

## AMENDED AGENDA



**NORTH TAHOE PUBLIC UTILITY DISTRICT  
Board of Directors Special Meeting  
Agenda North Tahoe Event Center  
8318 North Lake Boulevard, Kings Beach, CA**

**Wednesday, July 19, 2023, at 1:00 P.M.**

**Welcome to a meeting of the North Tahoe Public Utility District Board of Directors**

The District welcomes you to its meetings. Your opinions and suggestions are encouraged. With a few exceptions, all meetings are recorded and available online after the meeting has concluded. The meeting is accessible to people with disabilities. In compliance with Section 202 of the Americans with Disabilities Act of 1990 and in compliance with the Ralph M. Brown Act, anyone requiring reasonable accommodation to participate in the meeting should contact the North Tahoe Public Utility District office at (530) 546-4212, at least two days prior to the meeting.

In addition, all written public comments received by 12:00 p.m. on July 19, 2023 will be distributed to the District Board Members for their consideration and all written comments will be included in the minutes. Pictures, graphics, or other non-written comments may be included in the minutes at the discretion of the Board of Directors. Written comments may be emailed to [mmoga@ntpud.org](mailto:mmoga@ntpud.org), mailed or dropped-off at NTPUD's Administrative Offices located at 875 National Ave., Tahoe Vista, CA. 96148.

The Board of Directors may take action upon any item listed on the agenda at any time during the meeting. Scheduled items will be heard at or after the time noted, but the Directors may interrupt or defer discussion in order to deal with other matters. No action will be taken at the meeting on any business not appearing on the posted agenda except as permitted by Government Code Section 54954.2.

**TIMED ITEMS ON THIS AGENDA**

*1:00 P.M. Public Comment and Questions*

- A. CALL TO ORDER/OPEN SESSION/PLEDGE OF ALLEGIANCE**
- B. REVIEW AGENDA** - *Agenda Items may be taken off the agenda or taken out of order.*
- C. PUBLIC COMMENT AND QUESTIONS (1:00 P.M.):** *Any person wishing to address the Board of Directors on items on the agenda or matters of interest to the District not listed elsewhere on the agenda may do so at this time. Please limit comments and questions to three (3) minutes since no action can be taken on items presented under Public Comment.*
- D. Water and Wastewater Utilities Cost-of-Service Study Workshop** - Presentation by Shawn Koorn of HDR (*Pages 2-27*)
- E. PUBLIC COMMENT AND QUESTIONS:** *See protocol established under Agenda Item C, Public Comment and Questions.*
- F. ADJOURNMENT**



## **NORTH TAHOE PUBLIC UTILITY DISTRICT**

**DATE:** July 19, 2023

**ITEM:** D

**FROM:** Office of the General Manager

**SUBJECT:** Water and Wastewater Utilities Cost-of-Service Study Workshop

### **RECOMMENDATION:**

Receive a presentation from Shawn Koorn of HDR Engineering and provide discussion and feedback on the District's Cost-of-Service Study. No action by the Board of Directors is agendized for this item.

### **DISCUSSION:**

The District is nearing the end of the current five-year rate period and has undertaken a new Cost-of-Service Study to assess the District's utility rates relative to its projected costs over the next five-year period. This next step in the District's ongoing "rate maintenance" effort is consistent with industry best practices, Board discussion during the previous Cost-of-Service Study, and the priorities established for the Fiscal Year 22/23 Operating Budget and the District's new five-year Strategic Plan. Further, the priorities established by the Board of Directors in the District's five-year Capital Improvement Plan are dependent on the ability of utility rate revenue to fund them.

At the September 13, 2022 meeting, the Board of Directors authorized a contract with HDR to execute the Cost-of-Service Study for the next five-year period. Since that time, staff has been working with HDR on the data-gathering phase of the project. This workshop serves as the kick-off of the study effort with the Board of Directors.

At the March 14, 2023 meeting, the Board of Directors received a presentation from Shawn Koorn of HDR Engineering, providing feedback and initiating the Cost-of-Service Study.

At the June 13, 2023 meeting, the Board of Directors received a presentation from Shawn Koorn focusing on the proposed escalation factors utilized by the cost-of-service model over the five-year study period as well as potentially transitioning the State/Federal Mandate Fee into the System Replacement Fee within the rates.


Today's workshop will focus on reviewing key Wastewater assumptions including capital funding and the allocation of General & Administrative costs to fully reflect the operational and maintenance costs associated with each of the enterprises.

