

AGENDA
ATASCADERO MUTUAL WATER COMPANY
BOARD OF DIRECTORS MEETING

January 11, 2012, 6:30 P.M.

5005 El Camino Real
Atascadero, California

ADDITIONAL AGENDA ITEMS:

Any member of the Board of Directors may add an item to the agenda with the consent of the majority of the Board.

PUBLIC COMMENT:

The Board invites members of the general public in attendance at the meeting to address any subject that is not on the agenda. If they wish to address an item that is on the agenda, the Board will consider their comments at the time the agenda item is discussed.

APPROVAL OF MINUTES:

December 14, 2011 - Regular meeting

REPORTS:

Operations Report
Financial Report, November 2011
Manager's Report

OLD BUSINESS:

NEW BUSINESS:

High-Usage Adjustment Policy Revisions (Action)
Water Rates (See Attached)

EXECUTIVE SESSION:

BOARD OF DIRECTORS AGENDA REPORT
January 11, 2012

DISCUSSION ITEM

SUBJECT:

Water Use Rates

G. M. RECOMMENDATION:

Discuss report and provide direction to staff

PREPARED BY:

John Neil

BACKGROUND:

On December 8, 2010, the Board adopted AMWC's current water rate schedule. Current rates became effective on January 16, 2011. Current rates are shown on the tables in Attachment A along with a history of rate increases adopted by the Board.

At their meeting of December 14, 2011, the Board reviewed and discussed several cash flow projections. The projections made various assumptions with regards to future water rate increases, new meter sales, and capital projects. In light of the continuing sluggish economy, staff felt it was appropriate to review cash flow needs with the Board, which has contributed to a significant reduction in connection fee revenue from the sale of new water meters - revenue that is needed to fund the debt service for the Nacimiento Water Project (NWP)

ADDITIONAL INFORMATION:

NWP Debt Service - The debt service and O&M costs for the NWP began in 2010. The Board had intended to fund all debt service costs with connection fee revenue. However, there has been a sharp decline in connection fee revenue over the last four years, and staff anticipates this trend will likely continue for several more years. Due to the sharp decline in this source of revenue, AMWC will not be able to meet its debt service obligations without additional water rate increases, based on the cash flow projections prepared by staff.

Cash Flow Projections - Staff has prepared several alternative cash flow projections showing adjustments to water rates and capital investments that will allow AMWC to maintain year-end fund balances that will conform to its obligation under the NWP bond. The bond requires cash reserves of at least 1.25 times the annual debt service of \$2.44 million, or \$3.04 million. Other assumptions are noted below.

1. Projection 1 – reviewed by Board in April 2011
 - 15% water rate increase in FY 2013
 - 5-year capital investment plan per FY 2012 budget

2. Projection 2 – no rate increases
 - no rate increases
 - defer non-critical capital improvements

3. Projection 3 – near-term rate increases
 - 7.5% water rate increase in FY 2013
 - 2.0% water rate increase in FY 2014
 - defer non-critical capital improvements

4. Projection 4 – late-term rate increases
 - 15.0% water rate increase in FY 2015
 - 5.5% water rate increase in FY 2016
 - defer non-critical capital improvements

5. Projection 5 – annual rate increases
 - 3.5% water rate increase, FY 2013 – FY 2016
 - defer non-critical capital improvements

6. Projection 6 – NWP Surcharge
 - \$5.00/connection/month surcharge, FY 2013-2016
 - defer non-critical capital improvements

Liquidity - Notwithstanding AMWC's obligation under the NWP bond, sufficient liquidity should be maintained for contingencies such as the normal ebb and flow of cash flow from operations, hedging against unusually wet or dry years, emergencies, or disasters. Without adequate liquidity, AMWC may not be able to effectively respond to an unplanned event placing the community at risk.

