

Selection of a Rate Plan for the Proposition 218 Notice

Board of Directors Meeting

February 16, 2021

What is a Proposition 218 Public Hearing Notice?

- A written notice to property owners that the Agency is intending to increase its fees.
- The notice must include the following:
 - The proposed amount of the fees or charges;
 - The basis upon which the fees or charges were calculated;
 - An explanation of the need for the new or increased fees or charges; and
 - The date, time and location of the public hearing at which the agency will consider the new or increased fees.
- Proposition 218 requires that a public hearing be held at least 45 calendar days after the mailing of the notice; and
- Provides that a property owner-related fee or charge may not be imposed or increased if a majority submit a written protest.

Project Calendar



Project Calendar: Updated 2/8/21			
Item	F&A Committee	Board	Other
Cost analysis and rate transition	12/21/2020		
Update cost analysis & rate transition	1/11/2021		
Board Rate Workshop 1		2/16/2021	
Review a Proposition 218 Hearing Notice	3/1/2021		
Recommend Approval: restructuring of VWD Acquisition Loan	3/1/2021	3/16/2021	
Board Rates Workshop 2		3/16/2021	
Board Rates Workshop 3 Proposition 218 Hearing Notice Approval		4/20/2021	
Recommend approval of a Proposition 218 Hearing Notice		4/20/2021	
Agency Administrative Record with Proposed Rate Design Presented		4/20/2021	
Ratepayer Advocate Report Presented		4/20/2021	
Proposition 218 Hearing Notice Mailed			4/23/2021
Outreach Rates Presentation 1			4/25-5/11
Outreach Rates Presentation 2			4/25-5/11
Outreach Rates Presentation 3			4/25-5/11
Proposition 218 Hearing Notice Requirement Met			6/7/2021
Public Hearing		6/15/2021	
Board Adopts a Rate Transition Plan		6/15/2021	
Rates Effective			7/1/2021

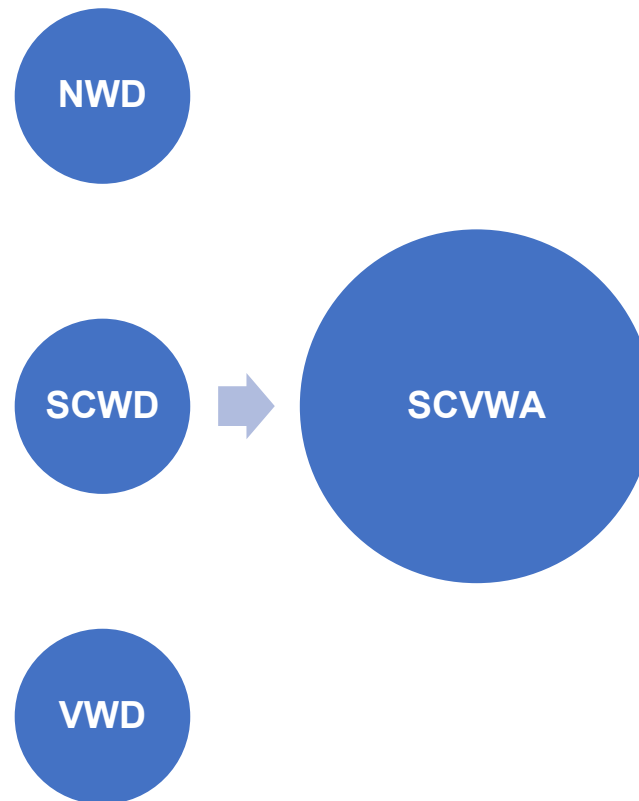
Rate Plan Development: The situation

Currently, each of the three retail divisions have their own unique rate tables.

Existing rates were developed pre-merger.

There has been no rate action taken by the SCVWA to date.

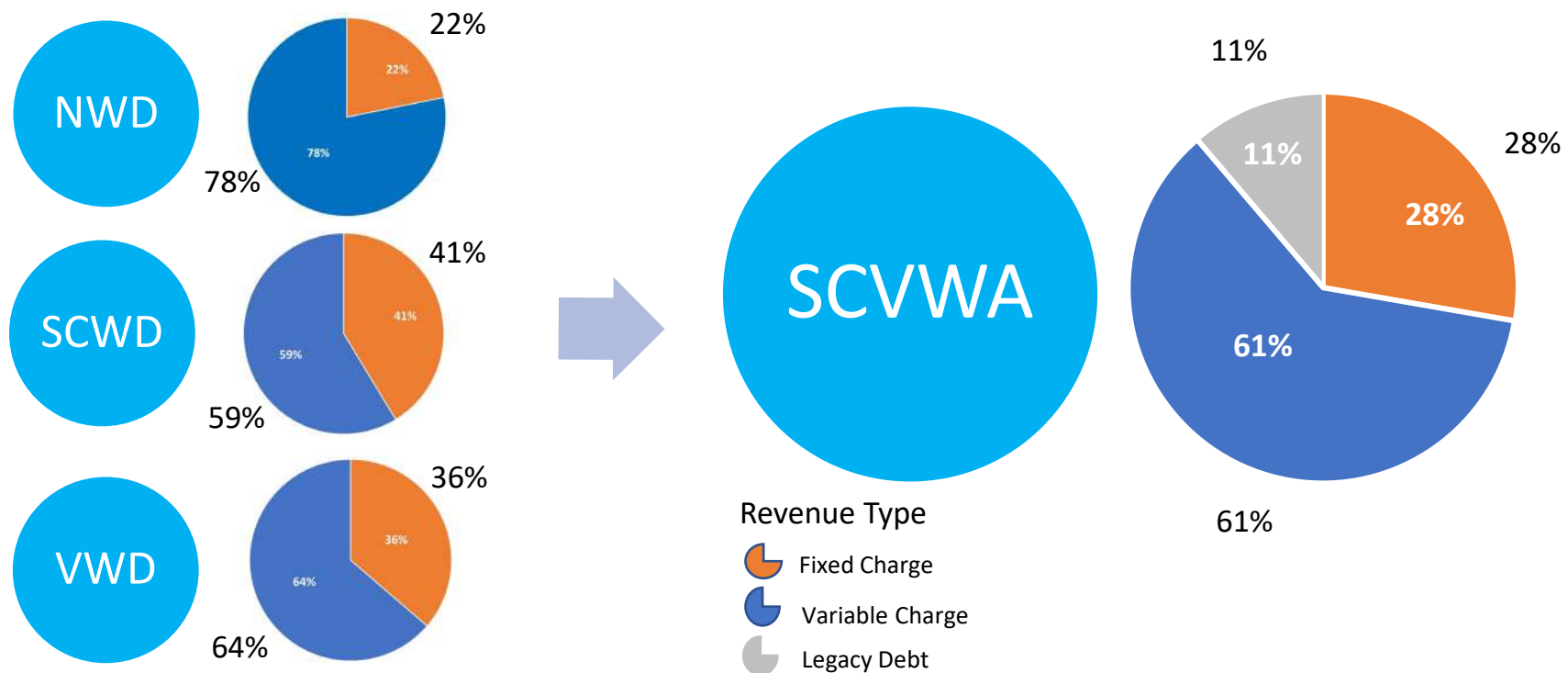
The last rate action at any of the divisions was at VWC where the VWC Board implemented a three-year rate plan that ran through FY2019.