**STRATEGIC PLAN ALIGNMENT:**

Goal 3: Enhance District governance and partnerships – Objective B: Ensure financial sustainability of the District – Tactic 2: Complete and implement new Five-year Rate Structure – Activity a: Engage a consultant to conduct a cost-of-service study; and – Activity b: Assemble internal support team with an identified sponsor; and – Activity c: Staff recommendation presented to Board for consideration and adoption in compliance with California Proposition 218 requirements.

**ATTACHMENTS:** Cost-of-Service Study PowerPoint Presentation

**REVIEW TRACKING:**

Approved By:   
Bradley A. Johnson, P.E.  
General Manager/CEO



# North Tahoe Public Utility District Review of Key Wastewater Assumptions

July 19, 2023

# Overview of the Presentation

- Overview of Setting Cost Based Rates
- Prior Key Assumption Discussions
- Review of Key Wastewater Assumptions
  - Capital Funding Analysis
  - Integration of G&A costs
- Next Steps



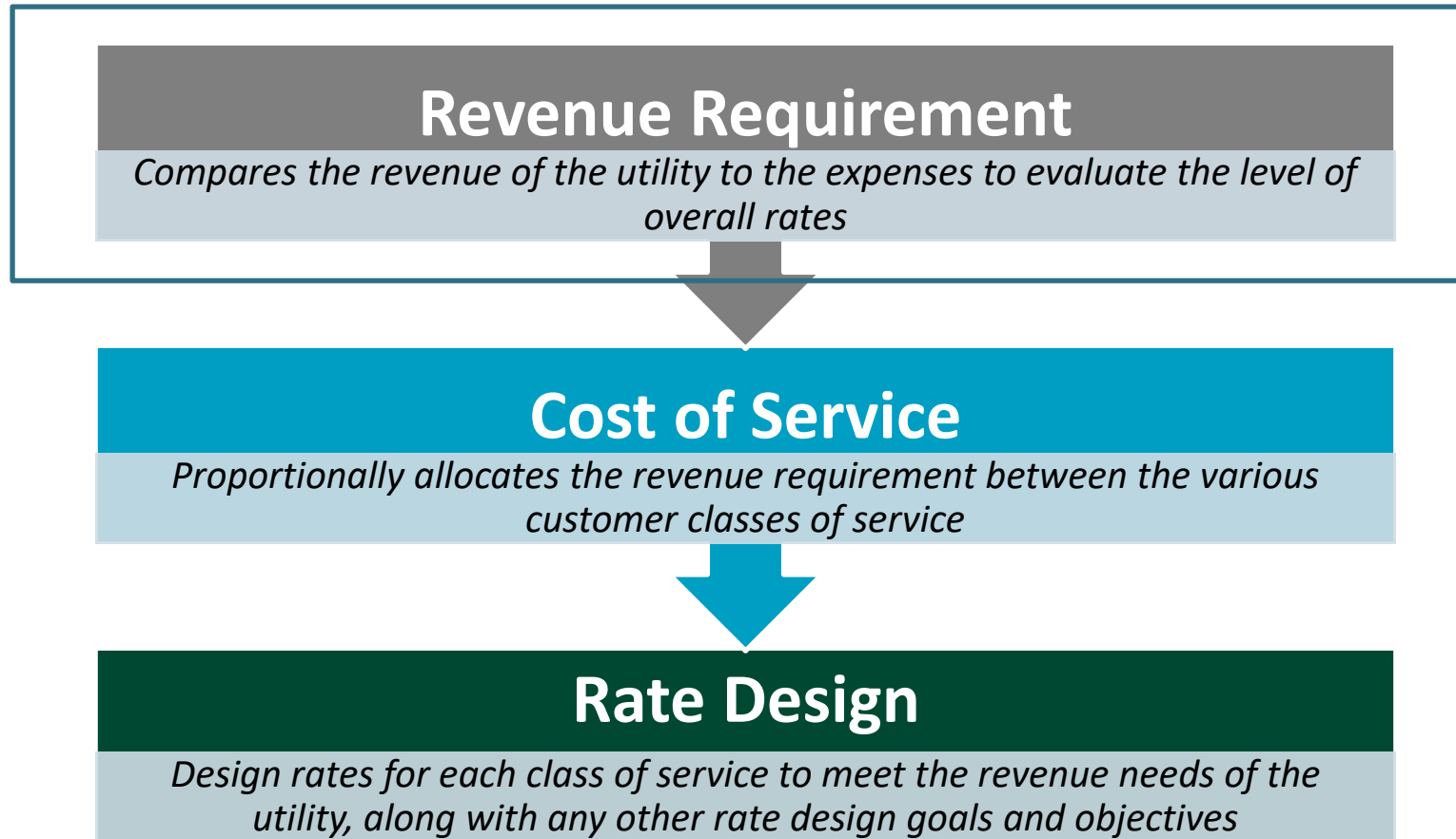
# Purpose of the Study

- Develop an analysis to financially sustain the District's water and wastewater infrastructure
  - Proposed rates for the next five-year rate setting period
- Reflect prudent financial planning criteria
  - Maintain target debt service coverage (DSC) ratio
  - Adequate rate funding of capital infrastructure
  - Meet target reserve balances
- Develop the analyses using generally accepted methodologies and the District's system and customer characteristics
- Meet the intent of the requirements laid out in Proposition 218
  - Develop proportional and cost-based rates
  - Provide administrative record