The various credit rating agencies (Fitch, Moody's, and Standard & Poor's) provide benchmarks that provide some insight into what constitutes adequate liquidity. One benchmark is "Days-Cash-on-Hand", which is the available year-end fund balance divided by the normal annual operating expenses. In a recent publication, Fitch Ratings provided a median Days-Cash-on-Hand for AA-rated water and sewer agencies of 266 days, and 623 days for AAA rating.

Standard & Poor's considers a water utility to be financially strong if it maintains Days-Cash-on-Hand greater than 120 days.

In addition to allowing AMWC to adequately respond to contingencies, maintaining a strong rating with the credit agencies will help AMWC secure funding at more reasonable rates for future projects for which it may need to seek outside funding such as a water treatment plant. The cash flow projections provide the Days-Cash-on-Hand benchmark for reference.

PROJECTION NO. 1**15% rate increase in FY 2013, capital investments per FY 2012 budget**

Fiscal Year Ending April 30	Approved Budget 2012	Year-end Projection 2012	Estimated 2013	Estimated 2014	Estimated 2015	Estimated 2016
ASSUMPTIONS						
Water Rate Increase			15.00%	0.00%	0.00%	0.00%
Inflation			2.00%	2.00%	2.00%	2.00%
New Connections	20	26	23	23	23	23
BEGINNING FUND BALANCES	\$7,090,392	\$7,090,392	\$5,675,554	\$3,974,957	\$2,696,335	\$3,048,943
REVENUES						
Water Sales	\$6,718,000	\$6,632,643	\$7,627,540	\$7,627,540	\$7,627,540	\$7,627,540
Other	\$288,919	\$311,505	\$274,628	\$265,000	\$265,000	\$279,220
Connection Fees	\$439,288	\$481,989	\$495,103	\$479,146	\$464,586	\$450,800
Land Sales ¹	\$0	\$0	\$0	\$0	\$900,000	\$0
Facility Expansion mortgage proceeds	\$0	\$0	\$0	\$2,400,000	\$0	\$0
Total Revenue	\$7,446,207	\$7,426,137	\$8,397,271	\$10,771,686	\$9,257,125	\$8,357,560
EXPENSES						
Operating ²	\$4,284,150	\$4,034,565	\$4,343,027	\$4,418,045	\$4,494,756	\$4,573,201
NWP Debt Service	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489
NWP Operating	\$728,852	\$570,249	\$728,852	\$728,852	\$728,852	\$728,852
Facility Expansion Debt Service ³	\$0	\$0	\$0	\$235,421	\$235,421	\$235,421
Total Expenses	\$7,449,491	\$7,041,303	\$7,508,368	\$7,818,807	\$7,895,518	\$7,973,963
CAPITAL INVESTMENTS						
Facility Expansion	\$50,000	\$50,000	\$0	\$3,000,000	\$0	\$0
Other Capital Investments	\$1,933,500	\$1,749,672	\$2,589,500	\$1,231,500	\$1,009,000	\$902,000
Total Capital Investments	\$1,983,500	\$1,799,672	\$2,589,500	\$4,231,500	\$1,009,000	\$902,000
YEAR-END FUND BALANCES						
1.25 x NWP Debt Service	\$5,103,608	\$5,675,554	\$3,974,957	\$2,696,335	\$3,048,943	\$2,530,540
	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611
Days Cash on Hand (Normal + NWP O&M) ⁴	372	450	286	191	213	174

Notes:

- 1) Sale of ECR & San Jacinto properties
- 2) Excludes depreciation
- 3) 20-year mortgage @ 7.5%
- 4) To maintain Fitch "AA" Rating -266 days, "AAA" rating- 623 days, includes normal & NWP operating expenses

