



Soquel Creek Water District

**Board of Directors
Rate Structure Alternatives**

Item 7.2

November 20, 2023



Introduction - Presenters



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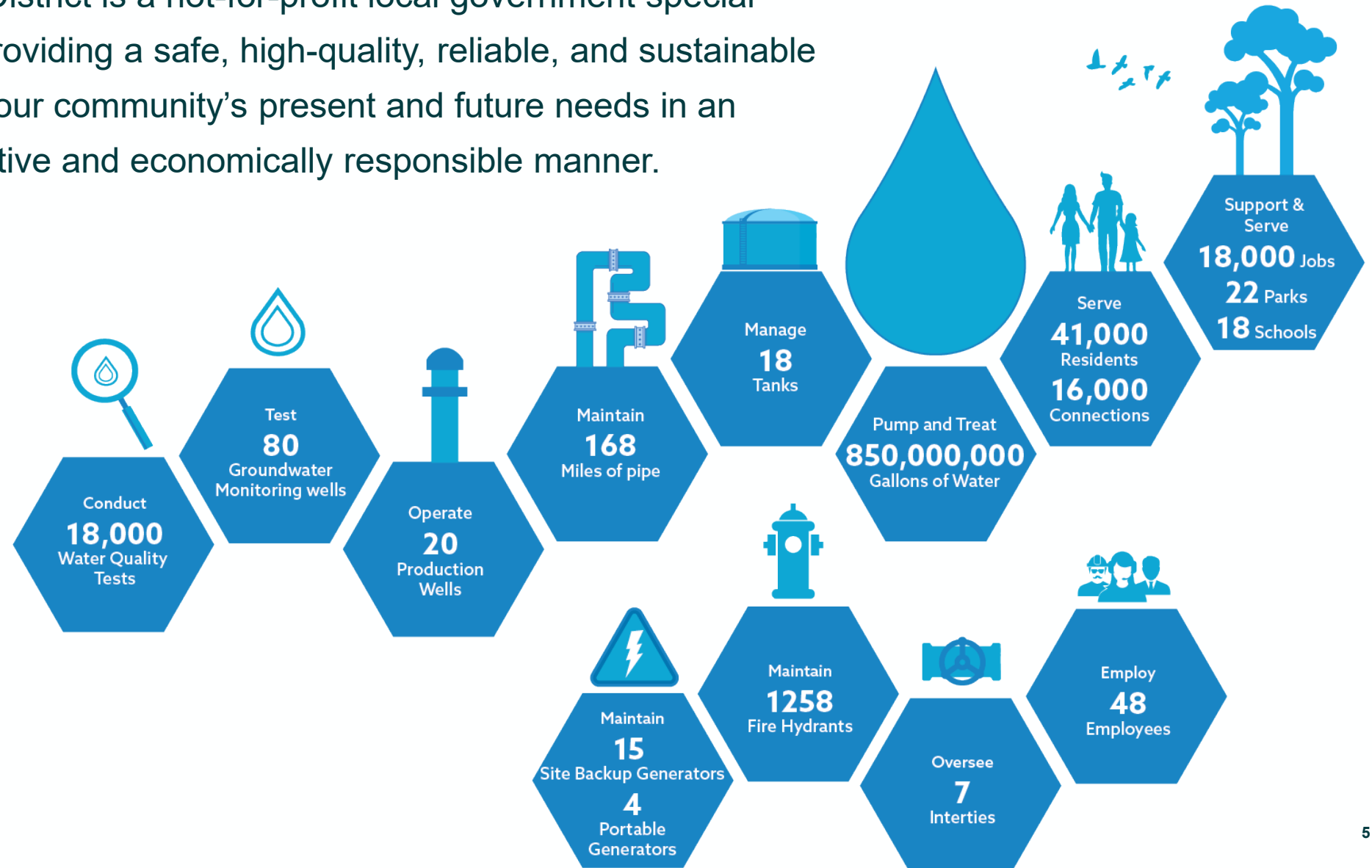
Presentation Overview

- Introduction
- District Mission, Water Supply Challenges
- Water Rate Study
- Financial Plan Review
- Rate Alternatives
- Bill Impacts
- Water Rates Advisory Committee Input
- Public Information



