

Agenda

Sacramento Suburban Water District Finance and Audit Committee

3701 Marconi Avenue, Suite 100
Sacramento, CA 95821

Tuesday, June 30, 2020
4:00 p.m.

In accordance with the California Department of Public Health's and the Governor's Executive Orders N-29-20 and N-33-20, the District's boardroom is closed and this meeting will take place solely by videoconference and teleconference. The public is invited to listen, observe, and provide comments during the meeting by either method provided for below. The Chairperson will call for public comment on each agenda item at the appropriate time and all votes will be taken by roll call.

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Where appropriate or deemed necessary, the Committee 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.

The public may address the Committee concerning an agenda item either before or during the Committee's consideration of that agenda item. Persons who wish to comment on either agenda or non-agenda items should fill out a Comment Card and give it to the General Manager. The

President will call for comments at the appropriate time. Comments will be subject to reasonable time limits (3 minutes).

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

Roll Call

Announcements

Public Comment

This is an opportunity for the public to comment on non-agenda items within the subject matter jurisdiction of the Committee. Comments are limited to 3 minutes.

Consent Items

The committee will be asked to approve all Consent Items at one time without discussion. Consent Items are expected to be routine and non-controversial. If any member of the Committee, staff or interested person requests that an item be removed from the Consent Items, it will be considered with the action items.

- 1. Minutes of the June 16, 2020 Finance and Audit Committee Meeting**
Recommendation: Approve subject minutes.

Items for Discussion and/or Action

- 2. Budget Policy PL – Fin 012**
Recommendation: Discuss recommended changes to the policy prior to submitting to the full Board for review and approval.
- 3. Water Service Rates, Fees, and Charges Setting Policy PL – Fin 009**
Recommendation: Discuss with committee the recommended changes to the policy prior to submitting to the full Board for review and approval.

Adjournment

Upcoming Meetings:

Monday, July 6, 2020, at 5:00 p.m., SSWD/DPMWD 2x2 Ad Hoc Committee Meeting
Wednesday, July 15, 2020, at 2:00 p.m., Facilities and Operations Committee Meeting
Monday, July 20, 2020, at 6:00 p.m., Regular Board Meeting

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I certify that the foregoing agenda for the June 30, 2020, meeting of the Sacramento Suburban Water District Finance and Audit Committee was posted by June 26, 2020 in a publicly-accessible location at the Sacramento Suburban Water District office, 3701 Marconi Avenue, Suite 100, Sacramento, California, and was made available to the public during normal business hours.

Dan York
General Manager/Secretary
Sacramento Suburban Water District

Agenda Item 1

Minutes

Sacramento Suburban Water District
Finance and Audit Committee
Tuesday, June 16, 2020

Location:

Video and Audio Conference Only at 1-669-900-6833, or Zoom at Meeting Id #895 5542 4074

Call to Order – Videoconference/Audioconference Meeting

Chair Thomas called the meeting to order at 5:02 p.m.

Roll Call

Directors Present: Kevin Thomas and Robert Wichert.

Directors Absent: None.

Staff Present: General Manager Dan York, Director of Finance and Administration Jeff Ott, Assistant General Manager Mike Huot, Heather Hernandez-Fort, and Lynn Pham.

Public Present: None.

Announcements

None.

Public Comment

None.

Consent Items

1. Minutes of the May 21, 2020 Finance and Audit Committee Meeting

Chair Thomas approved the minutes of the May 21, 2020, Finance and Audit Committee meeting.

AYES:	Thomas.	ABSTAINED:	Wichert.
NOES:		RECUSED:	
ABSENT:			

Items for Discussion and/or Action

2. Budget Policy PL – Fin 012

Jeff Ott (Mr. Ott) presented the staff report, reviewed the changes in the policy and answered clarifying questions.

Chair Thomas expressed he would like more time to thoroughly review the Policy after the meeting.

Director Wichert expressed he was comfortable enough to recommend full Board approval of the item, however he suggested holding another meeting of the Finance and Audit Committee so that Chair Thomas was able to review the Policy more thoroughly.

3. Water Service Rates, Fees, and Charges Setting Policy PL – Fin 009

Mr. Ott presented the staff report.

Director Wichert expressed there was Board discussion on this Policy regarding wages. He stated that he supported language in the Policy that ensured that the rates were not more than the constituents could afford.

Director Wichert recommended adding language to Attachment 1, section 200. C. number 6. where it states, “If it is determined by the Board of Directors that revenue generated exceeds planned expenditures (including planned reserve increases), rates can be adjusted downward by the Board of Directors,” he suggested including “contributions to reserves” as well.

Discussion ensued regarding different rate setting strategies.

Director Wichert expressed he was ok with removing item 7. under section 200. A. on Attachment 2.

Director Wichert recommended adding language to Attachment 2, section 200. C. number 7. where it states, “if it is determined by the Board of Directors that revenue generated exceeds planned expenditures, rates can be adjusted downward by the Board of Directors.” He suggested including “plus reserve contributions” as well.

