



**GUARDIANS
OF THE FINANCE
GALAXY**
THE 2019 CSMFO ANNUAL CONFERENCE

Developing Trust With Your Community & Successfully Holding Your Prop 218 Public Hearing

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Best Practices Preliminary Steps

- Build the team
 - Internal
 - External
- Identify needs and goals of District
- Analyze context
 - Political appetite for change
 - Customer concerns
 - Cost-saving measures



Best Practices Rate Design

- Rates should address particular goals, needs, plans
- Cost of service analysis will incorporate goals and needs into rate structure



Rate Study at a Glance

Rate Setting Framework

- Financial goals and policies
- Pricing objectives

Financial Plan

- Evaluation of CIP and financing options
- Cash flow analysis for financial sufficiency

Cost of Service & Rate Design

- Cost allocations
- Rate design
 - Rate calculations
 - Customer impact analyses

Final Rate Adoption

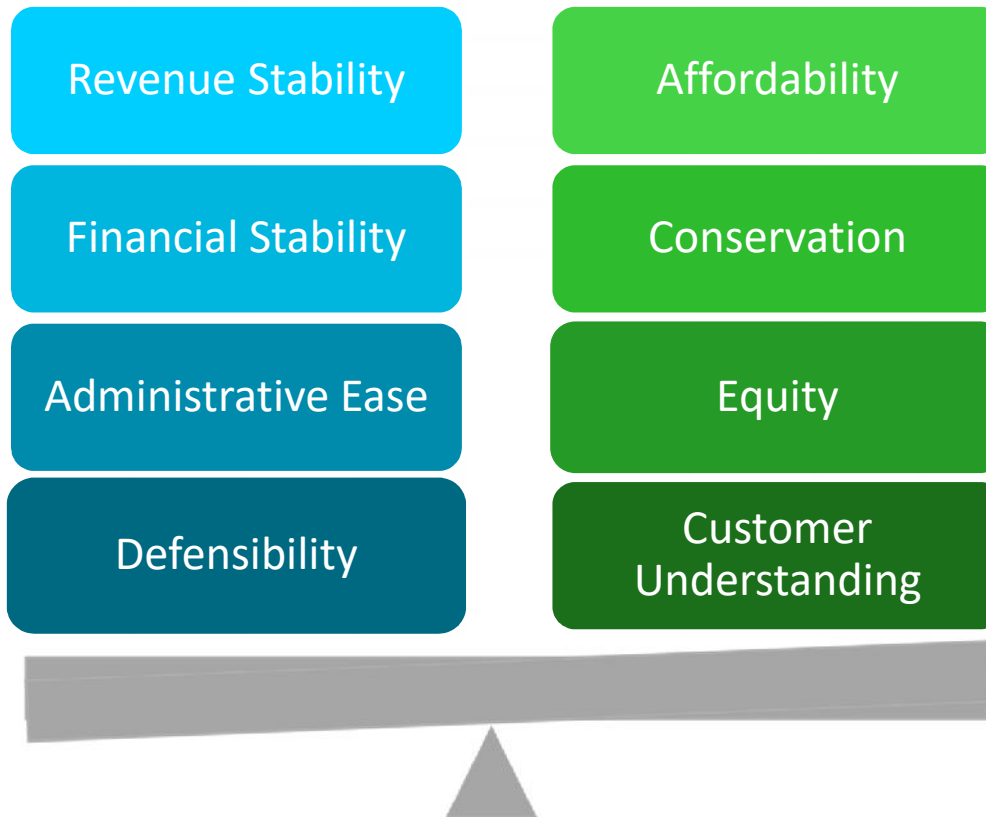
- Report
- Prop 218 Notice
- Public Hearing

