomorrow

Water Utility
Financial Plan Summary

Summary of Water Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	5-Year Projected Rate Period				
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Sources of Water Funds						
Rate Revenue Under Prevailing Rates	$ 2,584,484	$ 2,592,754	$ 2,601,051	$ 2,609,375	$ 2,617,725	$ 2,626,101
Non-Rate Revenues	713,395	841,870	519,747	948,990	686,612	686,880
Interest Earnings	110,350	32,054	33,082	36,615	42,948	43,580
Total Sources of Funds	**$ 3,408,229**	**$ 3,466,679**	**$ 3,153,880**	**$ 3,594,980**	**$ 3,347,284**	**$ 3,356,562**
Uses of Water Funds						
Operating Expenses	$ 3,953,833	$ 4,120,317	$ 4,270,670	$ 4,426,694	$ 4,624,214	$ 4,756,663
Existing Debt Service	626,638	754,836	432,434	280,657	17,998	17,985
New Debt Service	-	-	-	580,741	580,741	580,741
Rate-Funded Capital Expenses	-	-	-	-	-	-
Total Use of Funds	**$ 4,580,471**	**$ 4,875,153**	**$ 4,703,104**	**$ 5,288,092**	**$ 5,222,953**	**$ 5,355,390**
Surplus (Deficiency) before Rate Increase	**$ (1,172,242)**	**$ (1,408,474)**	**$ (1,549,224)**	**$ (1,693,112)**	**$ (1,875,668)**	**$ (1,998,828)**
Additional Revenue from Rate Increases[1]	-	907,464	1,823,337	2,273,026	2,770,102	3,319,473
Surplus (Deficiency) after Rate Increase	**$ (1,172,242)**	**$ (501,010)**	**$ 274,112**	**$ 579,914**	**$ 894,434**	**$ 1,320,646**
Projected Annual Rate Increase	***0.00%***	***35.00%***	***26.00%***	***10.00%***	***10.00%***	***10.00%***
Net Revenue Requirement[2]	**$ 3,756,726**	**$ 4,001,229**	**$ 4,150,276**	**$ 4,302,487**	**$ 4,493,393**	**$ 4,624,929**

1. Assumes new rates are implemented July 1, 2025.
2. Total use of funds less non-rate revenues and interest earnings.

NBS helping communities fund tomorrow

Rate Increases and CIP Program Costs

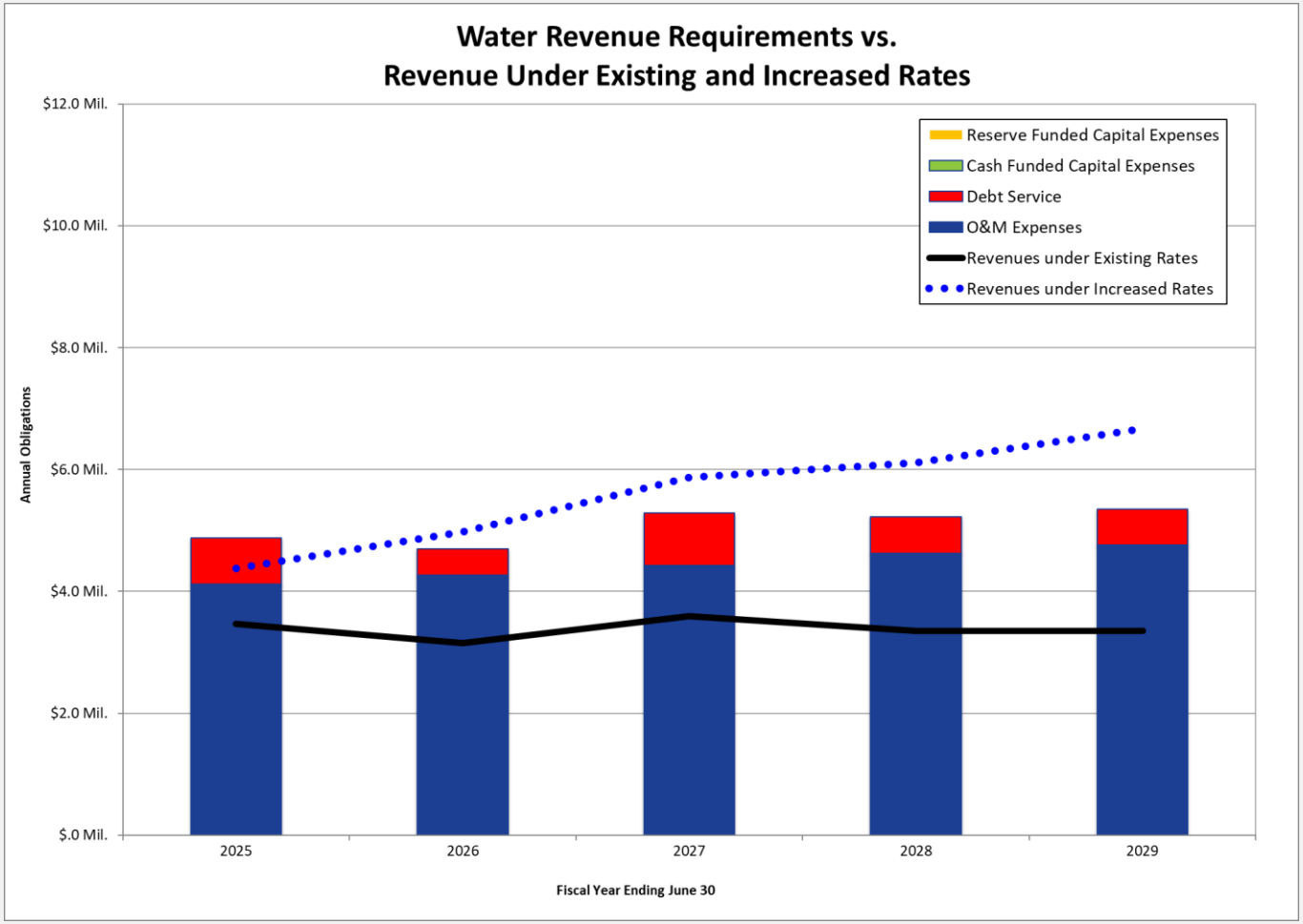
Water model analysis investigated rate revenue adjustment scenarios based on CIP and Debt Funding options:

- **Draft financial plan shows following recommendations:**
  - **Utilization of new revenue bond of $7.7 million to fund *20% of the District identified CIP* over the 5-year rate implementation period**
- **Rate Adjustment Summary:**
  - **Per Board Direction, Year 1 and Year 2 rate adjustments have been smoothed, but these adjustments are still critical to address existing budget deficit and cover debt service requirements**
  - **Years 3 through 5 rate adjustments necessary to keep pace with inflation and begin to build reserve levels above minimums**

NBS helping communities fund tomorrow

Water Rate Study – Financial Plan

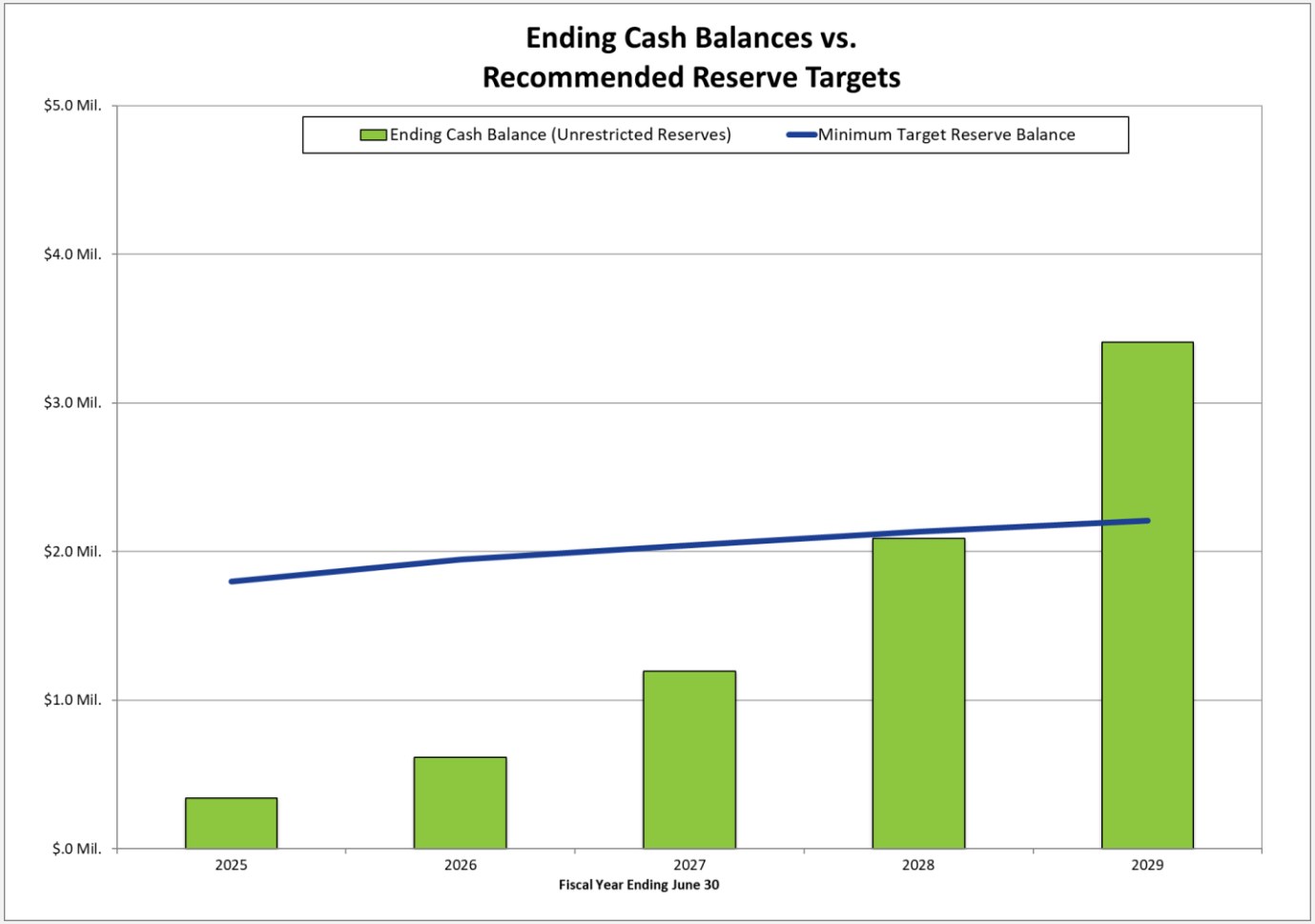
Graphical Picture of Water Financial Plan:



NBS helping communities fund tomorrow

Reserve Fund Levels

Water Reserves Under Proposed Water Rates & Financial Plan:



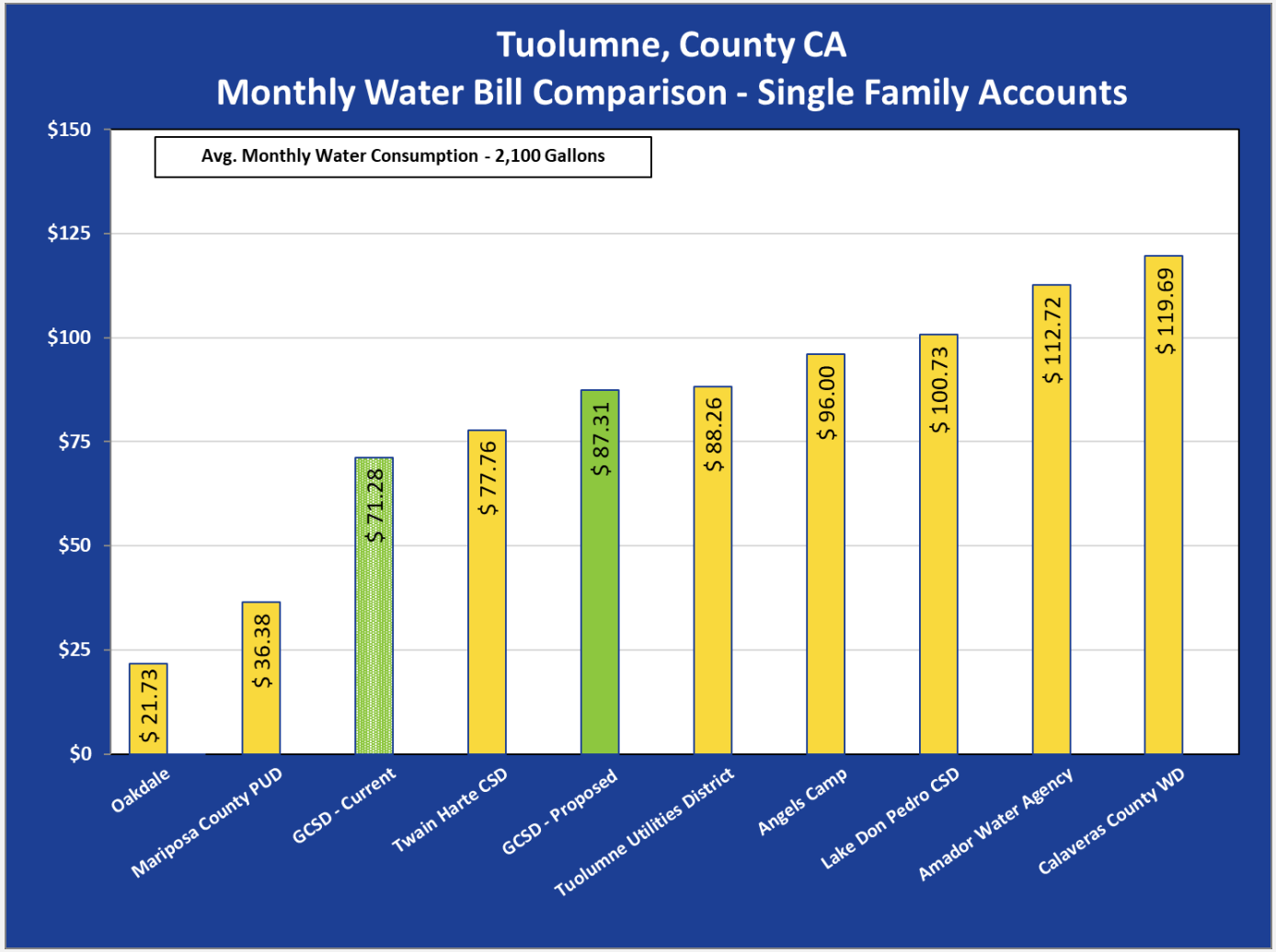
NBS helping communities fund tomorrow

Proposed Draft Water Rate Schedule Per Board Direction

Water Rate Schedule	Current Rates	Proposed Rates				
		FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Projected Increase in Rate Revenue		*35.00%*	*26.00%*	*10.00%*	*10.00%*	*10.00%*
Monthly Fixed Service Charges (in $/mo)						
Monthly Fixed Charges:						
5/8 x 3/4 inch	$39.64	$45.56	$57.40	$63.14	$69.45	$76.40
3/4 inch	$39.64	$45.56	$57.40	$63.14	$69.45	$76.40
1 inch	$63.43	$70.26	$88.53	$97.38	$107.12	$117.83
1 1/2 inch	$103.07	$132.03	$166.36	$182.99	$201.29	$221.42
2 inch	$138.74	$206.15	$259.75	$285.72	$314.30	$345.73
3 inch	$218.02	$403.81	$508.79	$559.67	$615.64	$677.21
4 inch	$309.19	$626.17	$788.97	$867.87	$954.65	$1,050.12
6 inch	*n/a*	$1,243.84	$1,567.24	$1,723.96	$1,896.36	$2,085.99
Monthly Fire Service Charges:						
5/8 x 3/4 inch	*$7.50*	$24.01	$30.25	$33.27	$36.60	$40.26
3/4 inch	*$7.50*	$24.01	$30.25	$33.27	$36.60	$40.26
1 inch	*$10.00*	$34.38	$43.31	$47.64	$52.41	$57.65
1 1/2 inch	*$15.00*	$60.30	$75.97	$83.57	$91.93	$101.12