The goals of SCVWA's first rate case has the following objectives:

1. Transition the three retail rates to a single rate over a 5-year period.
2. The single rate table at the end of the transition period will adequately fund the needs of the SCVWA.
3. Use the 5-year transition period to minimize customer impact.
4. Enable an increase in rate revenues to recover the new and recurring costs of PFAS

Rate Plan Development: The situation



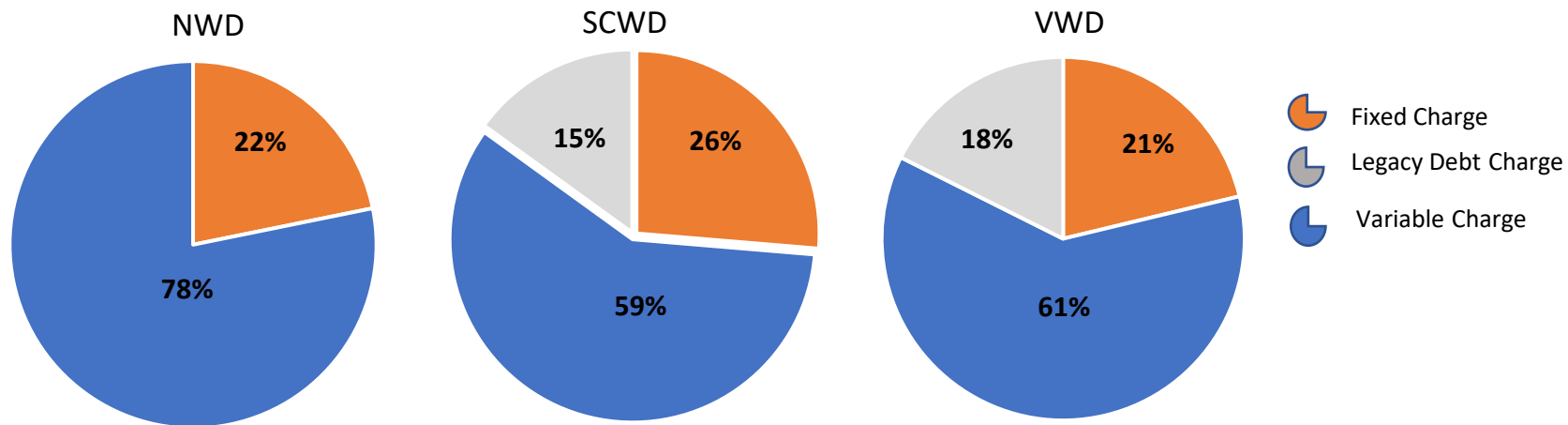
Existing rates with the call out of Legacy Debt

3/4" Current Rates			
	NWD	SCWD	VWD
Variable Charge	\$2.85	\$1.99	\$1.89
Fixed Charge	\$16.14	\$32.28	\$25.22

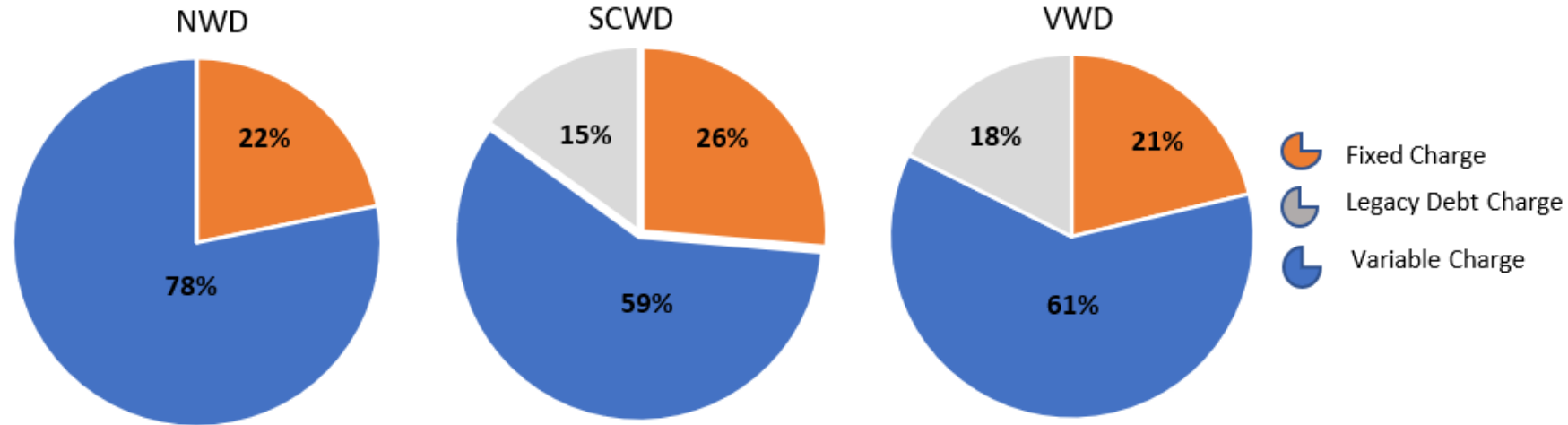
3/4" Current Rates			
	NWD	SCWD	VWD
Variable Charge	\$2.85	\$1.99	\$1.89
Service Charge	\$16.14	\$22.08	\$14.17
Legacy Debt	\$0.00	\$10.20	\$11.05

Note: Variable Charge is per unit of water used (ccf)

Note: NWD had no Legacy debt as of 6/30/2020



Legacy Debt



Legacy Debt is debt entered into by the retail agencies prior to the merger. Legacy debt service is an obligation of the former retail agencies that are now division's in SCV Water.

VWD Legacy Debt

Valencia 2018A bonds. Issued to pay off two senior secured notes with Modern Woodmen that were secured by all of VWD's assets. Principal balance on 6/30/20 was \$26.7 million.

VWD Acquisition loan. In 2018 an intercompany loan was established to reimburse the regional division for the purchase of Valencia Water Company stock. Principal balance on 6/30/20 was \$66.7 million.

SCWD Legacy Debt

Originally two financings; the first for acquisition of its Administration building and water infrastructure, the second to reimburse regional division for acquisition costs. Both were refinanced into one debt in 2017 (2017A bond issue) and most recently refinanced in the FY2020 refinancing project. Principal balance on 6/30/20 was \$48.5 million.

Retail Rate Design 2.0





- **Equitability:** Do rates treat all customers fairly
- **Revenue Stability:** How much variation in annual revenue can be expected from the rate plan
- **Affordability:** Does the rate plan result in unusually large increases in the majority of customer bills
- **Practicality:** Can the rate structure be understood by customers and implemented by the Agency

Starting Point



Tools

No Transition

5 Year
Transition

No VWD Loan
Restructure

VWD Loan
Restructure

No Use of
Rate
Stabilization
Reserve

Use of Rate
Stabilization
Reserve

X%
Revenue
Adjustments

Cost based rates, equitable and affordable rates.

NWD has the highest variable rate and it will be lowered. This will result in higher water users seeing the largest bill reductions.

VWD had the lowest rates and is the reason it is necessary to strongly consider at 5-year rate transition period and the other tools identified.

Operating & Maintenance Cost Drivers

Description	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
Total O&M Expenses	\$ 77,422,023	\$ 81,695,597	\$ 84,919,394	\$ 88,956,379	\$ 94,950,263
PFAS	\$ 2,039,596	\$ 2,863,956	\$ 4,104,420	\$ 4,688,760	\$ 8,477,865
O&M excluding PFAS	\$ 75,382,427	\$ 78,831,641	\$ 80,814,973	\$ 84,267,620	\$ 86,472,399
PFAS % of O&M Expenses	2.63%	3.51%	4.83%	5.27%	8.93%

About PFAS:

PFAS substances are a group of manmade chemicals that are prevalent in the environment and were commonly used in industrial and consumer products to repel grease, moisture, oil, water and stains. Water agencies do not put these chemicals into the water, but over time very small amounts enter the water supplies through manufacturing, wastewater discharge and product use. Exposure to these chemicals may cause adverse health effects.

