

A close-up photograph of water being poured from a glass, creating a dynamic splash with many bubbles. The background is a gradient of light blue and white, with a dark blue curved shape at the top right and a light green vertical bar on the left side.

Groveland Community Services District

***Overview of Financial Plan for
Water and Sewer Rate Study***

March 24, 2025



Overview of a Rate Study

Rate Study Purpose & Methodology

Why Prepare a Rate Study?

1. Required to comply with Prop 218
2. Typically prepared every 5 years
3. They demonstrate the fairness & equity of customer rates

General Rate Study Methodology:

1 FINANCIAL PLAN/
REVENUE
REQUIREMENTS

Step 1: Financial Plan/Revenue Requirements - Compares current sources and uses of funds to determine the revenue needed from rates and projected rate adjustments.

2 COST-OF-SERVICE
ANALYSIS

Step 2: Cost-of-Service Analysis - Proportionately allocates the revenue requirements to the customer classes in compliance with industry standards and State Law.

3 RATE DESIGN
ANALYSIS

Step 3: Rate Design - Considers what rate structure will best meet the Authority's need to collect rate revenue from each customer class.

Rate Study Methodology – Financial Plan

What are “Net Revenue Requirements”?

The Financial Plan estimates the costs to be recovered from customer rates:

$$\begin{aligned} & \text{O\&M Costs} \\ & + \text{Debt Service} \\ & + \text{Capital Costs} \\ & - \text{Non-Rate Revenues}^* \\ & \text{Net Revenue Requirements} \end{aligned}$$

** licenses, fines, application fees, etc.*

These costs should also include funding for adequate levels of reserves.

Rate Study Methodology – Financial Plan

Financial Plan

Utility Revenue: The total income generated from customer service rates to cover operational expenses, debt repayments, and capital projects, minus alternative income sources like fees and fines. It includes a provision for reserves to ensure the utility's long-term financial stability and service reliability.

Operations and Maintenance (O&M) Bucket: This is the first bucket. It covers the costs of running and maintaining the service or infrastructure. The day-to-day expenses to keep things going.

Capital Reserves Bucket: Once O&M is funded, the money can flow to the next bucket. This bucket is for capital reserves, used for future significant investments or infrastructure upgrades.

Rate-Funded Capital or Other Expenditures Bucket: If there's money left over after filling the first two buckets, it can then be allocated to other areas in the water enterprise such as pay-as-you-go rate-funded capital projects.

Utility Revenue



Rate Study Methodology – Cost of Service

How Are Water Costs Assigned to Customers?

Cost of Service Analysis (COSA) allocates costs based on the cost to serve each type of customer.

Water Costs are typically allocated by:

1. System Capacity Costs (based on system peaking factors)
2. Commodity Costs (annual consumption)
3. Customer Costs (number of accounts)

Cost Allocations – Costs are then allocated to each customer class based on their proportional share of the above criteria.

Rate Study Methodology – Cost of Service

How Are Sewer Costs Assigned to Customers?

Sewer Costs are typically allocated to customers based on:

1. Flow-Related Costs (the amount of effluent generated)
2. Effluent Strength-Related Costs
 - Biochemical Oxygen Demand (BOD/COD)
 - Total Suspended Solids (TSS)
3. Customer Costs

What are Customer Classes? – Customers with similar characteristics (effluent strength, volume, system demands, etc.) are grouped into classes.

(Note: Costs, rates and Prop 218 requirements are focused on Classes, not individual customers or properties)

Rate Study Methodology – Rate Design

What are Rate Design Objectives?

- Rates are proportional to cost of service (i.e., the cost to serve each customer or customer class)
- The San Juan Capistrano court decision (2015) mandated that rates “demonstrate the cost basis” in order to comply with Prop 218
 - Primarily related to tiered water rates
 - Basic principles apply to all rates
- Equitable & non-discriminating
- Ease of administration and understanding
- Provide revenue stability

Water Rate Study: Financial Plan Overview

Water Rate Study Objectives

Purpose of a Water Rate Study:

- Ensuring water rates will be able to cover all operating and maintenance costs.
- Ensuring sufficient funding for essential Capital Improvement Projects.
- Maintaining appropriate reserve funds.
- Complying with legal requirements of Prop 218.