2 inch	*$20.00*	$91.40	$115.17	$126.68	$139.35	$153.28
3 inch	*$30.00*	$174.35	$219.68	$241.64	$265.81	$292.39
4 inch	*$40.00*	$267.66	$337.25	$370.98	$408.08	$448.88
6 inch	*$60.00*	$526.87	$663.85	$730.24	$803.26	$883.59
Existing Debt Service Charge	*$15.57*	$15.57	$15.57	$15.57	$0.00	$0.00
New Debt Service Charge	n/a	$0.00	$0.00	$14.36	$14.36	$14.36
Variable Charges for All Water Consumed (in $/gal)						
0 to 3,300 - Baseline Usage	$0.00765	$0.01247	$0.01571	$0.01728	$0.01901	$0.02091
> 3,300 - Peak Demand Usage	$0.01514	$0.02420	$0.03049	$0.03354	$0.03690	$0.04059

NBS
helping communities fund tomorrow

Regional Rate Comparison (Updated)



NBS
helping communities
fund tomorrow

Sewer Rate Study Overview

NBS
helping communities
fund tomorrow

Sewer Rate Study Objectives

Purpose of a Sewer Rate Study:

- Ensuring sewer rates will be able to cover all operating and maintenance costs.
- Ensuring sufficient funding for essential Capital Improvement Projects.
- Maintaining appropriate reserve funds.
- Complying with legal requirements of Prop 218.