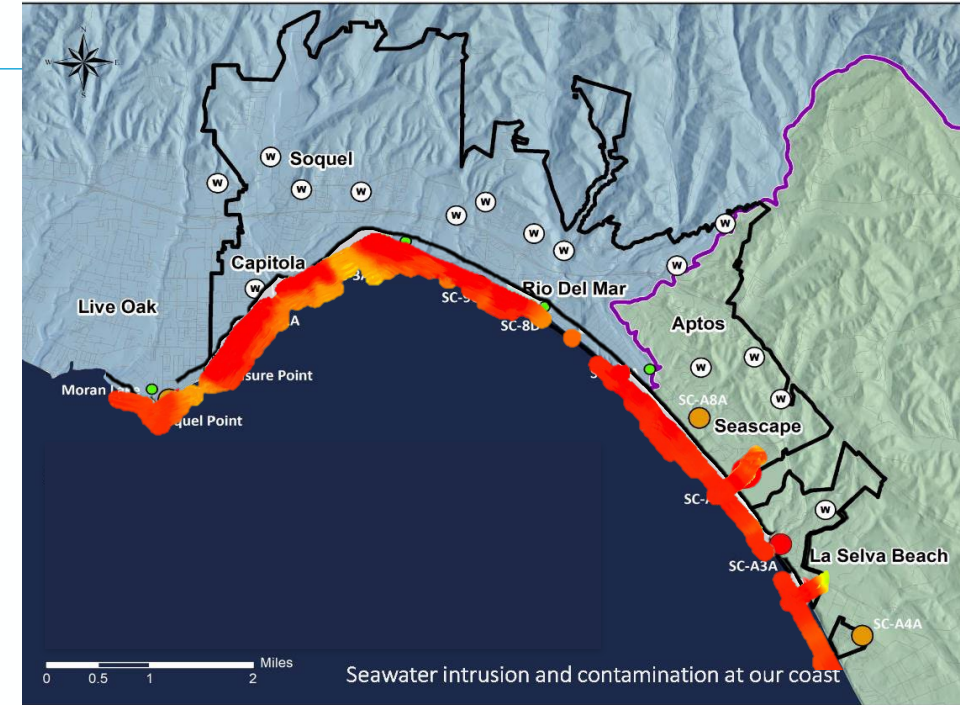
District's Mission and Overview

Soquel Creek Water District is a not-for-profit local government special district dedicated to providing a safe, high-quality, reliable, and sustainable water supply to meet our community's present and future needs in an environmentally sensitive and economically responsible manner.



Water Supply Challenges

- **Groundwater is the ONLY source** of water for Soquel Creek Water District
- **Contaminated** with seawater intrusion along the coast
- **'Critically Overdrafted'** and **'High Priority'** as identified by the State of California
- **Mandated by the State to be sustainable by 2040**
- **Addressing stricter water quality standards**
- **Future climate change impacts** including sea level rise and reduced groundwater recharge



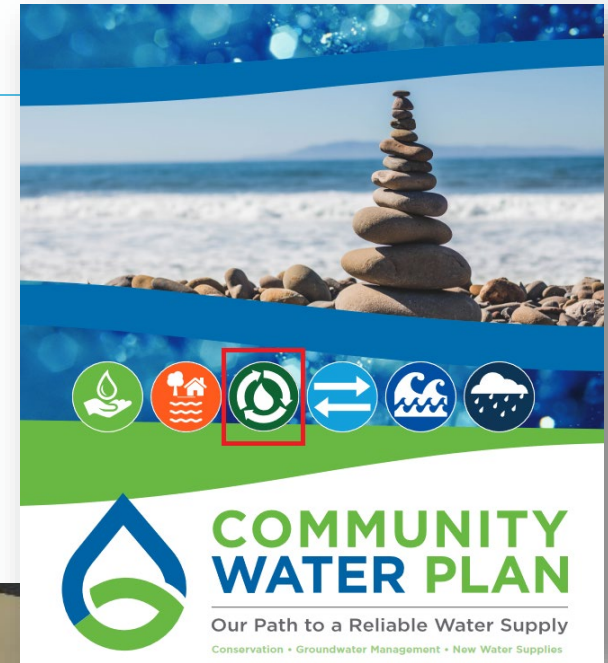
With Our Community, For Our Community...



Community Values

Our actions are guided by three qualities that have consistently rated most important to our customers:

- high-quality water
- timeliness to develop a project and become sustainable
- year-round reliability and resiliency



Economic Analysis

\$903 Million Total Economic Benefit



RESIDENTIAL



ENVIRONMENTAL



BUSINESS

Impacts **WITHOUT** Sustainable Water Supply

**3X HIGHER COST OF WATER
TO CUSTOMERS
(and use less)**



WITH
Project

WITHOUT
Project

Based on Community Input



Support **investment in infrastructure** to ensure a safe, reliable water supply



Support taking **strong action now** to address the issues of over-drafting and seawater contamination of the local groundwater