Divisional Impacts: In General

- Currently NWD has the highest variable charge. This will be reduced. In general customers that use more water will see larger bill reductions. Low water usage customers will have bill increases driven by the increase to the fixed charge.
- Currently VWD has the lowest variable charge and the lowest service charge, in general rates will be increased more than in other Divisions.
- SCWD rates are currently between the high of NWD and low of VWD, in general rate increases will be smaller than VWD but more than NWD.

Rate Plan Options



Option 1	Option 2	Option 3	Option 4	Option 5	Option 6	Option 7
No Transition	5 Year Transition	No Transition	5 Year Transition	5 Year Transition	No Transition	No Transition
4.8% Revenue Adjustments	4.8% Revenue Adjustments	VWD Loan Restructure	VWD Loan Restructure	VWD Loan Restructure	VWD Loan Restructure	VWD Loan Restructure
		4%, 4%, 5%, 5% Revenue Adjustments	4.8% Revenue Adjustments	Use of Rate Stabilization Reserve	Use of Rate Stabilization Reserve	0%, 6.5%, 6.5%, 6.5%, 6.5%
				5.0% Revenue Adjustments	5.0% Revenue Adjustments	Revenue Adjustments
VWD bill Impact is too sudden	Prop 218 considerations	VWD bill Impact is too sudden	Prop 218 considerations			

Simple, Sudden, Steep

Year 1: All three divisions go from existing rates to a fixed service charge of \$19.40 and a variable charge of \$2.12 per unit. Each Division has its own legacy debt charge: NWD \$0; SCWD \$10.20; VWD \$11.05

Impact on VWD residential customers is higher than desirable in year 1.

Meter Size	Monthly Increase	% Increase
3/4"	\$9.32	16.0%
1"	\$12.95	12.9%
1.5"	\$29.27	11.0%
2"	\$47.73	10.6%

All other meter connection sizes would be increased at 10% or greater

Option 3 had slightly lower but still too high of customer impacts for VWD

There are better alternatives.

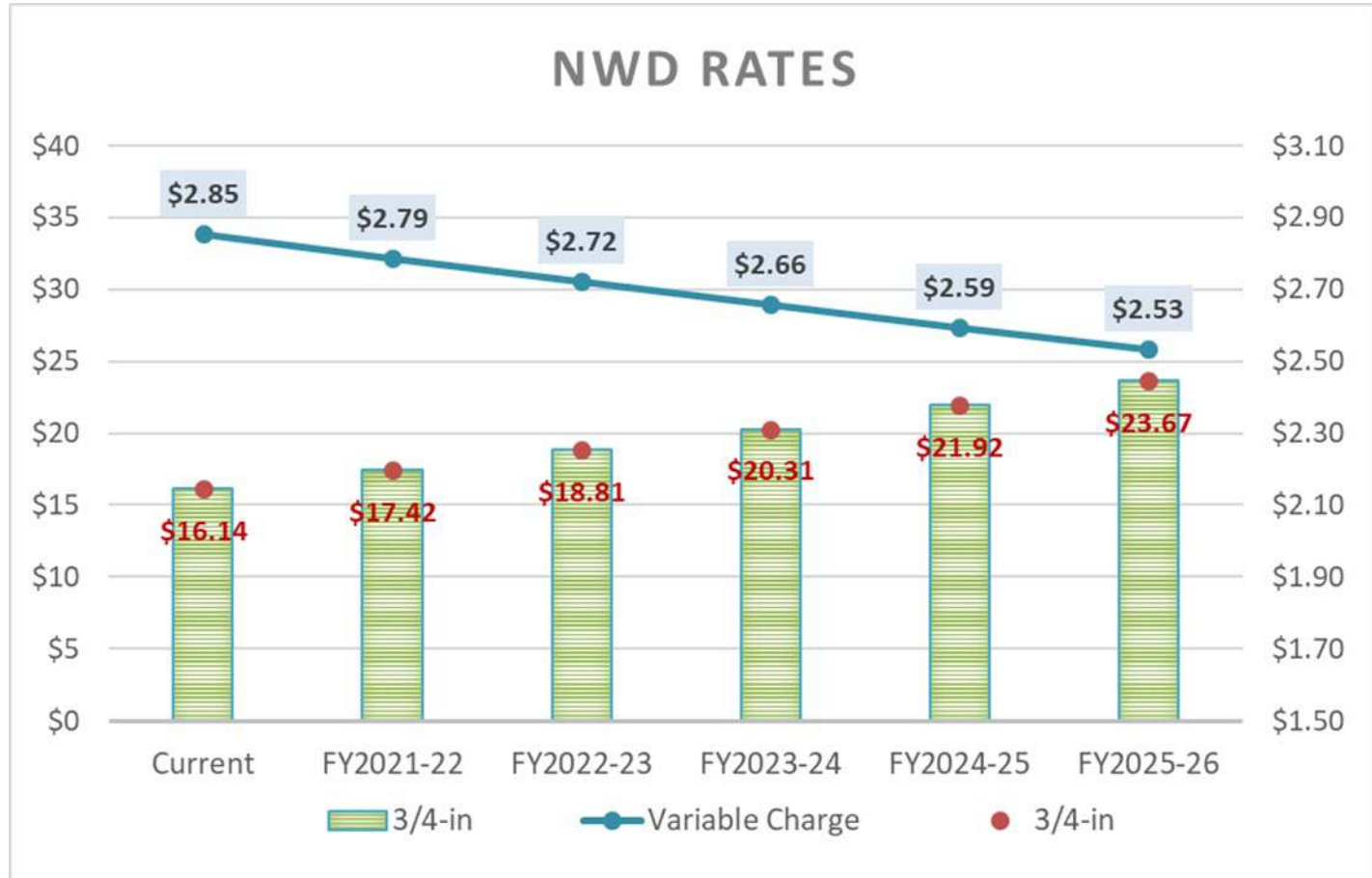
- Option 1
- No Transition
- No VWD Loan Restructure
- No Use of Rate Stabilization Reserve
- 4.8% Revenue Adjustments

Prior Committee Review



Options 2 & 4

- Proposition 218 considerations were raised by using the full transition period to reduce the NWD volumetric rate
- This led to the development of three additional rate plan options and the use of two additional rate management tools.



Options for Consideration



Option 5

5 Year Transition

VWD Loan Restructure

Use of Rate Stabilization Reserve

5.0% Revenue Adjustments

- Proposition 218 considerations addressed
- Use of \$5.2 million of rate stabilization reserves.
- Average VWD bill impact year 1 is approximately 6%

Option 6

No Transition

VWD Loan Restructure

Use of Rate Stabilization Reserve

5.0% Revenue Adjustments

- Proposition 218 considerations addressed
- Use of \$2.0 million of rate stabilization reserves.

