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August 26, 2019

Board of Directors
Triunfo Water & Sanitation District
Ventura County, California

CONTRACT NO. T19-003 WITH RAFTELIS FINANCIAL CONSULTANTS, INC. FOR SEWER, WATER, AND RECYCLED WATER RATE STUDIES

Summary

Staff is requesting the Triunfo Water & Sanitation District (District) Board approve moving forward with conducting a Rate Study encompassing the District's three (3) enterprises; potable water, sewer, and recycled water with Raftelis Financial Consultants, Inc. (Raftelis). A Request for Proposals (RFP) for updating rates was developed and submissions reviewed. Raftelis, who has conducted the District's previous three (3) studies, was selected as the most qualified. Staff recommends the Board approve TWSD Contract No. T19-003 for an amount not-to-exceed of \$68,138.

Analysis

In order to ensure that revenues are sufficient to support the District's costs for providing services to its customers, the District reviews and updates its rate plans on a regular basis. The current 5-year rate plans which includes water, wastewater, and recycled water are nearing their final year and require updates. The existing wastewater rate study, which was approved in 2015, supports rates through June 30, 2020. The rate studies for potable and recycled water are in their fourth year, however, there are no additional rate increases programmed for the final year.

Several factors have resulted in negative impacts on the District's revenues. The drought and resulting conservation efforts have significantly reduced both potable and recycled water demands, which is a positive result when considering the need for conservation, but carries negative impacts on revenues. With fewer units of water to spread fixed costs, those costs have become a larger part of the unit cost the District charges its customers. The ever-increasing cost of regulatory compliance has also had a major impact on wastewater revenues. A significant increase in the District's ongoing financial contribution to essential capital projects have outpaced current revenues.

On June 28, 2019, the District issued an RFP for review and updating of rates for the District's three (3) enterprises. Six proposals were received ranging in cost from \$59,785 to \$92,760 as reflected in the chart below.

	RDN	Raftelis	Harris	HF&H	Stantec	NBS
Cost	\$ 59,785	\$ 71,293	\$ 75,495	\$ 79,910	\$ 89,181	\$ 92,760

The responses were evaluated based on: the firm's experience with similar projects, the qualifications of the project team, the approach to the project, and the cost proposed. After applying this criteria, Raftelis' proposal, which was the 2nd lowest in price, was deemed to be the most qualified and advantageous to the District. Subsequently contract negotiations with Raftelis reduced the project cost by \$3,155, representing additional savings to the District.

Please contact me at 805-658-4646 or email tinarivera@vrzd.com if you have any questions or need additional information.

Fiscal Impact

The Adopted Budget for FY 2019-2020 has \$125,000 allocated for the rate study so there is no budget adjustment required to fund this effort.

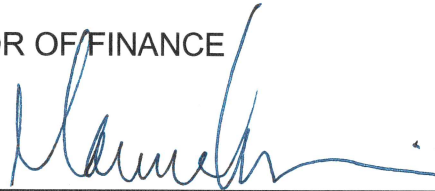
Recommendation

It is recommended that the Board approve TWSD Contract No. T19-003 for Raftelis Financial Consultants, Inc. to complete the three rate studies for an amount not-to-exceed of \$68,138.



ALVERTINA RIVERA – DIRECTOR OF FINANCE

REVIEWED AND APPROVED:



Mark Norris - General Manager

Attachments: 1) TWSD Contract No. T19-003

Work Plan

TASK 1

Project Initiation, Project Management, and Data Collection

Kick-off Meeting and Data Collection

At the beginning of the study, Raftelis will prepare a detailed data request list that will identify the information needed to complete the various analyses for all phases of the study. This includes information on historical and current revenues, potable and non-potable usage, expenses, reserve policies, billing and collection procedures, customer account information, capital improvement plans, estimated growth in the District, and any projected changes in demand or flow either through growth or through reduced water demands. Prior to the kick-off meeting, Raftelis will perform a preliminary review of the initial data.

We believe a productive kick-off meeting is the most effective way to begin a study of this nature. It provides a forum to discuss goals and objectives, policies, and methodologies, as well as finalize the work schedule to ensure that the pro-

ject progresses as smoothly as possible. Raftelis will prepare a meeting agenda and send it to the District prior to the meeting. Following the meeting, Raftelis will prepare detailed meeting minutes.

