

# **Agenda**

## **Sacramento Suburban Water District Special Board Workshop – Rate Study**

3701 Marconi Avenue  
Sacramento, California 95821

Monday, June 24, 2024  
6:00 p.m.

**This meeting will be conducted both in-person in the Sacramento Suburban Water District’s Boardroom at the address above, and by videoconference and teleconference using the information provided below. The public is invited to listen, observe, and provide comments during the meeting by any method provided. The Chairperson will call for public comment on each agenda item at the appropriate time. If a member of the public chooses to participate in this public meeting via videoconference and/or teleconference, please see the instructions below.**

**Portions of this meeting will be conducted by teleconference in accordance with Government Code section 54953(b). The teleconference locations for the meeting are as follows: (1) District boardroom at the above address, and (2) 605 Prince Street, Alexandria, VA 22314. Each teleconference location is accessible to the public, and members of the public may address the Board of Directors from any teleconference location.**

**For members of the public interested in viewing and having the ability to comment at the public meeting via Zoom, an internet-enabled computer equipped with a microphone and speaker or a mobile device with a data plan is required. Use of a webcam is optional. You also may call in to the meeting using teleconference without video. Please use the following login information for videoconferencing or teleconferencing:**

**Join the meeting from a computer, tablet or smartphone:**

<https://us02web.zoom.us/j/87297505118?pwd=jhYRjXGUQawQEYD1qHI27Yw6fGej33.1>

**Meeting ID: 872 9750 5118**

**Password: 925794**

**You can also dial in using your phone: 1 (669) 900-6833**

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**Please mute your line.**

Where appropriate or deemed necessary, the Board may take action on any item listed on the agenda, including items listed as information items. Public documents relating to any open session item listed on this agenda that are distributed to all or a majority of the members of the

Board of Directors less than 72 hours before the meeting are available for public inspection in the customer service area of the District’s Administrative Office at the address listed above.

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In compliance with the Americans with Disabilities Act, if you have a disability, and you need a disability-related modification or accommodation to participate in this meeting, then please contact Sacramento Suburban Water District Human Resources at 916.679.3972. Requests must be made as early as possible and at least one full business day before the start of the meeting.

**Call to Order**

**Pledge of Allegiance**

**Roll Call**

**Public Comment**

This is the opportunity for the public to comment on non-agenda items within the Board’s jurisdiction. Comments are limited to 3 minutes.

**Items for Discussion and/or Action**

1. **2024 Water Rate Study Initial Findings**  
*Recommendation: Provide staff direction as appropriate.*
  
2. **2024 Water Rate Study Timeline**  
*Recommendation: Staff seeks approval of the 2024 Water Rate Study Timeline.*
  
3. **Policy Review – Reserve Policy (PL – Fin 004)**  
*Recommendation: Review and provide staff direction as appropriate.*

**Adjournment**

\*\*\*\*\*

**Upcoming Meetings**

Tuesday, June 25, 2024, at 6:00 p.m., SJWD/SSWD Joint Special Board Meeting

Wednesday, July 10, 2024, at 6:00 p.m., DPMWD/SSWD Joint Special Board Meeting

Monday, July 15, 2024, at 6:00 p.m., Regular Board Meeting

\*\*\*\*\*

I certify that the foregoing agenda for the June 24, 2024, meeting of the Sacramento Suburban Water District Board of Directors was posted by June 21, 2024, in a publicly accessible location at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Sacramento, California, and was freely available to the public.

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Dan York  
General Manager/Secretary  
Sacramento Suburban Water District

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Dan York  
General Manager/Secretary  
Sacramento Suburban Water District

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## Agenda Item: 1

**Date:** June 24, 2024

**Subject:** 2024 Water Rate Study Initial Findings

**Staff Contact:** Jeffery S. Ott, Director of Finance and Administration

### **Recommended Board Action:**

Provide staff direction as appropriate.

### **Discussion:**

The attached presentation is the first draft results for the Cost-of-Service Study, Water Rate Structure Design, Retail Water Rates, proposed Water Shortage Surcharge and Capacity Fees portions of the Rate Study (Study). Highlighted assumptions and recommendations include:

#### **Cost of Service Study:**

1. Surface water costs are based on the 8,000-acre foot take-or-pay contract amount. (about one quarter of the annual water demand)
2. Surface water costs are equitably spread between single-family, multi-family and non-residential customer classes.
3. The charge for Private Fire Services has been updated as part of the Cost-of-Service Study.
4. Portions of the 2019 deferred CIP projects have been included in the Study.
5. Two new employee headcounts have been added to the Cost-of-Service Study.

#### **Rate Structure:**

1. Residential Tier 1 monthly allocation stays at 15 hundred cubic feet (ccf or hcf).
2. Multi-Family Residential classification remains as locations with greater than 3 units.
3. The new structure will have a single uniform usage rate for both Multi-Family Residential and Non-Residential.

#### **Capacity Fees:**

1. Utilize the same methodology: Buy-In Approach.
2. Calculated based on CY2023 financial parameters.

#### **Water Shortage Surcharge:**

1. Staff are proposing the adoption of a Water Shortage Surcharge policy to be applied only during times of severe water shortage and assessed only on the water usage charge. The surcharge will be aligned with water reduction goals established by the existing Water Shortage Contingency Plan.

**Reserves:**

2. Implement Hildebrand's recommendations to Reserve Policy which reduces Capital Asset Reserve and Operating Reserve target basis.

**Financial Outlook:**

1. Assume inflation rates that range between 3.0% and 5.0% for rate study horizon.
2. Mitigate reserve reductions through 2029.
3. All debt is now fixed with full redemption by 2032.
4. Rate adjustments to occur annually on January 1, beginning in 2025 through 2029.

Alternative scenarios and the related impact can be shown real-time at the Board meeting through Hildebrand spreadsheet presentation material.

**Fiscal Impact:**

\$74,750 is the contracted amount for the Study. As the presentation materials are an initial draft, there is no fiscal impact at this time.

**Strategic Plan Alignment:**

Goal C: Ensure Fiscal Responsibility and Affordable Rates



# 2024 Water Rate Study

## Preliminary Findings

Sacramento Suburban Water District

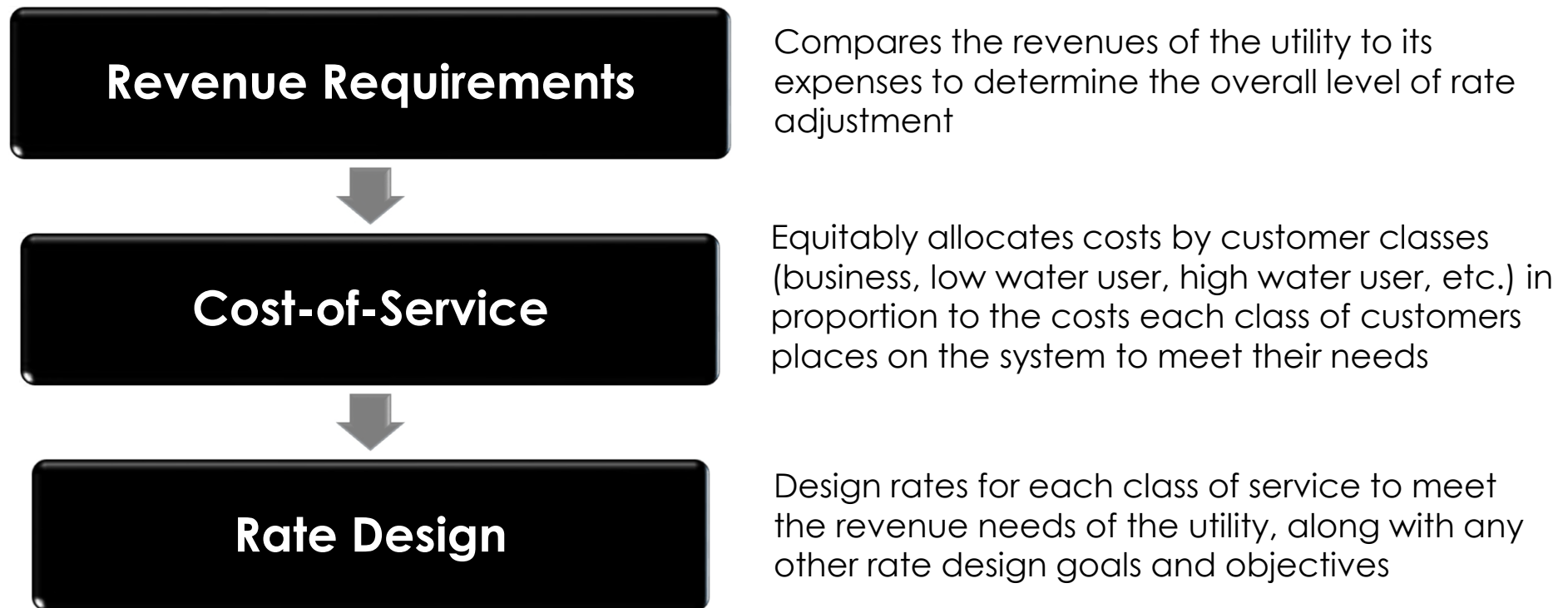
June 24, 2024



# Agenda

1. Rate studies overview & scope
2. Review financial plan
3. Rate design & structure
4. Water Shortage Surcharges
5. Capacity Fees
6. Project schedule

# The Rate Setting Process



# Legal Requirements for Setting Water Rates In California

Proposition 218 (Article XIID, Section 6 of California Constitution)

- Revenues shall not exceed funds required to provide service; nor used for another purpose
- Amount shall not exceed the proportional cost of the service attributable to the parcel
- Service must be actually used or immediately available
- Approval process includes 45-day notice, public hearing, and written majority protest. Does not require a voting process (unlike taxes).

# Background

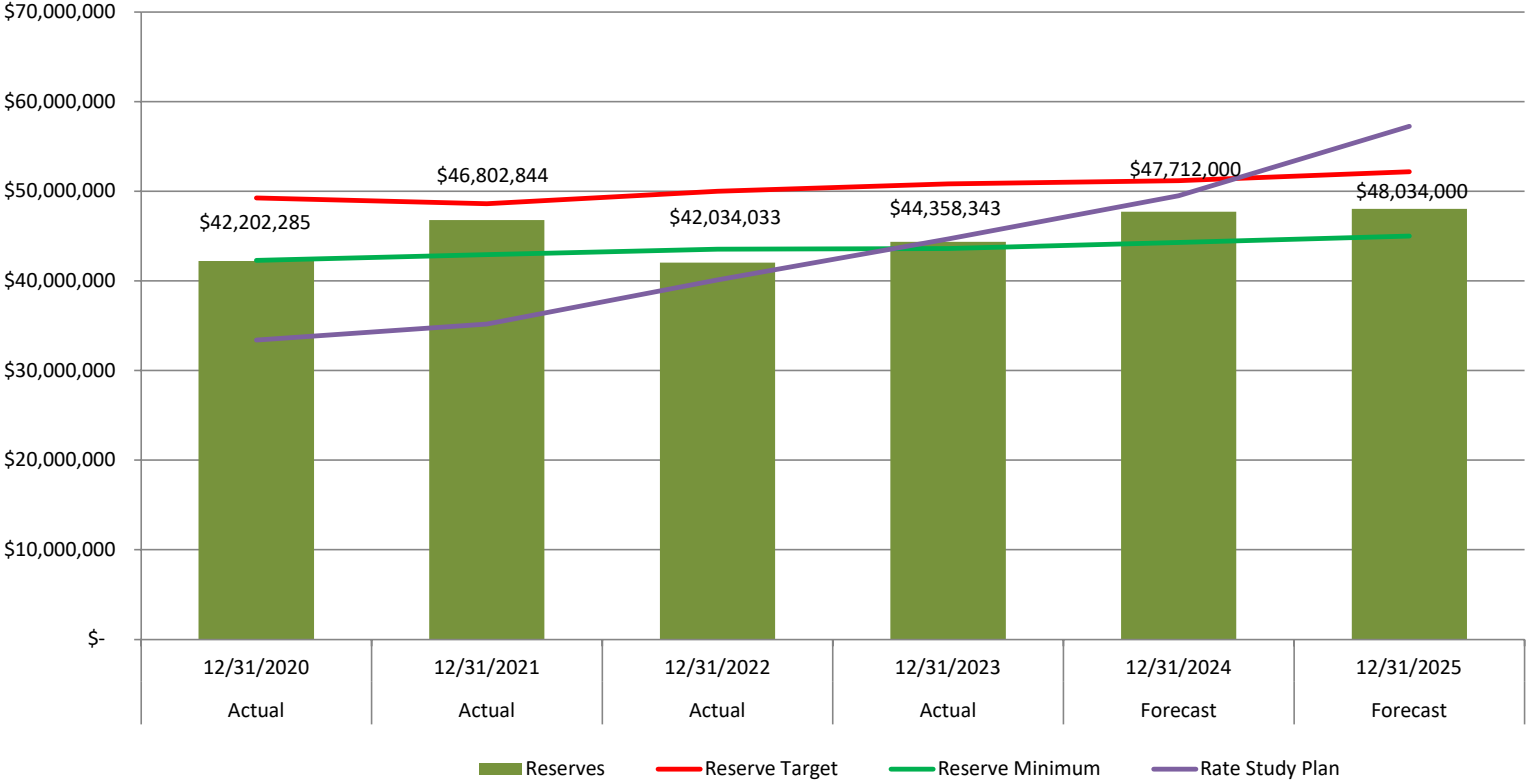
# 2019 Rate Study

<b>Rate Revenue Increases:</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>Total</b>
	5%	4%	3%	3%	3%	18%

## Rate structure changes:

- Adjust Single Family Residential (SFR) Tier 1 water allocation from 10 ccf to 15 ccf to align with water supply
- Separate Multifamily Residential (MFR) from Non-Residential customers as they have different usage characteristics
- Eliminate seasonal rates and develop uniform rate for MFR and Non-Residential customers
- Private Fire Services were inflated. No cost-of-service analysis.