NBS
helping communities fund tomorrow

Sewer Utility
Financial Plan Summary

Summary of Sewer Revenue Requirements (Updated)

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	5-Year Projected Rate Period				
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Sources of Sewer Funds						
Rate Revenue Under Prevailing Rates	$ 2,325,447	$ 2,332,888	$ 2,340,354	$ 2,347,843	$ 2,355,356	$ 2,362,893
Non-Rate Revenues	435,297	438,680	566,318	418,799	418,907	419,015
Interest Earnings	147,487	22,268	14,996	15,043	15,092	15,140
Total: Sources of Funds	**$ 2,908,231**	**$ 2,793,836**	**$ 2,921,668**	**$ 2,781,686**	**$ 2,789,354**	**$ 2,797,048**
Uses of Sewer Funds						
Operating Expenses	$ 2,777,916	$ 2,964,800	$ 3,084,012	$ 3,209,051	$ 3,375,819	$ 3,478,174
Existing Debt Service	534,272	575,952	420,914	273,280	141,048	141,040
Future Debt Service	-	-	279,391	279,391	279,391	279,391
Rate-Funded Capital Expenses	-	-	-	-	409,596	739,973
Total: Use of Funds	**$ 3,312,188**	**$ 3,540,752**	**$ 3,784,317**	**$ 3,761,723**	**$ 4,205,854**	**$ 4,638,577**
Surplus (Deficiency) before Rate Increase	**$ (403,957)**	**$ (746,916)**	**$ (862,650)**	**$ (980,037)**	**$ (1,416,500)**	**$ (1,841,530)**
Additional Revenue from Rate Increases[1]	-	699,867	1,158,475	1,513,185	1,905,365	2,338,898
Surplus (Deficiency) after Rate Increase	**$ (403,957)**	**$ (47,049)**	**$ 295,826**	**$ 533,148**	**$ 488,866**	**$ 497,368**
Projected Increases in Rate Revenue	***0.00%***	***30.00%***	***15.00%***	***10.00%***	***10.00%***	***10.00%***
Net Revenue Requirement[2]	**$ 2,729,404**	**$ 3,079,804**	**$ 3,203,003**	**$ 3,327,880**	**$ 3,771,856**	**$ 4,204,423**

