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August 8, 2017

Tom Skjelstad
General Manager
Donner Summit Public Utility District
P. O. Box 610
Soda Springs, CA 95728

Re: Donner Summit Public Utility District Wastewater Rate Review

Dear Tom,

I have completed a detailed review of the prior rate studies conducted for Donner Summit Public Utility District (DSPUD) by Hansford Economic Consulting (HEC) in October, 2011, and January, 2016. I found the studies to be thorough, complete and I am, for the most part, in agreement with the annual rate increase recommendation. My observations and comments are below:

1. DSPUD bills on an Equivalent Dwelling Unit (EDU) basis, with a single family household equaling one EDU. Commercial connections are assigned EDU's based on factors that tie into estimated sewer flow. To substantiate the rate structure is still appropriate and in accordance with due diligence practices, management and board enlisted HEC to research the rate structures of other similarly sized wastewater utilities. Subsequent to the January, 2016, rate study, HEC collected rate structure information for seventeen utilities that provide wastewater services to ski areas located in California and other western states. In the comparison, it was noted that approximately 60 per cent of those utilities, like DSPUD, use EDUs as the basis for their rate structures, 29 percent bill on a combination of EDU and measured flow charge and 11% bill on measured flow charges only. The research clearly indicates the EDU rate structure that DSPUD uses is still the most commonly used. Because 89 percent of water usage is by residential connections, if the rate schedule were to be revised to a combination of EDUs and flow charges, residential rates and the affordability index would most likely be negatively impacted.
2. In researching the equitability of the rates, it was discovered that the combined ski resorts and Cal Trans rest areas account for 42 percent of DSPUD sewer revenue as compared to only 11 percent of the flow. This suggests the commercial connections are paying at least

a fair proportion of DSPUD's sewer costs. For economic development reasons, it may be imprudent to contemplate increases that disproportionately increase the commercial rates. It is a strong indicator that assessing higher rates on the commercial classes would be ill-advised and possibly would not be able to pass through the Proposition 218 hearing.

3. What was found to be a most conspicuous concern is the affordability index for your area. The affordability index measures the burden of costs passed from the wastewater utility to the users against the median household income (MHI) for the area. It is used not only by funding agencies to determine grant and low interest loan eligibility, but can also be used by the utility to determine when rates are becoming so onerous that customers may be unable to pay for the service. Many funders look for a minimum affordability ratio of 1.5 percent before approving grant money. When rates are more than 3 percent of MHI, affordability becomes a significant concern. According to the January, 2016, rate study, DSPUD's current rates are at 4 percent of the service area MHI (\$49,752) based on the 2014 American Community Survey (ACS) data. California Code of Regulations, Title 22, Section 64300(a) defines a disadvantaged community as, "a community with a median annual household income of less than eighty percent (80%) of the statewide median annual household income." The statewide median household income (MHI) used in SWRCB's computations for 2016/2017 is \$61,818. Therefore a community with a current MHI of less than \$49,454 would meet the definition of a disadvantaged community. While the DSPUD service area MHI may have increase since the 2014 ACS, it is assumed that it remains barely above the disadvantage community threshold. It is understandable that there may be reluctance to increase rates as recommended. I suggest your accounts receivable aging report may provide the answer to the board as to whether increasing the rates as recommended in the study will be tolerable to your community. If DSPUD is unable to collect payments in a timely manner at the current rate it stands to reason that increasing the rates will make collecting payments less likely.
4. The DSPUD put into service a new waste water treatment facility in 2016. This resulted in higher operating costs and interest on loans used to construct the facility. HEC projected 2017 costs to be \$1,755,760 for operations and \$856,675 for debt service. 43% of the wastewater costs before reserve funding are related to debt service. To fully cover the costs through rates, HEC estimated the residential rates would increase to at least 4.4 percent of the area MHI. Annual incremental increases of approximately 2 percent were also assumed in these calculations.
5. The rate study included two options to suppress rates by utilizing accumulated reserve funds. These options were not recommended and presented merely as an alternative for consideration. At the time of the 2016 study, DSPUD had accumulated \$400,000 in replacement reserves and \$891,302 in debt service reserves. Obviously, the loan covenants would be the deciding factor as to whether these options should be considered.

Another point of consideration should be the impact on future rates if the replacement reserves are not maintained. Most funding agencies require 20% matching funds from the utility for grants and /or loans. If the matching funds have not been established by the time equipment replacement is necessary, additional borrowing costs will be incurred and low interest rates may not be available.

- A. Under option #1, rates would remain at the current level through 2021 and the reserve funds would be used in their entirety to supplement the rates, including debt principal and interest payments. If DSPUD management and board decide to implement this option, a Proposition 218 process will not be required. Because fully implementing Option #1 would result in the depletion of reserve funds, RCAC strongly discourages implementation. However, if DSPUD management and board determine Option #1 best serves the community, it is highly recommended that, rather than binding the utility to the current rate for five years, DSPUD review it annually to determine if continued subsidization of the revenue is advantageous.
 - B. In option #2, an annual inflationary increase (approximately 2.5% per annum) would be implemented from 2016 through 2021. In this option less than one half of the reserves (\$616,000) would be used to supplement the revenue. If DSPUD determines to delay rate increases through the use of reserve funds, it is recommended option #2 be the one implemented. Again, if this option is adopted, it is recommended that, rather than a five year plan, DSPUD adopt a shorter, possibly three year plan. It is possible the number of connections or the MHI will increase over the years and this would prevent the utility from being locked into the commitment for five years.
6. Dipping into the reserves for a prolonged period is not a sustainable practice for the utility. While it may ease the burden to rate payers initially, in the long term it will result in larger future rate increases to compensate for the loss of reserves during the period of supplementing the rates. It should be noted that small, annual increases are much easier to implement than a large increase that might later be necessary to make up for shortages in prior years due to maintaining an artificially low rate. The longer the increase is delayed, the higher the percent of increase will be.

There are only two ways to balance the budget: increase rates or decrease costs. DSPUD has reviewed operation costs and is convinced those cost have been reduced to the extent possible to continue providing quality service to its customers. The utility is in the process of negotiating lower interest rates and/or possible loan reduction. This would provide relief to the rate payers.



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I hope I have provided you with the kind of feedback DSPUD needs to evaluate the rate study and make decisions about the rates. If you need further assistance, please feel free to contact me.

Sincerely,

Mary

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