Discussion ensued regarding cash based accounting and keeping consistent language.

The Committee agreed to hold another meeting of the Finance and Audit Committee before the July regular Board meeting.

Adjournment

Chair Thomas adjourned the meeting at 5:49 p.m.

Dan York
General Manager/Secretary
Sacramento Suburban Water District



Agenda Item: 2

Date: June 25, 2020

Subject: Budget Policy PL – Fin 012

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

Recommended Committee Action:

Review and approve updated staff recommendation to update Budget Policy PL – Fin 012. Consider recommending approval of updated policy to full Board of Directors.

Background:

The Budget Policy PL – Fin 012 was originally adopted in 2014. It was last changed in 2018. As the primary tool for managing the District financially, a thorough review of the policy was performed by finance staff. The previous Budget Policy contained 4 budgets; Operating and Maintenance (O&M), Capital Improvement (CIP), Operating Capital (OCB), and Debt Service. In the past, staff have not had the flexibility of transferring amounts between the CIP and OCB budgets when situations required the transfer without first agendaizing and presenting to the Board. The old policy is loosely based on cash budgeting. All financial reporting is done on Full Accrual basis. The Budget should also be on an accrual basis with some modifications to address specific transactions that need to be budgeted, mainly capital and debt service expenditures. Other expenses required by Generally Accepted Accounting Principles (GAAP) are non-cash and have no effect on planned expenditures for a given year and should be removed from the budget. These are a few of the issues staff wanted to address in the Budget Policy.

After review of the Budget Policy, staff proposed a new policy that addresses some of the limitations in the old policy and added further clarity to budget authority, process, control, and reporting. The Annual Budget will still be comprised of 4 separate budgets; however, staff recommended that these 4 budgets be: 1) Revenues and Other Sources of Funds, 2) Operating Budget (O&M), 3) Capital Budget, and 4) Debt Service Budget.

Since both CIP and OCB are Capital budgets, staff recommended combining these into one budget (Capital Budget) containing two programs, Capital Improvements Program (CIP) and Operating Capital Program (OCP). This will allow staff greater flexibility in transferring amounts between the CIP and OCP projects. Both will still be tracked and reported separately, but will be treated as one budget for control purposes.

Additional changes were made to further define budget authority and applicability. A section defining terms was added. The policy section now describes the basis of the budget as full accrual with specific exceptions for non-cash transaction types. The previous policy basis was narrowly defined as “cash basis”. The purpose is to allow full recognition of accrual of revenues as sources of funds and full accrual of expenses for expenditures, but to adjust out non-cash

transactions, such as depreciation expense, amortization of bond discounts/premiums, etc., and to include non-expense expenditures, such as capital replacement costs, debt principal, and capital lease payments. This will allow staff to utilize current financial reports (which utilize full accrual) with slight modifications to report budget to actual without having to adjust to full cash basis accounting.

The section on Budget Development and Budget Presentation are, for the most part, from the original budget policy.

The complete structure of the policy has changed. Redlining would have been of little use for review. The proposed structural and content changes are as follows:

1. Move Authority section to beginning and assign administration of the policy to Director of Finance and Administration and the Assistant General Manager.
2. The Purpose has been updated and expanded.
3. Added a section for Applicability and Scope.
4. Added a section for Definitions and Terms.
5. Added a section for Related Documents and References.
6. Section 200.xx was expanded to include the following:
 - a. Basis of Budgeting – Describes the actual accounting method and costs to be included in the budget.
 - b. Budgetary Control – Describes what the budget is legally and how budget amounts are controlled and managed.
 - c. Balanced Budget – Addresses having a balanced budget and what that means in terms of revenues and sources of funds versus expenditures.
7. Development of the Budget and Budget Presentation sections are mostly from the current policy.
8. Budget Reporting has been added as a section but the language is from the current policy.

At the June 16, 2020, Finance and Audit Committee (F&A Committee) meeting, the F&A Committee was favorable to the proposed new Budget Policy. They recommended a few changes to add clarity to the policy. Staff have added the recommendations to the policy.

Discussion:

At the June 16, 2020, F&A committee meeting, committee members reviewed proposed new Budget Policy PL Fin 012. A few recommendations were offered to staff to help clarify the policy. Staff have made those changes and are presenting the updated policy for final review before submitting to the full Board for review at the July 2020 Board Meeting and for approval at the August 2020 Board Meeting. The following changes were made:

1. Enhanced definition of Full Accrual Basis of Accounting and Rate Covenant.
2. Added details to Related Documents and References section.

Fiscal Impact:

There is no fiscal impact related to the changes in this policy.