PROJECTION NO. 2**No rate increases**

Fiscal Year Ending April 30	Approved Budget 2012	Year-end Projection 2012	Estimated 2013	Estimated 2014	Estimated 2015	Estimated 2016
ASSUMPTIONS						
Water Rate Increase			0.00%	0.00%	0.00%	0.00%
Inflation			2.00%	2.00%	2.00%	2.00%
New Connections	20	26	23	23	23	23
BEGINNING FUND BALANCES	\$7,090,392	\$7,090,392	\$5,689,728	\$4,571,234	\$3,300,244	\$2,042,982
REVENUES						
Water Sales	\$6,718,000	\$6,632,643	\$6,632,643	\$6,632,643	\$6,632,643	\$6,632,643
Other	\$288,919	\$311,505	\$274,628	\$265,000	\$265,000	\$279,220
Connection Fees	\$439,288	\$481,989	\$495,103	\$479,253	\$464,692	\$450,800
Total Revenue	\$7,446,207	\$7,426,137	\$7,402,374	\$7,376,896	\$7,362,335	\$7,362,663
EXPENSES						
Operating ¹	\$4,284,150	\$4,034,565	\$4,343,027	\$4,418,045	\$4,494,756	\$4,573,201
NWP Debt Service	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489
NWP Operating	\$728,852	\$570,249	\$728,852	\$728,852	\$728,852	\$728,852
Total Expenses	\$7,449,491	\$7,041,303	\$7,508,368	\$7,583,386	\$7,660,097	\$7,738,542
CAPITAL INVESTMENTS						
Facility Expansion	\$50,000	\$50,000	\$0	\$0	\$0	\$0
Other Capital Investments	\$1,933,500	\$1,735,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
Total Capital Investments	\$1,983,500	\$1,785,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
YEAR-END FUND BALANCES						
1.25 x NWP Debt Service	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611
Days-Cash-on-Hand ²	372	451	329	234	143	45

Notes:

1) Excludes depreciation

2) To maintain Fitch "AA" Rating -266 days, "AAA" rating- 623 days, includes normal & NWP operating expenses

PROJECTION NO. 3
Near-term rate increases

Fiscal Year Ending April 30	Approved Budget 2012	Year-end Projection 2012	Estimated 2013	Estimated 2014	Estimated 2015	Estimated 2016
ASSUMPTIONS						
Water Rate Increase			7.50%	2.00%	0.00%	0.00%
Inflation			2.00%	2.00%	2.00%	2.00%
New Connections	20	26	23	23	23	23
BEGINNING FUND BALANCES	\$7,090,392	\$7,090,392	\$5,689,728	\$5,068,682	\$4,437,742	\$3,820,531
REVENUES						
Water Sales	\$6,718,000	\$6,632,643	\$7,130,091	\$7,272,693	\$7,272,693	\$7,272,693
Other	\$288,919	\$311,505	\$274,628	\$265,000	\$265,000	\$279,220
Connection Fees	\$439,288	\$481,989	\$495,103	\$479,253	\$464,692	\$450,800
Total Revenue	\$7,446,207	\$7,426,137	\$7,899,822	\$8,016,946	\$8,002,385	\$8,002,714
EXPENSES						
Operating ¹	\$4,284,150	\$4,034,565	\$4,343,027	\$4,418,045	\$4,494,756	\$4,573,201
NWP Debt Service	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489
NWP Operating	\$728,852	\$570,249	\$728,852	\$728,852	\$728,852	\$728,852
Total Expenses	\$7,449,491	\$7,041,303	\$7,508,368	\$7,583,386	\$7,660,097	\$7,738,542
CAPITAL INVESTMENTS						
Facility Expansion	\$50,000	\$50,000	\$0	\$0	\$0	\$0
Other Capital Investments	\$1,933,500	\$1,735,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
Total Capital Investments	\$1,983,500	\$1,785,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
YEAR-END FUND BALANCES						
1.25 x NWP Debt Service	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611
Days-Cash-on-Hand ²	372	451	365	315	267	211

Notes:

1) Excludes depreciation

2) To maintain Fitch "AA" Rating -266 days, "AAA" rating- 623 days, includes normal & NWP operating expenses