# Proposition 218 – Setting Cost-Based Rates

- Proposition 218 is a California constitutional amendment designed to protect taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent
- Proposition 218 is not prescriptive in defining a “cost-based” rate
- In part, Proposition 218 requires
  - Fees shall not exceed the **reasonable cost** of providing the service
  - Fees shall not exceed the **proportional cost** of providing the service
- Cost of service analysis results (unit costs) are the foundation of the proposed rates
  - Nexus between cost to provide service (expenses) and rates (fixed and variable) charged to customers (revenues)

# Developing Cost-Based Rates





# Revenue Requirement Goals and Objectives

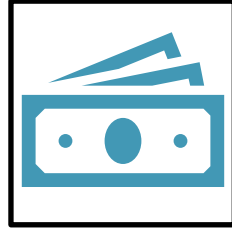


## Adequately fund annual operating costs

Costs continue to increase since the last rate study

District has also been impacted by recent inflationary trends

Balance the impacts of funding General and Administrative (G&A) costs supporting each utility (balancing use of property tax revenues)



## Providing sufficient capital funding for

Necessary system improvements

Annual renewal and replacements

Use of property tax revenues



## Cost-Based Rates

Balance the impacts to rates to adequately fund annual O&M and capital improvement needs

Ensure adequate debt service coverage ratios

Maintain prudent reserve levels

Develop proposed rates for next five years (FY 24/25 – FY 28/29)

# Overview of the Revenue Requirement

Compares utility revenues to expenses

- Determines if revenue (rate) adjustments are necessary

Uses prudent financial planning criteria

- Adequate funding of renewal and replacements
- Maintaining sufficient ending reserve balances

Reviews a specific time period

- Typically, a five-to-ten-year period
- Rates are established for a five-year period

Utility is analyzed on a “stand-alone basis”

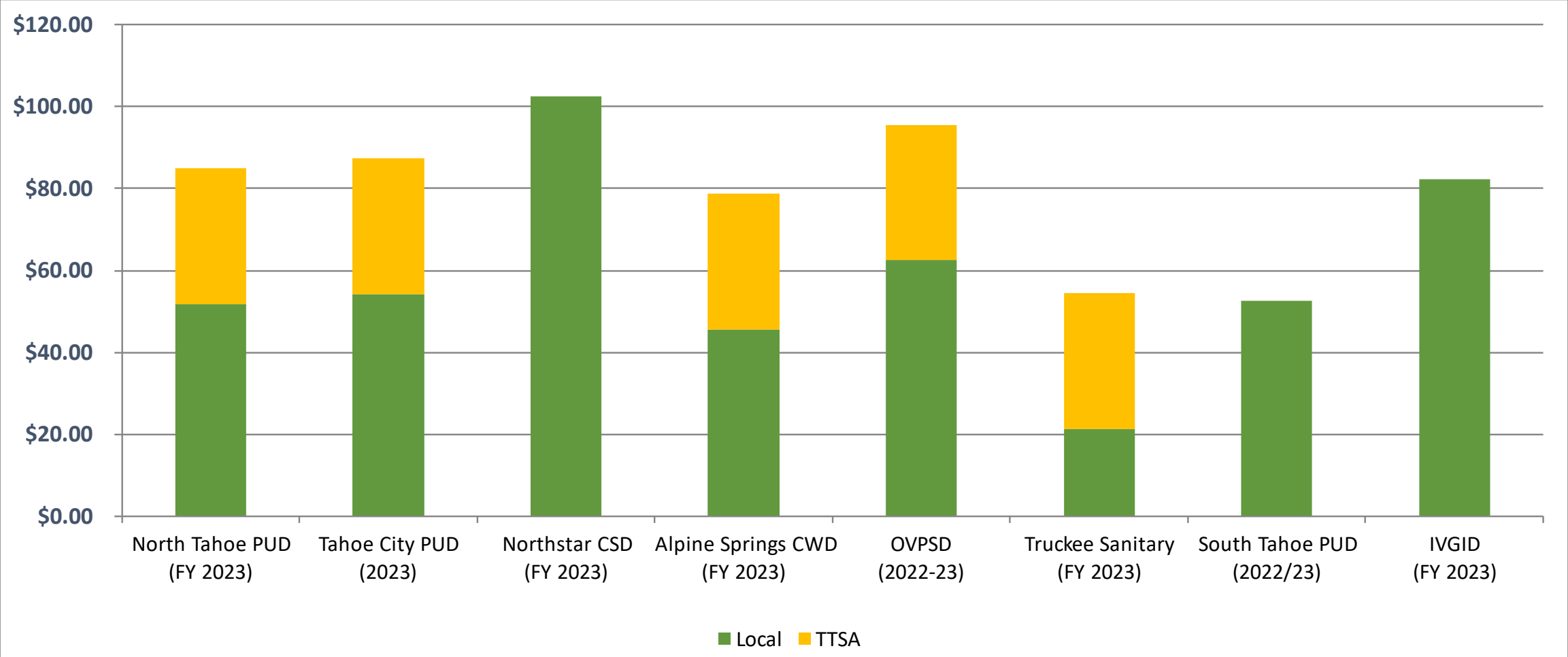
- No transfer of funds from other District funds
- Rates need to support operations and capital