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Water Utility Financial Plan Summary

Summary of Water Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	5-Year Projected Rate Period				
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Sources of Water Funds						
Rate Revenue Under Prevailing Rates	\$ 2,584,484	\$ 2,592,754	\$ 2,601,051	\$ 2,609,375	\$ 2,617,725	\$ 2,626,101
Non-Rate Revenues	600,752	706,523	389,084	237,597	87,873	88,154
Interest Earnings	110,350	30,602	36,576	40,800	41,303	41,934
Total Sources of Funds	\$ 3,295,586	\$ 3,329,880	\$ 3,026,710	\$ 2,887,771	\$ 2,746,900	\$ 2,756,190
Uses of Water Funds						
Operating Expenses	\$ 3,953,833	\$ 4,120,317	\$ 4,270,670	\$ 4,426,694	\$ 4,624,214	\$ 4,756,663
Existing Debt Service	626,638	754,836	432,434	280,657	17,998	17,985
New Debt Service	-	-	453,067	453,067	453,067	453,067
Rate-Funded Capital Expenses	-	-	-	-	76,501	656,460
Total Use of Funds	\$ 4,580,471	\$ 4,875,153	\$ 5,156,171	\$ 5,160,418	\$ 5,171,779	\$ 5,884,176
Surplus (Deficiency) before Rate Increase	\$ (1,284,885)	\$ (1,545,273)	\$ (2,129,461)	\$ (2,272,647)	\$ (2,424,879)	\$ (3,127,986)
Additional Revenue from Rate Increases ¹	-	1,555,653	2,601,051	2,870,312	3,154,358	3,453,980
Surplus (Deficiency) after Rate Increase	\$ (1,284,885)	\$ 10,379	\$ 471,590	\$ 597,665	\$ 729,479	\$ 325,993
Projected Annual Rate Increase	0.00%	60.00%	25.00%	5.00%	5.00%	5.00%
Net Revenue Requirement²	\$ 3,869,369	\$ 4,138,028	\$ 4,730,512	\$ 4,882,021	\$ 5,042,604	\$ 5,754,088