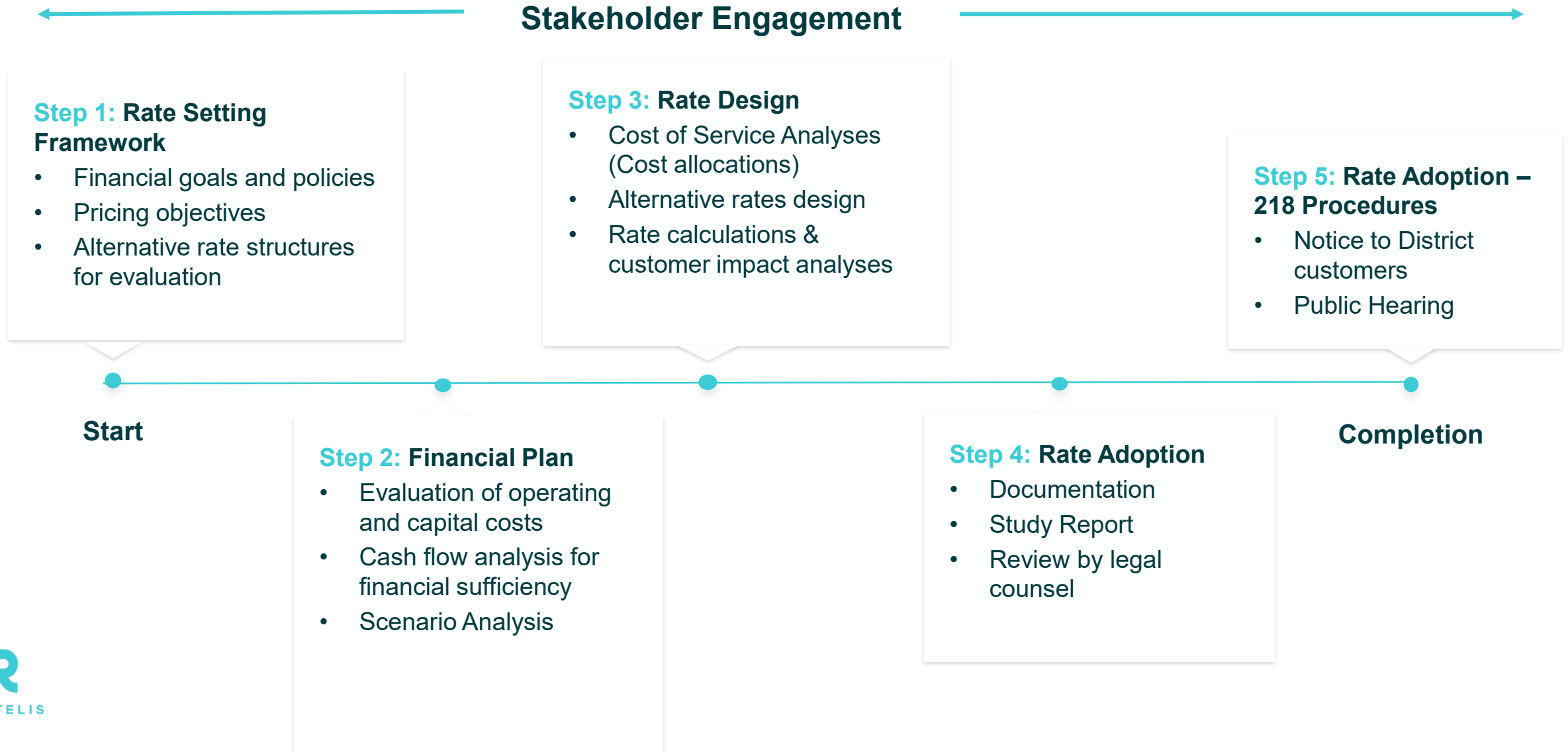
Are **comfortable** with **Pure Water Soquel**