PROJECTION NO. 4
Late-term rate increase

Fiscal Year Ending April 30	Approved Budget 2012	Year-end Projection 2012	Estimated 2013	Estimated 2014	Estimated 2015	Estimated 2016
ASSUMPTIONS						
Water Rate Increase			0.00%	0.00%	15.00%	5.50%
Inflation			2.00%	2.00%	2.00%	2.00%
New Connections	20	26	23	23	23	23
BEGINNING FUND BALANCES	\$7,090,392	\$7,090,392	\$5,689,728	\$4,571,234	\$3,300,244	\$3,037,879
REVENUES						
Water Sales	\$6,718,000	\$6,632,643	\$6,632,643	\$6,632,643	\$7,627,540	\$8,047,054
Other	\$288,919	\$311,505	\$274,628	\$265,000	\$265,000	\$279,220
Connection Fees	\$439,288	\$481,989	\$495,103	\$479,253	\$464,692	\$450,800
Total Revenue	\$7,446,207	\$7,426,137	\$7,402,374	\$7,376,896	\$8,357,232	\$8,777,075
EXPENSES						
Operating ¹	\$4,284,150	\$4,034,565	\$4,343,027	\$4,418,045	\$4,494,756	\$4,573,201
NWP Debt Service	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489
NWP Operating	\$728,852	\$570,249	\$728,852	\$728,852	\$728,852	\$728,852
Total Expenses	\$7,449,491	\$7,041,303	\$7,508,368	\$7,583,386	\$7,660,097	\$7,738,542
CAPITAL INVESTMENTS						
Facility Expansion	\$50,000	\$50,000	\$0	\$0	\$0	\$0
Other Capital Investments	\$1,933,500	\$1,735,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
Total Capital Investments	\$1,983,500	\$1,785,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
YEAR-END FUND BALANCES						
1.25 x NWP Debt Service	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611
Days-Cash-on-Hand ²	372	451	329	234	212	211

Notes:

1) Excludes depreciation

2) For water utilities to maintain Fitch "AA" Rating -266 days, "AAA" rating- 623 days, includes normal & NWP operating expenses

PROJECTION NO. 5
Annual rate increases

Fiscal Year Ending April 30	Approved Budget 2012	Year-end Projection 2012	Estimated 2013	Estimated 2014	Estimated 2015	Estimated 2016
ASSUMPTIONS						
Water Rate Increase			3.50%	3.50%	3.50%	3.50%
Inflation			2.00%	2.00%	2.00%	2.00%
New Connections	20	26	23	23	23	23
BEGINNING FUND BALANCES	\$7,090,392	\$7,090,392	\$5,689,728	\$4,803,377	\$4,004,797	\$3,468,622
REVENUES						
Water Sales	\$6,718,000	\$6,632,643	\$6,864,786	\$7,105,053	\$7,353,730	\$7,611,110
Other	\$288,919	\$311,505	\$274,628	\$265,000	\$265,000	\$279,220
Connection Fees	\$439,288	\$481,989	\$495,103	\$479,253	\$464,692	\$450,800
Total Revenue	\$7,446,207	\$7,426,137	\$7,634,517	\$7,849,306	\$8,083,422	\$8,341,131
EXPENSES						
Operating ¹	\$4,284,150	\$4,034,565	\$4,343,027	\$4,418,045	\$4,494,756	\$4,573,201
NWP Debt Service	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489
NWP Operating	\$728,852	\$570,249	\$728,852	\$728,852	\$728,852	\$728,852
Total Expenses	\$7,449,491	\$7,041,303	\$7,508,368	\$7,583,386	\$7,660,097	\$7,738,542
CAPITAL INVESTMENTS						
Facility Expansion	\$50,000	\$50,000	\$0	\$0	\$0	\$0
Other Capital Investments	\$1,933,500	\$1,735,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
Total Capital Investments	\$1,983,500	\$1,785,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
YEAR-END FUND BALANCES						
1.25 x NWP Debt Service	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611
Days-Cash-on-Hand ²	372	451	346	284	242	211