Utilizes the “cash basis” methodology

- Generally accepted method for municipal utilities

# Wastewater Utility Rates

## Local Residential Bill Comparison



IVGID Rates include a volume rate component per 1,000 gallons, the chart assumes 3,000 gallons of wastewater

# Prior Key Assumption Discussion

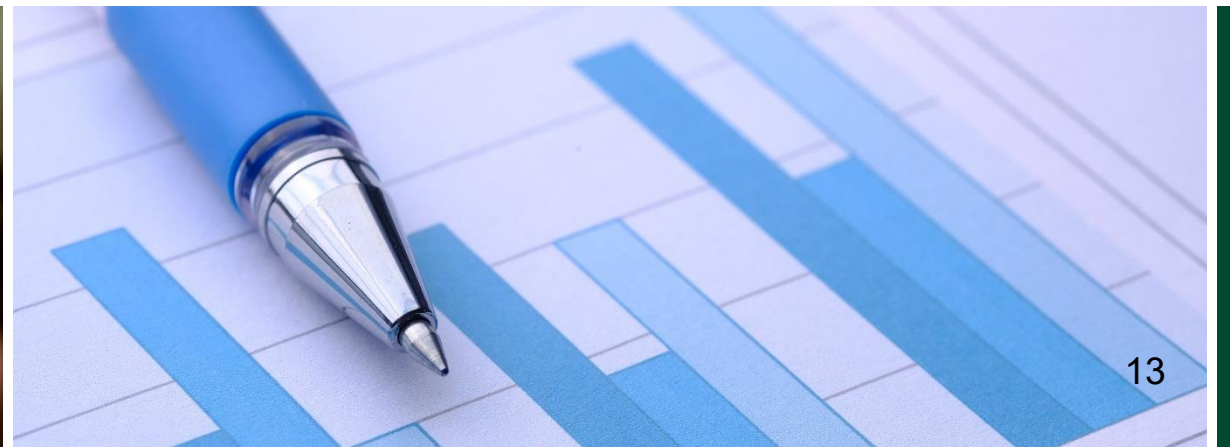
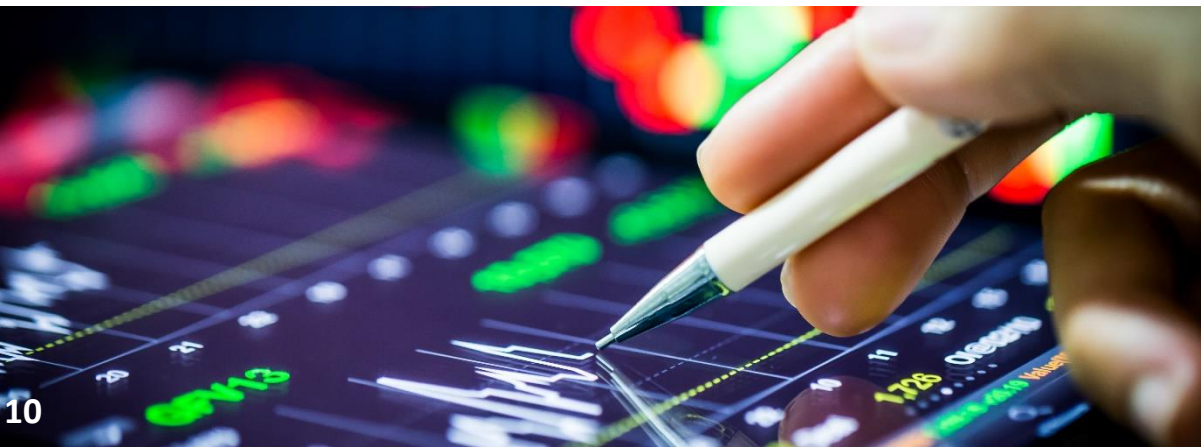
- June 13, 2023 Board Discussion
  - State/Federal Mandate Fee combined with capital charge for proposed rates
  - Review and discussion of proposed escalation factors for Water and Wastewater