An important part of the kick-off meeting will be a discussion of pricing objectives. We will begin by presenting an overview of potential pricing objectives and discussing them with staff. Based on the pricing objectives identified, Raftelis will make suggestions as to the most appropriate rate structures to meet the District's objectives. The District has indicated that it wishes to consider the recovery of a greater portion of fixed costs through fixed fees. We can discuss these and other potential objectives such as resiliency during periods of drought, promotion of efficient water use, affordability for essential use, and customer understanding.

Project Management

Our management approach stresses transparency, communication, teamwork, objectivity, and accountability to meeting project objectives. Management responsibilities extend to

general administrative duties such as client correspondence, billing, and project documentation as well as administration of the study schedule and project costs. Throughout the study, the Raftelis team will schedule interim status webinars to discuss project progress and the schedule and present preliminary results. The Project Team will also conduct face-to-face meetings as outlined in the scope.

Quality Assurance/Quality Control Process

In every project, we implement a systematic program of quality assurance to ensure consistency, accuracy, and validity. Our proposed Technical Reviewer, Steve Gagnon, will ensure that the cost of service and rate model developed is functioning properly and is based on sound rate-making principles and standard industry practice. Additionally, he will ensure the report is prepared to address the nexus between costs and rates that meet the requirements of Proposition 218. This will ensure that all of our work products will be of the highest quality and meet the high standards that our clients have come to expect from Raftelis.

Meeting: One in-person kick-off meeting

Deliverables: Data request list; kick-off meeting agenda, presentation materials, and meeting minutes

TASK 2

Financial Plan Development

This important task will ascertain the additional revenue needed to ensure the financial integrity of the three enterprises. It will do so by projecting the District's existing rate revenue, other operating and non-operating revenues, debt service payments, and operating and capital expenses (including overhead costs) over a 10-year period for each enterprise. We will project future yearly O&M expenses, such as annual water purchase costs, salaries and benefits, power, and materials using District-approved inflationary assumptions. Existing rate revenues for the water enterprises are based on anticipated water sales, which have fluctuated due to the most recent drought and recovery. In addition, the District will need to prepare for mandated consumption

reductions over the next 10 years due to the passage of SB 606 and AB 1668 in March 2018. Raftelis’ models include a dashboard that allows for easy manipulation of water consumption assumptions for comparison of revenues under different usage scenarios. We can work with District staff to examine different demand scenarios under this legislation or any other scenarios that affect demand.

Raftelis will also review reserve policies to recommend appropriate reserve balances (operating, capital, rate stabilization, etc.) that are consistent with industry standards for prudent fiscal management as well as the District’s risk tolerance. The 10-year financial plan for each enterprise will also model the sources and uses of funds for each reserve. For a typical capital reserve, the sources of funds include cash reserves, debt proceeds, and grant funding. Modeling the yearly ending balance in the capital reserves allows staff to determine the rate impacts of various capital improvement plan scenarios and assess the proper use of debt and reserves to fund capital projects. Raftelis will coordinate its efforts with the District’s financial advisor to incorporate debt projections, reserve fund targets, and debt service coverage ratios.

Raftelis will develop a 10-year cash flow analysis for the water, recycled water, and sewer services to determine the revenue adjustments needed for each while minimizing sharp rate increases and fluctuations. The dashboard will allow users to vary assumptions by dollar or percentage, so the user can display the effects of reve-

nue adjustments, staff salary and benefit changes, capital improvement and equipment costs, financing through rates or debt, pass-through costs, and reserve balances. A snapshot of a sample dashboard is shown on the following page. Several features of the model’s dashboard include the ability to show or indicate:

- Revenue adjustments needed for the next five years to meet debt coverage, fund capital projects, and reserves
- Reserve balances and reserve targets as well as debt service coverage ratios (days cash on hand, reserve funding levels)
- Projected operating costs and revenue streams
- Operating cost break down (O&M, water purchases, debt payments)
- Different capital funding sources such as PAYGO (rate funding), debt financing

District staff can review and determine the most appropriate financial plan and rate design. The models are designed to be user friendly while having the flexibility to show the enterprise’s sensitivity to various assumptions, allowing both staff and the Board to make informed decisions.