Option 7

No Transition

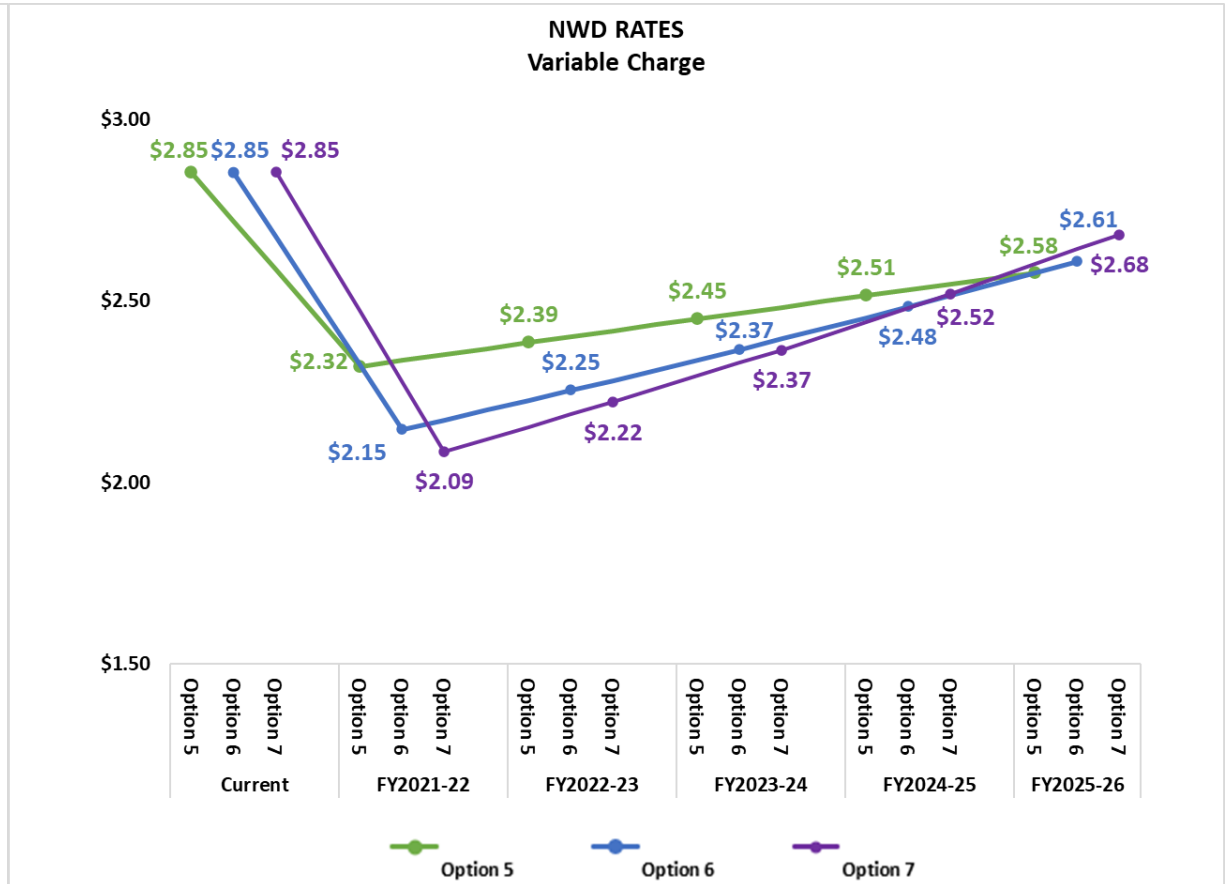
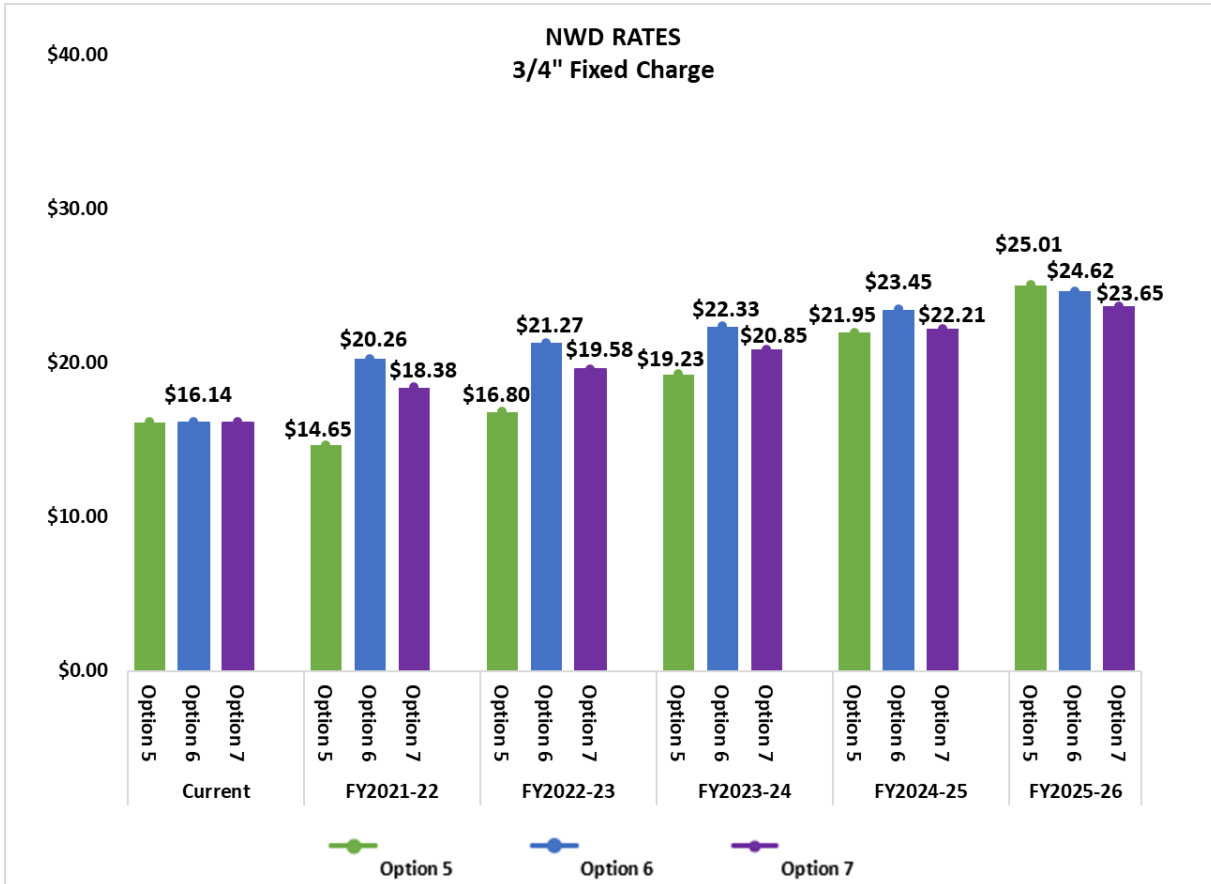
VWD Loan Restructure