Budget Policy PL – Fin 012

June 25, 2020

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Strategic Plan Alignment:

Goal C: Ensure Fiscal Responsibility and Affordable Rates

Attachments:

1 – Budget Policy PL – Fin 012 – Original Policy

2 – Budget Policy PL – Fin 012 – New Policy - Updated

Sacramento Suburban Water District

Budget Policy

Adopted: September 15, 2014

Approved with changes on: July 16, 2018

100.00 Purpose of the Policy

The District's annual budget, as approved by the Board, will serve as the basis for operating the District. The budget includes a number of specifically identified projects, their attendant costs, as well as projected costs for operations and maintenance activities.

200.00 Policy

The District's Strategic Plan will serve as a guide/tool in the development of the District's annual Budget. The District will establish and maintain separate operations & maintenance (O&M), operating capital, capital improvement and debt service budgets (collectively – District Budget) in order to provide for proper fund management, financial planning and long-term solvency of the District.

On a combined basis, the Budget will comprise or include the following:

- A. Self-Supporting – The District will be self-supporting, such that current revenues fully fund current expenses and any fund balance or debt service coverage requirements.
- B. Prioritization – In concert with the adopted District's Strategic Plan, Asset Management Plans, Urban Water Management Plan and all other District planning documents and as recommended by staff, the Board will prioritize projects and expenditures within the constraint of expected revenues.
- C. Capital Accounts – Capital revenues from rates, grants, loans and other financing mechanisms will be accounted for separately in capital accounts, such that funds dedicated for capital purposes are expended only for capital purposes.
- D. Adequate Funding to Preserve System Assets – Total operating expenditures will be funded at a level that will preserve the intended life and functional requirements of the District's water system.
- E. Evaluation and Monitoring of Costs – Costs will be evaluated and monitored through monthly and annual reporting to ensure that the District is operated in a cost effective and economically prudent manner.
- F. Maintenance of Sufficient Reserves – The District will maintain sufficient reserves in accordance with the District's Reserve Policy (PL Fin 004.).
- G. Positive Annual Net Income - The District will strive to achieve positive annual net income (total revenue less O&M expenditures, debt service and capital projects funded from rates) greater than or equal to zero on a cash basis.

- H. Bond/COP Rate Covenant Requirements – The District will budget such that it will exceed the Rate Covenant obligations of its indebtedness, which is a minimum of 115% of the District’s annual debt service costs.
- I. Strive for Rate Stability - Rate stability reinforces the concept that costs are being managed and controlled. Rates should be stable in their ability to generate sufficient revenues.
1. Needed rate adjustments will attempt to minimize impacts to customers by phasing-in or transitioning large rate adjustments over time where possible.
 2. Where possible and deemed appropriate, excess fund balances will be used to offset rate increases with any remaining balances being used for approved capital purposes. The use of fund balances (reserves) will not compromise the Reserve Policy regarding minimum targeted reserve levels or adequate funding on a long-term self-sustaining basis.
 3. Annual rate reviews will consider a five-year projected period in an attempt to stabilize and minimize rates over time.
 4. A comprehensive rate study will be conducted at least every five years by an outside party as determined by the Board in order to assess the fairness of the rates to the District’s ratepayers and to verify that necessary revenue is available for the District’s operating and capital needs.

Rate stability shall be maintained in line with established District policies and its mission statement.

300.00 Budget Presentation

The budget will be comprised as follows:

1. Key Assumptions – To include expected water production and source.
2. Revenue Projections – To include projected net income.
3. Projected debt service coverage ratio.
4. Reserve Balance Projections.
5. Trend and/or Comparative Information

The four budgets will include the following:

1. Operations and Maintenance Budget (O&M):
 - a. Incorporates all District O&M expenses, including:
 - b. Expected Other Post Employment Benefit costs and funding to be separately identified and approved.
 - c. Annual labor budget and its components per the Employee Compensation Policy (PL – HR 002) section 300.00
 - d. Segregated by department and function.
2. Operating Capital Budget (OCB):
 - a. Will include all Information Technology capital projects, vehicle and fleet capital costs, capitalizable office furniture, and capitalizable costs for operations. Capitalizable costs in the OCB Budget are distinguished from those in the Capital Improvement Program Budget based, generally, on the shorter expected life of the asset and the asset is not part of the general water delivery system.

3. Capital Improvement Program Budget (CIP):

- a. Will be based primarily on the District's Asset Replacement Management Plans and/or the Water System Master Plan.

4. Debt Service Budget:

- a. Will be based on contractual obligations for all principal and fixed-rate interest obligations. Adjustable-rate interest obligations will be forecast based on best available market data at budget preparation time.

District Reserves:

1. The District's Reserve Policy (PL – Fin 004) will be reviewed annually commensurate with the budget preparation and adoption process.

400.00 Authority

The General Manager will have authority to reallocate specific budgeted amounts within a particular budget (O&M, OCB or CIP) during the year with subsequent reporting to the Board. Amounts to be transferred between budgets (e.g., O&M to CIP) will be approved by the Board prior to the transfer. The General Manager and District Treasurer are responsible for adherence to this policy and regular reporting of the District's financial status. Board oversight will be accomplished through regular reporting of budget-to-actual expenditures during the year and review of this Policy.