Notes:

1) Excludes depreciation

2) To maintain Fitch "AA" Rating -266 days, "AAA" rating- 623 days, includes normal & NWP operating expenses

PROJECTION NO. 6
NWP Surcharge

Fiscal Year Ending April 30	Approved Budget 2012	Year-end Projection 2012	Estimated 2013	Estimated 2014	Estimated 2015	Estimated 2016
ASSUMPTIONS						
Water Rate Increase			0.00%	0.00%	0.00%	0.00%
NWP Surcharge/connection/month			\$5.00	\$5.00	\$5.00	\$5.00
Inflation			2.00%	2.00%	2.00%	2.00%
New Connections	20	26	23	23	23	23
BEGINNING FUND BALANCES	\$7,090,392	\$7,090,392	\$5,689,728	\$5,204,174	\$4,567,504	\$3,950,689
REVENUES						
Water Sales	\$6,718,000	\$6,632,643	\$6,632,643	\$6,632,643	\$6,632,643	\$6,632,643
Other	\$288,919	\$311,505	\$274,628	\$265,000	\$265,000	\$279,220
Connection Fees	\$439,288	\$481,989	\$495,103	\$479,253	\$469,439	\$459,517
NWP Surcharge	\$0	\$0	\$632,940	\$634,320	\$635,700	\$637,080
Total Revenue	\$7,446,207	\$7,426,137	\$8,035,314	\$8,011,216	\$8,002,782	\$8,008,461
EXPENSES						
Operating ¹	\$4,284,150	\$4,034,565	\$4,343,027	\$4,418,045	\$4,494,756	\$4,573,201
NWP Debt Service	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489	\$2,436,489
NWP Operating	\$728,852	\$570,249	\$728,852	\$728,852	\$728,852	\$728,852
Total Expenses	\$7,449,491	\$7,041,303	\$7,508,368	\$7,583,386	\$7,660,097	\$7,738,542
CAPITAL INVESTMENTS						
Facility Expansion	\$50,000	\$50,000	\$0	\$0	\$0	\$0
Other Capital Investments	\$1,933,500	\$1,735,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
Total Capital Investments	\$1,983,500	\$1,785,498	\$1,012,500	\$1,064,500	\$959,500	\$1,012,500
YEAR-END FUND BALANCES	\$5,103,608	\$5,689,728	\$5,204,174	\$4,567,504	\$3,950,689	\$3,208,109
<i>1.25 x NWP Debt Service</i>	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611	\$3,045,611
<i>Days-Cash-on-Hand²</i>	372	451	375	324	276	221

Notes:

1) Excludes depreciation

2) To maintain Fitch "AA" Rating -266 days, "AAA" rating- 623 days, includes normal & NWP operating expenses

The above projections would indicate that revenue from water sales will need to be increased or a surcharge implemented at some point within the next four years in order for AMWC to meet its obligations under the NWP bond and maintain sufficient liquidity for unexpected contingencies, assuming the economy continues as it has over the last four years.

By continuing to reduce expenses and deferring non-critical capital investments (vehicle & equipment purchases and replacements, facility expansion, new hydrant and air-vac installations, water main upgrades, etc.), AMWC may be able to delay the need for a rate increase or surcharge for as long as two years. However as the projections show, the magnitude of the rate increases or surcharge in the latter years could be significantly greater due to the loss of compounding. AMWC still has adequate liquidity in the near-term, which allows it some flexibility on when to implement rate increases. It should be noted that deferring non-critical capital improvements may have a long-term cost increase to those projects when the time comes to implement them.

The table below provides a summary of historic expenses, investments, and connection fee revenue.