Common Pricing Objectives

Conservation	Funding Mechanism	Affordability	Equity and Allocation Methodologies	Administration
<ul style="list-style-type: none"> • Reducing total annual demand • Reducing water waste • Reducing peak demand • Reducing outdoor water usage 	<ul style="list-style-type: none"> • Enhancing revenue stability • Ensuring financial sufficiency • Providing funding mechanisms for alternative water supply, conservation program 	<ul style="list-style-type: none"> • Minimizing customer impacts • Maintaining low average customer bills • Crafting rates that provide affordable water for essential uses 	<ul style="list-style-type: none"> • Allocating water supply equitably • Providing a drought management tool • Allocating capital costs equitably • Complying with government regulations and guidelines 	<ul style="list-style-type: none"> • Allowing cost-effective administration • Allowing easy implementation • Enhancing customer understanding

From Water and Wastewater Finance and Pricing: The Changing Landscape, 4th Edition

Balance Competing Valid Pricing Objectives

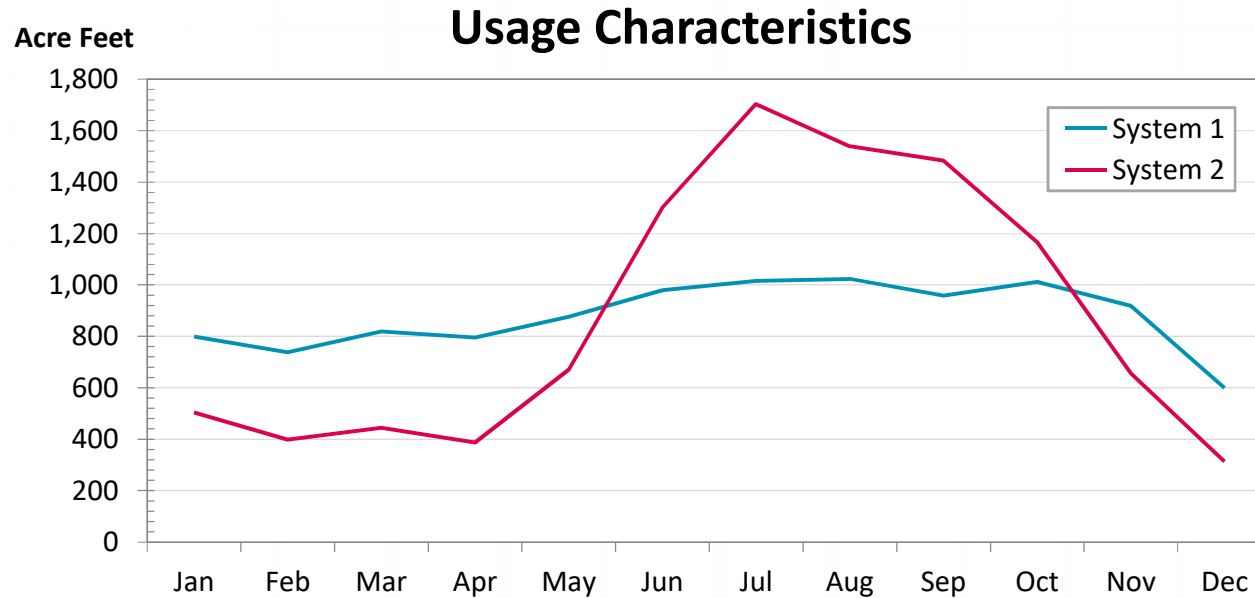


Best Practices Cost of Service Analysis

- Rate Study/Cost of Service Analysis
 - Identify key team members
 - Early-stage team involvement
- Contents:
 - How were rates derived?
 - Calculations
 - Simple, layman English narrative
- Goal: **non-water, non-finance** people should easily understand how and why rates were derived