# 2019 Rate Study Results



# 2020 – 2024 Economic Impacts

- COVID-19: Changed everything. . .

Inflation	2020	2021	2022	2023	2024	Total
CPI-U West Class B/C	1.7%	4.9%	8.2%	3.3%	3.5%	21.7%

- Changes in Construction Costs between 2019 and 2023
  - Fire Hydrant Assembly costs increased by **146%**
  - Short side service costs increased by **142%**
  - 1 mile of water main increased by **75%**
  - Drilled Wells increased by **203%**

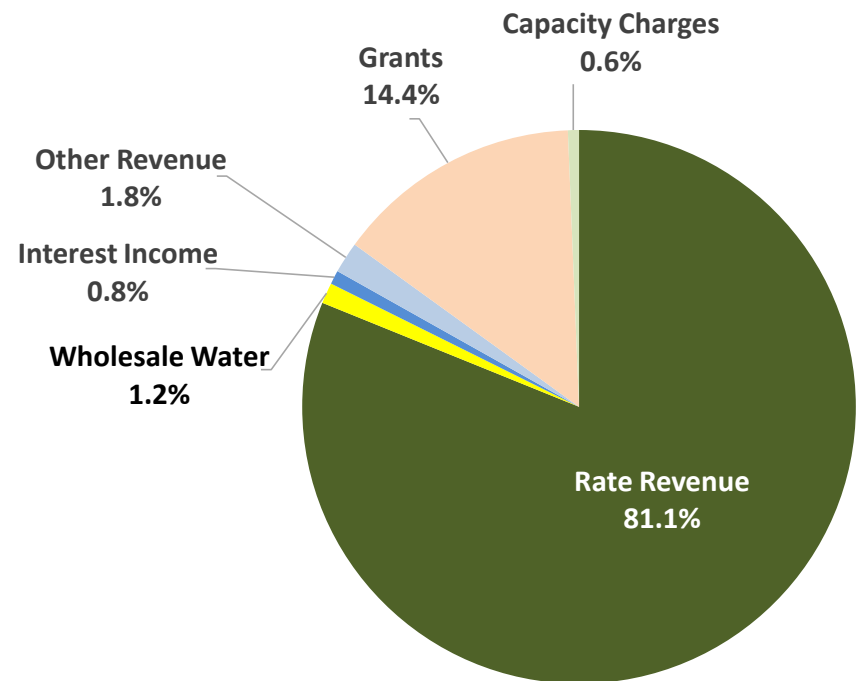


# Financial Plan

# Revenues

## FY2024 Budget

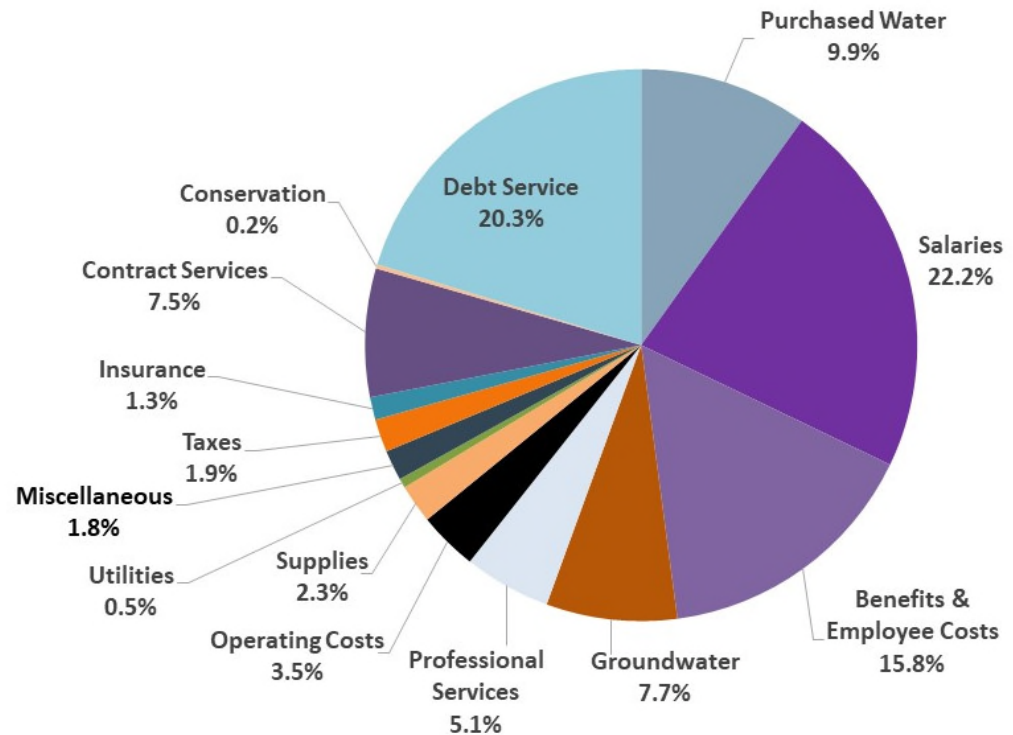
Rate Revenue	\$53,174,000
Wholesale Water	\$794,000
<b>Non-Rate Revenue</b>	
Interest Income	\$530,000
Other Revenue	\$1,193,000
Grants	\$9,432,000
Capacity Charges	\$422,000
<b>Total:</b>	<b>\$65,545,000</b>



# Operating Expenses & Debt Service

FY2024 Budget

Purchased Water	\$3,409,000
Salaries	\$7,676,000
Benefits & Employee Costs	\$5,441,000
Groundwater	\$2,643,000
Professional Services	\$1,757,000
Operating Costs	\$1,193,000
Supplies	\$784,000
Utilities	\$189,000
Miscellaneous	\$613,000
Taxes	\$666,000
Insurance	\$460,000
Contract Services	\$2,593,000
Conservation	\$82,000
Debt Service	\$6,994,000
<b>Total Budget:</b>	<b>\$34,500,000</b>



# Cost Escalation Assumptions

Water Purchases	5% increases in Years 1 & 2 4% thereafter
Insurance & Utilities	5% per year
Salaries	3.6% per year
Benefits	4% per year
All other costs	3% per year*

\* Construction costs forecasted to drop to 2.5% by 2031

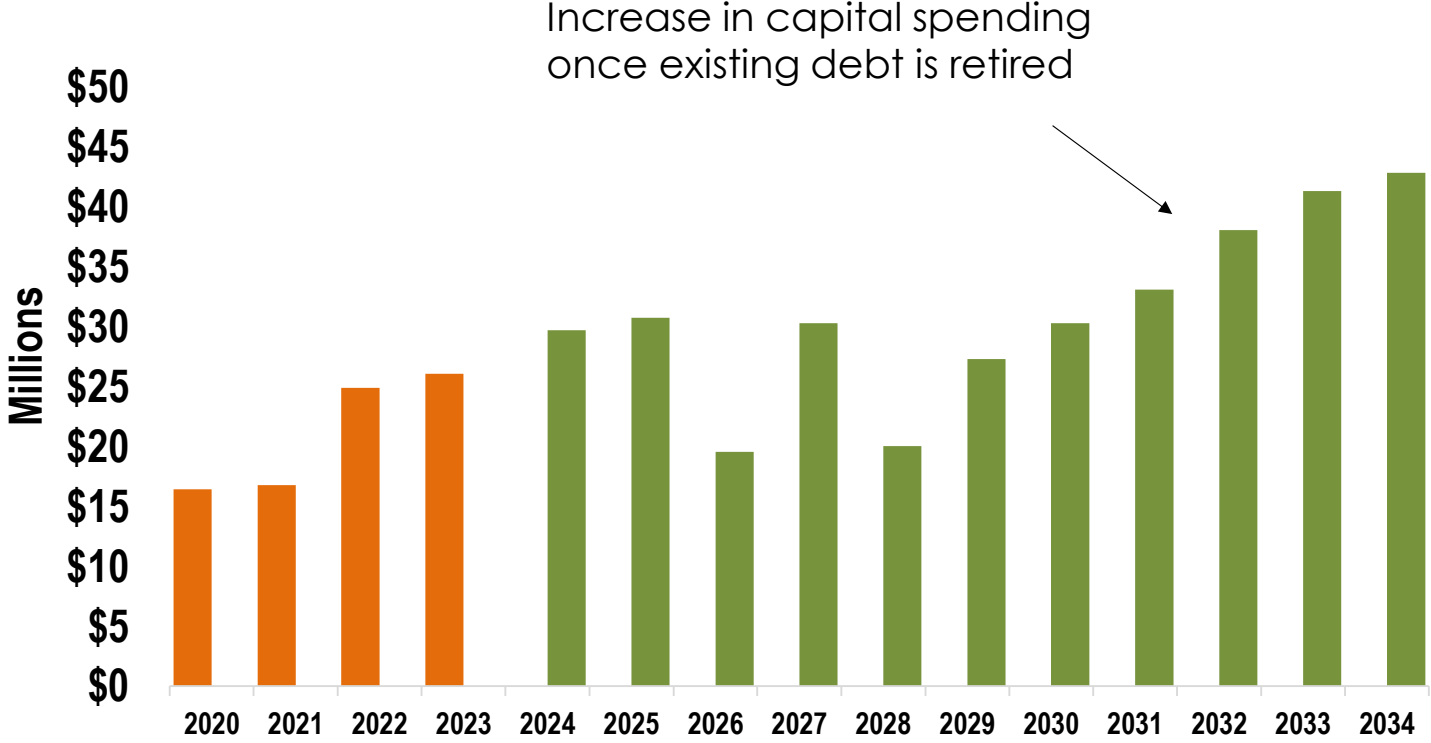
# Operating Costs Forecast

	Budget 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029
Cost of Purchased Water	\$3,409,000	\$2,992,000	\$3,144,000	\$3,272,000	\$3,400,000	\$3,536,000
Salaries	\$7,676,000	\$7,952,000	\$8,239,000	\$8,535,000	\$8,842,000	\$9,161,000
Benefits & Employee Costs	\$5,441,000	\$5,657,000	\$5,881,000	\$6,115,000	\$6,358,000	\$6,610,000
Groundwater	\$2,643,000	\$3,234,000	\$3,338,000	\$3,443,000	\$3,548,000	\$3,655,000
Professional Services	\$1,757,000	\$1,810,000	\$1,864,000	\$1,920,000	\$1,978,000	\$2,037,000
Operating Costs	\$1,193,000	\$1,229,000	\$1,266,000	\$1,304,000	\$1,343,000	\$1,384,000
Supplies	\$784,000	\$807,000	\$832,000	\$857,000	\$883,000	\$910,000
Utilities	\$189,000	\$195,000	\$202,000	\$208,000	\$216,000	\$223,000
Miscellaneous	\$613,000	\$631,000	\$651,000	\$670,000	\$691,000	\$712,000
Taxes	\$666,000	\$693,000	\$720,000	\$749,000	\$779,000	\$810,000
Insurance	\$460,000	\$483,000	\$507,000	\$533,000	\$559,000	\$587,000
Contract Services	\$2,593,000	\$2,657,000	\$2,724,000	\$2,792,000	\$2,863,000	\$2,935,000
Conservation	\$82,000	\$85,000	\$87,000	\$90,000	\$93,000	\$95,000
Additional Staff Costs	\$0	\$300,000	\$311,000	\$322,000	\$334,000	\$346,000
<b>Total Operating Expenses</b>	<b>\$27,506,000</b>	<b>\$28,725,000</b>	<b>\$29,766,000</b>	<b>\$30,810,000</b>	<b>\$31,887,000</b>	<b>\$33,001,000</b>
Increase over previous total:	6.6%	4.4%	3.6%	3.5%	3.5%	3.5%

