To: **Jim Madaffer, General Manager, Wynola Water District**

From: **California Rural Water Association and Robert D. Niehaus, Inc.**

Date: **March 11, 2022**

RE: **Water rate study review and rate increase recommendation**

In 2017 the RCAC completed a Water Rate Study (Study) for the Wynola Water District (WWD, District). In the Study, five-year revenue adjustments are recommended to fund ongoing operations and contribute to the capital reserve fund to sufficiently cover capital expenditures as needed. The District adopted the rates based on the recommended revenue adjustments, and the rates were scheduled to be adjusted on January 1st of each year for the five-year study period. The adopted rates are displayed in Table 1.

Table 1. Adopted Five-Year Rate Schedule

	Proposed Rates				
	2018	2019	2020	2021	2022
Fixed	$ 95.00	$ 109.00	$ 131.00	$ 164.00	$ 213.00
Variable	$ 6.50	$ 7.48	$ 8.97	$ 11.21	$ 14.58

The year (2022) marks the final year of the rate adjustment. The District is currently reassessing the 2022 rate increase. To assist the District in determining whether the scheduled rate increase is needed, RDN performed a detailed analysis of customers' current demand and the District's finances and fund balances. The findings in this report support the need for an increase, but not at the level of the adjustment proposed in the previous study. The last study rate recommended the final year's rates increase by 30 percent. While the current rates cover the day-to-day operation and fund some reserves, the rates do not collect enough revenue to make annual contributions at the necessary level of $121,298.

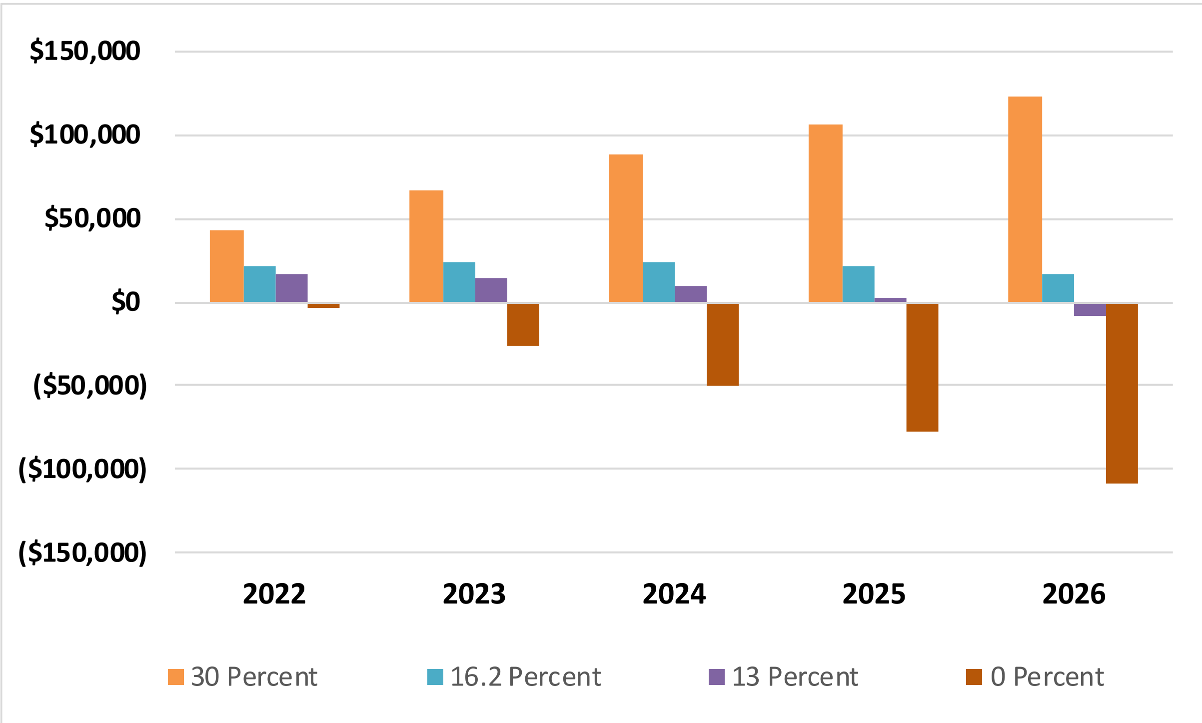
If customer consumption remains at its current level, the rates will under-collect approximately $20,000 in FY 2022-23, and the under-collection will increase over time. Standard industry practice suggests performing a new rate study every five years to update assumptions and reflect changes in demand and the financial condition of utilities. If the District plans to conduct a new rate study in FY 2022-23, a rate increase of 13.0 percent is sufficient to cover the costs until the study is performed. Suppose the District does not plan to conduct a rate study in the next fiscal year. In that case, a one-time rate increase of 16.2 percent is recommended to keep contributing at a level necessary for future capital replacements. Table 2 shows the proposed 2022 rates under each scenario.

Table 2. Potential Rate Adjustments Based on Financial Plan and Timing of new Rate Study

	Potential Rate Adjustments		
	30.0%	13.0%	16.2%
Fixed	$ 213.00	$ 185.32	$ 190.57
Variable	$ 14.58	$ 12.67	$ 13.03

Figure 1 shows the ending balances for the next five years with a one-time rate adjustment in 2022. This analysis assumes no rate increases for 2023-2026.

Figure 1. Fund Balances at the end of FY 2022-23 Under Each Rate Increase Scenario.



Customer Behavior

In 2017, it was estimated that District customers used 212 gallons per capita per day (GPCD) or approximately 18.9 hundred cubic feet (HCF) per month per connection. Under that scenario, the projected billable water use was 16,552 HCF annually. With the strong price signal to its customers, a 40 percent reduction was expected in overall water use by the end of the study period (FY 2022-23), resulting in total billable water use of 9,931 HCF. After reviewing current billing documents provided by the District, it was estimated that the current annual water use is 9,304 HCF, or 113 GPCD, a reduction of almost 50 percent. Lower water sales led to lower revenue generated from variable rates, which means rate increases are needed to compensate for this loss.

Financial Plan

In 2017, the total budgeted O&M expenses amounted to $41,641. In 2021 the budget accounted for $80,055 in expenses classified as operating expenses, an increase of nearly 100 percent. To project the costs for the coming fiscal years, RDN used an escalation factor based on the overall consumer price index for San Diego – Carlsbad from 2017 to the present (the only years available). Expense inflation was expected to be 3 percent per year.

The District indicated that multiple infrastructure improvements (capital projects) were needed to maintain safe service, including a new larger water tank to address fire safety issues, new pipes to replace older asbestos-lined cement pipes, new wells, a treatment system, and meter replacements. While the current cost and planning period of these capital expenses are not known, the existing rate structure is designed to contribute $118,298 to a Capital Replacement Fund to address this type of project. Increasing the rates will allow these projects to be completed in the future by saving money now. With the proposed increase (30 percent), Operations will remain solvent, and the District can contribute annually at the recommended level until FY 2031-32.

Fund Balances

In 2017, the District had a cash balance of $115,000. Since that time, the cash balance has increased to $346,453. Annual contributions have increased with the revenue adjustments. It is estimated that under the current rates, the District will be able to contribute approximately $100,000 to reserves, barring any emergency, which is around 20 percent less than recommended for capital replacements. For the District to keep funding the reserves at an adequate level, rate adjustments should be adopted for the current fiscal year. Additionally, if the rate adjustment is made at 30 percent, no rate increases may be necessary for the next ten years (though it is advisable to complete a rate study every five years to evaluate changes within the District).