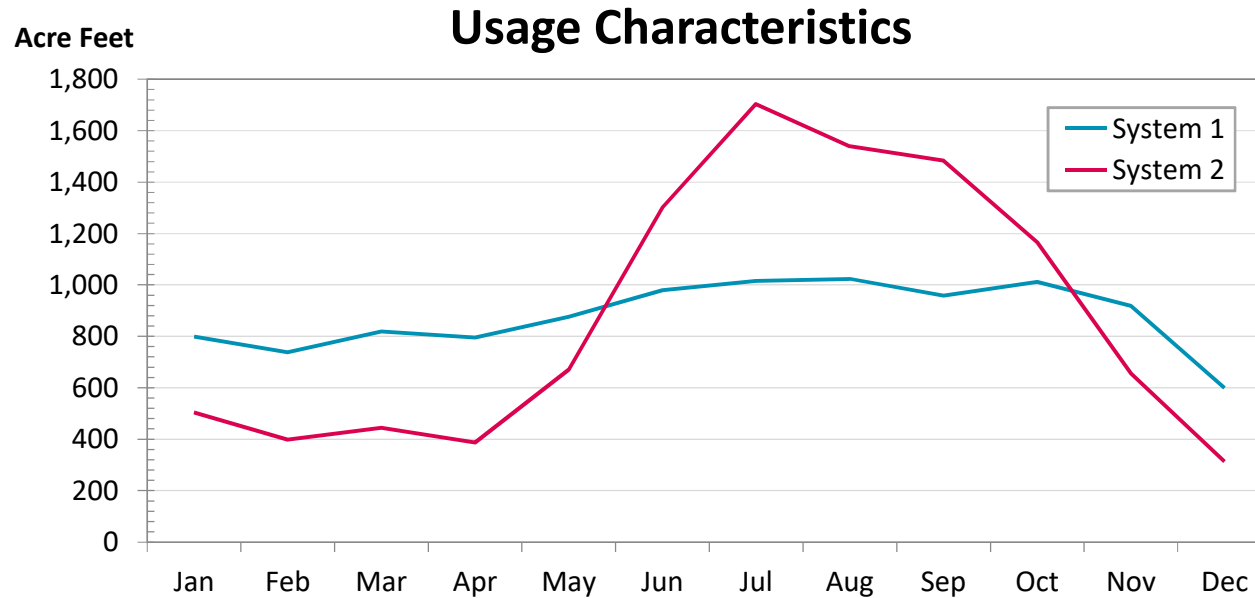
Water System Costs and Peaking Demand



Both water systems have annual demand of approximately 10,500 AF / year.

Which water system requires larger facilities/infrastructure?

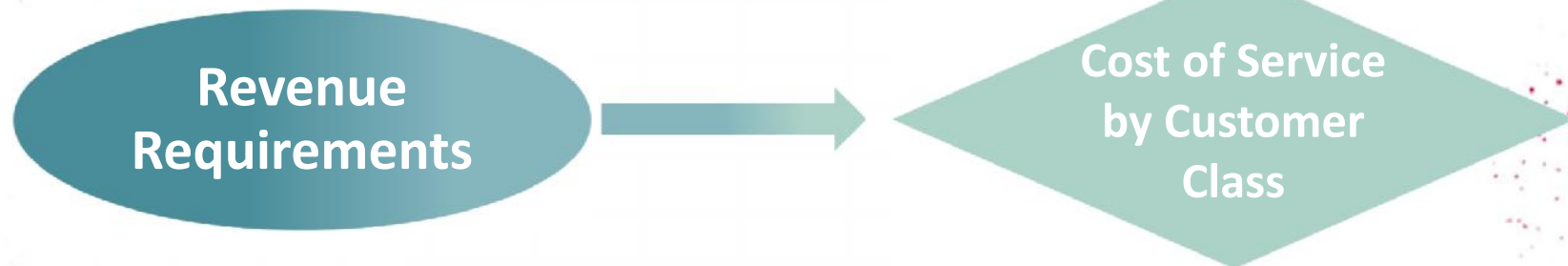
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What is Cost of Service?