# Capital Spending Plan

CLASS	DESCRIPTION	Budget 2024	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029
	<b>CIP</b>						
1	CIP-009 Well Rehabilitation / Pump Station Improvements	\$4,723,000	\$4,275,000	\$4,403,000	\$4,535,000	\$4,671,000	\$4,811,000
2	CIP-010 SCADA/Communication Improvements						
3	CIP-011 Well Destruction				\$109,000	\$113,000	\$116,000
4	CIP-012 Well New Construction	\$16,502,000	\$11,588,000	\$4,774,000	\$4,917,000	\$5,065,000	\$2,608,000
5	CIP-013 Well Treatment		\$1,000,000			\$1,001,000	\$1,000,000
6	CIP-018 Transmission & Distribution Improvements	\$1,650,000	\$6,054,000	\$3,432,000	\$12,676,000	\$1,174,000	\$13,448,000
7	CIP-024 Meter Retrofit Program						
8	CIP-034 Reservoir/Tank Improvements	\$980,000	\$1,597,000	\$2,493,000	\$2,158,000	\$2,223,000	\$348,000
9	CIP-035 Corrosion Control	\$120,000					
10	CIP-037 Valve/Hydrant/Service Replacement	\$700,000	\$721,000	\$743,000	\$765,000	\$788,000	\$811,000
11	CIP-038 Large Meter Replacement	\$85,000	\$52,000	\$53,000	\$55,000	\$56,000	\$58,000
12	CIP-039 Meter Replacement PM	\$300,000	\$419,000	\$432,000	\$445,000	\$458,000	\$472,000
13	CIP-040 AMI Endpoints						
14	CIP-048 Special Projects	\$1,595,000	\$1,030,000	\$106,000	\$109,000	\$113,000	\$116,000
15	CIP-049 Water Related Street Improvements		\$1,545,000	\$1,061,000	\$1,093,000	\$1,126,000	\$1,159,000
16	<b>SUBTOTAL CIP</b>	<b>\$26,655,000</b>	<b>\$28,281,000</b>	<b>\$17,497,000</b>	<b>\$26,862,000</b>	<b>\$16,788,000</b>	<b>\$24,947,000</b>
	<b>OCB</b>		\$0	\$0	\$0	\$0	\$0
16	OCB-EQUIP Equipment		\$21,000	\$21,000	\$22,000	\$23,000	\$23,000
17	OCB-FLTFACT Fleet & Facilities	\$60,000	\$134,000	\$138,000	\$213,000	\$293,000	\$301,000
18	OCB-FURNFIXT Furniture & Fixtures			\$5,000	\$5,000	\$6,000	\$6,000
19	OCB-IT Information Technology	\$1,487,000	\$824,000	\$849,000	\$874,000	\$900,000	\$927,000
20	OCB-MAINT Maintenance	\$606,000	\$979,000	\$1,008,000	\$1,038,000	\$1,069,000	\$1,101,000
21	OCB-OPS Operations	\$902,000	\$644,000	\$663,000	\$410,000	\$422,000	\$290,000
22	OCB-PROPERTY Property Acquisition		\$515,000	\$530,000		\$563,000	
23	<b>SUBTOTAL OCB</b>	<b>\$3,055,000</b>	<b>\$3,117,000</b>	<b>\$3,214,000</b>	<b>\$2,562,000</b>	<b>\$3,276,000</b>	<b>\$2,648,000</b>
24	<b>TOTAL CAPITAL</b>	<b>\$29,710,000</b>	<b>\$31,398,000</b>	<b>\$20,711,000</b>	<b>\$29,424,000</b>	<b>\$20,064,000</b>	<b>\$27,595,000</b>

# Capital Spending



Historical Average Annual Spending (4 years): **\$21.0 million**

Projected Average Annual Spending: **\$31.7 million**

# Proposed Reserve Targets

The following are based on existing District reserve policies. In addition to protecting the District against unforeseen circumstances, these policies also contribute towards the District's credit rating.

**Proposed**  
**2025 Target**

\$3.0M      **Minimum Cash on Hand** - District practice to keep \$3 million cash on hand

\$0.1M      **Capacity Reimbursement** - 20% of Capital Facility Charge revenue

\$11.9M      **Target Operating Reserve** – 4 months of annual operating and debt service (formal policy states 6 months)

\$12.1M      **Emergency/Contingency Fund** - 3% of District asset value

\$6.7M      **Rate Stabilization** - 40% of budgeted water sales

\$14.1M      **Capital Assets** – 50% of annual capital spending (5-year average) (formal policy states 100%)

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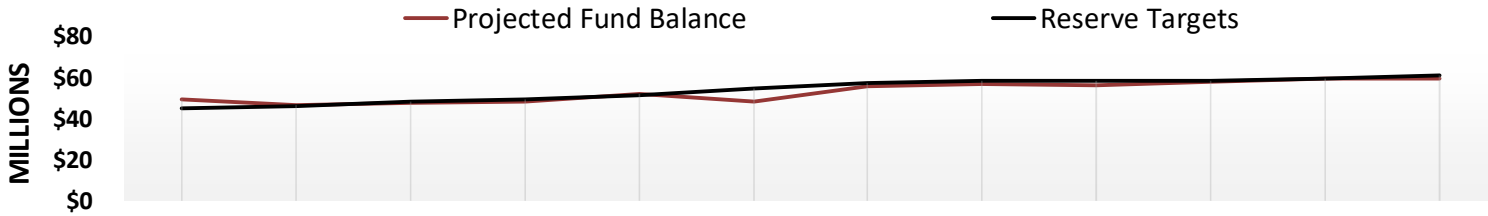
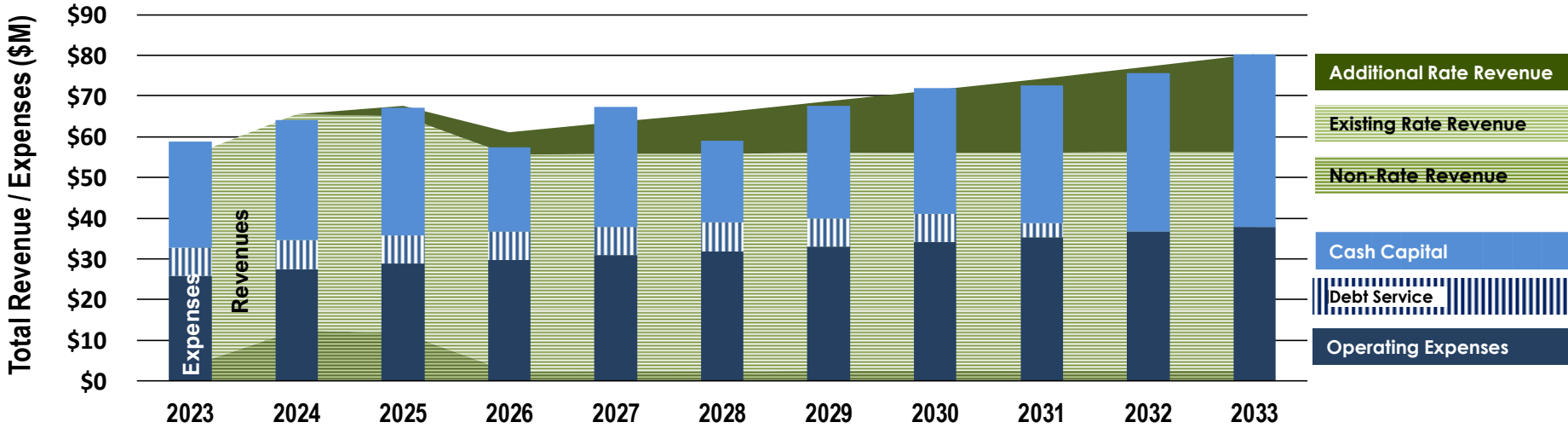
**\$48.0M Total**



# Revenue Projection

	Forecast 2025	Forecast 2026	Forecast 2027	Forecast 2028	Forecast 2029
	5.00%	5.00%	4.00%	4.00%	4.00%
<b>Rate Revenue</b>					
<b>Service Charge Revenue</b>	\$53,174,000	\$55,888,000	\$58,740,000	\$61,151,000	\$63,660,000
Change due to growth & use	\$55,000	\$58,000	\$61,000	\$63,000	\$66,000
Increase due to rate adjustments	\$2,659,000	\$2,794,000	\$2,350,000	\$2,446,000	\$2,546,000
<b>Non-Rate Revenues</b>					
Wheeling Revenue	\$0	\$0	\$0	\$0	\$0
Interest Income	\$716,000	\$724,000	\$779,000	\$724,000	\$830,000
Non-Operating Revenue	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
Operating Revenue	\$993,000	\$993,000	\$993,000	\$993,000	\$993,000
Grants	\$9,432,000	\$0	\$0	\$0	\$0
Capacity Charges	\$449,000	\$449,000	\$449,000	\$449,000	\$449,000
<b>Total Revenue</b>	<b>\$67,678,000</b>	<b>\$61,106,000</b>	<b>\$63,572,000</b>	<b>\$66,026,000</b>	<b>\$68,744,000</b>

# 10-Year Cash Flow Forecast



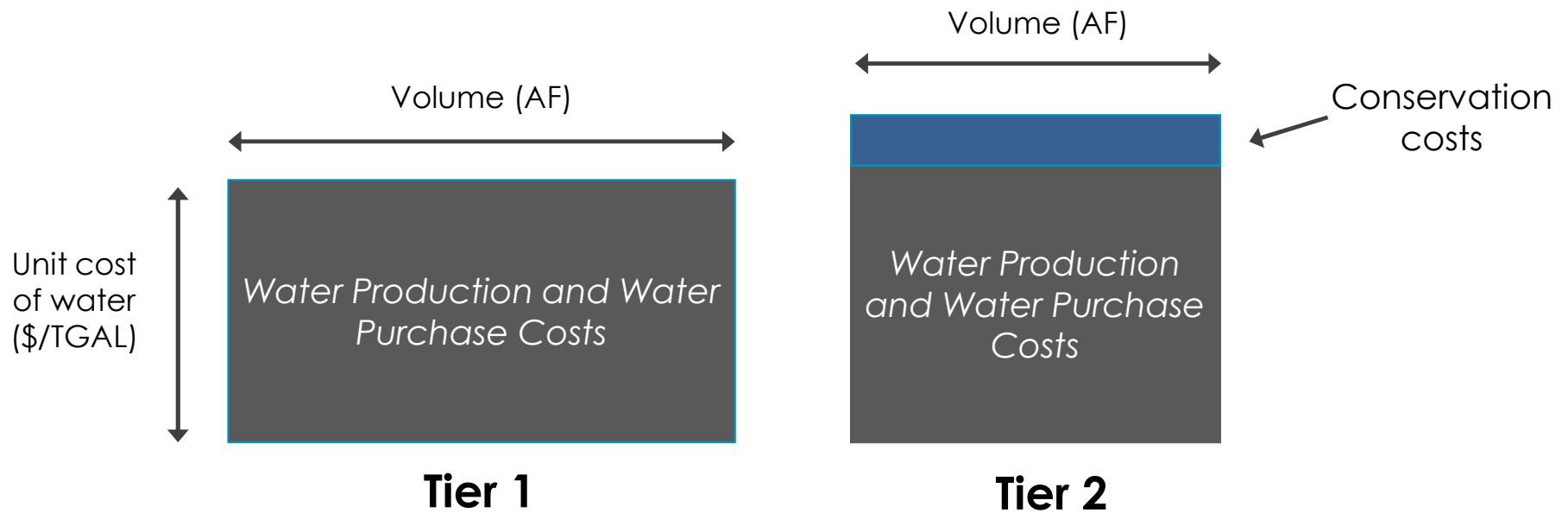
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Rate Revenue Increase:		5.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Debt Coverage Ratio:	4.22	5.44	5.57	4.48	4.68	4.88	5.11	5.34	11.36	na	na