1. Assumes new rates are implemented July 1, 2025.
2. Total use of funds less non-rate revenues and interest earnings.

NBS helping communities fund tomorrow

Rate Increases and CIP Program Costs

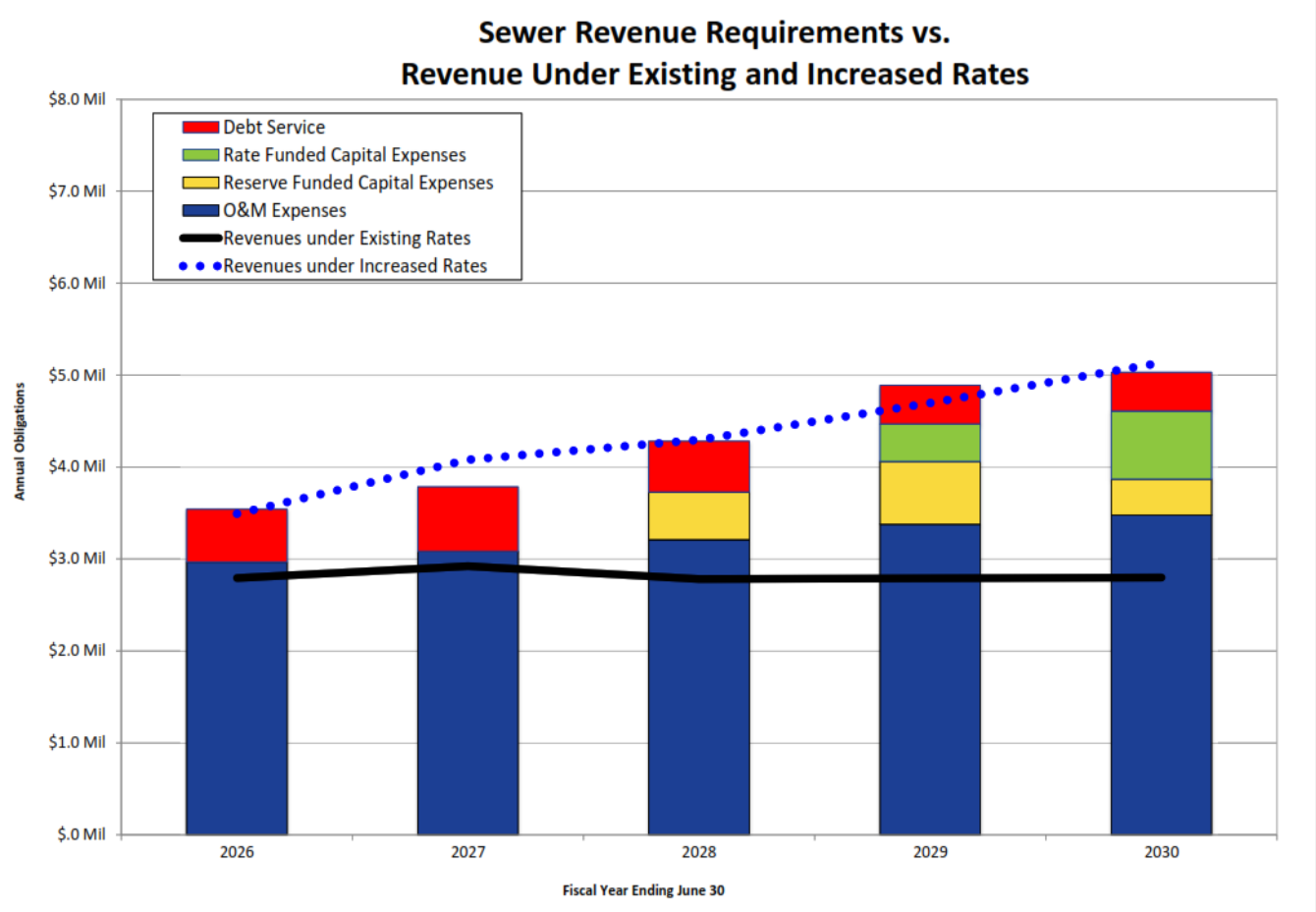
Sewer model analysis investigated rate revenue adjustment scenarios based on CIP and Debt Funding options:

- **Draft financial plan shows following recommendations:**
  - **Utilization of new revenue bond of $3.7 million to fund *50% of the District identified CIP* over the 5-year rate implementation period**
- **Rate Adjustment Summary:**
  - **Per Board Direction, Year 1 and Year 2 rate adjustments have been smoothed, but these adjustments are still critical to address existing budget deficit and cover debt service requirements**
  - **Years 3 through 5 rate adjustments necessary to keep pace with inflation and begin to build reserve levels above minimums**

NBS helping communities fund tomorrow

Sewer Rate Study – Financial Plan (Updated)