Water Rates Study



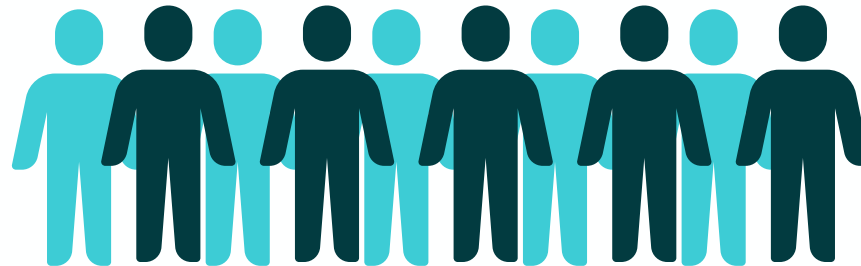
RAFTELIS

Rate Study Process

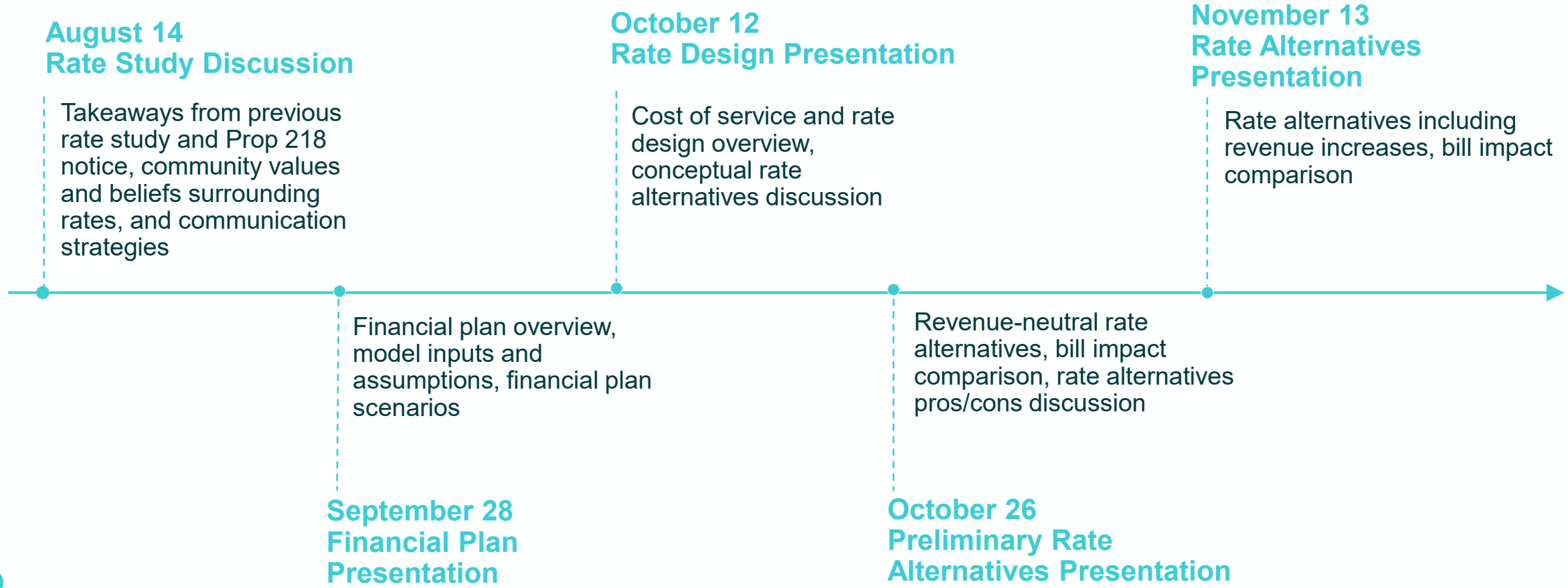


Water Rates Advisory Committee

- District Board created Ad Hoc Water Rates Advisory Committee April 2023
- Applications received from District service area customers
- Composed of 10 customers and two Board Members, all ratepayers
- District Board and staff receive input and recommendations as part of the 2023 rate study



Water Rates Advisory Committee Meetings Recap



Long-Range Financial Plan



Long-Range Financial Plan Drivers



Inflationary Pressures



Supply Sources and Costs



Cash Reserves



Future Borrowing Terms
and Assumptions



Baseline Water Sales
Estimates



Capital Reinvestment

Financial Plan Examples

Example 1:

- 2,600 acre-feet (AF) annual water demand
- 10% adjustments from fiscal year (FY) 2024-2033
- No new debt for capital projects (excluding PWS)
- Reserves drawn down to only Operating Reserve levels before rebuilding to target

Example 2:

- 2,600 AF demand
- 25% adjustment FY 2024 and 7.5% FY 2025 and beyond
- No new debt for capital projects
- Achieves reserve target in most years
- Improves debt coverage in all years relative to Scenario 1

Example 3:

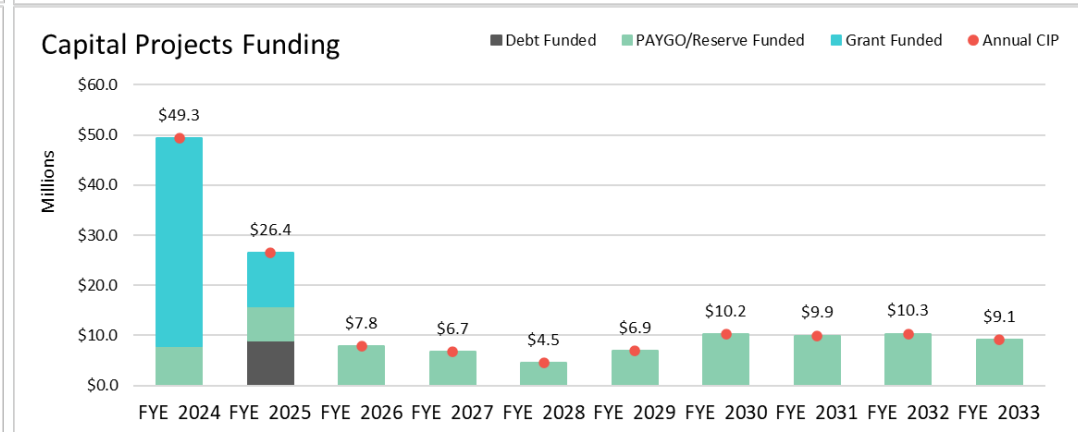
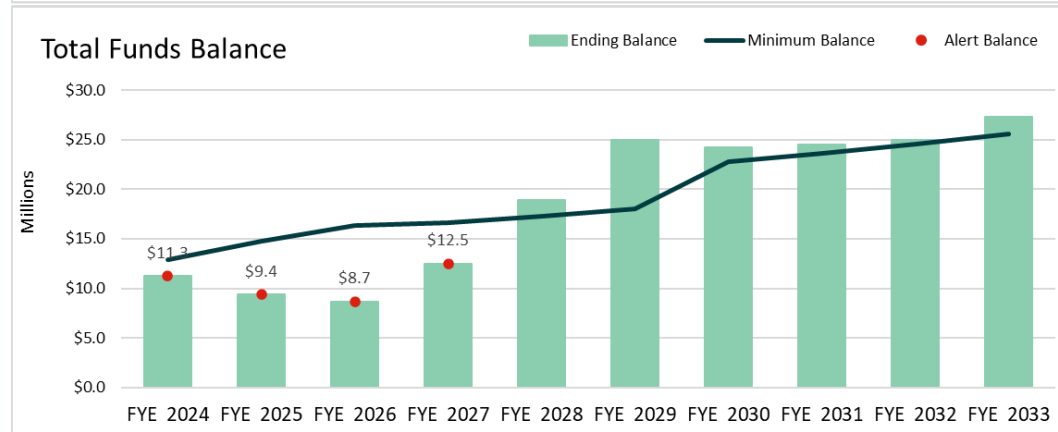
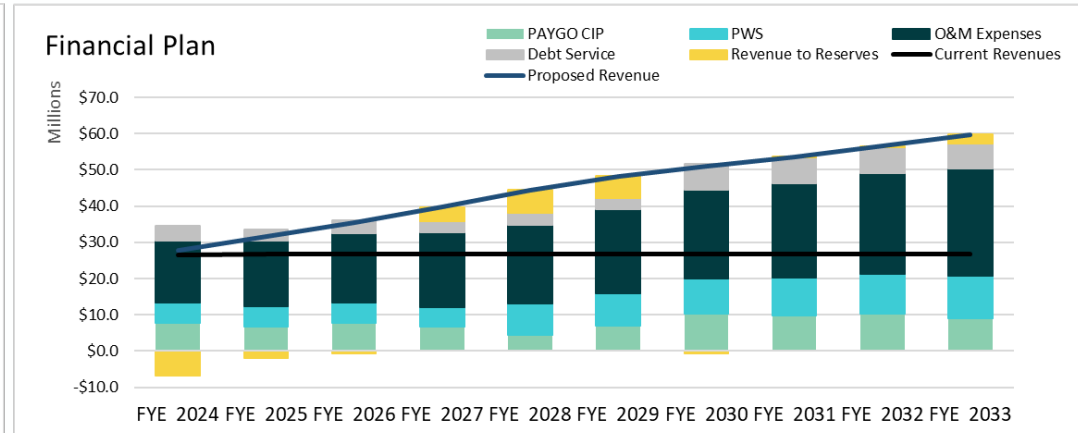
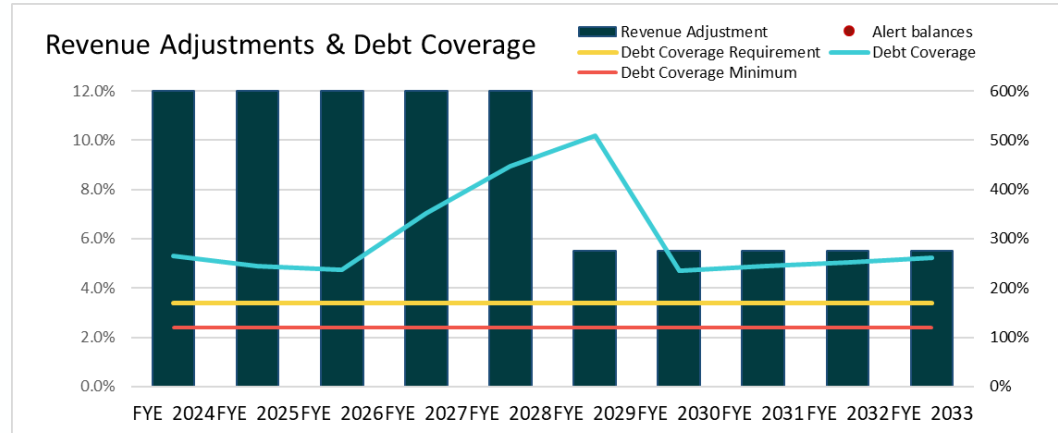
- 2,600 AF demand
- 12% adjustments FY 2024-2028 and 5% adjustments in FY 2029 and beyond
- No new debt for capital projects
- More modest increase in the first year, compared to Scenario 2