500.00 Policy Review

This Policy will be reviewed at least biennially.

Sacramento Suburban Water District

Budget Policy

Adopted: September 15, 2014

Approved with changes on: July xx, 2020

100.00 Purpose:

The District's annual budget, as approved by the Board of Directors, will serve as the basis for operating the District financially. The Revenue and Other Sources of Funds, Operating, Capital and Debt Service Budgets are developed on an annual basis utilizing the District's Strategic Plan, Asset Management Plans, Urban Water Management Plan, debt documents and all other District planning documents and as recommended by staff. Together, these documents and activities provide a comprehensive plan to deliver efficient water service to the customers and stakeholders of the District in a manner that aligns resources with the policy, goals, mission and vision for the District.

The formulation of the Revenue and Other Sources of Funds, Operating, Capital and Debt Service Budgets (Annual Budget) is one of the most important financial activities that the District undertakes each year. This policy is intended to provide guidelines to assist in the formulation of the District's Annual Budget.

100.10 Applicability and Scope:

This policy shall apply to all revenues and expenditures under the budgetary and fiscal control of the Board of Directors.

100.20 Definitions and Terms:

Adopted Budget – The formal budget document approved by the Board of Directors which shows budgeted revenues and expenditures/expenses for the subject calendar year.

Capital Budget - The Capital Budget is comprised of two components, Capital Improvements Program (CIP) and Operating Capital Program (OCP). Projects will be segregated and managed separately within these two categories.

Capital Improvement Program (CIP) – The CIP is a component of the Capital Budget and includes a number of general along with specifically identified projects and their projected costs. Projects in the CIP are comprised of the long-term assets generally associated with the water delivery system.

Debt Service – The annual amounts required to satisfy the District's legal requirements for repaying debt principal, payment of interest and other debt related costs.

Full Accrual Basis of Accounting – Transactions and events are recognized as revenues and expenses when they occur regardless of the timing of related cash flows.

This method is consistent with how the District accounts for its normal operational transactions.

Level of Control – The level of budgetary accountability at which the District’s Budget Managers may not reassign resources without approval of the Board of Directors.

Operating Budget – The Operating Budget is comprised expenditures/expenses used to pay for daily operations such as labor costs, materials and supplies, outside services, etc.

Operating Capital Program – The OCP will include all Information Technology capital projects, vehicle and fleet capital costs, capitalizable office furniture, and capitalizable costs for operations. Capitalizable costs in the OCP are distinguished from those in the Capital Improvement Program based, generally, on the shorter expected life of the asset and the asset is not part of the general water delivery system.

Rate Covenant – Legal conditions placed on the District as part of ~~obtaining~~ obtaining and maintaining debt.

100.30 Related Documents and References:

- Capital Asset Policy PL Fin 002
- Reserve Policy PL Fin 004 ~~intentionally left blank~~
- Debt Management Policy PL Fin 011

200.00 Policy:

It will be the policy of the District to prepare an Annual Budget each year that will be approved by the Board of Directors before the budget year begins. The following sections outline the specific requirements of this policy.

200.10 Basis of Budgeting:

- A. Full Accrual Basis of Accounting will be used for budgeting purposes with the following exceptions:
1. Changes in fair value of investments are not treated as adjustments to revenue in the annual budget.
 2. Debt principal payments are treated as expenditures in the annual budget.
 3. Capital lease payments are treated as expenditures in the annual budget.
 4. Amortization of debt premiums, discounts and defeasance costs are not recognized in the annual budget.
 5. Depreciation expense is not recognized in the annual budget.
 6. Capital purchases are recognized as expenditures in the annual budget.
 7. Non-cash expenses related to pension and OPEB are not recognized in the annual budget.

8. Reserve uses or contributions will be recognized as sources of funds or expenditures in the annual budget, respectively.

200.20 Budgetary Control:

- A. The Adopted Budget is not a legally binding appropriation as with other municipal entities. The budget is for cost control and management reporting purposes only.
- B. The General Manager will have authority to reallocate specific budgeted amounts within a particular budget (Operating, Capital, or Debt Service) during the year with subsequent reporting to the Board of Directors. Amounts to be transferred between budgets (e.g., Operating to Capital) will be approved by the Board of Directors prior to the transfer. The General Manager and District Treasurer are responsible for adherence to this policy and regular reporting of the District's financial status. Board oversight will be accomplished through regular reporting of budget-to-actual expenditures during the year and review of this Policy.

200.30 Balanced Budget:

- A. The District shall adopt a balanced budget. A budget is balanced when the sum of estimated revenues and appropriated reserves is equal to planned expenditures (including reserve contributions).
- B. Minimum reserve levels shall be maintained unless reserves are being used in accordance with purposes permitted by District policy.

