



BOARD OF DIRECTORS  
PRESIDENT Danny Reber  
VICE PRESIDENT Ruth Stiles  
David Hodgin  
Ken Kannegaard  
Chris Perri

GENERAL MANAGER  
Piret Harmon

Board of Directors  
**Special Meeting – 3:30 p.m.**  
**Tuesday, May 24, 2016**  
Santa Margarita Community Room  
2 Civic Center Drive, Scotts Valley, California

### **Agenda**

#### **1. Convene Meeting**

- 1.1. Call to Order and Roll Call
- 1.2. Additions/Deletions to the Agenda
- 1.3. Oral Communications

#### **2. Closed Session**

- 2.1. Pursuant to Government Code Section §54957  
Public Employee Discipline/Dismissal/Release

#### **3. Report on Closed Session**

#### **4. General Business**

- 4.1. Study Session: 2016 Water & Recycled Water Rate Study – Financial Model  
Recommendation: Receive information and provide input and direction.

#### **5. Adjournment**

AVAILABILITY OF PUBLIC RECORDS PROVIDED TO THE BOARD OF DIRECTORS: THE DISTRICT WILL MAKE AVAILABLE FOR PUBLIC REVIEW ANY PUBLIC RECORDS FURNISHED TO THE BOARD OF DIRECTORS AT THE SAME TIME SUCH RECORDS ARE FURNISHED TO THE BOARD OF DIRECTORS. **SUCH RECORDS SHALL BE AVAILABLE AT THE DISTRICT OFFICE DURING NORMAL BUSINESS HOURS.**

PUBLIC ACCESS – ACCOMMODATIONS UNDER THE ADA: PURSUANT TO TITLE II OF THE AMERICANS WITH DISABILITIES ACT OF 1990, THE SCOTTS VALLEY WATER DISTRICT REQUESTS THAT ANY PERSON IN NEED OF ANY TYPE OF SPECIAL EQUIPMENT, ASSISTANCE OR ACCOMMODATION(S) IN ORDER TO EFFECTIVELY COMMUNICATE AT THE DISTRICT'S PUBLIC MEETING PLEASE MAKE SUCH A REQUEST TO THE DISTRICT OFFICE AT THE ABOVE ADDRESS OR BY CALLING (831) 438-2363 A MINIMUM OF THREE (3) WORKING DAYS PRIOR TO THE SCHEDULED MEETING. ADVANCE NOTIFICATION WITHIN THIS GUIDELINE WILL ENABLE THE DISTRICT TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY.

## **AGENDA REPORT**

Scotts Valley Water District

**Date:** May 24, 2016

**To:** Board of Directors

**Subject:** **Comprehensive Rate Study and Financial Model**

**Reason:** Supports District Strategic Goal - Financial Stewardship

### **SUMMARY**

**Recommendation:** Discuss the matter and provide direction

**Fiscal Impact:** No definitive impact from the work completed so far.

**Previous Related Action:** On April 29, 2016 the Finance and Personnel Committee received a presentation from Raftelis Financial Consultants and provided input to certain aspects of the financial model and rate study.

On May 12, 2016 the staff presented Board with the overview of the Comprehensive Rate Study and Financial Model.

### **BACKGROUND**

On December 13, 2012 Board adopted Ordinance 160-12 implementing annual water rate changes effective each December beginning 2012 and ending 2016.

In January 2016, Raftelis Financial Consultants (RFC) was hired to conduct a comprehensive rate and fee study. The study comprises the following tasks:

- Develop a Financial Plan to determine the District's potable and recycled water revenue requirements
- Conduct potable and recycled water cost of service and associated tiered rate analyses
- Conduct a connection fees analysis
- Develop a rate structure that satisfies community objectives while ensuring adequate revenue to satisfy the utility's cost requirements
- Create an administrative report that explains the proportionality of the rates to meet the requirements of Proposition 218.

### **DISCUSSION**

RFC has completed the first portion of the study. Board is asked to provide feedback in the following areas:

## 1) Reserve Policy

Reserves	Minimum Target Levels
Operations	25% of Operating Budget
Rate Stabilization	20% of Volumetric Rates Revenue
Capital Repair and Refurbishment	100% of Annual Depreciation
Emergency	2.5% of Asset Values
Debt Service	100% of Annual Debt Service
Total Reserves – Potable	\$3.1M
Total Reserves – Recycled	\$0.5M

## 2) Debt Coverage Ratio

Based on current debt covenant	DCR > 1.2
S&P criteria:	Adequate 1.0 to 1.25
	Good 1.26 to 1.5
	Strong > 1.5

## 3) Financial Plan Scenarios

1. Water sales revenue
  - Full rebound (2010 demand)
  - No rebound (2015 demand)
  - Moderate rebound (2010-2015 average demand)
2. Development revenue
  - No capacity charges and no impact fees
3. Capital Improvement Program expenditures
  - Full appropriations with GW recharge project
  - Full appropriations without GW recharge project
  - Projected cashflow

## 4) Pricing Objectives: Rates

Promote conservation  
Easy to administer  
Customer understanding  
Affordability for essential use  
Funding for programs (RW, WEU)

- 5) Pricing Objectives: Development Charges (Capacity fees)
  - Reflect the link between the fees paid and benefits received by new customers
- 6) Proposed Rate Structure Framework

Customer Class	Current Rate Structure	Proposed to Evaluate
Residential	Inclining Tier	Revised Inclining Tier
Irrigation	Inclining Tier	Uniform?
Commercial	Inclining Tier	Uniform?
Recycled Water	Inclining Tier	Uniform?

7) Drought Rates

To be included in the rate structure and Prop 218 hearing?

- Monthly fixed charge
- Uniform commodity charge
- Uniform percentage
- Inclining commodity charge

Submitted,

Piret Harmon  
General Manager

Enclosed: Presentation, Rate Study Framework and Highlights, 5-12-16