	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Customer Growth	0.77%	0.77%	0.77%	0.77%	0.77%
Salaries	7.50%	7.50%	7.50%	5.50%	5.50%
Benefits	8.50%	8.50%	8.50%	6.50%	6.50%
Professional Services	4.00%	4.00%	4.00%	4.00%	4.00%
Materials & Supplies	6.00%	5.00%	4.00%	3.00%	3.00%
Equipment	4.00%	4.00%	4.00%	4.00%	4.00%
Miscellaneous	2.00%	2.00%	2.00%	2.00%	2.00%
Utilities	9.00%	8.00%	7.00%	4.00%	4.00%

- Impact per year ranges from 6.5% in FY 2024-25 declining to 5% in FY 2028-29

# Key Assumptions – Board Feedback and Direction

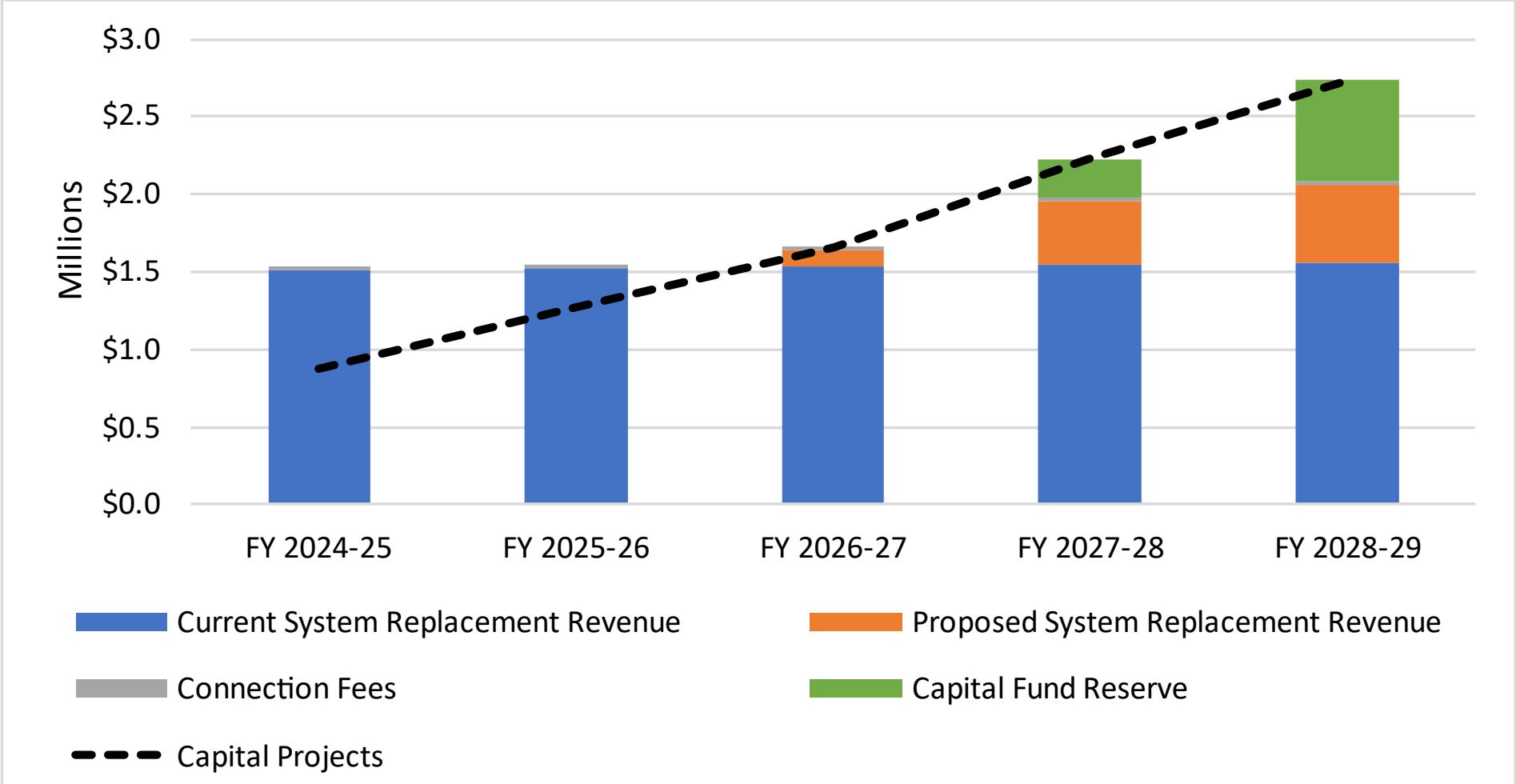
- Wastewater Capital Funding Approach
- Inclusion of G&A costs in Wastewater O&M funding
- Future Board revenue requirement discussions
  - Water Capital plan funding analysis
  - Water funding of allocable G&A expenses