Example 4:

- 2,900 AF demand
- Demand matches projections from previous study
- 8.5% adjustments FY 2024 through FY 2033
- No new debt for capital projects
- “What-if” scenario to compare apples-to-apples with prior study

Example 3: Middle Ground

	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031	FYE 2032	FYE 2033
	March	January	January	January	January	January	January	January	January	January
Rev Adjustments	12.0%	12.0%	12.0%	12.0%	12.0%	5.5%	5.5%	5.5%	5.5%	5.5%
New Bond Proceeds	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Water Demand Factor	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Potable Water Sales	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF	2,556 AF



Rate Design Alternatives



District Board Guiding Principles



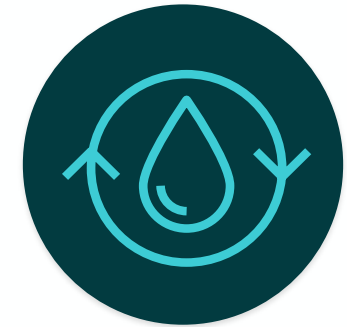
Legal Defensibility

Prudent and transparent development of water rates that comply with all applicable laws and regulations



Financial Sustainability

The District must meet financial obligations solely from its own revenues, fees, and other income sources



Social Equitability

Fairness in rates between customers and between current and future users

Rate Design Options

- Water Rate Structure Alternatives:
 - › Uniform rate structure (**all use and classes**)
 - › Two-Tier rate structure (**existing methodology**)
 - › Two-Tier rate structure (**alternative methodology**)
 - › Three-Tier rate structure (**alternative methodology**)
- All alternatives (other than existing methodology) target approximately 50% of cost recovery from fixed charges and 50% of costs from variable water use charges
- ***All rates shown include a year-one 12% revenue increase***

Basin Sustainability and Rate Design

- Existing Methodology: basin sustainability costs are allocated entirely to water reliability/conservation
 - › Recovered from Tier 2 only within the Residential Class
 - › Commercial and Irrigation costs recovered on all units (since a uniform rate)
- Alternative Methodology: basin sustainability differentiated between
 - › Additional Supply for demands greater than the basin's sustainable yield
 - › Basin-wide benefit of future water availability and seawater intrusion barrier

Existing Two-Tier Volumetric Rates

Customer Class	Supply	Delivery	Peaking	Conservation Rate (\$/HCF*)	Proposed Conservation Rate (\$/HCF*)	Current Rate (\$/HCF)	Difference (\$/HCF)
Residential							
Tier 1 (0-5.99)	\$4.33	\$5.60	\$0.00	\$0.00	\$9.93	\$9.10	\$0.83
Tier 2 (6+)	\$4.33	\$5.60	\$0.00	\$28.50	\$38.43	\$41.23	(\$2.80)
Commercial	\$4.33	\$5.60	\$0.00	\$4.18	\$14.11	\$15.25	(\$1.14)
Irrigation	\$4.33	\$5.60	\$0.00	\$4.18	\$14.11	\$15.25	(\$1.14)

*HCF = Hundred Cubic Feet or 748 gallons of water

Uniform Volumetric Rates

Customer Class	Supply	Delivery	Peaking	Conservation	Proposed Rate (\$/HCF)	Current Rate (\$/HCF)	Difference (\$/HCF)
Residential							
Tier 1 (0-5.99)	\$5.57	\$7.46	\$0.57	\$0.24	\$13.85	\$9.10	\$4.75
Tier 2 (6+)	\$5.57	\$7.46	\$0.57	\$0.24	\$13.85	\$41.23	(\$27.38)
Commercial	\$5.57	\$7.46	\$0.57	\$0.24	\$13.85	\$15.25	(\$1.40)
Irrigation	\$5.57	\$7.46	\$0.57	\$0.24	\$13.85	\$15.25	(\$1.40)

Revised Two-Tier Volumetric Rates

Customer Class	Supply	Delivery	Peaking	Conservation	Proposed Rate (\$/HCF)	Current Rate (\$/HCF)	Difference (\$/HCF)
Residential							
Tier 1 (0-5.99)	\$4.55	\$7.46	\$0.52	\$0.00	\$12.54	\$9.10	\$3.44
Tier 2 (6+)	\$8.17	\$7.46	\$0.69	\$1.67	\$17.99	\$41.23	(\$23.24)
Commercial	\$7.60	\$7.46	\$0.57	\$0.24	\$15.88	\$15.25	\$0.63
Irrigation	\$7.87	\$7.46	\$0.91	\$0.24	\$16.49	\$15.25	\$1.24