# **COST OF SERVICE AND RATE DESIGN**

## Existing Rates

1. All customers pay a fixed monthly service charge based on meter size
2. Single Family Accounts pay tiered usage rates (2 tiers)
3. Multifamily and Commercial pay uniform rates

# Basis for Tiered Water Rates



# Cost Allocation Results

	<b>Account Charge</b>	<b>Meter Charge</b>	<b>Uniform Rate</b>	<b>Tier 1 Rate</b>	<b>Tier 2 Rate</b>
<b>Units:</b>	46,967 Accounts	94,127 Equivalent Meters	5,353,000 hcf	4,633,700 hcf	2,744,321 hcf
<b>Revenue Requirement:</b>	\$3,919,692	\$33,846,280	\$6,971,640	\$5,454,139	\$4,154,849
<b>Units Costs:</b>	<b>\$83.46</b> per account per year or <b>\$6.96</b> per account per month	<b>\$359.58</b> Per equivalent meter per year or <b>\$29.97</b> per equivalent meter per month	<b>\$1.30</b> Per hcf for Uniform Rates	<b>\$1.18</b> Per hcf for Tier 1	<b>\$1.51</b> Per hcf for Tier 2

<b>Fixed Revenue</b> 69.5%	<b>Variable Revenue</b> 30.5%
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# Proposed Rates (Year 1)

## Tier Allocations (per month)

### Current & Proposed:

Tier 1: 0 to 15 HCF  
 Tier 2: 15 HCF+

	Current	Proposed Year 1	Change	
<b>Residential* Tiered Usage Rate (per HCF)</b>				
Tier 1	\$1.01	\$1.18	\$0.17	16.5%
Tier 2	\$1.32	\$1.51	\$0.19	14.7%
<b>Uniform Usage Rate (per HCF)</b>				
Multifamily	\$1.43	\$1.30	-\$0.13	-8.9%
Commercial	\$1.52	\$1.30	-\$0.22	-14.3%
<b>Fixed Monthly Service Charges (per month)</b>				
5/8" meter	\$36.38	\$37.18	\$0.80	2.2%
3/4" meter	\$50.46	\$52.30	\$1.84	3.6%
1" meter	\$78.63	\$82.53	\$3.90	5.0%
1.5" meter	\$149.07	\$158.10	\$9.03	6.1%
2" meter	\$233.57	\$248.80	\$15.23	6.5%
3" meter	\$458.95	\$490.64	\$31.69	6.9%
4" meter	\$712.49	\$762.72	\$50.23	7.0%
6" meter	\$1,416.77	\$1,518.48	\$101.71	7.2%
8" meter	\$2,543.63	\$2,727.71	\$184.08	7.2%
10" meter	\$3,388.77	\$3,634.63	\$245.86	7.3%
12" meter	\$4,762.12	\$5,108.38	\$346.26	7.3%

\* Includes single family and small multifamily accounts (3 units or fewer)

# Bill Impact Analysis

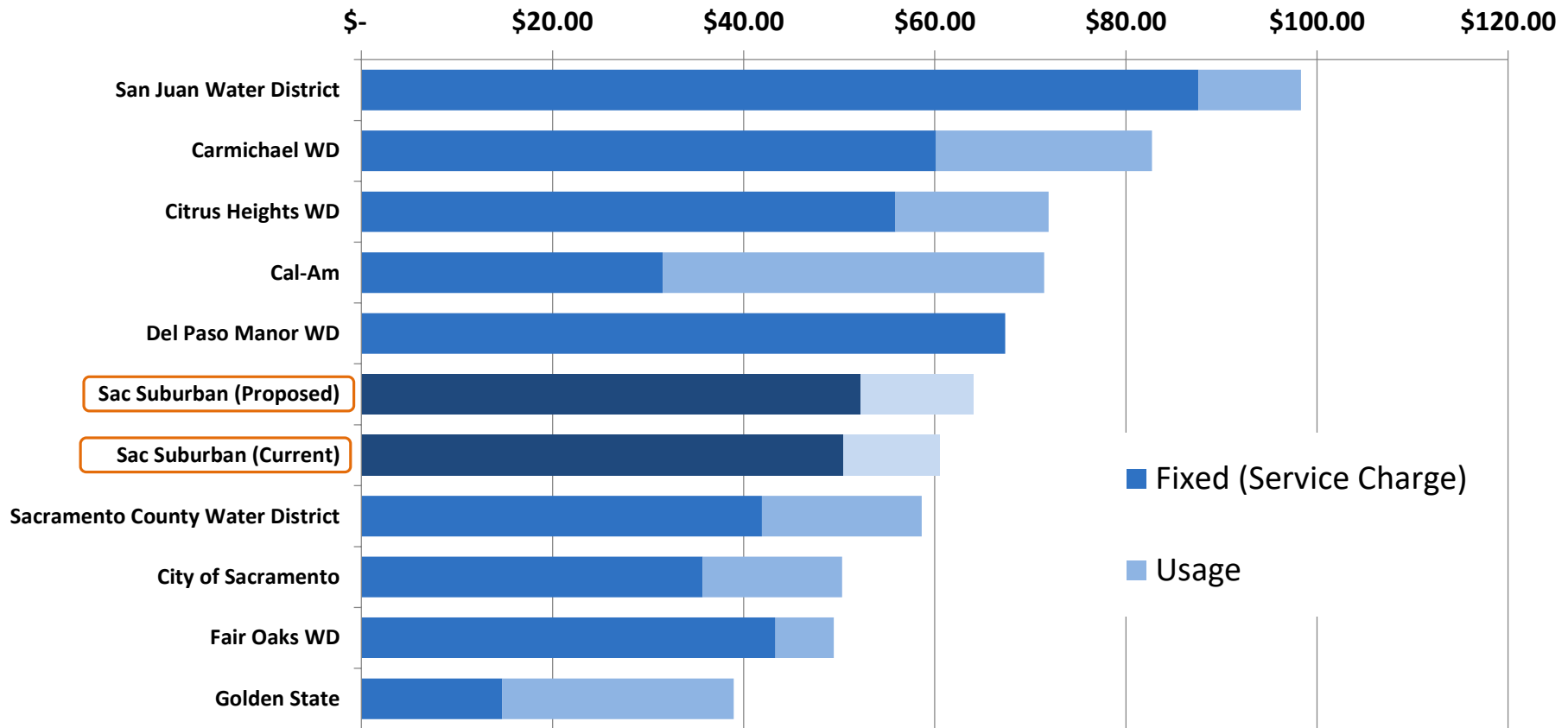
	<b>Meter Size</b>	<b>Monthly Water Use (hcf)</b>	<b>Current Bill</b>	<b>Proposed Bill</b>	<b>Change \$</b>	<b>%</b>
<b>Single Family</b>						
Low Use	3/4"	7.0	<b>\$57.53</b>	<b>\$60.56</b>	<b>\$3.03</b>	<b>5.3%</b>
Median Use	3/4"	9.0	<b>\$59.55</b>	<b>\$62.92</b>	<b>\$3.37</b>	<b>5.7%</b>
Average Use	3/4"	14.0	<b>\$64.60</b>	<b>\$68.82</b>	<b>\$4.22</b>	<b>6.5%</b>
Above Average Use	3/4"	20.0	<b>\$71.90</b>	<b>\$77.55</b>	<b>\$5.65</b>	<b>7.9%</b>
High Use	1"	42.0	<b>\$129.11</b>	<b>\$141.00</b>	<b>\$11.89</b>	<b>9.2%</b>
<b>Multifamily</b>						
Small Complex	1"	35.0	<b>\$128.68</b>	<b>\$128.03</b>	<b>-\$0.65</b>	<b>-0.5%</b>
Average Complex	1.5"	92.0	<b>\$280.63</b>	<b>\$277.70</b>	<b>-\$2.93</b>	<b>-1.0%</b>
Large Complex	2"	153.0	<b>\$452.36</b>	<b>\$447.70</b>	<b>-\$4.66</b>	<b>-1.0%</b>
Very Large Complex	6"	835.0	<b>\$2,610.82</b>	<b>\$2,603.98</b>	<b>-\$6.84</b>	<b>-0.3%</b>
<b>Commercial</b>						
Average Water Use	3/4"	15.0	<b>\$73.26</b>	<b>\$71.80</b>	<b>-\$1.46</b>	<b>-2.0%</b>
High Water Use	3/4"	45.0	<b>\$118.86</b>	<b>\$110.80</b>	<b>-\$8.06</b>	<b>-6.8%</b>
Average Water Use	2"	91.0	<b>\$371.89</b>	<b>\$367.10</b>	<b>-\$4.79</b>	<b>-1.3%</b>
High Water Use	2"	273.0	<b>\$648.53</b>	<b>\$603.70</b>	<b>-\$44.83</b>	<b>-6.9%</b>
Average Water Use	4"	390.0	<b>\$1,305.29</b>	<b>\$1,269.72</b>	<b>-\$35.57</b>	<b>-2.7%</b>
High Water Use	4"	1170.0	<b>\$2,490.89</b>	<b>\$2,283.72</b>	<b>-\$207.17</b>	<b>-8.3%</b>

\* Results include the 5 percent Year 1 rate increases



# Survey – Single Family Homes

Monthly Bill for typical water usage (10 HCF per month and ¾" meter \*)



\* Some utilities have a minimum meter size of 1"

# Private Fire Protection

- About 15-20% of transmission capacity is driven by fire protection requirements
- Private fire services deliver fire protection directly to buildings
- Fire Protection capacity is made up of about 84% public fire hydrants and 16% private fire services

	<b>Number of Accounts</b>	<b>Monthly Account Charge</b>	<b>Monthly Private Fire Capacity Charge</b>	<b>Total Monthly Private Fire Charge</b>	<b>Annual Revenue</b>	<b>Current Rate</b>
2" Meter	16	\$6.96	\$4.38	\$11.34	\$2,200	\$15.87
3" Meter	7	\$6.96	\$12.71	\$19.67	\$1,700	\$29.76
4" Meter	233	\$6.96	\$27.13	\$34.09	\$95,300	\$48.40
6" Meter	362	\$6.96	\$78.80	\$85.76	\$372,500	\$96.41
8" Meter	281	\$6.96	\$167.94	\$174.90	\$589,800	\$170.55
10" Meter	31	\$6.96	\$302.00	\$308.96	\$114,900	\$266.45
12" Meter	11	\$6.96	\$487.86	\$494.82	\$65,300	\$296.95
<b>Totals</b>	<b>941</b>				<b>\$1,241,700</b>	