# Wastewater Capital Funding Plan

- Wastewater capital improvement plan based on most recently presented capital plan
- Annual capital averages \$1.6 million per year (first 5-years)
  - Reflects priority projects and timing
  - Projects have been shifted within 5-year rate setting period to minimize impacts
- Developed a capital funding approach with funding from:
  - Annual funding through system replacement revenue (e.g., capital charge)
  - Additional funding needs system replacement revenue (increased charge)
  - Annual connection fee revenues

# Overview of the Wastewater Capital Funding Plan



# Summary of the Wastewater Capital Funding Plan

- Reflects revised capital plan to minimize rate impacts and outside funding needs (e.g., long-term borrowing)
  - Shifting capital projects within 5-year period
- Provides an overall smoothing of the capital projects and revenue impacts
- Results in a proposed increase in the system replacement charge (capital)
  - Reflects current and future level of capital funding needs



# Overview of G&A Costs

- G&A costs are overhead costs that support the entire District operations
  - Management, Accounting, Engineering, Information & Operational Technology, etc.
- G&A costs are essential to, and support, Water, Wastewater, and Recreation & Parks operations
- G&A costs are generally allocated to the different departments or enterprise funds to be paid for by operating revenue (e.g., Water and Wastewater Rates)
- FY 2023-24 G&A costs are \$4.8 million
- Currently the District uses Property Tax to pay for the District's G&A

# Allocation of G&A Costs

- There are generally accepted methodologies and approaches to allocate G&A costs between departments and/or enterprise funds
  - Including Government Finance Officers Association established best practices
- Allocation approaches include, but are not limited to:
  - Full Time Employee equivalents
  - Operating Revenues
  - Operating Expenses
- An allocation method was developed for the District's G&A costs between Water, Wastewater, and Recreation & Parks
  - Several different methods of allocating costs were tested to determine sensitivity

# Summary of the G&A Cost Allocation

- Developed an allocation approach primarily based on operating expenses
- Results in the following allocation of G&A cost

Total	Water	Wastewater	Recreation
\$4.8m	\$1.7m	\$1.6m	\$1.3m
100.0%	37%	36%	27%

- To fully represent the O&M costs of each enterprise, the enterprise's share of G&A costs should be allocated to each enterprise fund
- **It is then a Board policy discussion/decision to use property tax revenue or rate revenues to fund the G&A portion of each enterprise**

# Review of Preliminary System Revenue Impacts

- Two developed wastewater alternatives for funding G&A costs
  - Property tax allocated to Wastewater to fund G&A costs
  - Five-year phase-out of property tax funding to transition G&A costs to wastewater rate funding
- Phasing can be revised further based on Board input
- Capital plan is the same for both alternatives
  - Smoothed capital plan
- Results in the following preliminary system revenue (rate) impacts

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
No A&G	6%	6%	6%	6%	6%
Phased A&G	12%	12%	12%	12%	12%