Expenses, FYE April 30	2008 Actual	2009 Actual	2010 Actual	2011 Actual	2012 Projected
Operating	\$5,156,851	\$5,294,867	\$5,545,763	\$5,134,968	\$4,864,381
Capital Investments	\$2,008,042	\$2,096,284	\$2,898,031	\$1,131,051	\$1,626,635
NWP Capital Investments	\$0	\$0	\$1,437,009	\$1,409,454	\$158,863
NWP Debt Service	\$0	\$0	\$0	\$893,368	\$2,436,489
NWP O&M	\$0	\$0	\$0	\$346,156	\$570,249
Total	\$7,164,893	\$7,391,151	\$9,880,803	\$8,914,997	\$9,656,617
Increase (decrease) in operating expenses		2.7% ¹	4.7% ²	(7.4%)	(5.3%)
Connection Fee Revenue	\$1,961,937	\$473,252	\$391,440	\$555,055	\$445,065
Increase (decrease) in connection fee revenue		(315%)	(21%)	29%	(25%)

Notes:

- 1) Between 2008 and 2010, bad debt increased to \$42,901 from \$6,755; treatment chemicals increased to \$156,352 from \$102,867; and the EPA's new non-lead brass requirements resulted in the loss of \$34,053 in inventory.
- 2) Between 2009 and 2010, water system repairs increased to \$682,581 from \$435,208, primarily the result of unanticipated well column pipe and pump failures and well gas engine rebuilds. Between 2008 and 2011, water system repairs averaged \$534,045/year.

Overview of Alternatives – There are several alternatives that the Board can consider for increasing revenue to meet operating and NWP bond requirements. Following is a general description of these options, along with a brief analysis of their corresponding advantages and disadvantages.

Fixed Percentage Increase - increase the monthly base rate and tier rates by the same, fixed percentage for each user class and tier. This was the method used in establishing the current rates.

- ❑ Advantages - easily implemented and modified, reasonably predictable revenue, and easily modified to adjust for changes in future revenue requirements.
- ❑ Disadvantages – previous rate adjustments have primarily focused on increasing the higher tiers to encourage conservation, which has had a greater effect on large irrigation users such as the City. Applying a fixed percentage to all tiers will further burden these high-tier users. High-tier income is not as reliable as lower-tier income due to use reductions resulting from cost or weather.

Variable Percentage Increase - Increase the monthly base rate and tier rate by varying amounts to generate the required revenue. This was the method primarily used with previous rate adjustments (see Attachment A).

- ❑ Advantages - easily implemented, reasonably predictable revenue, easily modified to adjust for changes in future revenue requirements, can be structured to lessen the impact use reductions have on revenue. If larger percentage applied to lower tiers, reduces reliance on water use to generate revenue.
- ❑ Disadvantages – if larger percentage applied to higher tiers, increases reliance on water use to generate revenue and has a greater impact on those users with limited flexibility in their water use patterns, such as commercial and landscape. If larger percentage applied to lower tiers, increases impact on the base or “lifeline” rates.

Variable Rates by Meter Class – Can be applied to any of the above alternatives and would create a rate structure that accounts for user classification.

- ❑ Advantages – moderately easy to implement; depending on implementation could result in reasonably predictable revenue; can be structured to reduce impact to those users who have limited flexibility in their water use patterns.
- ❑ Disadvantages - may not apply increase proportionally to users with monthly water use that does not vary significantly from the annual average, such as commercial and multi-family; may be perceived as inequitable by users in higher rate categories.

NWP Surcharge – add a fixed monthly surcharge to each account.

- ❑ Advantages - easily implemented and modified, predictable revenue, and easily modified to adjust for changes in future revenue requirements.
- ❑ Disadvantages – increases impact on the base or “lifeline” rates

Other – Other alternatives that could be considered are Seasonal Rates and Water Budgets. Staff anticipates that both of these alternatives will be complex and difficult to administer.

DISCUSSION

Staff is seeking direction from the Board prior to recommending any action to increase revenues.

