Round Hill General Improvement District
Board of Trustees Workshop
February 9, 2010

Tuesday **6:00pm**

1. Meeting Called to Order. (Side A/c#1)
Meeting was called to order by Chairman Glen Smith.

2. Pledge of Allegiance. (Side A/c#4)
Pledge of Allegiance was led by Chairman Smith.

3. Roll Call. (Side A/c#7)
Chairman Glen Smith, Vice Chairman Steve Teshara and Trustees Chuck Fagen, Steve Seibel and Wes Rice were present. The District Manager, Administrative Assistant and District Counsel were present. Residents Dawn Evans and Janet Murphy were present. Brent Farr and Aaron Dorney of Farr West Engineering were also present.

4. Public Comment. (Side A/c#8)
None

5. Approval of Agenda. (Side A/c#12)
Motion to approve the agenda as presented. Rice/Teshara 5-0 approved.

6. Discussion of the District's current rate structure and consideration of future possible rate adjustments. (Side A/c#54)
Manager Reed reported that Farr West Engineering was hired by the District to conduct a rate structure analysis. Brent Farr was in attendance to present his initial findings. Attached to these minutes is a copy of the presentation of the analysis.

Brent presented a review of the scope of work, sewer rate goals, existing residential and commercial rates and existing revenues and expenses. Brent also presented his observations and the impacts of Capital Improvement Plan (CIP) projects. He provided charts regarding current rate comparisons and a new tiered rate structure. He presented possible alternatives to rate making and explored the impact on the customers of Round Hill.

The Board had many questions regarding how and why rates were currently structured. Manager Reed and Brent Farr explained the current rate structure. There are some inconsistencies in the current structure that need to be modified.

The only rate adjustment that has been made since metering began was a sewer rate increase of $6.00 per home for three consecutive years in August of 2005, 2006 and 2007 to fund the Emergency Sewer Lift Station Replacement.

Chairman Smith requested more information on how much conservation incentive is appropriate and what would be an appropriate differential between residential and commercial rates. He preferred to see a 5 year gradual increase rather than 3 years.

Since this meeting was a workshop, there were no votes taken. Any future votes on rate adjustments will take place after all appropriate public hearings are conducted.

7. Adjournment. (Side C/c#300)
Motion to adjourn made by Trustee Rice.

Attest:

Glen Smith
Chairman

Steve Teshara
Vice Chairman

Round Hill General Improvement District

Rate Workshop
January 26, 2009

Review Scope of Work

- Collect and Evaluate Existing Information
- Cost of Service Analysis
- Develop Water and Sewer Rate Structures
- Develop Water and Sewer Capacity Fees
- Develop Road Maintenance Fees
- Develop Storm Drain Maintenance Fees (Dropped)
- Evaluate Feasibility of Ad Valorem Tax Implementation
- Provide Recommendations to Modify Tariffs
- Public Presentations and Board Meetings

Sewer Rate Goals

- Ensure sufficient revenues that will cover current and future operation and maintenance costs, debt service, depreciation and capital improvements.
- Create and maintain equity among all rate payers.
- Provide a basis for rates and the rate structure that can be easily explained to customers (simplify rate structure).
- Achieve goals pertaining to water conservation that are consistent with State objectives.

Existing Sewer Rates

Residential:

Flat Rate: $54.00 – regardless of meter size

Commercial:

Minimum Rate: $57.36 (includes 3,000 gal)
Metered Rate: $19.12 per thousand gal.

If a commercial customer has an irrigation meter, that usage is not included in the sewer bill.

Existing Revenues and Revenue Requirements

- 2009 Revenue = $569,735
- 2009 Operating Expenses = $439,091 (including $7,842 in depreciation)
- 2009 Operating Income = $130,644
- 2009 Net Cash Provided by Operating Activities = $228,307
- 2009 Cash Balance = $822,408

- 2010 Budget shows operating loss of $23,877 – due mostly to capital improvements (SCADA upgrades) and depreciation ($45,000).

Analysis and Observations

- No basis for residential or commercial rates could be found
- Commercial rate structure is unique (atypical)
- Commercial and residential rates are not equitable (based on cost of service)
- A small number of commercial customers account for a significant amount of annual revenue.
- Commercial customers pay based on metered use, residential customers do not (metering irrigation water use is an issue).
- Current rate structure presents an equity problem more than a revenue problem.

Future Revenue Requirements – Capital Improvement Plan

The only significant item on the CIP is to replace the sewer collection system over a 20-year period. A rough estimate of that cost is $10,000,000.

Impact of CIP on Rates

The financial impact of the capital improvement program over a 20 year period is significant. If this program is financed using state revolving loan funds, the revenue requirement will rise from a current level of $500,000 to $900,000 over the 20 year period. Accounting for inflation of operation and maintenance costs, the revenue requirement will rise even further to approximately $1,300,000. This simple analysis shows that over a 20 year time horizon, the revenue requirement of the sewer utility will more than double and could even triple depending upon how aggressive the District is with implementing the capital improvement program. This analysis indicates that the District would need to raise rates annually between 4 and 5 percent, which may not be realistic. However, even for inflation and some additional debt service, the District should plan on average annual rate increases of at least 3 percent.