- Fundamental benchmark for establishing utility rates in the US
- Definition: A determination of revenue required to recover operation and maintenance costs in proportion to use of the system and the impact of each customer class and usage level on system facilities and operations
 - A cost-based process of converting revenue requirements into unit costs
 - Allocation of cost of service to customer classes is based on customer usage characteristics

CTA v. City of San Juan Capistrano

- Recent Litigation: CTA vs. City of SJC
 - Rate payers sued the City of San Juan Capistrano over its water budget rate structure
 - Inclining block rates that go up progressively in relation to usage, **are compatible** with Article XIII D, § 6(b)
 - City had insufficient record to show tiers correspond to the actual cost of providing service at a given level of usage
- Key factors:
 - Lack of administrative record
 - City used multipliers to justify the tiered rates without any administrative record of an underlying rationale

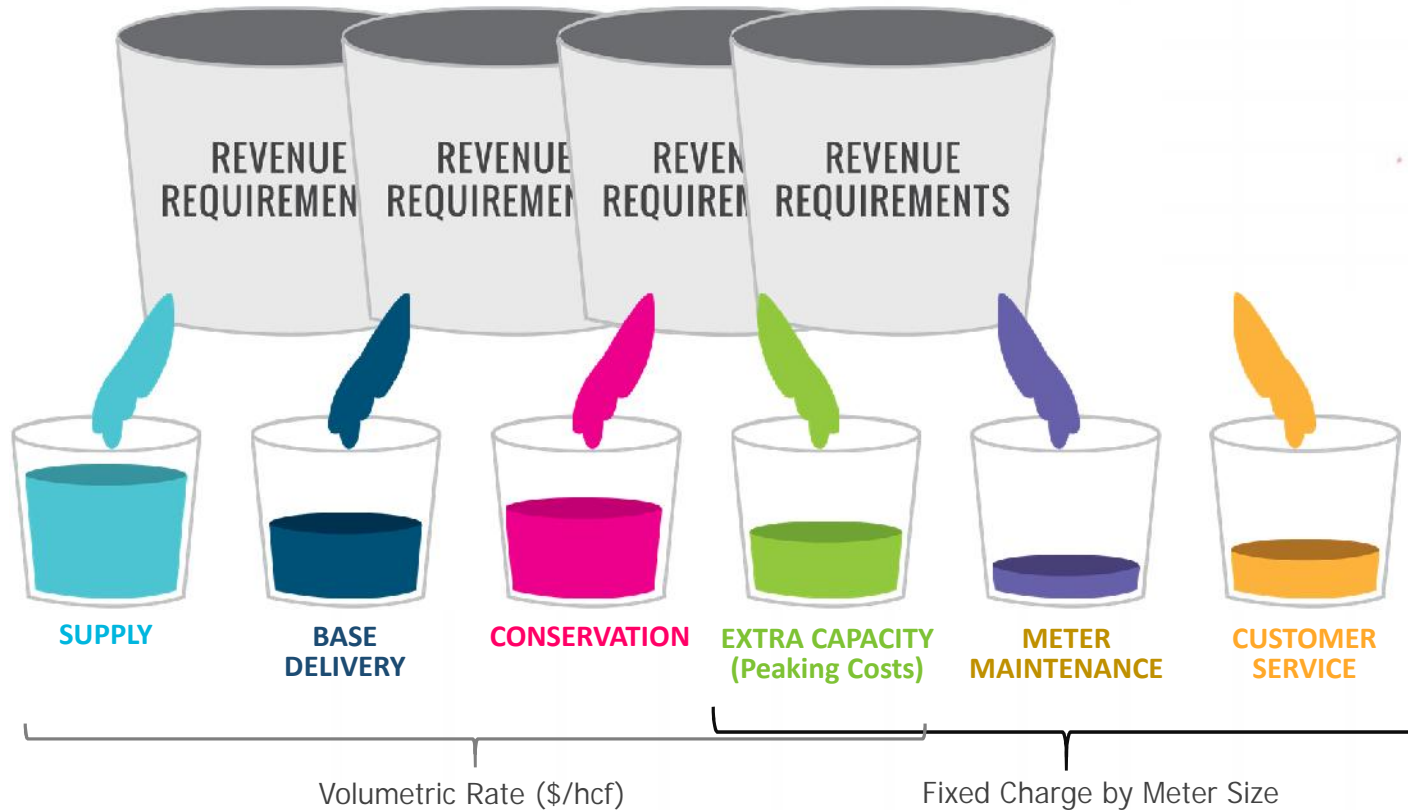
CTA v. City of San Juan Capistrano

Lessons:

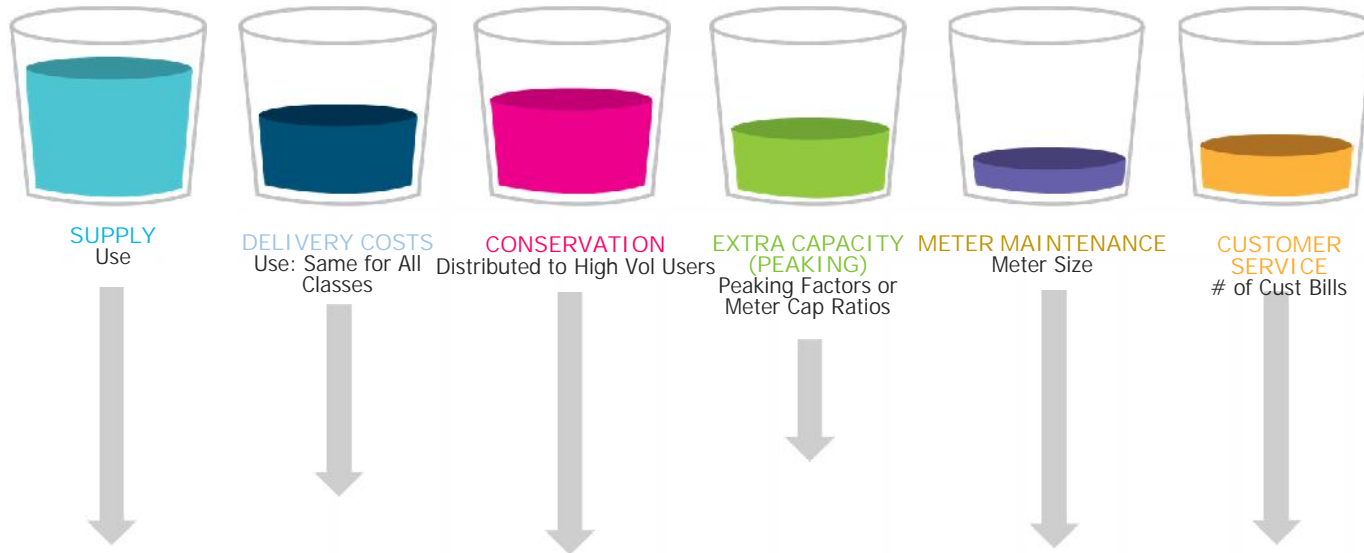
1. A nexus between cost of providing services and rates **MUST** exist.
2. Do the work to prove that nexus.
3. Show the work through the administrative record.
4. Tell the story clearly in plain, non-technical language.