# **WATER SHORTAGE SURCHARGE POLICY**

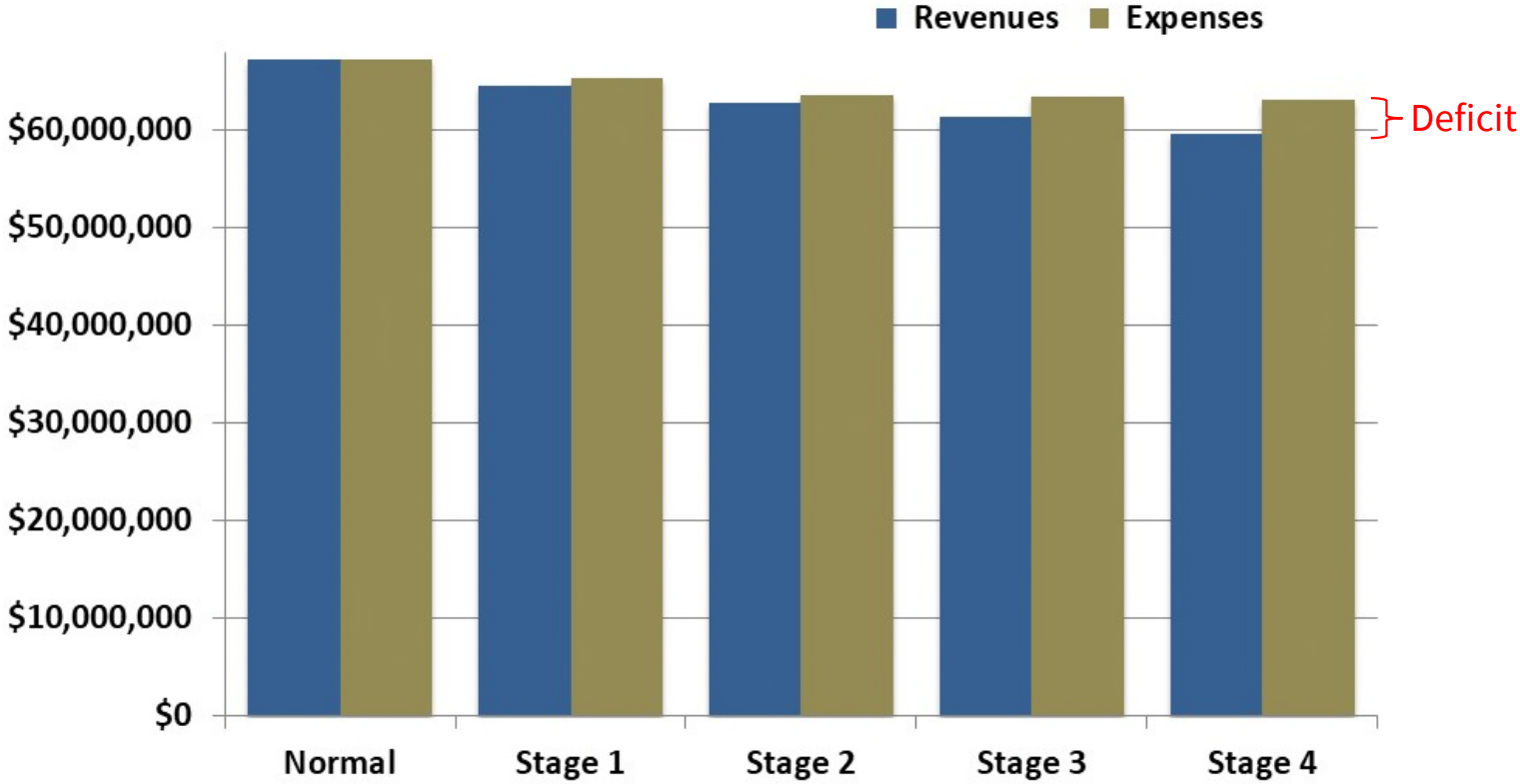
# Water Shortage Surcharge Analysis

	Use Reduction Goal -->	Up to 20%	Up to 30%	Up to 40%	Up to > 50%
Assumed Water Use Reduction -->		16%	26%	35%	45%
<b>Water Shortage Surcharge --&gt;</b>		<b>0%</b>	<b>0%</b>	<b>13%</b>	<b>32%</b>

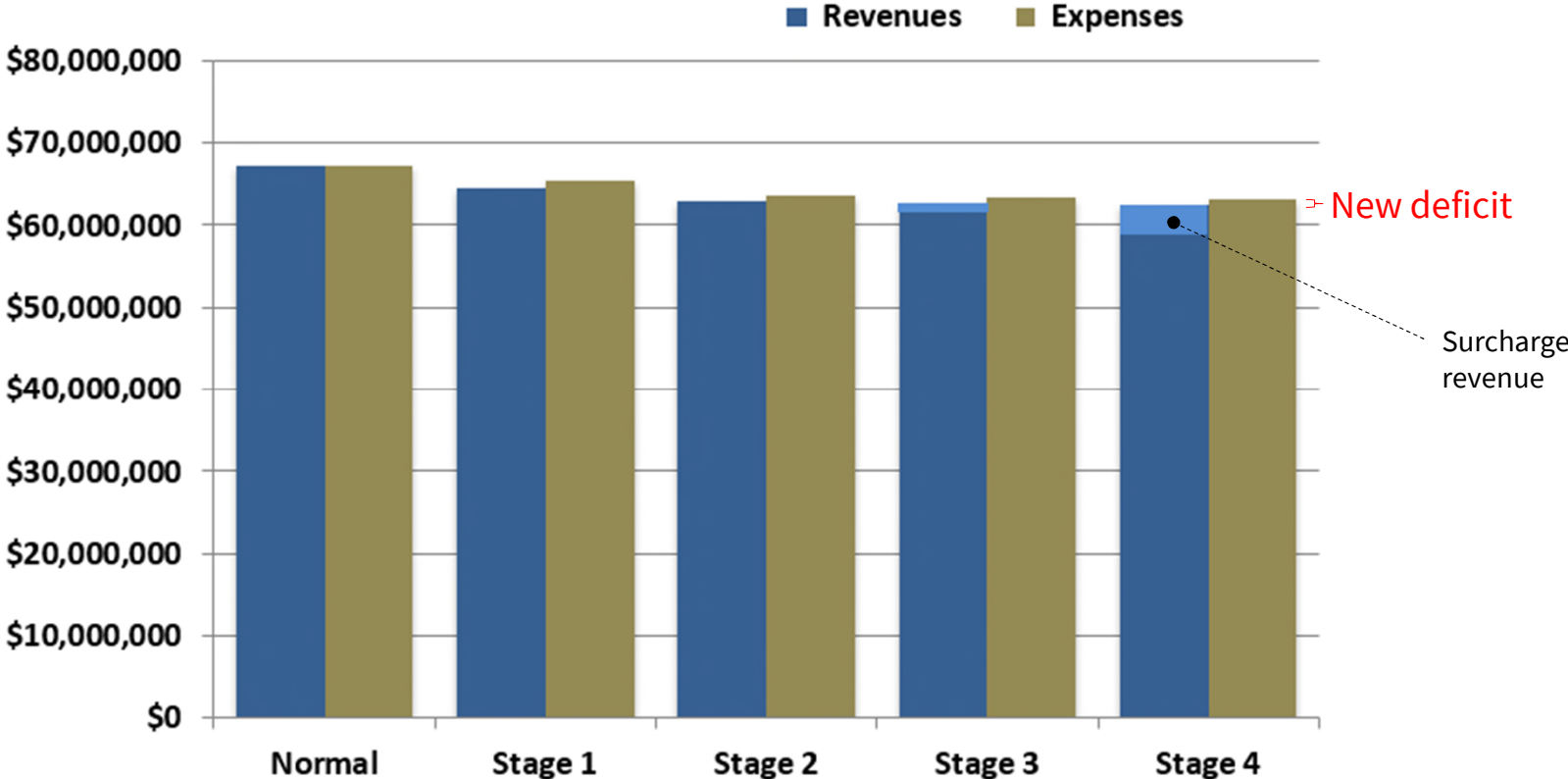
  

	<b>Normal Supply</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Stage 4</b>
<b><i>Estimated Financial Impact from Water Shortage</i></b>					
Reduced Water Sales Revenue	(na)	-\$2,653,000	-\$4,311,000	-\$5,803,000	-\$7,461,000
Reduced Water Purchase Costs	(na)	\$1,841,231	\$2,992,000	\$2,992,000	\$2,992,000
Reduced Pumping & Chemical Costs	(na)	\$43,000	\$583,000	\$785,000	\$1,009,000
Increase in Conservation Program Costs	(na)	-\$177,700	-\$266,700	-\$355,700	-\$443,700
<b>Estimated Financial Deficit:</b>	<b>\$0</b>	<b>-\$946,469</b>	<b>-\$1,002,700</b>	<b>-\$2,381,700</b>	<b>-\$3,903,700</b>
Increase in Revenue from Surcharges	(na)	\$0	\$0	\$1,401,000	\$2,918,000
<b>Strategic Use of Reserves</b>	<b>\$0</b>	<b>-\$946,469</b>	<b>-\$1,002,700</b>	<b>-\$980,700</b>	<b>-\$985,700</b>

# Finances Without Surcharge



# Finances with Surcharge



# Example Water Shortage Rate Calculation

	Normal Supply	Stage 1	Stage 2	Stage 3	Stage 4
<b>Water Shortage Surcharge</b> <sup>1--&gt;</sup>	None	0%	0%	13%	32%

## Example Calculation for Rates in 2025 <sup>2</sup>

<b>Water Usage Rate with Surcharge Applied (\$/HCF)</b>					
Tier 1	\$1.18	\$1.18	\$1.18	\$1.33	\$1.56
Tier 2	\$1.51	\$1.51	\$1.51	\$1.71	\$1.99
Uniform	\$1.30	\$1.30	\$1.30	\$1.47	\$1.72
<b>Fixed Monthly Service Charge <sup>3</sup></b>					
Service Charge	Varies	----- No changes to the service charge -----			

**Notes:**

- <sup>1</sup>Temporary water shortage surcharges are incremental increases in the normal water consumption periods of drought, as declared by the District Board.
- <sup>2</sup>This table shows the temporary water shortage surcharges applied to the proposed rates (effective January, 2025) for illustrative purposes. The percentages shown in this table would be applied to the then-current rates in future years.
- <sup>3</sup>No changes to the fixed monthly services charges would be imposed as a result of the water shortage surcharge.

# Sample Single Family Residential Charges

Based on CY 2025 Rates

Shortage Stage	Single Family Use Reduction Goal	Monthly Water Use (Gallons) <sup>1</sup>	Monthly Service Charge	Water Usage Charge	Water Shortage Charge	Total Monthly Water Bill	Change from Normal Bill <sup>3</sup>
<b>Average Single Family Customer Meeting Reduction Goals<sup>2</sup></b>							
Normal Conditions	0%	10,500	\$52.30	\$16.56	n/a	\$68.86	n/a
Stage 1 Voluntary	20%	8,400	\$52.30	\$13.25	n/a	\$65.55	-\$3.31
Stage 2 Mandatory	30%	7,400	\$52.30	\$11.67	n/a	\$63.97	-\$4.89
Stage 3 Mandatory	40%	6,300	\$52.30	\$9.94	\$1.29	\$63.53	-\$5.33
Stage 4 Mandatory	50%	5,300	\$52.30	\$8.36	\$2.68	\$63.34	-\$5.52
<b>Average Single Family Customer With No Water Use Reduction<sup>2</sup></b>							
Normal Conditions	0%	10,500	\$52.30	\$16.56	n/a	\$68.86	n/a
Stage 1 Voluntary	20%	10,500	\$52.30	\$16.56	n/a	\$68.86	\$0.00
Stage 2 Mandatory	30%	10,500	\$52.30	\$16.56	n/a	\$68.86	\$0.00
Stage 3 Mandatory	40%	10,500	\$52.30	\$16.56	\$2.15	\$71.01	\$2.15
Stage 4 Mandatory	50%	10,500	\$52.30	\$16.56	\$5.30	\$74.16	\$5.30

**Notes:**

<sup>1</sup> Water usage is rounded the nearest 100 gallons.

<sup>2</sup> Assumes single family customer with 3/4" meter and average water usage during "normal conditions" (i.e., Stage 0).

<sup>3</sup> Comparison is with water bill based on normal water usage and standard water rates.