No Use of Rate Stabilization Reserve

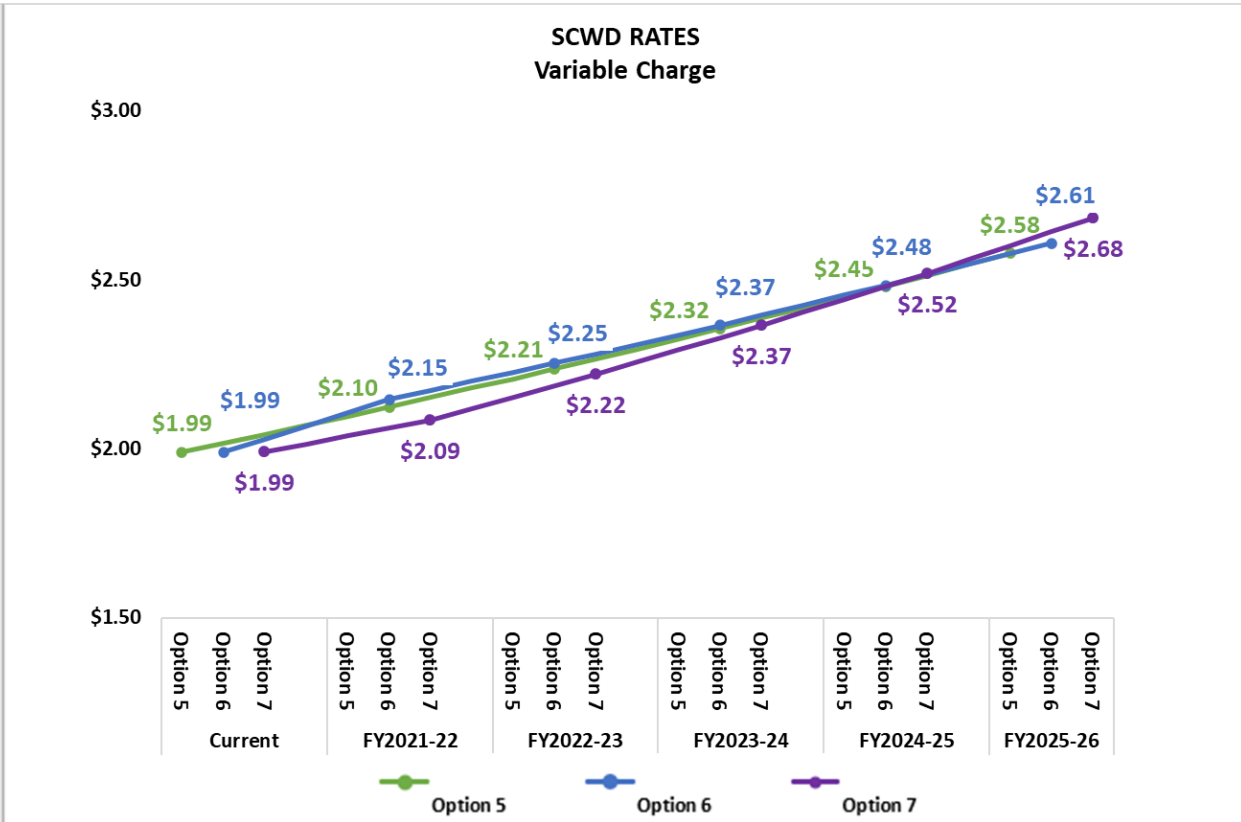
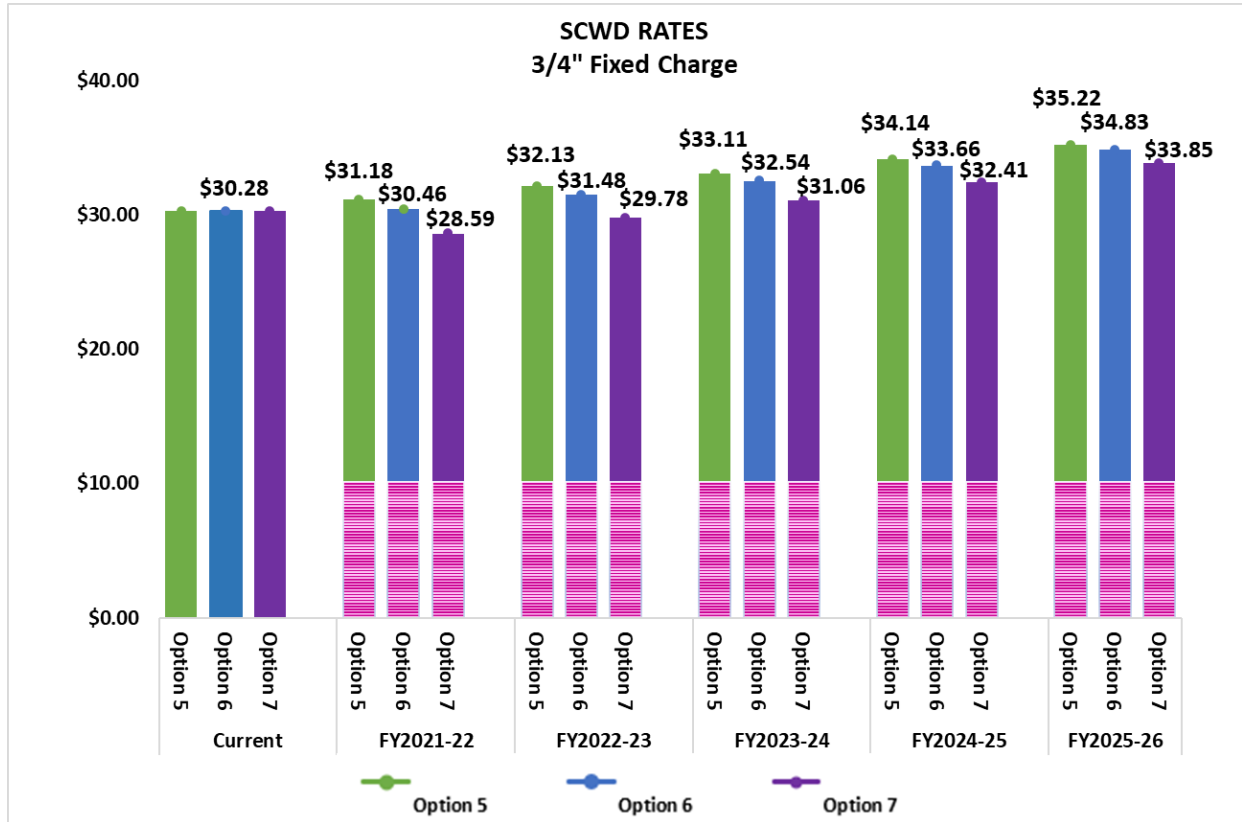
0%, 6.5%, 6.5%, 6.5% Revenue Adjustments

- Proposition 218 considerations addressed
- Reserves not utilized to manage bill impact.