1. Assumes new rates are implemented July 1, 2025.

2. Total use of funds less non-rate revenues and interest earnings.

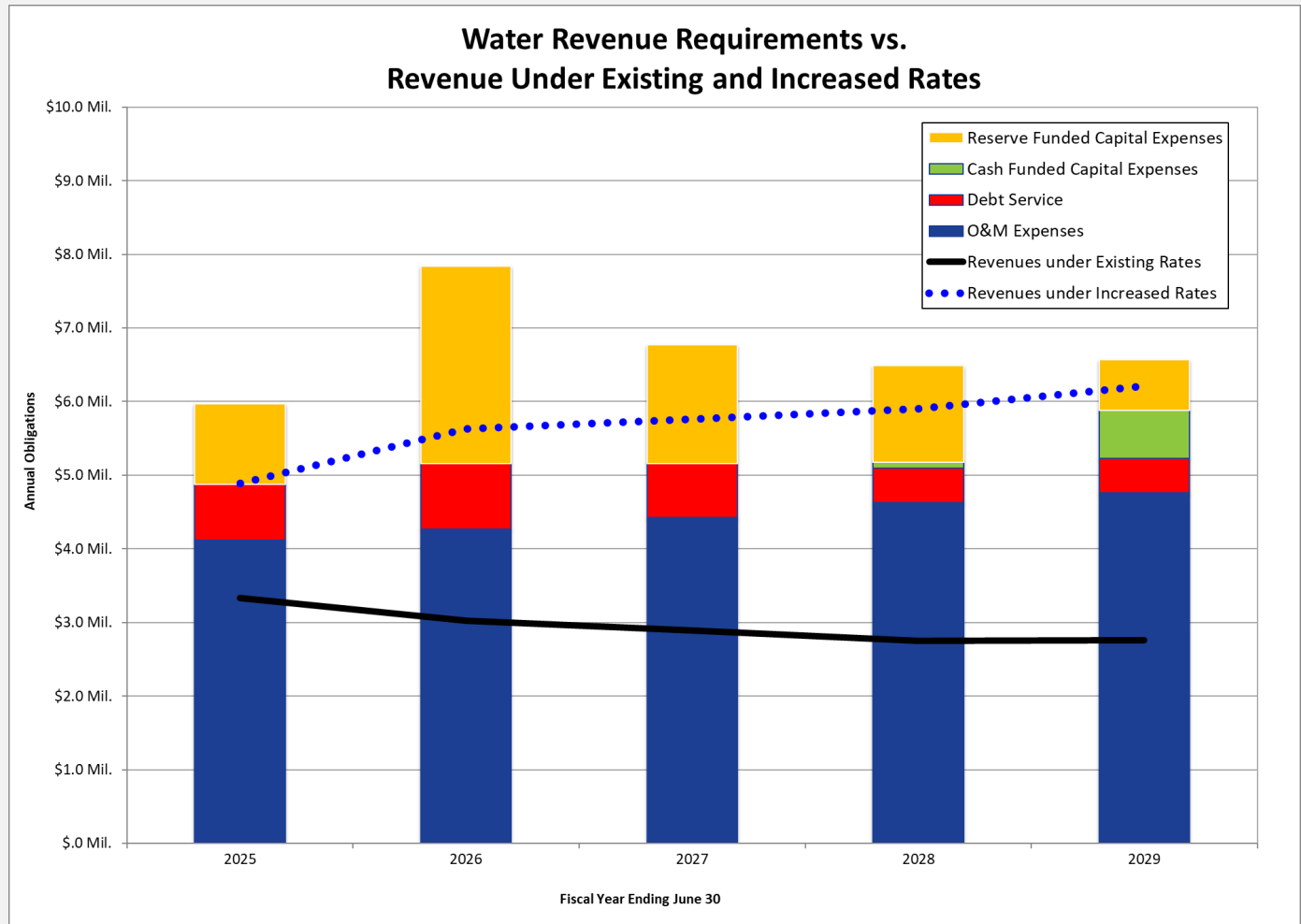
Rate Increases and CIP Program Costs

Water model analysis investigated rate revenue adjustment scenarios based on CIP and Debt Funding options:

- Draft financial plan shows following recommendations:
 - Utilization of new revenue bond to fund 25% of the District identified CIP over the 5-year rate implementation period
- Rate Adjustment Summary:
 - Year 1 and Year 2 rate adjustments necessary to address existing budget deficit
 - Years 3 through 5 rate adjustments necessary to keep pace with inflation and maintain minimum reserve levels