200.40 Development of the Budget:

The District's Strategic Plan will serve as a guide/tool in the development of the District's Annual Budget. The District will establish and maintain separate revenue and sources of funds, operations & maintenance (O&M), capital and debt service budgets (collectively – Annual Budget) in order to provide for proper fund management, financial planning and long-term solvency of the District.

On a combined basis, the Budget will comprise or include the following:

- A. Prioritization – In concert with the adopted District's Strategic Plan, Asset Management Plans, Urban Water Management Plan and all other District planning documents and as recommended by staff, the Board of Directors will prioritize projects and expenditures within the constraint of expected revenues.
- B. Capital Accounts – Capital sources of funds from facility development charges, grants, loans and other financing mechanisms will be accounted for separately in capital accounts, such that funds dedicated for capital purposes are expended only for capital purposes.

- C. Adequate Funding to Preserve System Assets – Total O&M expenditures will be funded at a level that will preserve the intended life and functional requirements of the District’s water system and allow the District to remain in compliance with all applicable regulations.
- D. Adequate Funding to Replace System Assets – Total capital expenditures will be funded at a level that will meet the requirements of the District’s Asset Replacement Management Plans and/or the Water System Master Plan.
- E. Maintenance of Sufficient Reserves – The District will maintain sufficient reserves in accordance with the District’s Reserve Policy (PL Fin 004.).
- F. Annual Net Income – The District will strive to achieve positive annual net income (total revenue less O&M expenditures, debt service and capital projects funded from rates) greater than or equal to zero.
- G. Bond/COP Rate Covenant Requirements – The District will budget such that it will exceed the Rate Covenant obligations of its indebtedness, which is a minimum of 115% of the District’s annual debt service costs.
- H. Strive for Rate Stability – Rate stability reinforces the concept that costs are being managed and controlled. Rates should be stable in their ability to generate sufficient revenues.
 - 1. Needed rate adjustments will attempt to minimize impacts to customers by phasing-in or transitioning large rate adjustments over time where possible.
 - 2. Where possible and deemed appropriate, excess fund balances will be used to offset rate increases with any remaining balances being used for approved capital purposes. The use of fund balances (reserves) will not compromise the Reserve Policy regarding minimum targeted reserve levels or adequate funding on a long-term self-sustaining basis.
 - 3. Annual rate reviews will consider a minimum three-year projected period in an attempt to stabilize and minimize rates over time.
 - 4. A comprehensive rate study will be conducted at least every five years by an outside party as determined by the Board in order to assess the fairness of the rates to the District’s ratepayers and to verify that necessary revenue is available for the District’s operating and capital needs.
 - 5. Rate stability shall be maintained in line with established District policies and its mission statement.

300.00 Budget Presentation:

The budget will be comprised as follows:

- A. Key Assumptions – To include expected water production and source.

- B. Revenue Projections – To include projected net income.
- C. Projected debt service coverage ratio.
- D. Reserve Balance Projections.
- E. Trend and/or Comparative Information
- F. Detailed Annual Budget Data including the following sections:
 - 1. Revenues and Sources of Funds
 - 2. Operations and Maintenance Expenditures (O&M): Incorporates all District O&M expenses, including:
 - a. Expected Other Post Employment Benefit costs and funding to be separately identified and approved.
 - b. Annual labor budget and its components per the Employee Compensation Policy (PL – HR 002) section 300.00
 - c. Segregated by department and cost center.
 - 3. Capital Expenditures (CIP and OCP): Incorporates all the District capital expenditures, including:
 - a. Capital Improvement Program expenditures.
 - b. Operating Capital Program expenditures
 - c. Comprised of both general and specific program projects.
 - 4. Debt Service Budget: Will be based on contractual obligations for all principal and fixed-rate interest obligations. Adjustable-rate interest obligations will be forecast based on best available market data at budget preparation time.

400.00 Budget Reporting:

- A. Evaluation and Monitoring of Costs – Costs will be evaluated and monitored through monthly and annual reporting to Board of Directors to ensure that the District is operated in a cost effective and economically prudent manner.

500.00 Authority:

The Board of Directors are responsible for policy formulation and overall direction setting of the District. This includes the approval of financial policies which establish and direct the operations of the District. The General Manager is responsible for carrying out the policy directives of the Board of Directors and managing the day-to-day operations of the District. This policy shall be administered on behalf of the

General Manager by the Assistant General Manager and the Director of Finance and Administration.

600.00 Policy Review

This Policy will be reviewed by the Board of Directors at least biennially.



Agenda Item: 3

Date: June 25, 2020

Subject: Water Service Rates, Fees and Charges Setting Policy PL - Fin 009

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

Recommended Committee Action:

Review and approve updated staff recommendation to update Water Service Rates, Fees and Charges Setting Policy PL - Fin 009. Consider recommending approval of updated policy to full Board of Directors.