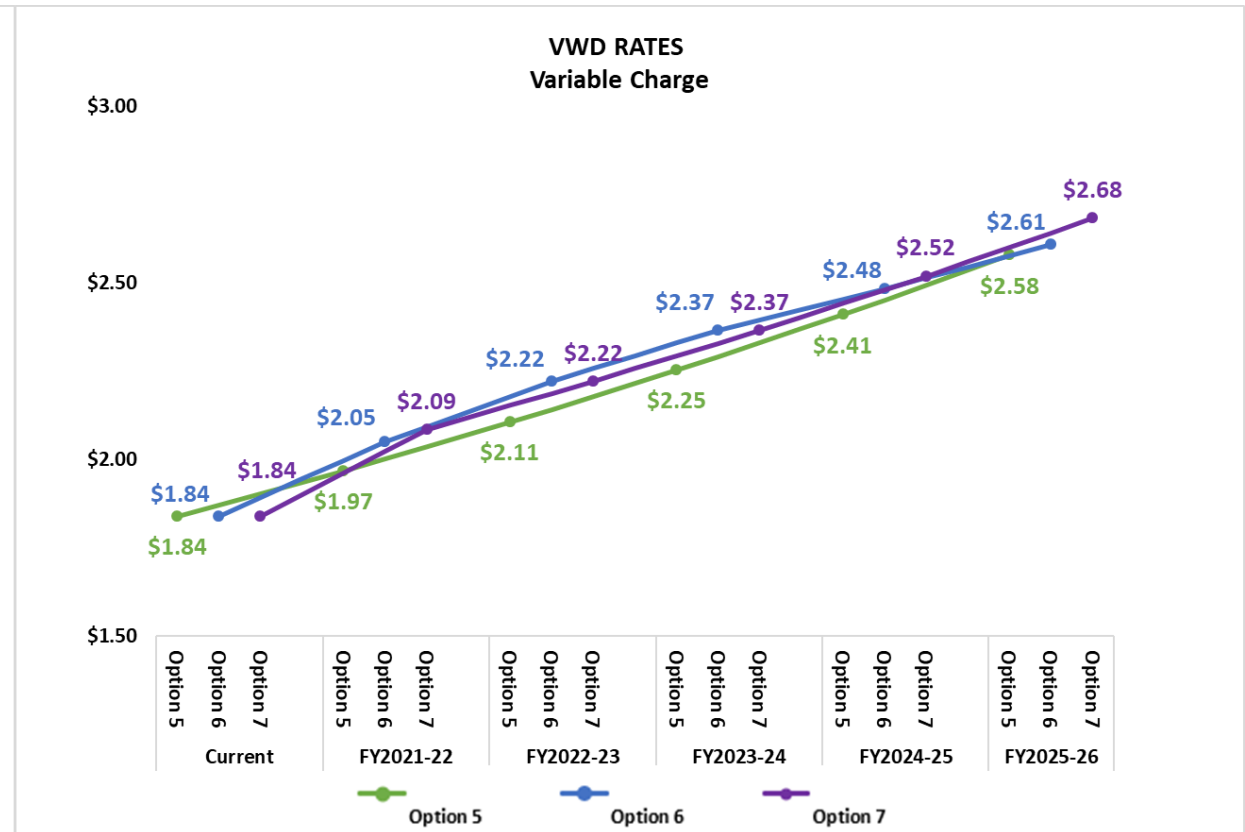
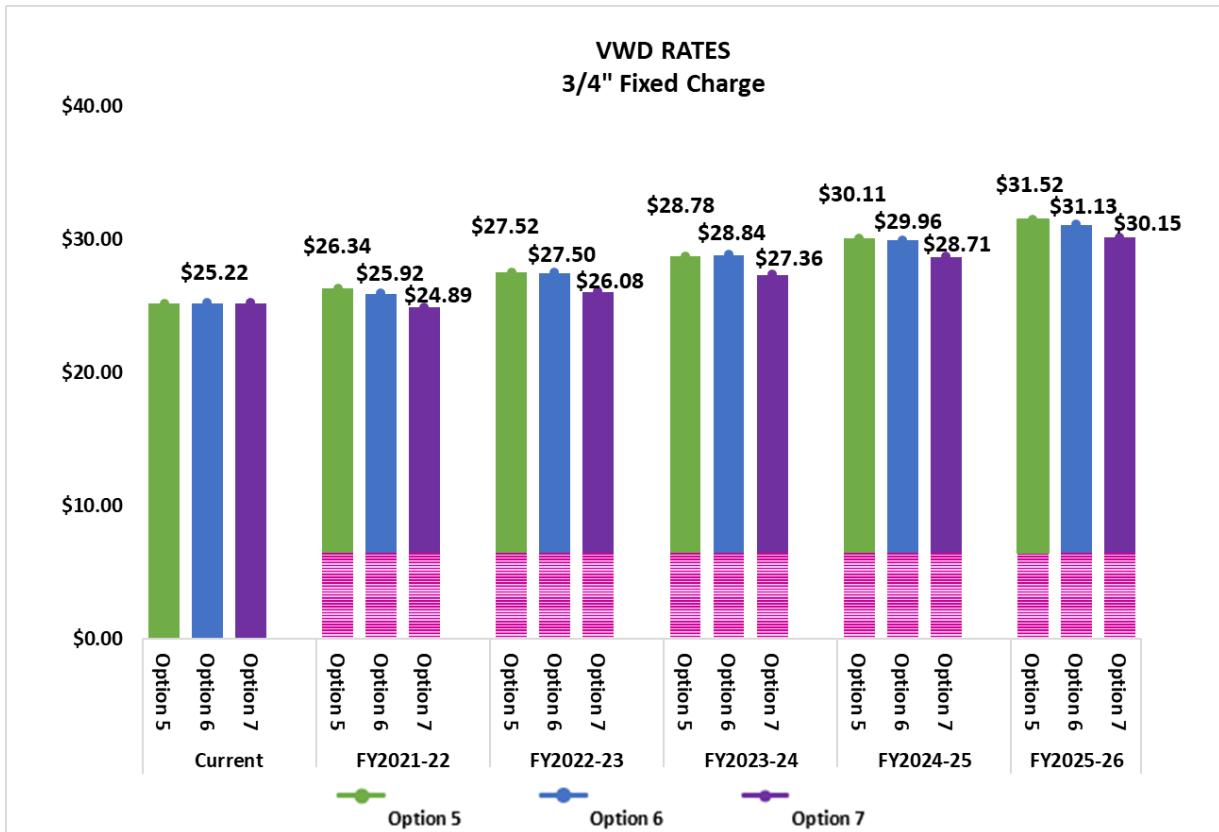
NWD Rates