\*10-year phase in would be approximately half the difference, at 9% per year

# Impacts to the G&A Fund

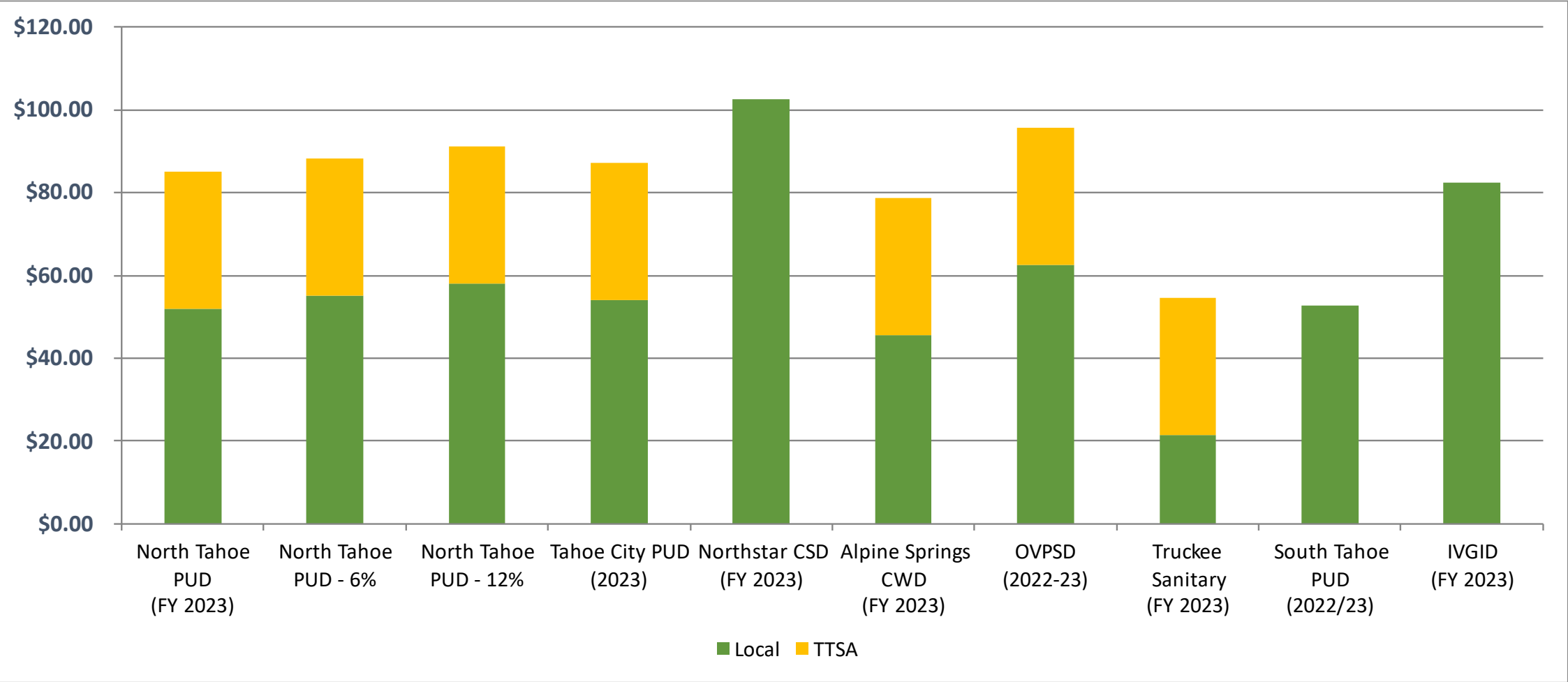
- Allocating G&A Wastewater O&M (rates) with a 5-year phase out of property tax support results in available property tax revenues

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Available PT \$'s	\$361,410	\$722,821	\$1,084,231	\$1,445,641	\$1,669,436

- Available property tax revenues can be used for:
  - Addressing Water capital needs (future key assumption discussion)
  - Funding Recreation and Parks O&M and capital
  - Other Board prioritized projects/funding needs

# Wastewater Utility

## Local Residential Bill Comparison



IVGID Rates include a volume rate component per 1,000 gallons, the chart assumes 3,000 gallons of wastewater



## Next Steps

Key assumption presentations and direction



Review draft revenue requirement analysis – based on policy discussion



Review draft cost of service and rate design analysis



Develop Final Study Recommendations

## Tentative Project Schedule

- July/August 2023 review capital funding and G&A implications and preliminary study results
- September 2023 review rate design and connection fee alternatives
- October 2023 present study recommendations and rate design
- November 2023 set public hearing date, and develop public notice materials/information
- December 2023/January 2024 public hearing

# Board Discussion





## Study Goals and Objectives

- Review and update capital funding analysis
- Review general and administrative expense allocation
- Review fixed/variable revenue through rates
- Update the wastewater and water rates

## Study Opportunities

- Evaluate alternatives for cluster meters (HOAs)
- Revise current non-residential wastewater rate (EDU basis) to a meter size basis (like water)
- Revise current non-residential wastewater connection fee (EDU basis) to a meter size basis (like water)
- Develop flat, unmetered, water rates for future potential use