Three-Tier Volumetric Rates

Customer Class	Supply	Delivery	Peaking	Conservation	Proposed Rate (\$/HCF)	Current Rate (\$/HCF)	Difference (\$/HCF)
Residential							
Tier 1 (0-3.99)	\$4.55	\$7.46	\$0.48	\$0.00	\$12.50	\$9.10	\$3.40
Tier 2 (4-7.99)	\$5.63	\$7.46	\$0.64	\$0.84	\$14.58	\$9.10/\$41.23	\$5.48/(\$26.65)
Tier 3 (8+)	\$8.39	\$7.46	\$0.89	\$0.84	\$17.58	\$41.23	(\$23.65)
Commercial	\$7.60	\$7.46	\$0.57	\$0.24	\$15.88	\$15.25	\$0.63
Irrigation	\$7.87	\$7.46	\$0.91	\$0.24	\$16.49	\$15.25	\$1.24

Residential Water Use Rate Comparison (including 12% Revenue Increase)

Residential	Current	Uniform	Existing Two-Tier	Revised Two-Tier	Three-Tier
Tier 1	\$9.10		\$9.93	\$12.54	\$12.50
Tier 2	\$41.23	\$13.85	\$38.43	\$17.99	\$14.58
Tier 3					\$17.58

Fixed Charges for Residential & Commercial Classes (All Rate Scenarios including 12% Revenue Increase)

Meter Size	Current Charge	Proposed Uniform	Proposed Existing Two-Tier	Proposed Revised Two-Tier	Proposed Three-Tier
5/8" Restricted	\$30.43	\$37.15	\$36.27	\$37.15	\$37.15
5/8"	\$52.34	\$65.26	\$63.51	\$65.26	\$65.26
3/4"	\$52.34	\$65.26	\$63.51	\$65.26	\$65.26
1"	\$118.04	\$149.58	\$145.20	\$149.58	\$149.58
1.5"	\$227.53	\$290.12	\$281.37	\$290.12	\$290.12
2"	\$556.00	\$711.74	\$689.85	\$711.74	\$711.74
3"	\$1,103.48	\$1,414.44	\$1,370.66	\$1,414.44	\$1,414.44
4"	\$2,198.45	\$2,819.83	\$2,732.28	\$2,819.83	\$2,819.83
6"	\$3,512.39	\$4,506.31	\$4,366.23	\$4,506.31	\$4,506.31
8"	\$6,140.29	\$7,879.26	\$7,634.12	\$7,879.26	\$7,879.26

Monthly Bill Impact Comparison

Residential Bills, 2-12 HCF

Rate Alternative	2 HCF	5 HCF	7 HCF	9 HCF	12 HCF
Uniform	\$22.42	\$36.67	\$13.72	-\$41.04	-\$123.18
Existing Two-Tier	\$12.83	\$15.32	\$13.31	\$7.71	-\$0.69
Revised Two-Tier	\$19.80	\$30.12	\$10.05	-\$36.43	-\$106.15
Three-Tier	\$19.72	\$32.02	\$10.53	-\$39.74	-\$110.69
% of customer bills within this range	31%	41%	15%	7%	4%
% of cumulative customer bills through this range	31%	72%	87%	94%	>98%

Proposed SFR Bills – Dollar per Day Impact at 5 HCF per Month

Rate Alternatives	Current Bill	Year 1 Impact (\$ per day)	Year 2 Impact (\$ per day)	Year 3 Impact (\$ per day)	Year 4 Impact (\$ per day)
Uniform	\$97.84	\$1.22	\$0.54	\$0.60	\$0.67
Existing 2-Tier	\$97.84	\$0.51	\$0.45	\$0.51	\$0.57
Revised 2-Tier	\$97.84	\$1.00	\$0.51	\$0.57	\$0.64
3-Tier	\$97.84	\$1.07	\$0.52	\$0.58	\$0.65

- Bills shown assume a 5/8" meter

Proposed SFR Bills – Dollar per Day Impact at 9 HCF per Month

Rate Alternatives	Current Bill	Year 1 Impact (\$ per day)	Year 2 Impact (\$ per day)	Year 3 Impact (\$ per day)	Year 4 Impact (\$ per day)
Uniform	\$230.95	-\$1.07	\$0.80	\$0.89	\$1.00
Existing 2-Tier	\$230.95	\$0.26	\$0.95	\$1.07	\$1.20
Revised 2-Tier	\$230.95	-\$1.22	\$0.78	\$0.87	\$0.98
3-Tier	\$230.95	-\$1.33	\$0.76	\$0.86	\$0.96