Meeting: Up to two webinars with District staff
Deliverables: Financial plan models in Microsoft Excel

TASK 3
Cost of Service Analysis

The cost of service analysis will be based on industry standards and methodologies approved by the AWWA and described in their *Manual M1*

for the water enterprises and WEF’s *Manual of Practice No. 27* for the sewer enterprise (which were both co-authored by Raftelis staff). Cost allocations among customer classes for water will likely be based on the AWWA-approved Base-Extra Capacity approach which focuses on the different usage patterns (or peaking factors) demonstrated by each customer class. At this stage, Raftelis will evaluate the customer classes, if warranted.

Based on the revenue requirement identified in the financial plan, water expenses, such as the purchase, treatment, and distribution of water, are allocated to cost causation components, including supply, delivery, capacity-related costs, commodity costs, customer costs, conservation costs, and other direct and indirect costs consistent with industry standards. Sewer expenses are allocated based on collection, strength, infiltration and inflow, and customer costs consistent with industry standards. The end goal of this task is to distribute the cost components to customer classes based on the cost responsibility of each. The result is the total cost to serve each customer class and is used as the basis to develop rates.

Throughout the potable water, recycled water, and sewer cost allocation process, Raftelis will incorporate the District’s policy considerations, as well as current federal, state, and local rules and regulations such as Proposition 218.

Meeting: None
Deliverables: Cost of service analyses in Microsoft Excel

TASK 4
Rate Design

Rates Development

Raftelis will develop water, recycled water, and sewer rate models with the flexibility to compare the current rate structures with up to three alternative rate structures. The models will have the capability to examine the different rate structure scenarios to enhance revenue stability considering competing objectives, such as minimizing rate increases and funding operations and capital through rates. For the water utility, Raftelis will include an examination of the current tiered rate allocations and the balance of fixed and volumetric charges based on fixed and volumetric costs.