Background:

The Water Service Charges and Rate Setting Policy (PL - Fin 009) was last reviewed in July 2017. The Water Service Charges and Rate Setting Policy (PL - Fin 009) was provided to the Board for review in November 2019. At the request of the Board, Policy approval consideration was deferred to the January 2020 regularly scheduled Board meeting. At the January 2020 Board meeting Director McPherson indicated she wanted to include some additional edits to the policy. Staff received the proposed edits, which are included in the draft of the policy. The policy was again up for review at the February 2020 Board meeting when a constituent raised concerns over some of the language in the policy. They indicated that they would be willing to review their concerns with staff, which was supported by the Board. The policy was again brought before the Board at the March 2020 Board meeting. There were differing opinions on various parts of the policy and the Board moved to review the policy at a future date when the Board could meet in person to better discuss the policy changes.

Prior to bringing the policy to the full Board for review, staff sought to review and discuss the proposed changes with the Finance and Audit (F&A) Committee. The policy was presented to the F&A Committee at the June 16, 2020, committee meeting. All the proposed changes were discussed and accepted by committee members. The following is a summary of the cumulative changes proposed to the policy.

There were two recommended staff changes from November 2019:

Section 200.00 - Policy

1. It is recommended that water service charges and rates be assessed by staff annually instead of biennially.
2. Part A. 8 – language is added recommending that customer wage increases be calculated and used as a point of consideration in adopting new customer rates.

At the January 2020 Board meeting, Director McPherson requested the following changes:

Section 200.00 - Policy

1. Remove the proposed change in item 2 above as Part A. 8.
2. Add the following language "If it is determined by the District that revenue generated has exceeded the amount needed for the year prior, rates can be adjusted downward the following year." as Part C. 7. Staff proposes some minor edits to this language as follows: "If it is determined by the Board of Directors that revenue generated exceeds planned expenditures, rates can be adjusted downward by the Board of Directors."

Staff made additional changes to the structure and content of the policy as follows:

General

1. The policy title has been updated to more align with American Water Works Association terminology.

Section 100.00 – Purpose of Policy

1. Several language and grammatical changes have been made to increase readability and apply terms consistently.

Section 200.00 – Policy

1. Some unnecessary language has been removed. Other language and grammatical changes have been made to increase readability and apply terms consistently.
2. The required projections have been reduced from five years to three years.
3. Item A.4 has been removed. This item is already covered by item A.5.
4. Item A.6 has been removed. This item is already covered by item A.7.
5. Item B.3 has been removed. This item is already covered in Section 400.00 item B.
6. Item C.2 has been removed. This item is already covered by item C.5.
7. Added Item D. Fees and Charges Analysis. This item will cover the specifics of fees and charges as items B and C relate specifically to rates.

Section 400.00 – Reviews and Updates

1. Some unnecessary language has been removed. Other language and grammatical changes have been made to increase readability and apply terms consistently.

Section 500.00 – Authority

Language changes have been made to increase readability and apply terms consistently.

After discussions, the Committee decided to accept the proposed changes in the final draft of the policy with a few clarifications. Staff have made those changes and will present an updated policy for Committee consideration.

Discussion:

At the June 16, 2020, F&A Committee meeting, committee members reviewed the proposed new Water Service Charges and Rate Setting Policy PL - Fin 009. A few recommendations were offered

to staff to help clarify the policy. Staff have made those changes and are presenting the updated policy for final F&A Committee review before submitting to the full Board for review at the July 2020 Board Meeting and for approval at the August 2020 Board Meeting. Attached is the updated Water Service Charges and Rate Setting Policy (PL - Fin 009) for the committee's consideration.

The proposed changes are as follows:

1. Removed reference to "cash basis" from section A.1. to be consistent with changes proposed in Budget Policy – PL Fin 012
2. Added "(including planned reserve increases)" to section C.6.

Fiscal Impact:

Adoption of the Water Service Charges and Rate Setting Policy (PL - Fin 009) will have no significant effect on the District's financial position.

Strategic Plan Alignment:

Goal C – Ensure Fiscal Responsibility and Affordable Rates.

Attachment:

- 1 – Water Service Charges and Rate Setting Policy (PL - Fin 009) redlined.
- 2 – Water Service Charges and Rate Setting Policy (PL - Fin 009) draft with proposed changes.

Sacramento Suburban Water District

Water Service Rates, Fees, and Charges ~~and Rate~~ Setting PolicyAdopted: September 15, 2014; ~~September 19, 2016~~~~Approved with Changes: Revised: July 17, 2017~~ ~~December~~ ~~January~~ ~~April XX, 2020~~ ~~19~~**100.00 Purpose of the Policy**

~~It is important for the District~~The Sacramento Suburban Water District ~~to shall~~ have cost-based water service rates, fees, and charges that are fair, equitable, and defensible. The basis for establishing water service rates, fees, and charges ~~that are fair, equitable, and defensible~~ has traditionally been cost of service principles and methodologies.¹ At the same time, the courts have historically recognized that municipal-public entities can take into account policy items/factors other than ~~strictly the~~ cost of service when establishing rates (e.g., conservation, efficient use, ability to pay, accrual of prudent reserves, etc.). The people of California, however, have also established certain legal constraints on setting water service rates, fees, and charges pursuant to Proposition 218 (Article XIII C and D of the California State Constitution). Therefore, this policy has been developed to provide guidance ~~and consistency in for~~ District financial planning and the rate setting decision-making process for the Board of Directors and staff. ~~Also, this~~This -policy also provides a foundation for the long-term financial sustainability of the District, while providing the ratepayers and outside financial community with a better understanding of the District's commitment to managing the District in a financially prudent and sustainable manner.