Cost of Service Evaluation

Allocation to Cost Components



Cost of Service Evaluation

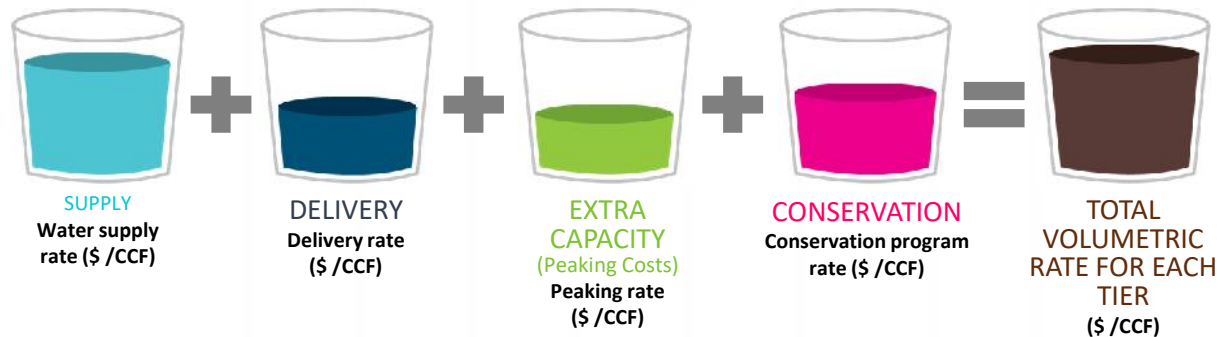


Distribute Costs to Each Class

CUSTOMER CLASSES
Cost to Serve Each Class
(Single Family, Multi-family, Commercial etc.)

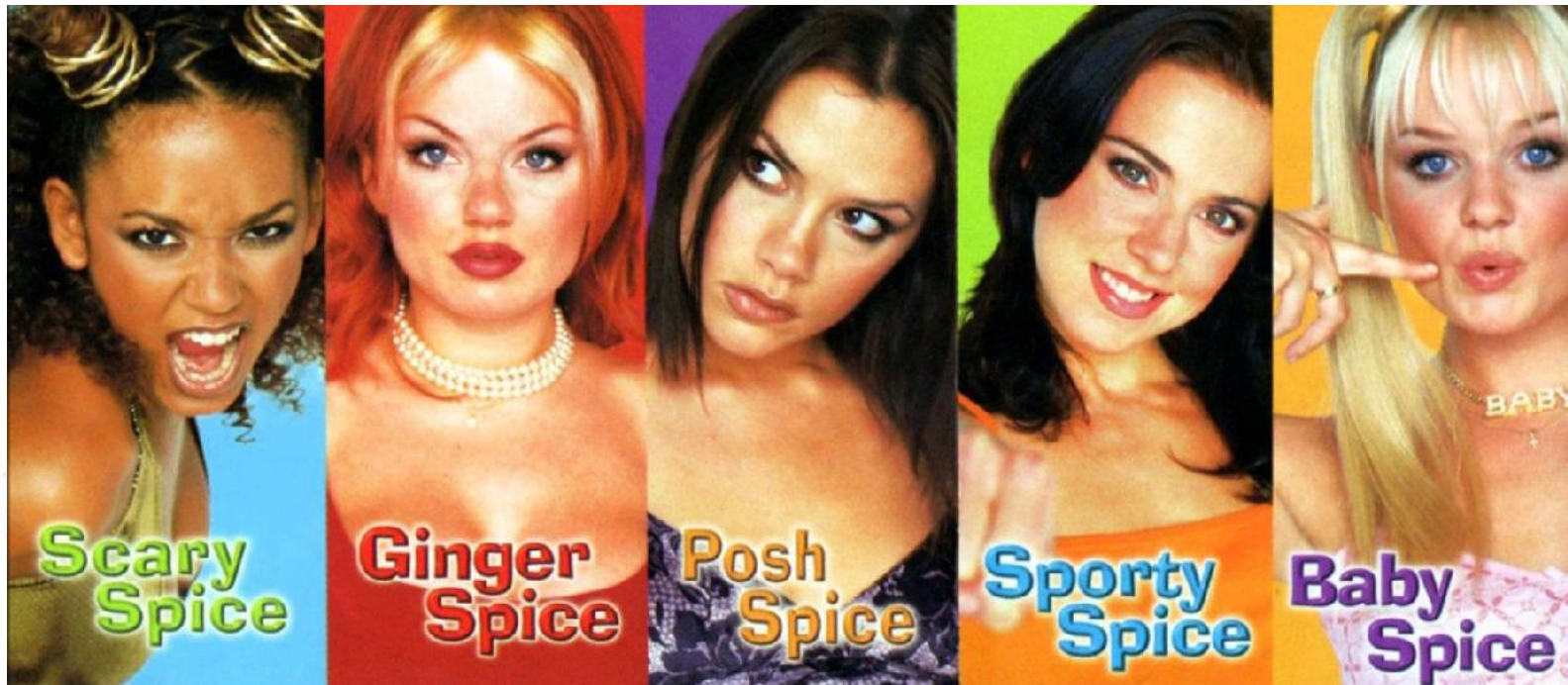
Commodity Rate Derivation

To calculate commodity rates, we combine the unit (\$/CCF) costs of water supply, water delivery, peaking/capacity costs and conservation costs