# **CAPACITY FEE STUDY**

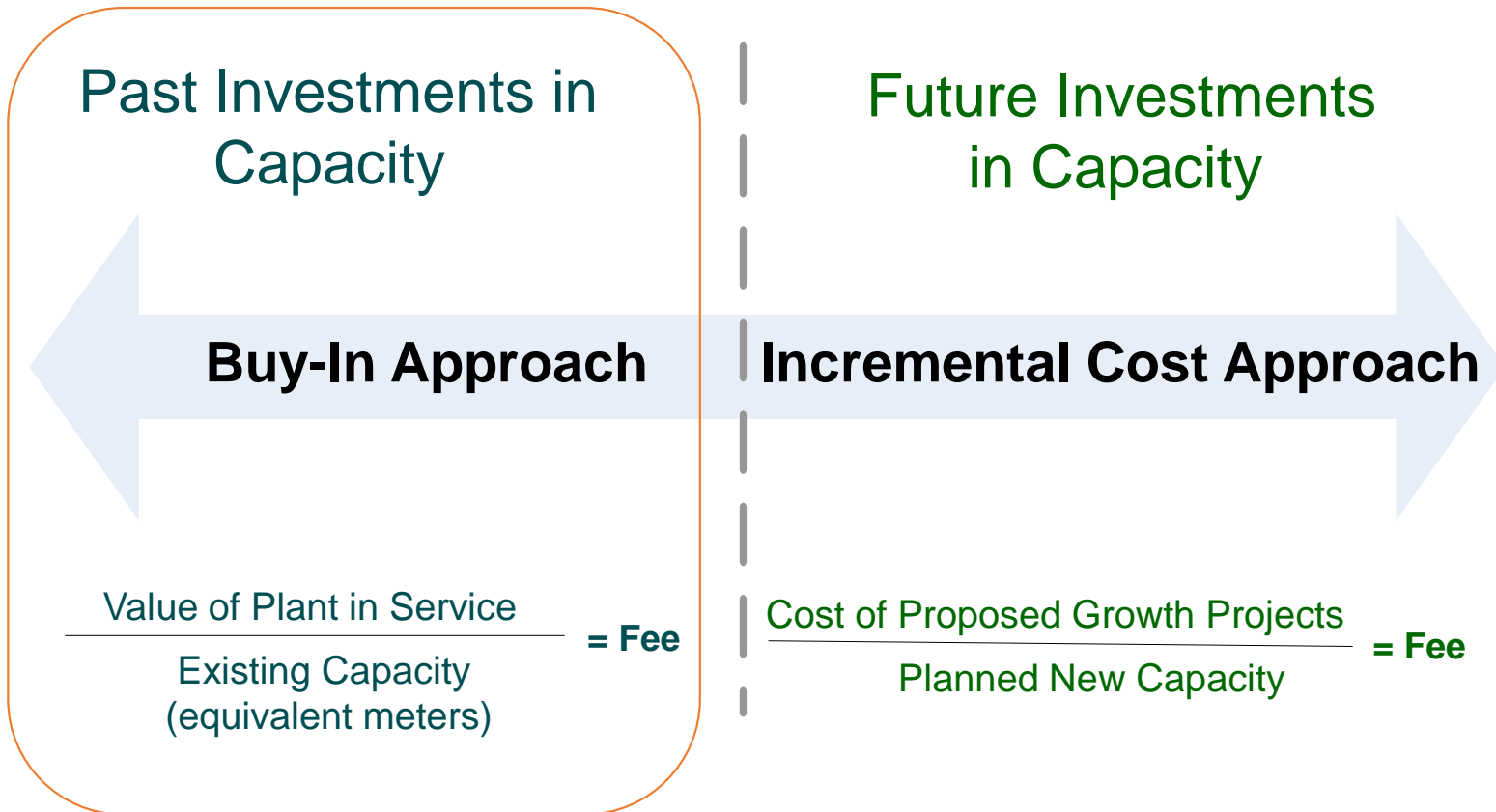
# Capacity Fees

- Also known as capital facility charges or impact fees are the one-time fees charged to new development for capacity in the water system.
- Fee calculations were last calculated in 2023.

## *Legal Standard*

- Section 66013 of the Government Code states that capital facility fees shall not exceed the ***estimated reasonable cost*** of providing the service for which the charges are imposed.

# Common Capacity Fee Approaches



# Buy-In Methodology – Current System Value

Asset Class	Original Cost	Book Value	Replacement Cost	RCNLD
BUILDINGS	\$7,749,000	\$2,590,000	\$15,257,000	\$3,610,000
CAPACITY ENTITLEMENT	\$20,692,000	\$5,234,000	\$38,124,000	\$8,851,000
EASEMENTS	\$424,000	\$5,884,000	\$701,000	\$701,000
FLEET	\$2,286,000	\$874,000	\$2,911,000	\$958,000
LAND	\$2,880,000	\$2,926,000	\$4,178,000	\$4,178,000
LAND IMPROVEMENTS	\$2,522,000	\$1,729,000	\$3,724,000	\$2,011,000
COMPUTERS AND EQUIPMENT	\$6,127,000	\$787,000	\$8,801,000	\$847,000
METERS	\$45,090,000	\$13,757,000	\$62,632,000	\$16,368,000
OFFICE	\$138,000	\$16,000	\$211,000	\$18,000
RESERVOIRS	\$14,603,000	\$8,156,000	\$27,291,000	\$14,219,000
TRANSMISSION AND DISTRIBUTION	\$330,836,000	\$206,751,000	\$688,971,000	\$334,152,000
WELLS	\$76,133,000	\$34,840,000	\$146,669,000	\$45,243,000
<b>Subtotals:</b>	<b>\$509,480,000</b>	<b>\$283,544,000</b>	<b>\$999,470,000</b>	<b>\$431,156,000</b>

RCNLD: replacement cost new less depreciation

# Buy-In Calculation

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RCNLD of all assets	\$431,156,000
Less Outstanding Debt Principal as of December 31, 2023	-\$43,045,000
Plus Total Cash Reserves	\$46,377,000

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**Total Utility Valuation: \$434,488,000**  
**divided by existing capacity: 91,488**

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**Proposed Capacity Charge (\$ per EM): \$4,749**

**2023 RFC update (\$ per EM): \$4,463**

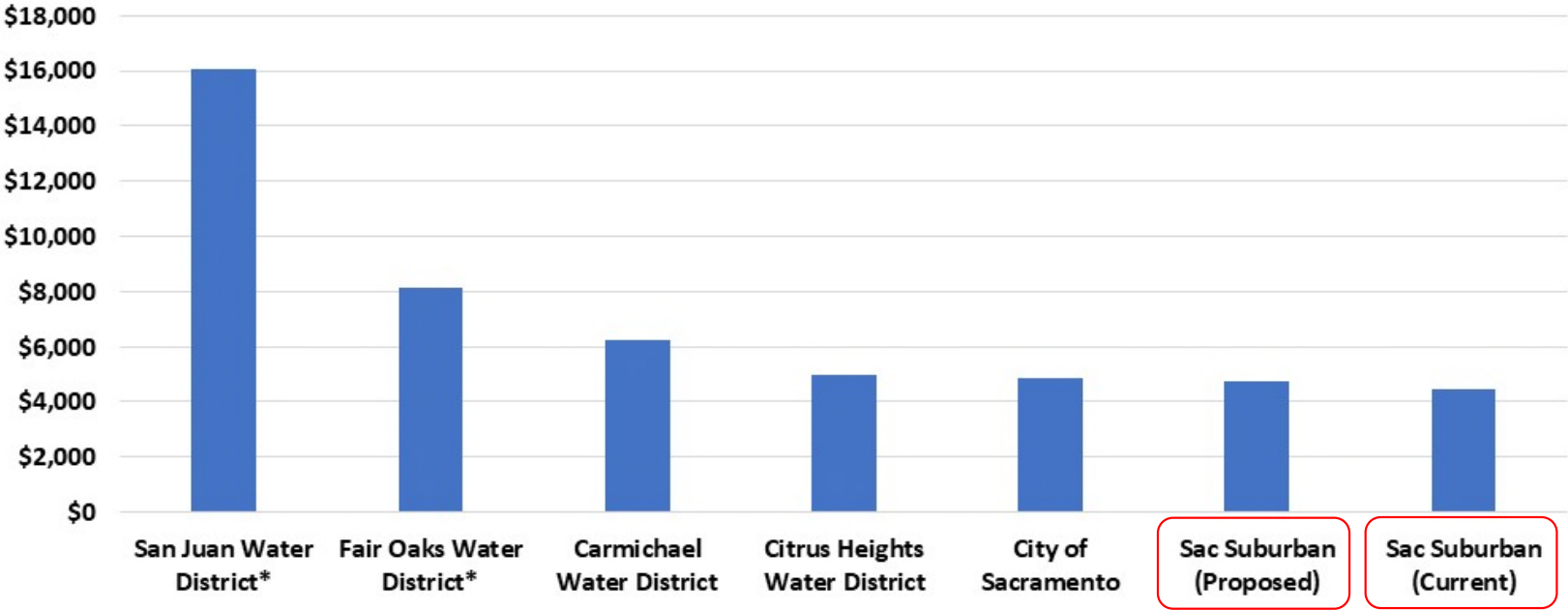
**Increase: \$286 6.4%**

# Proposed Capacity Fee Schedule

	Current	Proposed	Change	
5/8" Meter	\$4,463	\$4,749	\$286	6.4%
3/4" Meter	\$6,695	\$7,124	\$429	6.4%
1" Meter	\$11,158	\$11,873	\$715	6.4%
1 1/2" Meter	\$22,315	\$23,745	\$1,430	6.4%
2" Meter	\$35,704	\$37,992	\$2,288	6.4%
3" Meter	\$71,409	\$75,984	\$4,575	6.4%
4" Meter	\$111,576	\$118,725	\$7,149	6.4%
6" Meter	\$223,152	\$237,450	\$14,298	6.4%
8" Meter	\$401,674	\$427,410	\$25,736	6.4%
10" Meter	\$535,565	\$569,880	\$34,315	6.4%
12" Meter	\$753,138	\$801,394	\$48,256	6.4%

# Capacity Fee Survey

for single family homes with 3/4" meter



\* Smallest available connection size is 1"

# Next Steps



# Project Schedule

- June Board Workshop – 06/24/24
  - Water Rate Study Timeline Approved
  - Presentation of initial Water Rate Study findings
  
- July Board Meeting – 07/15/24
  - Final draft of Water Rate Study Presented
  - Consider approval for purposes of holding a Public Hearing
  - Board to approve Notices. (Printing set for 08/05/24; mailing on 08/16/24.)
  
- August Board Meeting – 08/19/24
  - Provide Board/Public with FAQ's and Answers
  
- September Board Meeting – 09/16/24
  - Provide Board/Public with FAQ's and Answers
  
- Open House – 10/09/24, 6:00 pm (tentative)
  - Multi-Purposed Event, Including answering questions on Water Rate Study
  
- October Special Board Meeting – 10/14/24, 6:00 pm
  - Public Hearing on Proposed Water Rates
  
- New Rates Proposed Effective Date – 01/01/2025



## Agenda Item: 2

**Date:** June 24, 2024

**Subject:** 2024 Water Rate Study Timeline

**Staff Contact:** Jeffery S. Ott, Director of Finance and Administration

### **Recommended Board Action:**

Staff seeks approval of the 2024 Water Rate Study Timeline.

### **Discussion:**

Attached for the Board's review is a proposed schedule for completing the 2024 Water Rate Study and the necessary public outreach prior to the Public Hearing, tentatively scheduled for October 14, 2024.

At the October 16, 2023, Board meeting, the Board directed staff to conduct a Water Rate Study during CY2024 for possible implementation on January 1, 2025. Staff issued Requests for Proposal (RFP) to four vendors to propose on providing Water Rate Study services. Staff received two responses and selected Hildebrand Consulting to perform the Water Rate Study. The 2024 Water Rate Study began in March of 2024. Staff is now nearing completion of the Cost-of-Service Analysis and preparation of the supporting documentation for the proposed rates as prepared by Hildebrand Consulting. Staff will present to the Board the initial 2024 Water Rate Study findings at the June 24, 2024, Board Workshop and solicit Board direction on the findings. Once completed, the 2024 Water Rate Study's findings will be available for review and further discussion by the Board and members of the public at the July 15, 2024 regular Board meeting.

Steps to be taken to inform District customers of the results of the Water Rate Study and the date of the Public Hearing are proposed on the attached slide. Director input and concurrence is sought by staff.

### **Fiscal Impact:**

To be determined.

### **Strategic Plan Alignment:**

Goal C: Ensure Fiscal Responsibility and Affordable Rates

### Attachments:

Rate Study Timeline

# 2024 Water Rate Study

Board Workshop  
June 24, 2024



# 2024 Water Rate Study Timeline

- June Board Workshop – 06/24/24
  - Water Rate Study Timeline Approved
  - Presentation of initial Water Rate Study findings
  
- July Board Meeting – 07/15/24
  - Final draft of Water Rate Study Presented
  - Consider approval for purposes of holding a Public Hearing
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- August Board Meeting – 08/19/24
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  - Provide Board/Public with FAQ's and Answers
  
- Open House – 10/09/24, 6:00 pm (tentative)
  - Multi-Purposed Event, Including answering questions on Water Rate Study
  
- October Special Board Meeting – 10/14/24, 6:00 pm
  - Public Hearing on Proposed Water Rates
  
- New Rates Proposed Effective Date – 01/01/2025



## Agenda Item: 3

**Date:** June 24, 2024

**Subject:** Policy Review – Reserve Policy (PL – Fin 004)

**Staff Contact:** Jeffery S. Ott, Director of Finance and Administration

**Recommended Board Action:**

Review and provide staff direction as appropriate.

**Background:**

As part of the rate study process, staff and the Board will review the Reserve Policy (PL – Fin 004) (Policy).