# Current Wastewater Rates

	FY 2022-23	FY 2023-24	
<b>Residential</b>			
Base Rate	\$31.13	\$34.67	<i>Per EDU</i>
System Replacement Rate	15.48	15.81	<i>Per EDU</i>
State/Federal Mandate Fee	1.34	1.37	<i>Per EDU</i>
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<b>Total Residential</b>	\$47.95	\$51.86	
<b>Non-Residential</b>			
Base Rate	See Non-Residential Table		<i>Per EDU</i>
System Replacement Rate	See Non-Residential Table		<i>Per EDU</i>
State/Federal Mandate Fee	1.34	1.37	<i>Per EDU</i>
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<b>Total Non-Residential</b>			

# Current Wastewater Rates (Cont'd)

Base Charge by Customer Class			
	Unit	FY 2022-23	FY 2023-24
<b>Motel w/o kitchen</b>	<i>Per Living Unit/month</i>	\$10.06	\$11.20
<b>Motel w/kitchen</b>	<i>Per Living Unit/month</i>	13.11	14.60
<b>Campsite w/sewer</b>	<i># of Sites/month</i>	20.09	22.37
<b>Campsite w/o sewer</b>	<i># of Sites/month</i>	17.57	19.56
<b>Other Business</b>	<i># of Fixture Units/month</i>	4.00	4.45
<b>Markets</b>	<i># of Fixture Units/month</i>	7.05	7.85
<b>Laundries</b>	<i># of 10 lb Machines/month</i>	16.45	18.32
<b>Restaurants &amp; Bars</b>			
Inside Seating	<i># of Seats/month</i>	3.08	3.43
Outside Seating	<i># of Seats/month</i>	1.02	1.13
<b>Theatres</b>	<i># of Seats/month</i>	0.39	0.44
<b>Churches</b>	<i># of Seats/month</i>	0.39	0.44
<b>Barber Shops</b>	<i># of Service Chairs/month</i>	10.59	11.79
<b>Beauty Shops</b>	<i># of Service Chairs/month</i>	17.57	19.56
<b>Schools</b>	<i># of seats/month</i>	0.07	0.07
<b>Marina Boat Pumping Facility</b>	<i>Per</i>	34.80	38.76
<b>Swimming Pools</b>	<i>Per Pool/month</i>	8.00	8.91
<b>Snack Bars</b>	<i># of fixture units/month</i>	3.08	3.43
<b>Motel Res / Stock Coop / Studio</b>	<i>Living Units/month</i>	26.61	29.64
<b>Animal Shelter</b>	<i>Per Account/month</i>	110.15	122.66
<b>Service Stations</b>	<i># of service bays/month</i>	53.75	59.85

\* rates do not include State and Federal mandate fee which is added to the above rate

System Replacement Fee by Customer Class			
	Unit	FY 2022-23	FY 2023-24
<b>Motel w/o kitchen</b>	<i>Per Living Unit/month</i>	\$5.00	\$5.11
<b>Motel w/kitchen</b>	<i>Per Living Unit/month</i>	6.52	6.66
<b>Campsite w/sewer</b>	<i># of Sites/month</i>	9.99	10.20
<b>Campsite w/o sewer</b>	<i># of Sites/month</i>	8.73	8.92
<b>Other Business</b>	<i># of Fixture Units/month</i>	1.99	2.03
<b>Markets</b>	<i># of Fixture Units/month</i>	3.50	3.58
<b>Laundries</b>	<i># of 10 lb Machines/month</i>	8.18	8.36
<b>Restaurants &amp; Bars</b>			
Inside Seating	<i># of Seats/month</i>	1.53	1.56
Outside Seating	<i># of Seats/month</i>	0.51	0.52
<b>Theatres</b>	<i># of Seats/month</i>	0.20	0.20
<b>Churches</b>	<i># of Seats/month</i>	0.20	0.20
<b>Barber Shops</b>	<i># of Service Chairs/month</i>	5.26	5.38
<b>Beauty Shops</b>	<i># of Service Chairs/month</i>	8.73	8.92
<b>Schools</b>	<i># of seats/month</i>	0.03	0.03
<b>Marina Boat Pumping Facility</b>	<i>Per</i>	17.30	17.68
<b>Swimming Pools</b>	<i>Per Pool/month</i>	3.98	4.06
<b>Snack Bars</b>	<i># of fixture units/month</i>	1.53	1.56
<b>Motel Res / Stock Coop / Studio</b>	<i>Living Units/month</i>	13.23	13.51
<b>Animal Shelter</b>	<i>Per Account/month</i>	54.76	55.94
<b>Service Stations</b>	<i># of service bays/month</i>	26.72	27.30

\* System Replacement Fee is charged per Billing Unit