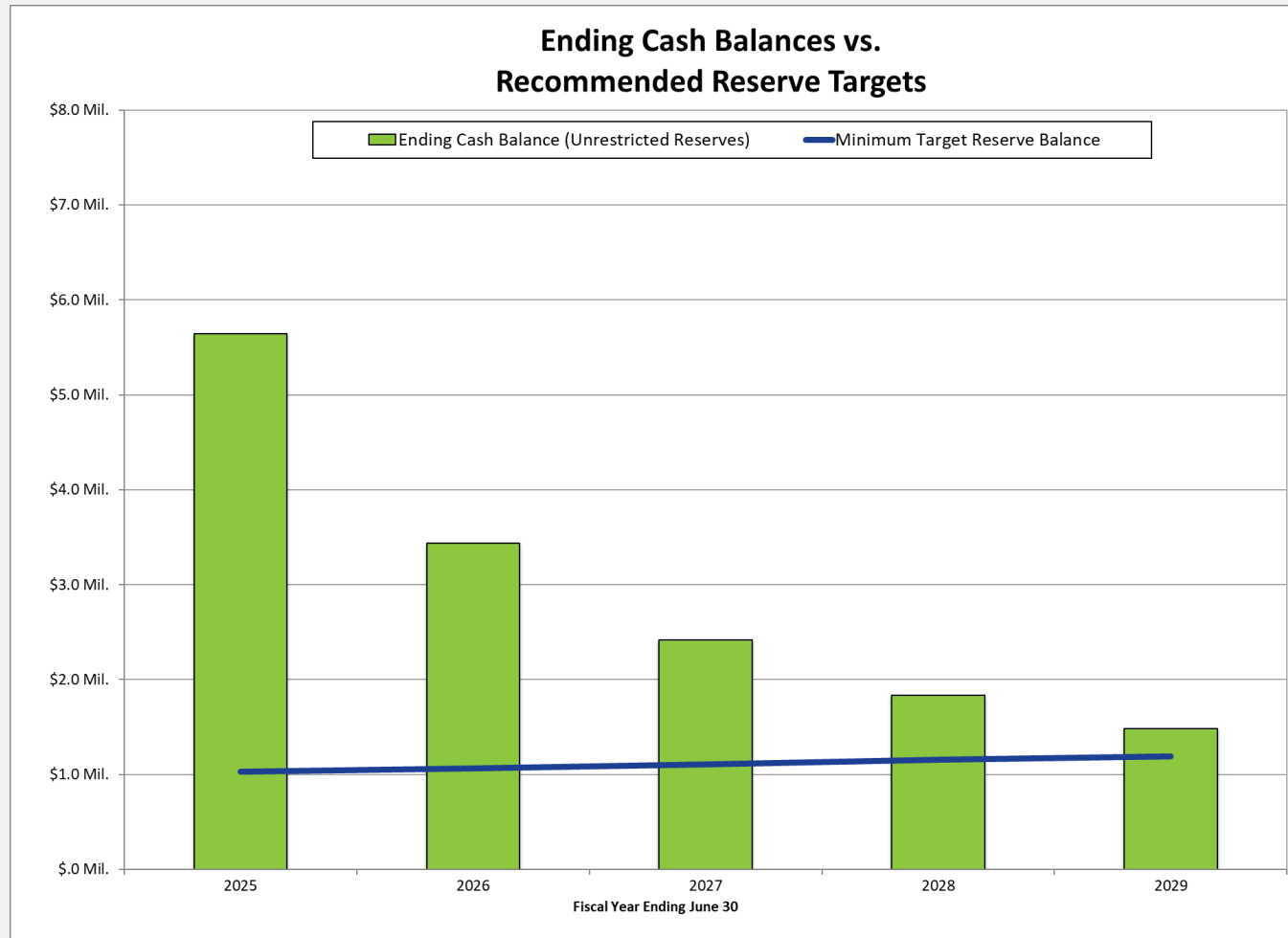
Water Rate Study – Financial Plan

Graphical Picture of Water Financial Plan:



Reserve Fund Levels

Water Reserves Under Proposed Water Rates & Financial Plan:



Sewer Rate Study: Financial Plan Overview

Sewer Rate Study Objectives

Purpose of a Sewer Rate Study:

- Ensuring sewer rates will be able to cover all operating and maintenance costs.
- Ensuring sufficient funding for essential Capital Improvement Projects.
- Maintaining appropriate reserve funds.
- Complying with legal requirements of Prop 218.

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Sewer Utility Financial Plan Summary

Summary of Sewer Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	5-Year Projected Rate Period				
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Sources of Sewer Funds						
Rate Revenue Under Prevailing Rates	\$ 2,325,447	\$ 2,332,888	\$ 2,340,354	\$ 2,347,843	\$ 2,355,356	\$ 2,362,893
Non-Rate Revenues	33,250	33,356	33,463	33,570	33,678	33,785
Interest Earnings	147,487	22,268	14,996	15,043	15,092	15,140
Total: Sources of Funds	\$ 2,506,184	\$ 2,388,513	\$ 2,388,812	\$ 2,396,457	\$ 2,404,125	\$ 2,411,818
Uses of Sewer Funds						
Operating Expenses	\$ 2,777,916	\$ 2,964,800	\$ 3,084,012	\$ 3,209,051	\$ 3,375,819	\$ 3,478,174
Existing Debt Service	-	-	279,391	279,391	279,391	279,391
Future Debt Service	-	-	-	-	-	236,180
Rate-Funded Capital Expenses	-	-	-	-	-	236,180
Total: Use of Funds	\$ 2,777,916	\$ 2,964,800	\$ 3,363,403	\$ 3,488,443	\$ 3,655,210	\$ 4,229,926
Surplus (Deficiency) before Rate Increase	\$ (271,732)	\$ (576,288)	\$ (974,591)	\$ (1,091,986)	\$ (1,251,085)	\$ (1,818,108)
Additional Revenue from Rate Increases ¹	-	933,155	1,427,616	1,621,185	1,825,460	2,041,011
Surplus (Deficiency) after Rate Increase	\$ (271,732)	\$ 356,868	\$ 453,025	\$ 529,199	\$ 574,375	\$ 222,903
Projected Increases in Rate Revenue	0.00%	40.00%	15.00%	5.00%	5.00%	5.00%
Net Revenue Requirement²	\$ 2,729,404	\$ 3,079,804	\$ 3,482,395	\$ 3,607,271	\$ 3,641,651	\$ 3,980,022