SCWD Rates



VWD Rates



Illustrative Customer Monthly \$ Impacts

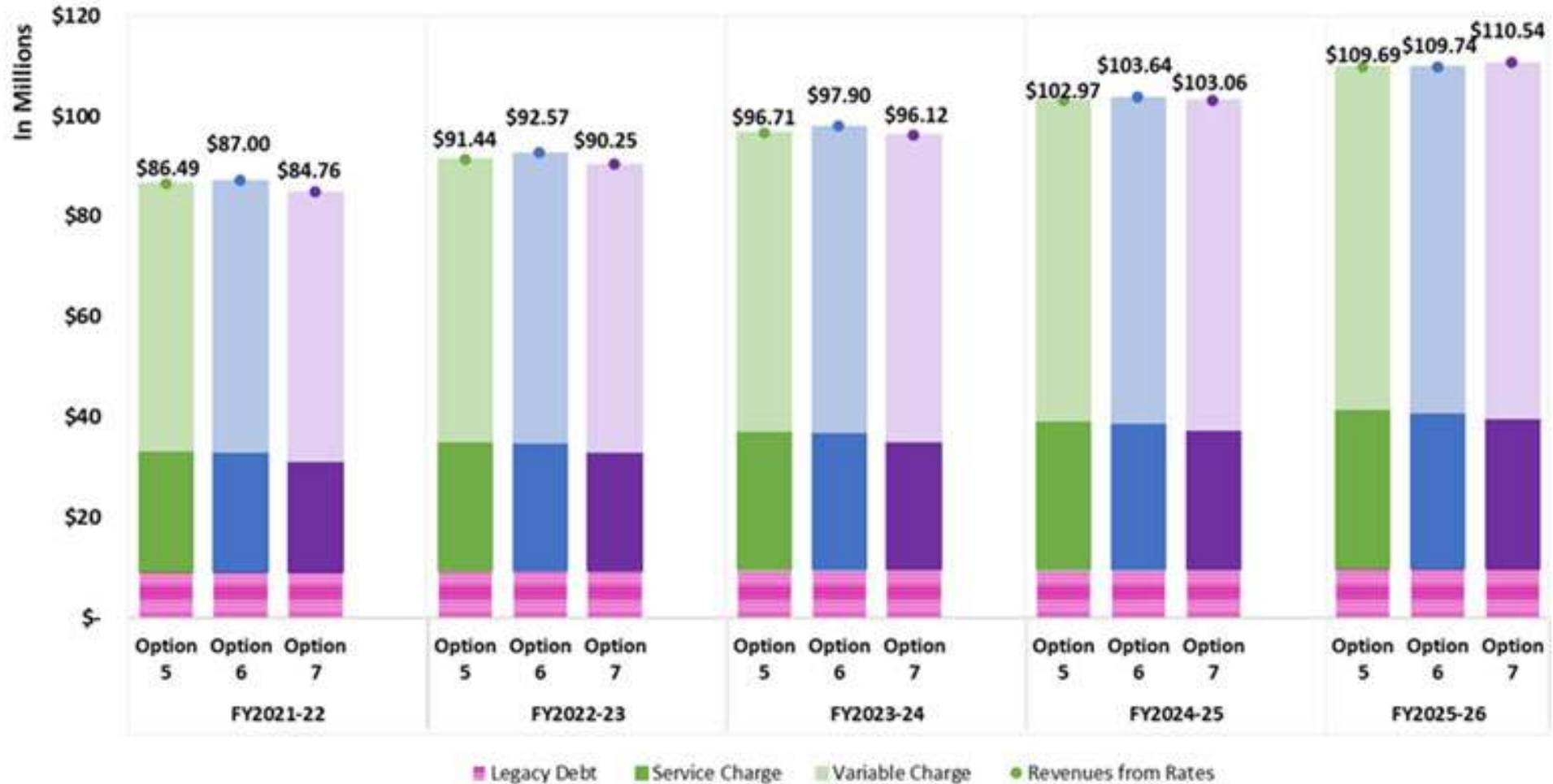
DIVISION	Meter Size	# of Customers	Average Monthly Usage	7/1/2021			7/1/2022			7/1/2023			7/1/2024			7/1/2025			5 Year Total		
				Option 5	Option 6	Option 7	Option 5	Option 6	Option 7	Option 5	Option 6	Option 7	Option 5	Option 6	Option 7	Option 5	Option 6	Option 7	Option 5	Option 6	Option 7
NWD	3/4-in	8,266	18	-\$10.87	-\$8.31	-\$11.24	\$3.31	\$2.89	\$3.57	\$3.58	\$3.04	\$3.81	\$3.84	\$3.19	\$4.05	\$4.18	\$3.35	\$4.32	\$4.03	\$4.17	\$4.50
	1-in	867	31	-\$19.49	-\$18.17	-\$22.79	\$5.02	\$4.84	\$5.99	\$5.37	\$5.08	\$6.38	\$5.71	\$5.34	\$6.79	\$6.15	\$5.60	\$7.24	\$2.76	\$2.69	\$3.61
	2-in	449	168	-\$100.97	-\$117.08	-\$134.81	\$18.60	\$22.36	\$27.92	\$19.48	\$23.48	\$29.74	\$23.48	\$24.66	\$31.67	\$21.29	\$25.89	\$33.73	-\$21.41	-\$20.69	-\$11.75
SCWD	3/4-in	20,033	18	\$2.76	\$2.91	-\$0.02	\$2.90	\$2.89	\$3.57	\$3.04	\$3.04	\$3.81	\$3.20	\$3.19	\$4.05	\$3.36	\$3.35	\$4.32	\$15.26	\$15.39	\$15.73
	1-in	5,514	31	\$4.88	\$6.28	\$1.66	\$5.15	\$4.84	\$5.99	\$5.43	\$5.08	\$6.38	\$5.72	\$5.34	\$6.79	\$6.03	\$5.60	\$7.24	\$27.21	\$27.14	\$28.07
	2-in	1,278	168	\$23.25	\$34.65	\$16.93	\$24.58	\$22.36	\$27.92	\$25.98	\$23.48	\$29.74	\$27.47	\$24.66	\$31.67	\$29.04	\$25.89	\$33.73	\$130.32	\$131.05	\$139.99
VWD	3/4-in	26,008	18	\$3.37	\$4.38	\$3.99	\$3.60	\$4.59	\$3.57	\$3.84	\$3.88	\$3.81	\$4.09	\$3.19	\$4.05	\$4.37	\$3.35	\$4.32	\$19.26	\$19.40	\$19.73
	1-in	1,396	31	\$5.26	\$4.52	\$4.28	\$5.59	\$7.76	\$5.99	\$5.94	\$6.53	\$6.38	\$6.32	\$5.34	\$6.79	\$6.72	\$5.60	\$7.24	\$29.83	\$29.76	\$30.68
	2-in	2,139	168	\$23.67	\$18.63	\$21.56	\$25.22	\$36.16	\$27.92	\$26.88	\$30.34	\$29.74	\$28.65	\$24.66	\$31.67	\$30.54	\$25.89	\$33.73	\$134.96	\$135.68	\$144.62

Illustrative Customer % Impacts

DIVISION	Meter Size	# of Customers	Average Monthly Usage	7/1/2021			7/1/2022			7/1/2023			7/1/2024			7/1/2025			5 Year Total		
				Option			Option			Option			Option			Option			Option		
				5	6	7	5	6	7	5	6	7	5	6	7	5	6	7	5	6	7
NWD	3/4-in	8,266	18	-16.4%	-12.6%	-17.0%	6.0%	5.0%	6.5%	6.1%	5.0%	6.5%	6.2%	5.0%	6.5%	6.3%	5.0%	6.5%	6.1%	6.3%	6.8%
	1-in	867	31	-17.0%	-15.8%	-19.8%	5.3%	5.0%	6.5%	5.3%	5.0%	6.5%	5.4%	5.0%	6.5%	5.5%	5.0%	6.5%	2.4%	2.3%	3.1%
	2-in	449	168	-17.9%	-20.7%	-23.9%	4.0%	5.0%	6.5%	4.0%	5.0%	6.5%	5.0%	5.0%	6.5%	4.1%	5.0%	6.5%	-3.8%	-3.7%	-2.1%
SCWD	3/4-in	20,033	18	4.2%	4.5%	0.0%	4.3%	4.3%	5.5%	4.3%	4.3%	5.5%	4.3%	4.3%	5.6%	4.4%	4.3%	5.6%	23.4%	23.6%	24.1%
	1-in	5,514	31	4.5%	5.8%	1.5%	4.6%	4.3%	5.5%	4.6%	4.3%	5.5%	4.7%	4.3%	5.6%	4.7%	4.3%	5.6%	25.3%	25.2%	26.1%
	2-in	1,278	168	5.0%	7.4%	3.6%	5.0%	4.5%	5.8%	5.0%	4.5%	5.8%	5.1%	4.5%	5.8%	5.1%	4.5%	5.9%	27.9%	28.1%	30.0%
VWD	3/4-in	26,008	18	5.9%	7.6%	6.9%	5.9%	7.4%	5.8%	6.0%	5.8%	5.8%	6.0%	4.5%	5.9%	6.0%	4.6%	5.9%	33.5%	33.7%	34.3%
	1-in	1,396	31	5.3%	4.6%	4.3%	5.4%	7.5%	5.8%	5.4%	5.9%	5.9%	5.5%	4.5%	5.9%	5.5%	4.6%	5.9%	30.2%	30.1%	31.1%
	2-in	2,139	168	5.3%	4.2%	4.9%	5.4%	7.8%	6.0%	5.5%	6.1%	6.0%	5.5%	4.7%	6.1%	5.6%	4.7%	6.1%	30.5%	30.6%	32.7%