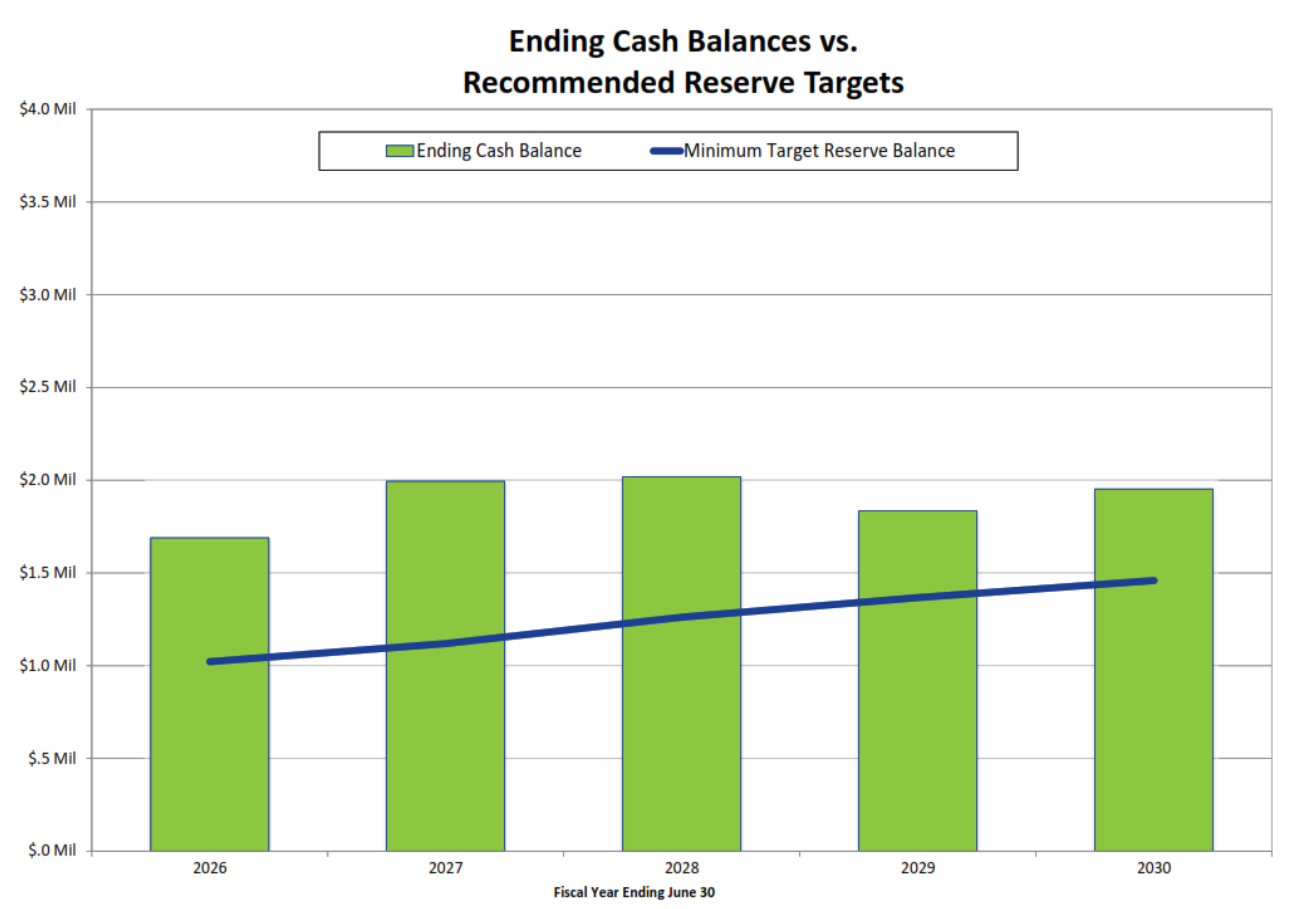
Graphical Picture of Sewer Financial Plan:



NBS helping communities fund tomorrow

Reserve Fund Levels (Updated)

Sewer Reserves Under Proposed Sewer Rates & Financial Plan:



NBS helping communities fund tomorrow

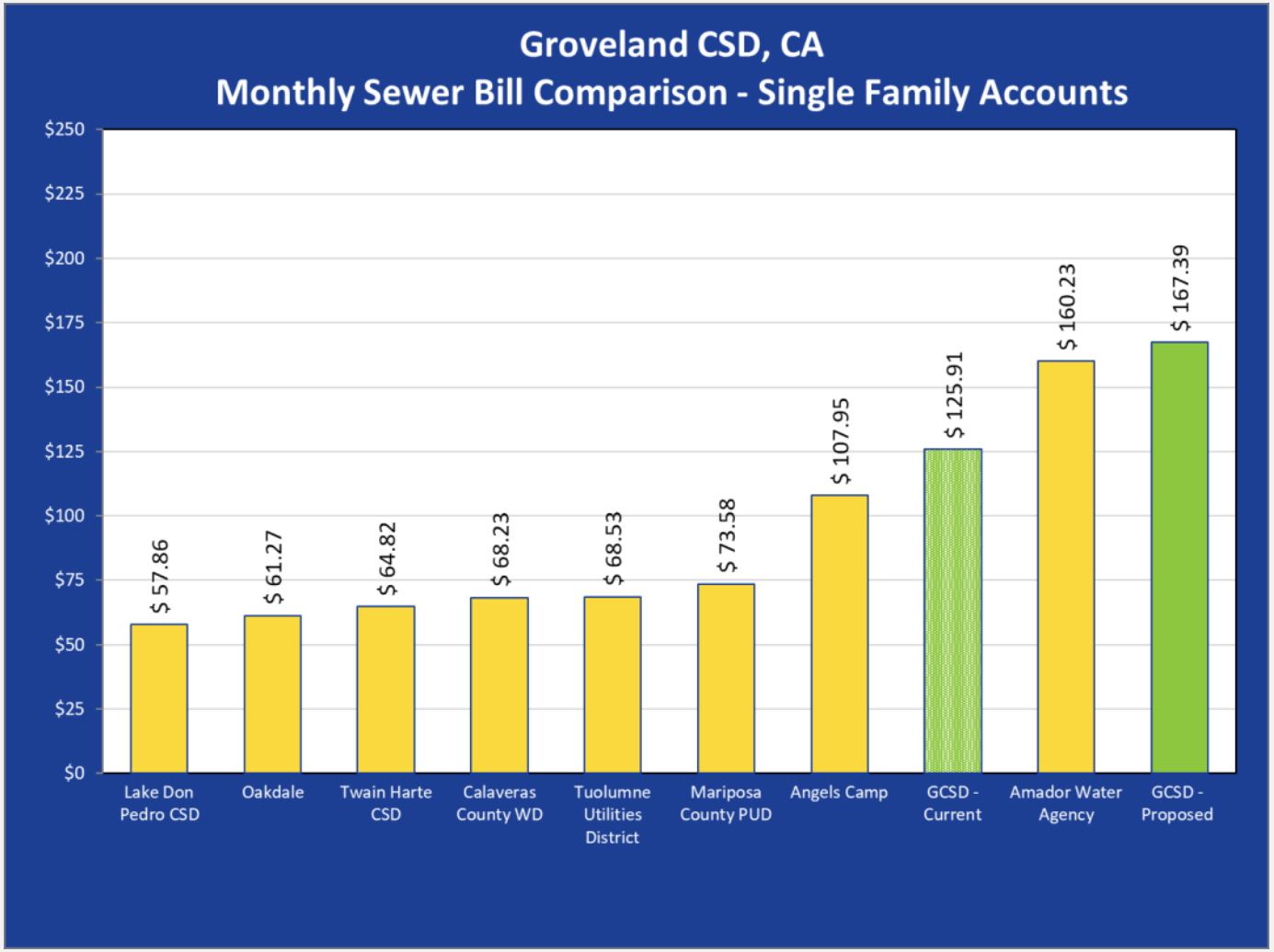
Proposed Draft Sewer Rate Schedule Per Board Direction (Updated)

Sewer Rate Schedule[1]	Current Rates	Proposed Sewer Rates				
		FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
		30.00%	*15.00%*	*10.00%*	*10.00%*	*10.00%*
Monthly Fixed Service Charge						
Residential	$88.68	$146.97	$169.02	$185.92	$204.51	$224.96
Commercial	$88.68	$230.89	$265.53	$292.08	$321.29	$353.42
Standby	$2.00	$5.38	$6.19	$6.81	$7.49	$8.24
Sewer Only	$124.82	$146.97	$169.02	$185.92	$204.51	$224.96
Existing Debt Service Charge[2]	$20.42	$20.42	$11.25	$4.70	$4.70	$4.70
New Debt Service Charge	n/a	$0.00	$12.40	$12.40	$12.40	$12.40
Monthly Volume Usage Charge (in $/gallon)						
Residential	$0.01166	n/a	n/a	n/a	n/a	n/a
Commercial	$0.01872	n/a	n/a	n/a	n/a	n/a

1. Source: *https://www.gcsd.org/water-rates-fiscal-year-2023-2024*
2. Monthly charge to repay the 2019 Wastewater Debt Service issued to refinance the 2014 wastewater revenue refunding bonds.

NBS helping communities fund tomorrow

Regional Rate Comparison (Updated)



NBS
helping communities fund tomorrow

Prop 218 Process for Utility Rates

1. **Board Provides Direction on Proposed Rate Adjustments**
April 8, 2025

2. **Board Direct Staff to Send Out Prop 218 Notices**
(45-day noticing period)

3. **Hold a Public Hearing to Consider / Approve New Rates**
June 18, 2025

4. **Adopt New Rates Effective July 1, 2025**
(assuming no successful Prop 218 challenge)