200.00 Policy

The District's water service rates, fees, and charges ~~and rates~~ will be ~~assessed~~ reviewed ~~biennially~~ annually ~~by staff~~, to confirm sufficient funding; and to assess ~~needed the~~ need for adjustments to reflect inflation, construction needs, maintain bond covenants, and/or to avoid immediate or major rate adjustments. ~~This does not imply that rates will be adjusted biennially annually, simply that the rates are reviewed and a determination is made of their adequacy in funding the District.~~

The District will establish water service rates, fees, and charges using "generally accepted" rate setting and costing methodologies, including establishing appropriate cost bases for any existing or future water rates, fees, and charges structure imposed or proposed to be imposed on District ratepayers, and in compliance with ~~all appropriate laws (i.e., Proposition 218)~~ California law. ~~The District will be viewed on a "stand-alone" basis to help assure self-sufficiency and sustainability.~~ The analyses associated with "generally accepted" rate-setting techniques/methodologies include the following analyses:

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

- A. Revenue Requirement Analysis – Establishes the ~~overall~~ level of financial ~~needs requirements~~ of the District. In developing the revenue requirements for the District, the District will consider the following:
1. Revenue requirements, including anticipated external funding, ~~will be established on a “cash basis” approach that~~ will include all District programs, operation & maintenance expenses, ~~any~~ applicable taxes/transfer payments, debt service (P&I), and capital improvements funded from rates.
 2. Revenues and costs will be ~~annually~~ projected annually, at a minimum, for a ~~five-three~~ year period (the proposed budget year plus ~~four-two~~ additional projected years).
 3. Projections of Operations & Maintenance (O&M) costs should include any estimated incremental O&M costs associated with increased service levels ~~(or future capital improvements.)~~
 - ~~4. District staff will review the five year capital improvement plan and update it regularly by way of its Asset Management Plans and Water System Master Plan.~~
 - 5.4. ~~On an annual basis~~ Annually, the District will fund, through its water service rates, fees, and charges and other available revenues, an amount to adequately maintain the existing infrastructure of the District. ~~To achieve this goal, t~~The District will fund selected capital projects based on the District’s Capital Asset Replacement Management Plans and the Water System Master Plan.
 - ~~6. The system’s capital improvement program will consider growth related capital improvements, and replacement capital improvements.~~
 5. The level of any proposed rate adjustment(s) will reflect all ~~of the above~~ costs (direct, indirect and costs of administration), such that rates will be cost-based and provide for full cost recovery of providing water services to customers and to other local water retailers.
 - ~~7. The estimated wage increases of District customers since the time of the last rate increase. This will be accomplished by utilizing the latest published data from the U.S. Bureau of Labor Statistics, “Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimate” for the “Sacramento Roseville Arden Arcade Area.”~~
- B. Cost of Service Analysis – Determines the equitable allocation of costs (revenue requirements) between the various customer groups.
1. When possible, a cost of service study will be utilized to equitably allocate the District costs to the customer classifications of service.
 2. ~~The cost allocation methodology will utilize techniques~~ The District will utilize methodologies that are “generally accepted” by the industry (e.g. American Water Works Association) ~~including conservation-based methodologies. The cost of service for the District and~~ will also consider the specific circumstances and unique characteristics of the District ~~in the cost allocation methodology.~~

~~3. A cost of service analysis will be conducted at least once every five years to determine if rates remain equitable between different customer classes of service.~~

C. Rate Design Analysis – The District will design rates to collect the appropriate required level of revenue ~~that reflects the rate design goals, objectives and policies of the District, including water conservation policies established by the District Board~~ taking into consideration the following:-

1. Rate designs will be reflective of system-District needs, and also reflect the greater public purpose and policy goals of the District-Board of Directors.
2. Rate structures will be developed to promote understanding by the District's customers (e.g. bills that are easy to understand).
3. Rates will be set at a level that recovers necessary ~~to recover all~~ costs, by customer classification, ~~yet flexible enough to accomplish the District's objectives. As deemed appropriate, rate structures will be designed to reward the preservation of valuable resources (conservation), the efficient use of resources, while discouraging excessive or wasteful usage. (e.g. public purpose programs)~~ (e.g. single family, multi-family, commercial, etc).
4. Rates will be designed to be equitable, ~~and detailed to a level to reflect~~ for the service provided (e.g., private fire protection, multi-family services, etc).
5. Rates will ~~balance the overall goals and objectives of the rate design process with any administrative or District billing issues. Providing rates~~ be set that are easy to understand and administer ~~is beneficial to both the customer and the District.~~
6. It ~~shall~~ will be the ~~a~~ policy of the District to set rates at the lowest responsible rate.
7. If it is determined by the Board of Directors that revenue generated exceeds planned expenditures (including planned reserve additions), rates can be adjusted downward by the Board of Directors.