Modifications to Rate Sructure

The two simplest rate structures for a small metered utility are:

1. Fixed rates based on EDU or Meter Size
2. Volumetric rates for indoor water use

Fixed Rates

Fixed rates are monthly rates that are charged regardless of wastewater flows contributed by each customer. Larger customers would be charged a multiple to be determined by meter size or EDU.

Pro's: Easy to administer, stable revenue
Con's: No recognition of customer contribution to wastewater flows.

Variable Rates

Variable rates are monthly rates that are charged based on the amount of water used (excluding irrigation). This rate may also include a fixed customer charge.

Pro's: Most equitable form of rate.
Con's: More difficult to administer. Requires irrigation metering or estimates of winter water use.

Affordability of Residential Rates

State standard is that total annual bill, assuming average use of 15,000 gallons per month, is at least 2% of the median household income for the area.

MHI for this area is $60,000 (State MHI is $45,000). 2% of $60,000 is $1,200, which equals a monthly bill of $100. Existing rate is $54, which indicates it is affordable.

Rate Comparisons
Residential

Summary:

South Tahoe PUD	$9.50	per sewer unit (toilet, sink)
Tahoe City PUD	$20.76	residential rate only
		EDU form of rates for others
Washoe County	$36.97	flat rate – all customers
Zephyr	$42.00	flat rate, fixture count for com.
Skyland	$42.00	flat rate, fixture count for com.
Cave Rock	$42.00	flat rate, fixture count for com.
Kingsbury GID	$53.75	flat rate – all customers
Round Hill GID	$54.00	residential rate only

Residential/Commercial Rate Comparison

Cost for Various Usage Amounts (Gallons)
¾" Residential Meter vs. Commercial Meter

Average Monthly Use	0	5,000	10,000	15,000	20,000
Residential	$ 54.00	$ 54.00	$ 54.00	$ 54.00	$ 54.00
Commercial	$ 57.36	$ 95.60	$ 191.20	$ 286.80	$ 382.40
Percent Difference	6.2%	77%	254%	431%	608%

Indoor residential water use is typically about 5,000 gallons per month. Therefore, the residential flat rate should be equivalent to the commercial rate for 5,000 gallons.

Existing Capacity Charges

Water Service Size	Water Capacity Charge	Sewer Capacity Charge
0.75"	$7,000	$7,000
1"	$12,460	$12,460
1.5"	$28,140	$28,140
2"	$49,980	$49,980
3"	$112,350	$112,350
4"	$199,780	$199,780
6"	$484,610	$484,610

Capacity Charges – Equity (Buy-In) Method

The goal of the equity method is to achieve an equity position between new and existing customers of the system. The method assumes that existing customers have provided equity in the existing system and that built-up equity should accrue to benefit existing customers.

Capacity Charges – Equity (Buy-In) Method

Determined by dividing the net system value by number of equivalent dwelling units the system is capable of serving.

Water = $5,400,000 / 700 EDU's = $7,714
Existing capacity fees seem adequate.

Sewer = $1,200,000 / 700 EDU's = $1,714
Existing capacity fees are too high.

Existing and Proposed Water Capacity Charges

Water Service Size	Existing Water Capacity Charge	Proposed Water Capacity Charge
0.75"	$7,000	$7,000
1"	$12,460	$11,690
1.5"	$28,140	$23,310
2"	$49,980	$37,310
3"	$112,350	$74,690
4"	$199,780	$116,690
6"	$484,610	$233,310

Proposed capacity charges for larger meters were calculated using equivalent meter ratios rather than using the District's current method of determining EDU's.

Water Capacity Charges – Comparison

Water Service Size	RHGID (Proposed)	North Tahoe PUD	Tahoe City PUD	Washoe County	KGID	South Tahoe PUD
0.75"	$7,000	$6,000	$2,500	$4,200	$7,700	$5,956.88
1"	$11,690	$10,522	$3,000	$7,000	$12,800	
1.5"	$23,310	$27,058	$6,000	$14,000	$19,250	
2"	$37,310	$40,890	$9,600	$22,400	$25,600	
3"	$74,690	$72,159	$21,000	$44,800	$40,900	
4"	$116,690	$112,450		$70,000	$81,800	
6"	$233,310			$140,000	$127,800	

Existing and Proposed Sewer Capacity Charges

Water Service Size	Existing Sewer Capacity Charge	Proposed Sewer Capacity Charge
0.75"	$7,000	$1,700
1"	$12,460	$2,840
1.5"	$28,140	$5,660
2"	$49,980	$9,060
3"	$112,350	$18,140
4"	$199,780	$28,340
6"	$484,610	$56,660

Proposed capacity charges for larger meters were calculated using equivalent meter ratios rather than using the District's current method of determining EDU's. A more appropriate method would be to use fixture counts to determine EDU's and multiply the rate for 1 EDU by the total number of EDU's.

Sewer Capacity Charges – Comparison

Single Family Residential:

Tahoe City PUD	$1,000
Round Hill GID	$1,700 (proposed, $7,000 existing)
Kingsbury GID	$3,000
Washoe County	$5,100
North Tahoe PUD	$8,185
South Tahoe PUD	$13,142