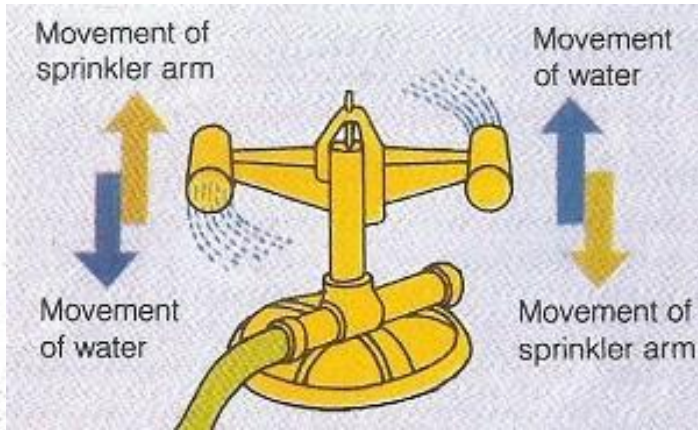
What do you want?

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Others will definitely tell you what they want, so you tell them what you want, what you *really, really* want!

What's the impact?



“For every action, there is an equal and opposite reaction.”

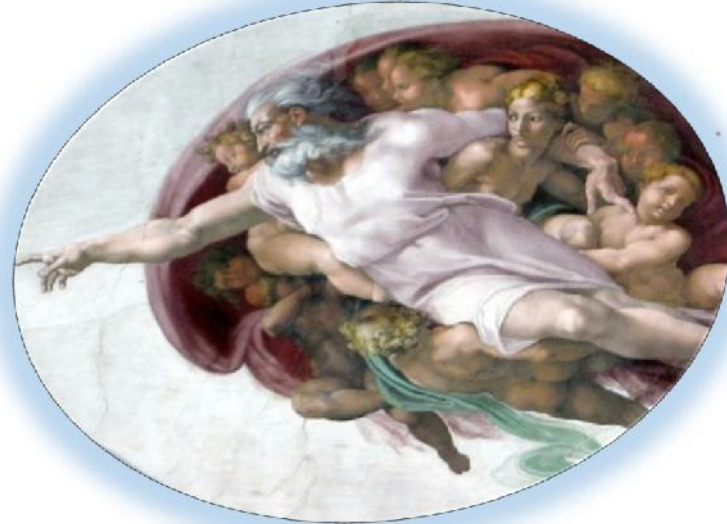
~ *Sir Isaac Newton*

Always describe the impact on reserves from various rate options.

What do you want known?

“For nothing is concealed that won’t be revealed, and nothing hidden that won’t be made known and come to light.”

~ *Luke 8:17*



Have defensible, documented reasons for all assumptions made in the rate model.

TRUST

I'm not upset that you lied to me, I'm upset that from now on I can't believe you.

Friedrich Nietzsche

Trust is like a mirror, you can fix it if it's broken, but you can still see the crack in that <insert one of George Carlin's Seven> reflection.

Lady Gaga

The art of communication is
the language of leadership.

James Humes

Big Ideas I

- Communications professionals ARE technical experts and your strategic partners.
- Customer-first focused communications are critical.
- We don't make friends when we need them.

Big Ideas II

- Communicating the value of the services customers receive is a critical part of implementing new rates.
- The rate setting process has evolved to demand more transparency.
- The past is no longer prologue.

Questions & Answers

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