**Discussion:**

Staff are recommending changes to the Policy. The following summarizes the requested changes:

**Section 100.00 Purpose of the Policy:** This section is being reorganized, renamed and the following language is being requested to be added. “The District’s reserves and other cash balances are also evaluated by third-party credit rating agencies when determining the credit worthiness of the District. Care should be taken to balance the District’s financial risks, credit rating and customer rate impacts when determining the appropriate amount of District reserves.”

**Section 200.30 Committed Funds Classification:** Staff is recommending that the Board consider adding two Committed Fund Classifications for Main Replacement and Well Replacement. These funds will act as sinking funds to accumulate funds through annual budgets to be set aside and accumulated to smooth annual expenditures for large main replacement projects and for new well construction. With the increase costs in these two types of projects, staff are recommending to set aside annual amounts to fund these Committed Funds then utilize the funds when needed. The following language is proposed.

***Main Replacement Fund***

As established by the Board of Directors in District Resolution No. 24-XX, this fund is being established as a sinking fund to accumulate funds for the purpose of replacing existing water mains (transmission or distribution) and related appurtenances (services, valves, hydrants, etc.) where forecasted annual budget amounts are insufficient to cover anticipated costs. This fund will be funded and expended at the direction of the Board of Directors. There is no target level for this fund and this fund shall not be included in the minimum reserve fund balance target.

### ***Well Development Fund***

As established by the Board of Directors in District Resolution No. 24-XX, this fund is being established as a sinking fund to accumulate funds for the purpose of developing new wells or for well treatment where forecasted annual budget amounts are insufficient to cover anticipated costs. This fund will be funded and expended at the direction of the Board of Directors. There is no target level for this fund and this fund shall not be included in the minimum reserve fund balance target.

**Section 200.40 Assigned Fund Classification:** The proposed amendments to this section are as follows:

- 1) The Operating Fund liquidity requirements are being removed. There will be in place an overall liquidity requirement added in a new section 310.00. The fund target is being reduced from 50% of the current year's budgeted expenditures to 33% or 120 days. A few minor language changes are proposed.
- 2) The Interest Rate Risk Management Fund is recommended to be removed as the District no longer has variable rate debt that would require such a reserve.
- 3) The Grant Fund, when needed, will be funded out of the Capital Asset Fund by means of a transfer. The following language is being proposed, "The Grant Fund will be funded from the Capital Asset Fund or as directed by the Board."
- 4) The Capital Asset Fund target is being reduced from 100% of the 5-year future planned Capital Improvement Program (CIP) expenditures to 50% of the future planned capital expenditures. This now includes the Operating Capital Program (OCP) expenditures.
- 5) Minor language changes.

**Section 310.00 Reserve Fund Liquidity:** Staff is requesting to add this section to the policy to establish the liquidity in the overall reserve balance for the purposes of funding emergency or unexpected expenditures without having to prematurely liquidate investments prior to full maturity, which could result in a loss on the sale of an investment.

**Section 400.00 Target Funding Level:** Consistent with the updates being requested in Section 200.30 and 200.40 to add the Main Replacement Fund and Well Development Fund, remove the Interest Rate Risk Management Fund, and update the target levels of the Operating Fund and Capital Asset Fund.

**Section 400.10 Reserve Fund Valuation:** Staff is requesting to add this section to the policy to establish the method of valuing the reserve fund. Accounting principles require District investments to be valued at fair market value for financial reporting purposes. This represents the value of the investments at a given date if they were all to be liquidated. Valuing the investments at market creates unrealized gains and losses on the investments as the current value differs from the cost of the investment. This will have an effect on the reported reserve balances year-to-year which may require more contributions to reserves to maintain established reserve balances.

Policy Review – Reserve Policy (PL – Fin 004)

June 24, 2024

Page 3 of 3

This Policy update was reviewed by legal counsel.

**Fiscal Impact:**

Fiscal impacts will be evaluated once one or more changes are approved.

**Strategic Plan Alignment:**

Goal C: Ensure Fiscal Responsibility and Affordable Rates

**Attachment:**

1 – Reserve Policy (PL – Fin 004) – Redline

2 – Reserve Policy (PL – Fin 004) – Clean

Sacramento Suburban Water District

**Reserve Policy**

Adopted: August 18, 2003

Approved with Changes: ~~November 15, 2021~~ July 15, 2024

**100.00 Purpose ~~of the Policy~~**

The primary purposes of this policy are: to establish a reserve fund level that is specific to the needs and risks of the District; to identify when and how reserve funds are utilized and replenished; and to recognize the long-term nature of such funds and their relationship to current and projected customer rates. The District's financial reserve fund comprises various funds established for specific purposes and to reduce certain risks. Collectively, these funds enable the District to operate in a prudent manner, while allowing for transparency of reserve fund balances.

The District will maintain reserve funds where required by law, ordinance or bond covenant, and revenue stability, so as to provide the necessary cash flow for normal and ordinary operations, while also providing the ability to address economic downturns and limited system emergencies.

The District's reserves and other cash balances are also evaluated by third-party credit rating agencies when determining the credit worthiness of the District. Care should be taken to balance the District's financial risks, credit rating and customer rate impacts when determining the appropriate amount of District reserves.

~~The primary purposes of this policy are: to establish a reserve fund level that is specific to the needs and risks of the District; to identify when and how reserve funds are utilized and replenished; and to recognize the long-term nature of such funds and their relationship to current and projected customer rates. The District's financial reserve fund comprises various funds established for specific purposes and to reduce certain risks. Collectively, these funds enable the District to operate in a prudent manner, while allowing for transparency of reserve fund balances.~~

**200.00 Policy**

**200.10 Fund Classification Types**

The District shall maintain three fund classifications that collectively comprise the District's reserve fund balance. Fund classifications are a hierarchy based primarily on the extent to which the District is bound to observe constraints imposed upon it. The fund classifications are - Restricted funds, Committed funds and Assigned funds, with distinction among the funds based on the relative strength of the constraints that control how amounts can be spent.



Restricted funds include amounts that can be spent only for specific purposes stipulated by law or third parties, such as grantors or creditors. Committed funds include amounts that can be used only for specific purposes as determined by Board action. Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

## **200.20 Restricted Funds Classification**

Restricted funds are those financial assets subject to enforceable third party constraints, such as those imposed by creditors, grantors, laws or regulation.

**There are no designated restricted funds at this time.**

## **200.30 Committed Funds Classification**

Committed funds are those financial assets identified by the Board for specific purposes as determined by Board resolution or ordinance. Such financial assets are to be utilized only as directed by the Board.

### ***Capacity Reimbursement Fund***

As established by the Board in the District's Regulations Governing Water Service (Regulations), the District will retain a percentage Capacity Fees (CF) collected each fiscal year for the purpose of repaying individuals or businesses who were required to install up-sized lines or extension facilities at the request of the District. Disbursements will be made in accordance with the Regulations, including the release of unexpended funds into the District's unrestricted net position.

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### ***Main Replacement Fund***

As established by the Board of Directors in District Resolution No. 24-XX, this fund is being established as a sinking fund to accumulate funds for the purpose of replacing existing water mains (transmission or distribution) and related appurtenances (services, valves, hydrants, etc.) where forecasted annual budget amounts are insufficient to cover anticipated costs. It is anticipated to be funded through unspent annual planned transmission and distribution (T&D) expenditures or at the direction of the Board. There is no minimum target level for this fund. This fund shall not be included in the minimum reserve fund balance target.

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### ***Well Development Fund***

As established by the Board of Directors in District Resolution No. 24-XX, this fund is being established as a sinking fund to accumulate funds for the purpose of developing new wells or for well treatment where forecasted annual budget amounts are insufficient to cover anticipated costs. This fund will be funded and expended at the direction of the Board of Directors. There is no target level for this fund and this fund shall not be included in the minimum reserve fund balance target.

## 200.40 Assigned Funds Classification

Assigned funds are those financial assets determined necessary to be retained for specific risk-mitigation purposes as determined by the Board as needs arise.

### *Emergency/Contingency Fund*

Financial assets held for purposes of continued operations during times of severe economic distress due to events that require an immediate and/or significant use of cash. Such severe economic situations may include otherwise insurable events for which the timely receipt of cash may be delayed. The District shall target a balance of three percent (3%) of its prior year-end total assets in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be determined by the Board.

Prior to amounts being expended from this fund, the District shall establish a contingency plan that addresses, at a minimum:

1. The reason(s) for expenditures from this fund.
2. Amounts expected to be expended.
3. The funds replenishment timeline and funding source.

### *Operating Fund*

Financial assets held primarily ~~in the form of cash and cash equivalents~~ for the purpose of debt avoidance due to unexpected expenditures of a non-recurring nature or to meet unexpected increases in operating costs. The District shall target a balance ~~in short-term investments and/or cash~~ of ~~180-120~~ days (~~5033~~%) of its current year's budgeted annual expenditures for operating costs and debt service in this fund. The minimum balance ~~in this fund in short-term investments and/or cash~~ shall be 90 days (25%) of its current year's budgeted annual expenditures for operating costs and debt service ~~in this fund~~. Conditions for utilization of these reserves and a plan for fund replenishment will be determined by the Board.

The operating fund reflects the timing difference between billing for revenues and payment of expenses. The target level is a financial measure or guideline. If the fund level drops below the twenty-five percent ~~target minimum~~ balance, that is a sign for staff to review the fund and, if necessary, bring recommendations to the Board to ~~replenish the fund and~~ assure the fund will not continue to decline.

### *Rate Stabilization Fund*

Financial assets held for purposes of managing cost variability in obtaining, treating and delivering potable surface water and groundwater. This Fund is focused on consumption fluctuations related to customer demand and purchasing of surface water as part of the District's conjunctive use efforts. Consumption charges established in the rate setting process forecast customer demand based on a repeat of average, recent climactic conditions. Surface water purchases are based on take-or-pay agreements and on the availability of surface water for purchase. Financial fluctuations occur when situations vary from the assumptions. The District shall target a balance of forty percent

(40%) of its current year's budgeted expected upcoming year consumption revenues (water usage) in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be determined by the Board.

#### ***Interest Rate Risk Management Fund***

~~This fund is derived from earnings based on financial assets held as short-term investments pursuant to interest rate risk exposure assumed by the District upon the issuance of floating rate debt. The amount of investments from which earnings are derived and accumulated will be determined at the time of debt issuance. Earnings on such investments will be used to repay a portion of the interest expense on the outstanding floating rate bond or COP as long as the bond or COP is subject to interest rate risk exposure. This fund will be reduced in line with the amortized balance of the interest rate swap(s).~~

#### ***Grant Fund***

Financial assets held for purposes of funding the “local cost share” and advance payment of eligible reimbursable costs on capital projects funded partially from grant awards. As eligibility for potential grant awards requires the District to demonstrate financial viability to fund anticipated project costs, the District shall maintain a minimum balance equal to the combined sum of anticipated costs for those projects considered grant eligible in the upcoming biennial period. The Grant Fund will be funded from the Capital Asset Fund or as directed by the Board. Conditions for utilization of such reserves and a plan for fund replenishment will be determined at the time of grant award.

#### ***Capital Asset Fund***

Financial assets held for purposes of funding District capital asset replacements and capital projects necessary to meet regulatory requirements and/or system reliability needs. The District shall target a fund balance based on of fifty percent (50%) of the annualized average of the future five years of the planned Capital Program (CIP & OCP) expenditures. The minimum balance in this fund shall be equivalent to the prior year's annual depreciation expense. Well property acquisition amounts will be funded as defined in the section “Well Property Acquisition Fund.” The District shall target a balance to sufficiently fund anticipated capital improvement project replacement cost deviations above the CIP capital budget funding level. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

#### ***Well Property Acquisition Fund***

This Fund is a component of the Capital Asset Fund. Amounts established for this Fund shall be established through the annual budget process. The District shall target a balance to sufficiently fund anticipated property acquisitions. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

### ***Capacity Fee Fund***

Financial assets held for expenditure on growth/capacity-related capital asset projects only. Amounts deposited into this fund come from unexpended facility development charges collected from developers (see related Capacity Reimbursement Fund in section 200.30 above.) These growth/capacity-related capital asset projects form the cost-basis and legal nexus for the establishment and collection of the Capacity Fees. This fund is dependent upon customer growth. Therefore, there is no prescribed target or minimum balance.

### **300.00 Disposition of “One-Time” Revenues**

“One-time” revenues are revenues of an unusual or infrequent nature which are likely not the result of the District providing services and producing and delivering goods in connection with the District’s principal ongoing operations (e.g. legal settlement). Unless specifically earmarked by Board action otherwise, “one-time” revenues should be transferred to the appropriate reserve fund which best represents the reason for the “one-time” revenue.