1. Assumes new rates are implemented July 1, 2025.

2. Total use of funds less non-rate revenues and interest earnings.

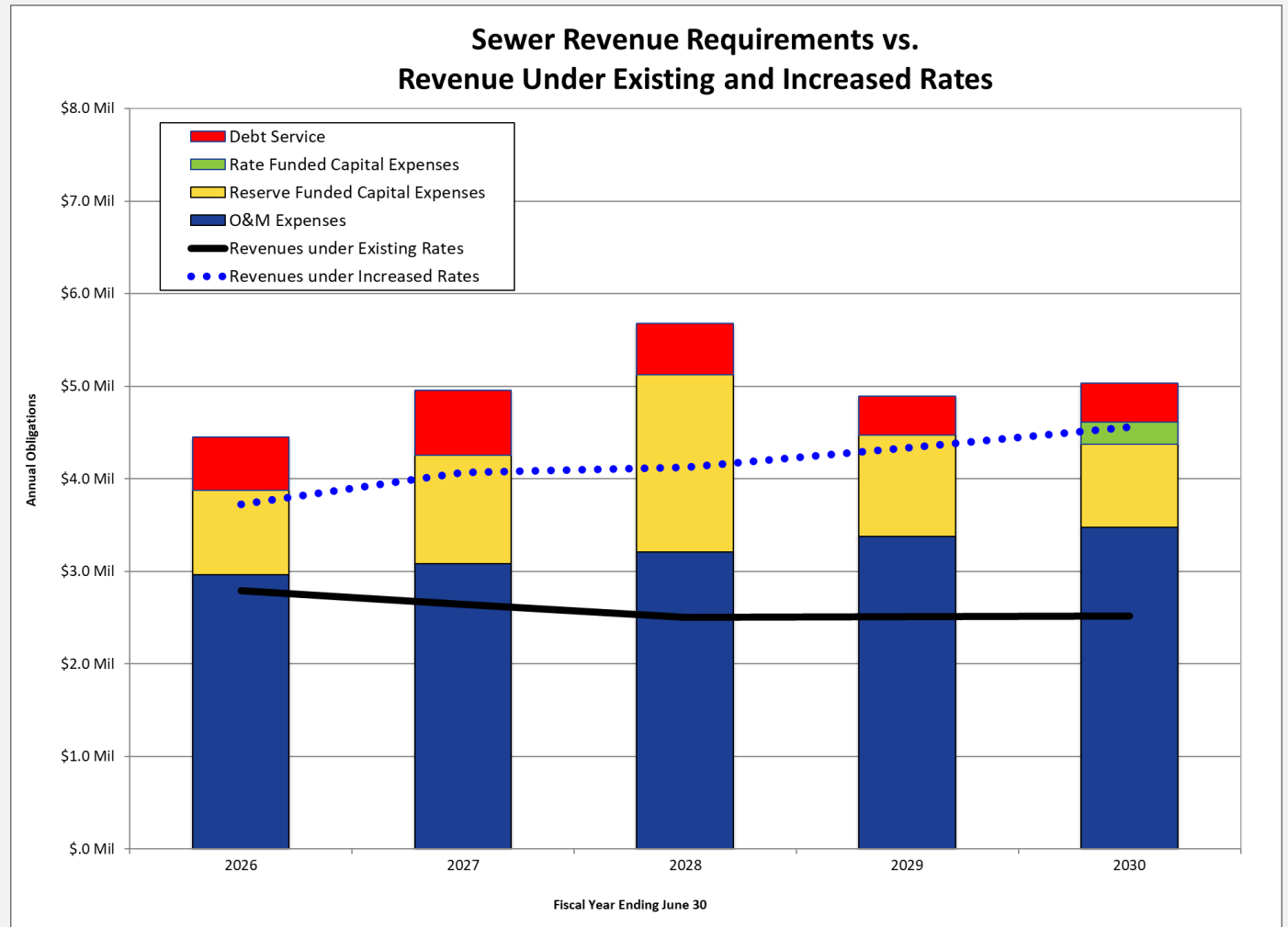
Rate Increases and CIP Program Costs

Sewer model analysis investigated rate revenue adjustment scenarios based on CIP and Debt Funding options:

- Draft financial plan shows following recommendations:
 - Utilization of new revenue bond to fund 50% of the District identified CIP over the 5-year rate implementation period
- Rate Adjustment Summary:
 - Year 1 and Year 2 rate adjustments necessary to address existing budget deficit
 - Years 3 through 5 rate adjustments necessary to keep pace with inflation and maintain minimum reserve levels

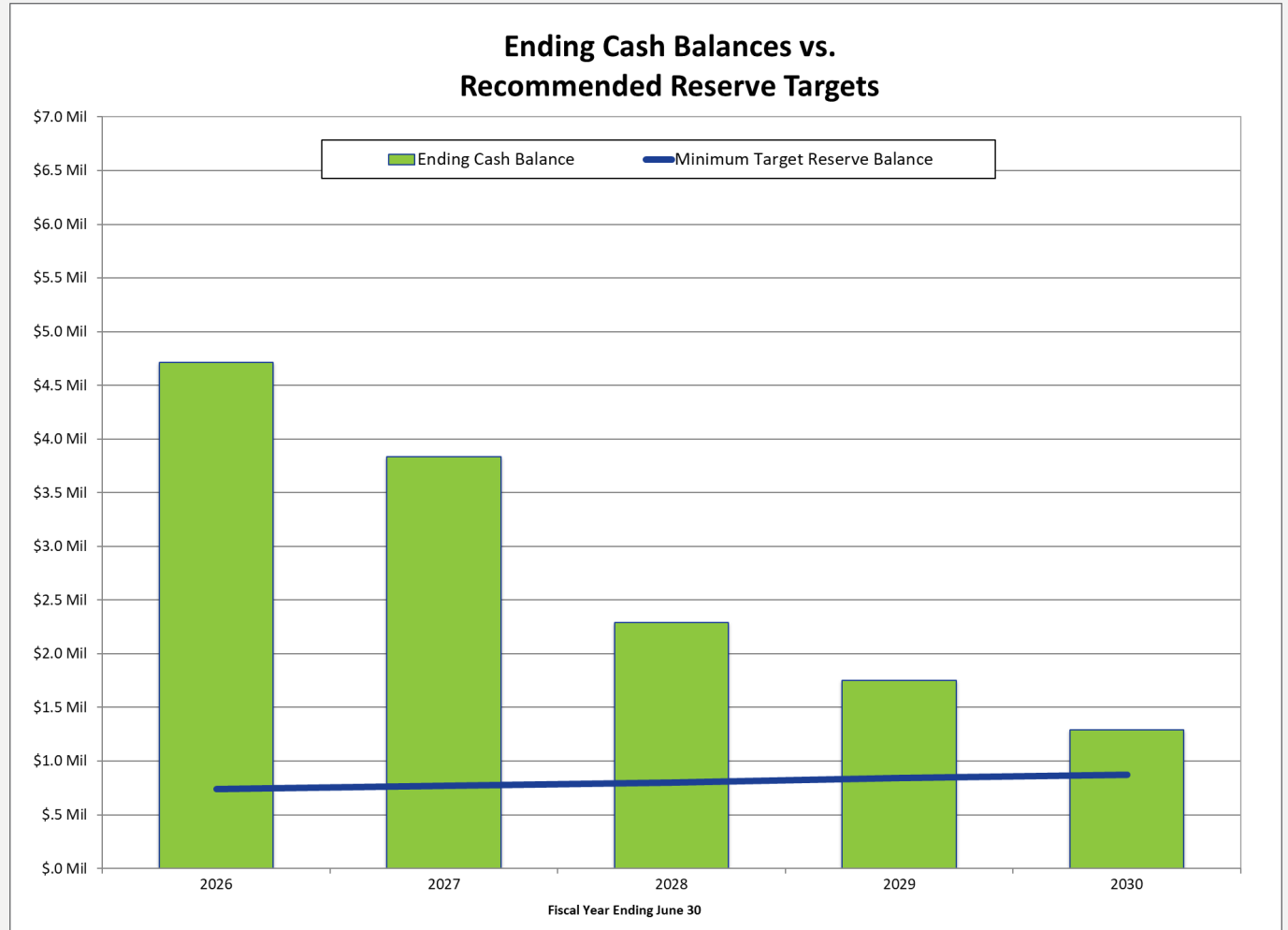
Sewer Rate Study – Financial Plan

Graphical Picture of Sewer Financial Plan:



Reserve Fund Levels

Sewer Reserves Under Proposed Sewer Rates & Financial Plan:



Questions & Discussion

