

Sacramento Suburban Water District

Water Service Rates, Fees, and Charges Setting Policy

Adopted: September 15, 2014

Ratified without Changes: May 20, 2024

100.00 Purpose of the Policy

The Sacramento Suburban Water District is required to establish water service rates, fees, and charges that reflect the costs of providing the services rendered and that are fair, equitable, and defensible. The basis for establishing water service rates, fees, and charges has traditionally been cost-of-service principles and methodologies.¹ Under principles established in California law, the District can take into account factors such as conservation, water use efficiency, ability to pay, and accrual of prudent reserves when determining the costs of providing District water service. California law, however, also imposes certain legal constraints on setting water service rates, fees and charges pursuant to Propositions 218 and Proposition 26 (Articles XIII C and XIII D of the California State Constitution), the Proposition 218 Omnibus Implementation Act (Government Code sections 53750 and following), and the Mitigation Fee Act (Government Code sections 66000 and following). Therefore, this policy has been developed to provide guidance for District financial planning and the rate-setting process for the Board of Directors and staff. This policy also provides a foundation for the long-term financial sustainability of the District, while providing ratepayers and the outside financial community with a better understanding of how District water rates, fees, and charges are determined.

200.00 Policy

The District's water service rates, fees, and charges will be reviewed annually to confirm sufficient funding and to assess the need for adjustments to reflect inflation, construction needs, maintain bond covenants, and/or to avoid major rate adjustments resulting from the lack of regular analysis and planning.

200.10 Water Service Rates. The District will establish water service rates using generally accepted rate-setting and costing methodologies, which includes compliance with applicable legal requirements including Proposition 218 and the Proposition 218 Omnibus Implementation Act. The analyses associated with generally accepted rate-setting methodologies include the following:

- A. Revenue Requirement Analysis – Establishes the level of financial resources required to prudently administer District operations and programs, and to maintain, repair, improve, and replace District water service facilities. In

¹ Generally-accepted cost-of-service principles and methodologies are defined and discussed in the American Water Works Association's M-1 Manual, Principles of Water Rates, Fees, and Charges.

developing the District's revenue requirement for current and forecasted future operations of the District, the District will consider the following:

1. Revenue requirements, including anticipated external funding will include all District programs, operations, and maintenance expenses, applicable taxes/transfer payments, debt service (P&I), and capital improvements funded from rates.
2. Revenues and costs will be projected annually, at a minimum, for a three-year period (the proposed budget year plus two additional projected years).
3. Projections of operations and maintenance (O&M) costs should include any estimated incremental O&M costs associated with increased service levels or future capital improvements.
4. Annually, the District will fund, through its water service rates, fees, and charges, an amount to adequately maintain the existing infrastructure of the District. The District will fund selected capital projects based on the District's Capital Asset Replacement Management Plans and the Water System Master Plan.
5. The level of any proposed increase in rates, fees, or charges will be based on the full cost of providing water service to retail and wholesale customers.

B. Cost of Service Analysis – Determines the equitable allocation of the revenue requirement between the various customer groups.

1. When possible, a cost of service study will be utilized to equitably allocate District costs to the various customer classes.
2. The District will utilize generally-accepted methodologies in this analysis, but will also consider the specific circumstances and unique characteristics of the District.

C. Rate Design Analysis – The District will design rates to collect the required level of revenue taking into consideration the following:

1. Rate designs will be reflective of the customers served, District needs, and the policy goals set by the Board of Directors.
2. Rates will be set to recover the costs of delivering water to different customer classes (e.g. single family, multi-family, or commercial).
3. Rates will be designed to be equitable for the service provided.
4. Rates will be set in a manner that is easy for customers to understand and for the District to administer.
5. It shall be the policy of the Board of Directors to set rates at the lowest responsible level.
6. If revenue generated exceeds planned expenditures, including planned reserve requirements, rates can be reduced by the Board of Directors.

200.20 Fee and Charge Analysis. The District maintains various fees and charges to recover the costs of providing certain services or facilities to specific customers or users. Fees

and charges must comply with applicable legal requirements, including Proposition 26 and the Mitigation Fee Act. A fee or charge will be developed when a specific customer or user can be identified, the amount of the fee and the service for which it is being charged can be determined with reasonable accuracy, and it is necessary to encourage or discourage certain behavior. The District will set fees and charges that reflect the goals, objectives, and policies of the Board of Directors and take into consideration the following principles:

1. Beneficiaries of a service should pay for that service.
2. Services provided for the benefit of a specific individual or class requiring District services other than ordinary water service should not be paid from general water rate revenues to avoid subsidies from ratepayers for special benefits.
3. The level of fees and charges should be related to the cost of providing the service consistent with legal requirements.

300.00 Revenue Diversification

The District has limited ability for revenue diversification. Where possible, the District will explore additional revenue sources such as water banking, water transfers, and grants.

400.00 Reviews and Updates

The financial performance of the District will be closely monitored to maintain rates, fees, and charges adequate to finance District operations through:

- A. Annual Reviews - District water service rates, fees, and charges will be reviewed annually as part of the budget process to determine the adequacy of revenues to cover the planned expenditures and to comply with this Policy.
- B. Comprehensive Studies – The District will conduct studies of its water service rates and fees and charges at least every five years to update assumptions, ensure that rates, fees and charges reflect the costs of service and are sufficient to fund District operations, and plan for the long-term solvency and viability of the District.

500.00 Authority

The General Manager and Director of Finance and Administration are responsible for complying with this policy and for regular reporting to the Board of Directors of the District's financial status.

600.00 Policy Review

This policy shall be periodically reviewed by the Board of Directors in accordance with its established policy review schedule.