### **310.00 Reserve Fund Liquidity**

The District’s Reserve Funds are invested in accordance with the District’s Investment Policy (PL – Fin 003). The District’s investments primarily have durations between 0 and 5 years. The investment portfolio’s duration is established based on certain benchmarks. In order to have reserve funds available for use, a portion of the reserve funds need to be short-term investments (12 months or less) or cash and cash equivalents. The District shall have a liquidity target of 50% of the current year’s Operating Budget (O&M) plus 50% of any Committed Fund balances. For the purpose of calculating liquidity versus the target, all District cash and cash equivalent balances shall be included.

### **400.00 Target Funding Level**

A summary of reserve fund classifications and funding levels is shown below:

<b>Fund Classification</b>	<b>Funding Level</b>
Capacity Reimbursement Fund	20% of CF charges collected annually less developer payouts.
Emergency/Contingency Fund	3% of prior-year end total assets.
Operating Fund	<del>50</del> 33% of <u>budgeted</u> annual operating and debt service expenditures.
Rate Stabilization Fund	40% of <u>budgeted</u> water consumption revenues.
<u>Interest Rate Risk Management Fund</u>	<u>Accumulated earnings on short term investments above 3.283% on the unhedged portion of variable rate debt.</u>

Fund Classification	Funding Level
Grant Fund	Sufficient to pay for “local cost share” on all outstanding and applied-for grants. <a href="#">Funds from Capital Asset Fund.</a>
Capital Asset Fund	<del>Based on</del> 50% of the annualized average of the <a href="#">projected</a> future five years of <del>CFP</del> <a href="#">capital</a> expenditures.
Capacity Fee Fund	Remaining amounts of CF Charges after amounts used by Capacity Reimbursement Fund expended. For new <a href="#">or replacement capacity related</a> infrastructure.
<a href="#">Main Replacement Fund</a>	<a href="#">No minimum. Funded as directed by the Board or from unspent budgeted T&amp;D funds.</a>
<a href="#">Well Development Fund</a>	<a href="#">No minimum. Funded as directed by the Board or from unspent Well Development budgeted funds.</a>

#### **410.00 Reserve Fund Valuation**

[For the purposes of calculating the reserve fund balances for comparing to the target levels, investments will be valued at market on the date of valuation.](#)

#### **500.00 Authority**

The General Manager is responsible for the appropriate accounting and regular reporting of the District’s reserve fund balance. Board oversight will be accomplished through regular reporting and review of this Policy.

#### **600.00 Procedure**

District staff will maintain procedures for each fund classification, to be approved by the General Manager, and in conformance with this Policy.

In any case where the reserves are drawn below target minimums, a report shall be developed containing the reasons for withdrawals and any impacts to programs or rates due to such withdrawals. If reserves are depleted, the reserves shall be replenished over a maximum five (5) year period to the established or re-established target as directed by the Board.

Maintenance of minimum reserves should not, on its own, trigger the need for a rate adjustment. Rates will be reviewed after two consecutive years of [revenue-reserve funds](#) dropping below established minimums balances, or diminishing reserves as a result of covering unanticipated costs.

**700.00 Policy Review**

This Policy ~~will~~shall be reviewed annually by the Board of Directors as part of the annual budget adoption process.

Sacramento Suburban Water District

**Reserve Policy**

Adopted: August 18, 2003  
Approved with Changes: July 15, 2024

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**100.00 Purpose**

The primary purposes of this policy are: to establish a reserve fund level that is specific to the needs and risks of the District; to identify when and how reserve funds are utilized and replenished; and to recognize the long-term nature of such funds and their relationship to current and projected customer rates. The District's financial reserve fund comprises various funds established for specific purposes and to reduce certain risks. Collectively, these funds enable the District to operate in a prudent manner, while allowing for transparency of reserve fund balances.

The District will maintain reserve funds where required by law, ordinance or bond covenant, and revenue stability, so as to provide the necessary cash flow for normal and ordinary operations, while also providing the ability to address economic downturns and limited system emergencies.

The District's reserves and other cash balances are also evaluated by third-party credit rating agencies when determining the credit worthiness of the District. Care should be taken to balance the District's financial risks, credit rating and customer rate impacts when determining the appropriate amount of District reserves.

**200.00 Policy**

**200.10 Fund Classification Types**

The District shall maintain three fund classifications that collectively comprise the District's reserve fund balance. Fund classifications are a hierarchy based primarily on the extent to which the District is bound to observe constraints imposed upon it. The fund classifications are - Restricted funds, Committed funds and Assigned funds, with distinction among the funds based on the relative strength of the constraints that control how amounts can be spent.

Restricted funds include amounts that can be spent only for specific purposes stipulated by law or third parties, such as grantors or creditors. Committed funds include amounts that can be used only for specific purposes as determined by Board action. Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed.

## **200.20 Restricted Funds Classification**

Restricted funds are those financial assets subject to enforceable third-party constraints, such as those imposed by creditors, grantors, laws or regulation.

**There are no designated restricted funds at this time.**

## **200.30 Committed Funds Classification**

Committed funds are those financial assets identified by the Board for specific purposes as determined by Board resolution or ordinance. Such financial assets are to be utilized only as directed by the Board.

### ***Capacity Reimbursement Fund***

As established by the Board in the District's Regulations Governing Water Service (Regulations), the District will retain a percentage Capacity Fees (CF) collected each fiscal year for the purpose of repaying individuals or businesses who were required to install up-sized lines or extension facilities at the request of the District. Disbursements will be made in accordance with the Regulations, including the release of unexpended funds into the District's unrestricted net position.

### ***Main Replacement Fund***

As established by the Board of Directors in District Resolution No. 24-XX, this is a sinking fund to accumulate funds for the purpose of replacing existing water mains (transmission or distribution) and related appurtenances (services, valves, hydrants, etc.) where forecasted annual budget amounts are insufficient to cover anticipated costs. It is anticipated to be funded through unspent annual planned transmission and distribution (T&D) expenditures or at the direction of the Board. There is no minimum target level for this fund. This fund shall not be included in the minimum reserve fund balance target.

### ***Well Development Fund***

As established by the Board of Directors in District Resolution No. 24-XX, this is a sinking fund to accumulate funds for the purpose of developing new wells or for well treatment where forecasted annual budget amounts are insufficient to cover anticipated costs. This fund will be funded and expended at the direction of the Board of Directors. There is no target level for this fund and this fund shall not be included in the minimum reserve fund balance target.

## **200.40 Assigned Funds Classification**

Assigned funds are those financial assets determined necessary to be retained for specific risk-mitigation purposes as determined by the Board as needs arise.



### ***Emergency/Contingency Fund***

Financial assets held for purposes of continued operations during times of severe economic distress due to events that require an immediate and/or significant use of cash. Such severe economic situations may include otherwise insurable events for which the timely receipt of cash may be delayed. The District shall target a balance of three percent (3%) of its prior year-end total assets in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be determined by the Board.

Prior to amounts being expended from this fund, the District shall establish a contingency plan that addresses, at a minimum:

1. The reason(s) for expenditures from this fund.
2. Amounts expected to be expended.
3. The funds replenishment timeline and funding source.

### ***Operating Fund***

Financial assets held primarily for the purpose of debt avoidance due to unexpected expenditures of a non-recurring nature or to meet unexpected increases in operating costs. The District shall target a balance of 120 days (33%) of its current year's budgeted annual expenditures for operating costs and debt service in this fund. The minimum balance in this fund shall be 90 days (25%) of its current year's budgeted annual expenditures for operating costs and debt service. Conditions for utilization of these reserves and a plan for fund replenishment will be determined by the Board.

The operating fund reflects the timing difference between billing for revenues and payment of expenses. The target level is a financial measure or guideline. If the fund level drops below the twenty-five percent minimum balance, that is a sign for staff to review the fund and, if necessary, bring recommendations to the Board to replenish the fund and assure the fund will not continue to decline.

### ***Rate Stabilization Fund***

Financial assets held for purposes of managing cost variability in obtaining, treating and delivering potable surface water and groundwater. This Fund is focused on consumption fluctuations related to customer demand and purchasing of surface water as part of the District's conjunctive use efforts. Consumption charges established in the rate setting process forecast customer demand based on a repeat of average, recent climactic conditions. Surface water purchases are based on take-or-pay agreements and on the availability of surface water for purchase. Financial fluctuations occur when situations vary from the assumptions. The District shall target a balance of forty percent (40%) of its current year's budgeted consumption revenues (water usage) in this fund. Conditions for utilization of such reserves and a plan for fund replenishment will be determined by the Board.

### ***Grant Fund***

Financial assets held for purposes of funding the "local cost share" and advance payment of eligible reimbursable costs on capital projects funded partially from grant

awards. As eligibility for potential grant awards requires the District to demonstrate financial viability to fund anticipated project costs, the District shall maintain a minimum balance equal to the combined sum of anticipated costs for those projects considered grant eligible in the upcoming biennial period. The Grant Fund will be funded from the Capital Asset Fund or as directed by the Board. Conditions for utilization of such reserves and a plan for fund replenishment will be determined at the time of grant award.

#### ***Capital Asset Fund***

Financial assets held for purposes of funding District capital asset replacements and capital projects necessary to meet regulatory requirements and/or system reliability needs. The District shall target a fund balance of fifty percent (50%) of the annualized average of the future five years of the planned Capital Program (CIP & OCP) expenditures. The minimum balance in this fund shall be equivalent to the prior year's annual depreciation expense. Well property acquisition amounts will be funded as defined in the section "Well Property Acquisition Fund." The District shall target a balance to sufficiently fund anticipated capital improvement project replacement cost deviations above the capital budget funding level. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

#### ***Well Property Acquisition Fund***

This Fund is a component of the Capital Asset Fund. Amounts established for this Fund shall be established through the annual budget process. The District shall target a balance to sufficiently fund anticipated property acquisitions. Fund replenishment will be determined by the Board periodically through the rate setting process and annually through the budget process.

#### ***Capacity Fee Fund***

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### **300.00 Disposition of "One-Time" Revenues**

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### 310.00 Reserve Fund Liquidity

The District's Reserve Funds are invested in accordance with the District's Investment Policy (PL – Fin 003). The District's investments primarily have durations between 0 and 5 years. The investment portfolio's duration is established based on certain benchmarks. In order to have reserve funds available for use, a portion of the reserve funds need to be short-term investments (12 months or less) or cash and cash equivalents. The District shall have a liquidity target of 50% of the current year's Operating Budget (O&M) plus 50% of any Committed Fund balances. For the purpose of calculating liquidity versus the target, all District cash and cash equivalent balances shall be included.

### 400.00 Target Funding Level

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Operating Fund	33% of budgeted annual operating and debt service expenditures.
Rate Stabilization Fund	40% of budgeted water consumption revenues.
Grant Fund	Sufficient to pay for "local cost share" on all outstanding and applied-for grants. Funds from Capital Asset Fund.
Capital Asset Fund	50% of the annualized average of the projected future five years of capital expenditures.
Capacity Fee Fund	Remaining amounts of CF Charges after amounts used by Capacity Reimbursement Fund expended. For new or replacement capacity related infrastructure.
Main Replacement Fund	No minimum. Funded as directed by the Board or from unspent budgeted T&D funds.
Well Development Fund	No minimum. Funded as directed by the Board or from unspent Well Development budgeted funds.

**410.00 Reserve Fund Valuation**

For the purposes of calculating the reserve fund balances for comparing to the target levels, investments will be valued at market on the date of valuation.

**500.00 Authority**

The General Manager is responsible for the appropriate accounting and regular reporting of the District's reserve fund balance. Board oversight will be accomplished through regular reporting and review of this Policy.

**600.00 Procedure**

District staff will maintain procedures for each fund classification, to be approved by the General Manager, and in conformance with this Policy.

In any case where the reserves are drawn below target minimums, a report shall be developed containing the reasons for withdrawals and any impacts to programs or rates due to such withdrawals. If reserves are depleted, the reserves shall be replenished over a maximum five (5) year period to the established or re-established target as directed by the Board.

Maintenance of minimum reserves should not, on its own, trigger the need for a rate adjustment. Rates will be reviewed after two consecutive years of reserve funds dropping below established minimums balances, or diminishing reserves as a result of covering unanticipated costs.

**700.00 Policy Review**

This Policy shall be reviewed annually by the Board of Directors as part of the annual budget adoption process.