Financial Performance

Revenues from Rates



Option 6 Financial Performance

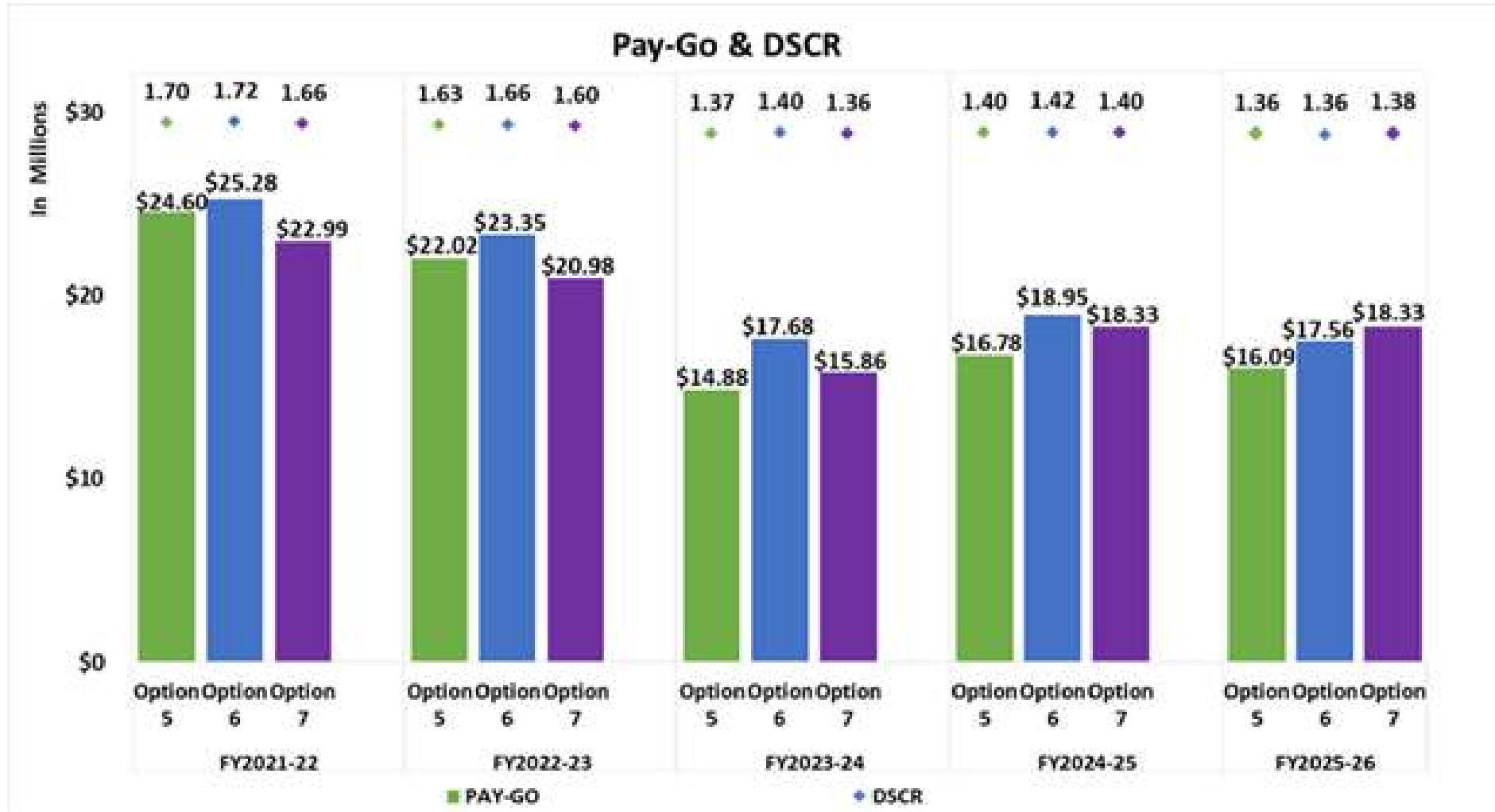


	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
Proposed Revenue Growth	5%	5.00%	5.00%	5.00%	5.00%
Rate Revenues	\$86,999,987	\$92,569,166	\$97,895,150	\$103,636,469	\$109,738,567
Private Fire Revenues	\$680,659	\$724,349	\$770,910	\$820,499	\$873,342
Other Operating Revenues	\$3,999,700	\$4,049,697	\$4,100,394	\$4,151,802	\$4,203,932
Non-Operating Revenues	\$28,549,032	\$24,904,758	\$21,312,752	\$22,195,043	\$22,979,095
Revenues	\$120,229,378	\$122,247,970	\$124,079,206	\$130,803,812	\$137,794,937
O&M Expenses	(\$77,422,023)	(\$81,695,597)	(\$84,919,394)	(\$88,956,379)	(\$94,950,263)
Debt Service (non-Legacy Debt)	(\$8,829,414)	(\$8,385,580)	(\$11,896,595)	(\$13,189,431)	(\$15,446,774)
Legacy Debt	(\$8,693,412)	(\$8,814,719)	(\$9,579,497)	(\$9,710,643)	(\$9,840,625)
Capital PAY-GO	\$25,284,529	\$23,352,074	\$17,683,720	\$18,947,358	\$17,557,275
DSCR	1.72	1.66	1.40	1.42	1.36

Option 7 Financial Performance



	FY2021-22	FY2022-23	FY2023-24	FY2024-25	FY2025-26
Proposed Revenue Growth	0%	6.50%	6.50%	6.50%	6.50%
Rate Revenues	\$84,759,918	\$90,245,712	\$96,118,830	\$103,060,210	\$110,541,232
Private Fire Revenues	\$620,283	\$669,527	\$722,743	\$780,220	\$842,333
Other Operating Revenues	\$3,999,700	\$4,049,697	\$4,100,394	\$4,151,802	\$4,203,932
Non-Operating Revenues	\$28,559,231	\$24,912,679	\$21,318,227	\$22,198,199	\$22,979,598
Revenues	\$117,939,132	\$119,877,616	\$122,260,194	\$130,190,431	\$138,567,095
O&M Expenses	(\$77,422,023)	(\$81,695,597)	(\$84,919,394)	(\$88,956,379)	(\$94,950,263)
Debt Service (non-Legacy Debt)	(\$8,829,414)	(\$8,385,580)	(\$11,896,595)	(\$13,189,431)	(\$15,446,774)
Legacy Debt	(\$8,693,412)	(\$8,814,719)	(\$9,579,497)	(\$9,710,643)	(\$9,840,625)
Capital PAY-GO	\$22,994,283	\$20,981,719	\$15,864,708	\$18,333,977	\$18,329,433
DSCR	1.66	1.60	1.36	1.40	1.38



Recycled Water Rate Plan

Recycled Water Cost of Service

Recycled Water Cost of Service					
	FY2022	FY2023	FY2024	FY2025	FY2026
Sales Forecast AF	586	631	676	721	767
Sales Forecast CCF	255,278	275,007	294,736	314,465	334,194
Variable Charge Revenue Requirement					
O&M	\$ 103,000	\$ 106,090	\$ 109,273	\$ 112,551	\$ 115,927
Purchased Water	\$ 100,790	\$ 108,580	\$ 116,369	\$ 124,159	\$ 131,948
Paygo-RW Distribution	\$ 223,030	\$ 273,742	\$ 333,176	\$ 397,250	\$ 468,635
Total	\$ 426,820	\$ 488,412	\$ 558,818	\$ 633,960	\$ 716,511
Recycled Water COS Rate	\$ 1.6720	\$ 1.7760	\$ 1.8960	\$ 2.0160	\$ 2.1440

COMMUNICATIONS TIMELINE

● KEY MESSAGES/MESSAGE
DECK - NOW

● PUBLIC HEARING
NOTICE – 4/23

● RATES COMMUNICATION
TRAINING – 4/5

● COMMUNITY MEETING
FACILITATION – 4/25-5/11

● RESOURCES DEVELOPED:
• VIDEO
• COLLATERAL
• FAQs
• BILL ESTIMATOR