



BOARD MEETING AGENDA SUBMITTAL

TO: GCSB Board of Directors

FROM: Pete Kampa, General Manager

DATE: March 24, 2025

SUBJECT: Agenda Item 4A: Discussion and Direction Related to the 2024/25 Water and Sewer Cost of Service Study Including Operating Cost Estimates and the Scope, Timing, Costs and Financing of Capital Improvement/Replacement Projects and Resulting Rate Model

RECOMMENDED ACTION:

Staff recommends the following action:

Board of Directors review and to provide input on the preliminary results of the financial plan for the water and sewer rate studies conducted by NBS in collaboration with District staff.

BACKGROUND:

The District retained NBS to conduct a comprehensive water and sewer rate study (Study) for its water and sewer enterprise funds. The District had several objectives and goals in mind for this study, including meeting revenue requirements, reviewing the rising costs of providing services, funding capital improvements and changes in costs, and complying with certain legal requirements (e.g., California Constitution Article XIII D, Section 6, commonly referred to as Proposition 218 [Prop 218]). The District's broader objectives in this study include ensuring adequate funding for operating and capital costs, maintaining reasonable reserves, and ensuring revenue stability in utility rates. Additionally, the District is committed to delivering safe and reliable drinking water in quantities ample to meet community water demands and firefighting needs. This commitment includes strict compliance with state permits, regulations, and laws to ensure that all systems and operations are fully compliant. Our dedication to these standards ensures the continued health and safety of the community while maintaining a high level of service.

As a part of the rate study, NBS projected revenues and expenditures on a cash-flow basis for the next five (5) years. The amount of rate revenue required, that will allow reserves to be maintained at the recommended levels, is known as the net revenue requirement. As current rate revenue falls short of the net revenue requirement, rate adjustments – or more accurately, adjustments in the total revenue collected from rates – are recommended for both the water and sewer utilities.

During the course of the study, NBS and District staff worked together to develop rate adjustment alternatives that will meet the District's objectives. It is important for the District to send proper price signals to its customers about the actual cost of providing service. It is essential for municipal utilities to not only collect sufficient revenues every year, but to also maintain reasonable reserves to handle emergencies, fund working capital, maintain a good credit rating, and generally follow sound financial management practices.

Rate adjustments are governed by the need to meet operating and capital costs as well as maintain reasonable reserve levels. This objective is typically addressed through both the magnitude of the rate adjustments and the rate structure design. In other words, both the amount of revenue collected and the way in which the revenue is collected from customers are important.

This presentation provides an overview of the methodologies, assumptions, and data used along with the financial plan and draft rate revenue adjustments necessary as part of the study.

FISCAL IMPACT:

The presentation is for informational purposes only at this time.

ATTACHMENTS:

A. PowerPoint Presentation