- Should rate increases be adopted in the near-term, late term, or spread evenly over the next several years to meet anticipated revenue requirements?
- Instead of a water rate increase, should a NWP surcharge be considered since the need for additional revenue is primarily the result of AMWC's participation in the NWP project?
- In addition to meeting AMWC's obligations under the NWP bond, should asset liquidity (i.e. daily-cash-on-hand) be maintained at a specified level to maintain AMWC's bond rating?
- If water rate increases are used to generate additional revenue, should the increases be equally applied to all user classifications, or should different rates be established for different user classifications?
- To what extent should the base or "lifeline" rate be affected by the rate increase? Most rate increases have had a greater effect on the higher tiers (see Table 4, Attachment A).
- Which rate adjustment alternatives should staff consider further? Current rates were established using a variable percentage rate increase. There are other alternatives available to adjust water rates to meet AMWC's long-term revenue requirements, including a fixed percentage increase, variable rates by meter class, water budgets, and seasonal rates.
- Does the Board want staff to prepare alternative cash flow projections based on different assumptions? If so, staff is seeking direction from the Board on which variables in the cash flow projection to modify.

FISCAL IMPACT:

To be determined

ATTACHMENTS:

A. Background Information

ATTACHMENT A, Background Information

Tables 1 and 2 show the rates that became effective on January 16, 2011. The rates were established using a fixed percentage increase with no variation for meter class. The rates were intended to provide a net annual revenue increase of approximately 15%, assuming a 0.10 demand elasticity factor.

TABLE 1	
Minimum Monthly Rates^A	
Meter Size (inches)	2011 Current
5/8	\$18.00
3/4	\$18.00
1	\$23.00
1 1/2	\$30.00
2	\$46.00
3	\$172.00
4	\$218.00
6	\$344.00
Apartments ^B	\$14.00
Mobile Homes ^B	\$14.00
Motels, RV Parks ^C	\$5.20
Hydrant meter	\$57.00
Fireline	\$12.00
^A Includes 2,000 gallons	
^B Rate per unit, includes 2,000 gallons	
^C Rate per unit, includes 1,000 gallons	

TABLE 2		
Water Use Rates		
Tier	Use (1,000 gal)	2011 Current
1	3 - 12	\$2.00
2	13 - 25	\$3.10
3	26 - 50	\$4.60
4	>50	\$5.30
5	>75 (SFR only)	\$6.00

ATTACHMENT A, Background Information

Table 3 provides estimated water bills under the current rates. March and August were used since these months typically have the lowest and highest usage. Water bills were developed for the 50th and 80th percentile monthly use. Fifty percent of AMWC's shareholders will have water bills lower than the 50th percentile, and eighty percent will have water bills lower than the 80th percentile.

TABLE 3

Estimated Water Bills, current rates
(excludes 15% pumping surcharge)

March, 50th percentile

Class ^A	Use ^B	Cost
COM	3	\$23.00
LS	0	\$23.00
MFR	10	\$56.00
SFR	4	\$22.00

March, 80th percentile

Class	Use	Cost
COM	13	\$49.20
LS	3	\$36.80
MFR	25	\$126.00
SFR	7	\$28.00

August, 50th percentile

Class	Use	Cost
COM	8	\$34.00
LS	26	\$85.20
MFR	18	\$70.00
SFR	15	\$47.30

August, 80th percentile

Class	Use	Cost
COM	34	\$124.46
LS	125	\$602.80
MFR	42	\$160.00
SFR	31	\$105.90

^A SFR = Single-family residential; MFR = Multi-family residential; IND=Industrial; COM = Commercial; LS = Landscape

^B Use in 1,000 gallons

ATTACHMENT A, Background Information

Figure 1 shows water use per meter class as a percentage of total annual use. Single-family residential use is by far the largest meter class and will have the greatest effect on revenue generated from a rate increase. Single-family residential users generally have more flexibility in their use patterns than commercial or multi-family, since a larger proportion of single-family use is for landscaping.

FIGURE 1
Water Use as percent of Total Use