D. Fees and Charges Analysis – The District will set fees and charges that reflect the goals, objectives and policies of the Board of Directors.

6.

300.00 Revenue Diversification

The District has limited ability for revenue diversification. Where possible, the District will explore additional revenue sources such as grants, developer contributions, etc.

400.00 Reviews and Updates

The ~~District will closely monitor the~~ financial/rate performance of the District will be closely monitored to ~~help~~ maintain adequate rates, ~~and fees, and~~ charges 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, and, as necessary, adjustments made to reflect inflation, construction needs, maintain bond covenants, and avoid major increases to meet the policies set forth herein.~~

- B. Comprehensive ~~Rate~~ Studies - District water service rates, fees, and charges studies will be conducted, at a minimum, every five years to update assumptions and plan for the long-term solvency and viability of the ~~District's water services~~District.

500.00 Authority

The General Manager and ~~District Treasurer~~Director of Finance and Administration are responsible for adherence to this policy and to the regular reporting of the District's financial status. Oversight by the Board of Directors ~~oversight~~ will be accomplished through regular reporting of financial status and review of this Policy.

600.00 Policy Review

This Policy will be reviewed by the Board of Directors at least biennially.

Sacramento Suburban Water District

Water Service Rates, Fees, and Charges Setting Policy

Adopted: September 15, 2014

Approved with Changes: ~~April~~August XX, 2020

100.00 Purpose of the Policy

The Sacramento Suburban Water District shall have cost-based water service rates, fees, and charges 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 At the same time, the courts have historically recognized that public entities can take into account factors other than the cost of service when establishing rates (e.g., conservation, efficient use, ability to pay, accrual of prudent reserves, etc.). The people of California, however, have also established certain legal constraints on setting water service rates, fees, and charges pursuant to Proposition 218 (Article XIII C and D of the California State Constitution). Therefore, this policy has been developed to provide guidance for District financial planning and the rate setting decision-making 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 the rate payers and outside financial community with a better understanding of the District’s commitment to managing the District in a financially prudent and sustainable manner.

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 immediate or major rate adjustments.

The District will establish water service rates, fees, and charges using “generally accepted” rate setting and costing methodologies, including establishing appropriate cost bases for any existing or future water service rates, fees, and charges structure imposed or proposed to be imposed on District ratepayers, and in compliance with California law. The analyses associated with “generally accepted” rate-setting methodologies include the following:

- A. Revenue Requirement Analysis – Establishes the level of financial requirements of the District. In developing the revenue requirements for the District, the District will consider the following:

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

1. Revenue requirements, including anticipated external funding, ~~will be established on a “cash basis” approach that~~ will include all District programs, operation & 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 & 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 adjustment(s) will reflect all costs (direct, indirect and costs of administration), such that rates, fees, and charges will be cost-based and provide for full cost recovery of providing water services to customers and to other local water retailers.

B. Cost of Service Analysis – Determines the equitable allocation of costs (revenue requirements) between the various customer groups.

1. When possible, a cost of service study will be utilized to equitably allocate the District costs to the customer classifications of service.
2. The District will utilize methodologies that are “generally accepted” by the industry (e.g. American Water Works Association) and 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 District needs, and also reflect the policy goals of the Board of Directors.
2. Rates will be set to recover all costs, by customer classification (e.g. single family, multi-family, commercial, etc).
3. Rates will be designed to be equitable for the service provided (e.g., private fire protection, multi-family services, etc).
4. Rates will be set that are easy to understand and administer.
5. It will be the policy of the District to set rates at the lowest responsible rate.
6. If it is determined by the Board of Directors that revenue generated exceeds planned expenditures (including planned reserve increases), rates can be adjusted downward by the Board of Directors.

D. Fees and Charges Analysis – The District will set fees and charges that reflect the goals, objectives and policies of the Board of Directors.

300.00 Revenue Diversification

The District has limited ability for revenue diversification. Where possible, the District will explore additional revenue sources such as grants, developer contributions, etc.

400.00 Reviews and Updates

The financial/rate performance of the District will be closely monitored to maintain adequate rates, fees, and charges 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 meet the policies set forth herein.
- B. Comprehensive Studies - District water service rates, fees, and charges studies will be conducted, at a minimum, every five years to update assumptions 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 adherence to this policy and to the regular reporting of the District's financial status. Oversight by the Board of Directors will be accomplished through regular reporting of financial status and review of this Policy.

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This Policy will be reviewed by the Board of Directors at least biennially.