- Bills shown assume a 5/8" meter

Rate Structure Alternatives Comparison

Structure	Pros	Cons
Uniform	<ul style="list-style-type: none"> • Easy to understand • Lower risk of revenue instability relative to current structure 	<ul style="list-style-type: none"> • Does not consider the volume of water used or the source • High impacts on low-to-average users
Existing Two-Tier	<ul style="list-style-type: none"> • Known to customers • Minimizes bill impacts (relative to alternatives) 	<ul style="list-style-type: none"> • Higher risk of revenue instability • Does not distinguish basin sustainability costs for supply versus future reliability
Revised Two-Tier	<ul style="list-style-type: none"> • Differentiates basin sustainability cost recovery • Lower risk of revenue instability relative to current structure 	<ul style="list-style-type: none"> • Moderate impacts to low-to-average users • Significantly reduces conservation signal
Three-Tier	<ul style="list-style-type: none"> • Intermediate tier for seasonal residential needs and larger families • Differentiates basin sustainability cost recovery 	<ul style="list-style-type: none"> • Moderate impacts to low-to-average users • Requires additional messaging in structural change

Rate Structure Comparison – Relative to Each Alternative

Policy Objectives	Uniform Charge	Current Two-Tier	Revised Two-Tier	Three-Tier
Social Equitability	✓	✓✓✓	✓✓✓✓	✓✓✓✓✓
Financial Sustainability	✓✓✓	✓✓	✓✓✓✓	✓✓✓✓
Legal Defensibility	✓✓✓✓✓	✓✓✓✓✓	✓✓✓✓✓	✓✓✓✓✓

Water Rates Advisory Committee Feedback

- Consensus
 - › Increase fixed revenue recovery for financial stability
 - › Uniform option not recommended
 - › Preference for the Revised Two-Tier or Three-Tier option
 - › Evaluate modification to the Three-Tier option to increase the conservation pricing in Tier 3, if possible, and thus lower the price in Tiers 1 and/or 2

Fire Service Rates

(including 12% Revenue Increase)

Fireline Size	Fireline Count	Proposed Monthly Charge	Current Monthly Charge	\$ Difference
1"	113	\$2.55	\$1.71	\$0.84
1.5"	4	\$7.40	\$4.92	\$2.48
2"	1,418	\$15.77	\$10.43	\$5.34
2.5"	0	\$28.35	\$18.73	\$9.62
3"	0	\$45.79	\$30.22	\$15.57
4"	108	\$97.57	\$64.40	\$33.17
6"	68	\$283.42	\$187.02	\$96.40
8"	14	\$603.97	\$398.50	\$205.47

Water Shortage Emergency Rates

- Supplemental surcharges to normal condition rates
- Temporary in nature
- Subject to the procedural and substantive requirements of Proposition 218
- Implemented (and rescinded) at the discretion of the Board of Directors
- Board maintains discretion to implement drought rates lower than noticed or utilize a different financial tool
- ***A tool to recover the net revenue loss during times of shortage***

Water Shortage Emergency Rates (Continued)

- Maintain the same methodology as last study
 - › Percentage increase to base condition water use rates
- Raftelis will update emergency rates based on current costs and water demands
- Shortage Stages for calculating shortage emergency rates:

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
Demand Reduction Target	5%	15%	25%	35%	50%



Public Information



Public Information

- FAQs
- Videos
- Presentations
- Meeting Schedule
- Rates Study Report



www.soquelcreekwater.org/ratestudy



ratestudy@soquelcreekwater.org

Community Outreach



Advisory Committee Meetings

Begin discussions about rate alternatives



Rates Videos

Posted to the website and social media to raise awareness of the setting process



Special Events

District staff hosted a table at the Aptos Farmers Market to raise awareness of District operations and the rate study



What's On Tap, Traditional & Social Media

Share information about rate study and community outreach opportunities

September Feature: Introduce the Water Rates Advisory Committee

QuickSips E-blast



October Feature: Announce Rates Study website and appearance at Aptos Farmers Market

QuickSips E-Blast



Informational webinar to share information about District operations and the rate study process

Water Rates Webinar



Public Meeting Schedule

Meeting	Date	Time	Location
Board of Directors Meeting	Tues. Oct. 17	6 p.m.	Capitola City Council Chambers
Rate Study Informational Webinar	Thurs. Nov. 16	6-7 p.m.	Virtual
Board of Directors Meeting	Mon. Nov. 20	6 p.m.	Capitola City Council Chambers
Board of Directors Meeting <i>(if needed)</i>	Tues. Dec. 5	6 p.m.	Capitola City Council Chambers
Board of Directors Meeting	Tues. Dec. 19	6 p.m.	Capitola City Council Chambers
Notice to Customers	To be determined (TBD)		
Open House	TBD		
Public Hearing	TBD		

Today →



Possible Board Actions

Possible Board Actions

- Direct staff to proceed with calculating rate alternatives based on the 12% annual revenue increases identified in the finance plan; and
- Provide staff with direction regarding the proposed rate structures and return to the Board Meeting on December 19 to review the Draft Rate Study Report; or
- Direct staff to return to the Board Meeting on December 5 with new rate structure proposals; or
- Take no action.



Thank you

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