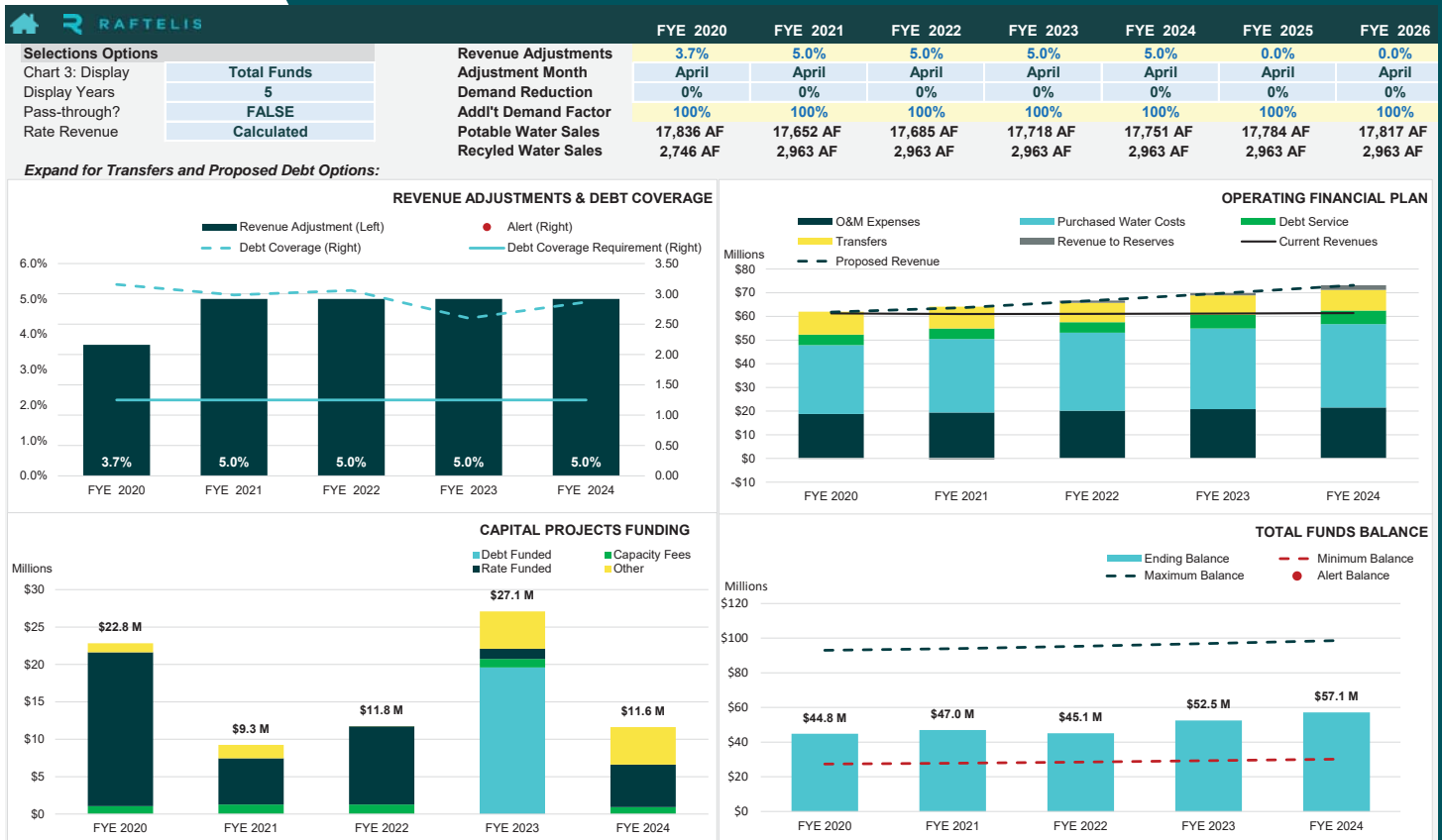
Tiered Rates

In today’s rate-setting environment, it is imperative to show the nexus between the cost to serve water in each tier and the rate in each tier. For the tiered structure, Raftelis will calculate and show the nexus between costs and tiers by tabulating the tiered rates to show each unit cost component - which includes water supply costs, system costs (delivery costs), peaking costs, and conservation costs, to name a few. This rate derivation will communicate to customers the cost drivers behind the rate for each tier. During our analysis, we will examine how the current tier breaks for non-irrigation customers serve the utilities’ needs and whether the rate structure is defensible. Raftelis may recommend adjustments to the tier structures in order to ensure defensibility. We design our rate models to allow for multiple rate scenario analyses to show:

1. Different rate structures

Raftelis will develop a customized financial model for the District that incorporates a dashboard to allow the District to easily run scenarios and see the impacts in real time.

Shown below is a sample dashboard that we developed for another project.



- with varying levels of fixed and variable revenues, including the status quo scenario
- 2. Different levels of water use - for example an optimistic, most likely, and pessimistic scenario

Customer Impacts and Sensitivity Analysis

Rate adjustments stem from a change in the revenue requirement and/or a change in the rate structure. The total rate adjustment can sometimes cause “rate shock” to customers. In our impact analysis graphics, we calculate estimated monthly bills at each level of usage assuming the new proposed rate structure was already in place to determine the “true” impact of the new rate structure. The customer impact analysis will include a series of tables and figures that show projected rate impacts by customer class at various levels of usage. Understanding customer impacts and taking corrective action, if necessary, allows us to design public outreach strategies for generating customer buy-in and successful rate implementation.

Meeting: One in-person meeting and up to two webinars with District staff

Deliverables: Rate models and customer bill impacts for all three enterprises in Microsoft Excel

TASK 5

Rate Survey

Raftelis will compare the District’s current and proposed rates with five local water and sewer agencies. We will include recycled water rates where recycled water is available. While a useful benchmark, it is worth noting that such com-

parisons only paint a partial picture since many factors, such as water sources, age and replacement of infrastructure, service area, and other local conditions affect the total cost of providing water and sewer services. Raftelis regularly conducts such surveys for our clients. We also publish the nationally recognized biennial *Water and Wastewater Rate Survey*, which is co-published with the AWWA, and the *California-Nevada Water and Wastewater Rate Survey*, which is co-published with the CA-NV AWWA.

Using the rate survey data, Raftelis will develop an Excel model to compare the total monthly water and sewer bill amount of a typical residential customer within each agency. The model will include the appropriate graphs and figures that display the total bill of a typical customer of each agency.

Meeting: None

Deliverables: Rate survey model in Microsoft Excel

TASK 6

Board of Directors Rate Workshops

Raftelis will present the preliminary rate options to the Board in advance of the approval of the Proposition 218 process, as well as present the final rate structure and rates for Board approval after the required 45-day noticing period. The first presentation will discuss the recommended reserve and fund levels, proposed financial plan, and rate structure alternatives and rates along with the resulting customer impact analysis. This will allow the Board to provide input. The second presentation will dis-

uss the final rate structure and rates to be implemented, and we will address Board and public comments at this time.

Meeting: Two in-person meetings with the Board of Directors

Deliverables: Presentation materials

TASK 7

Rate Study Report

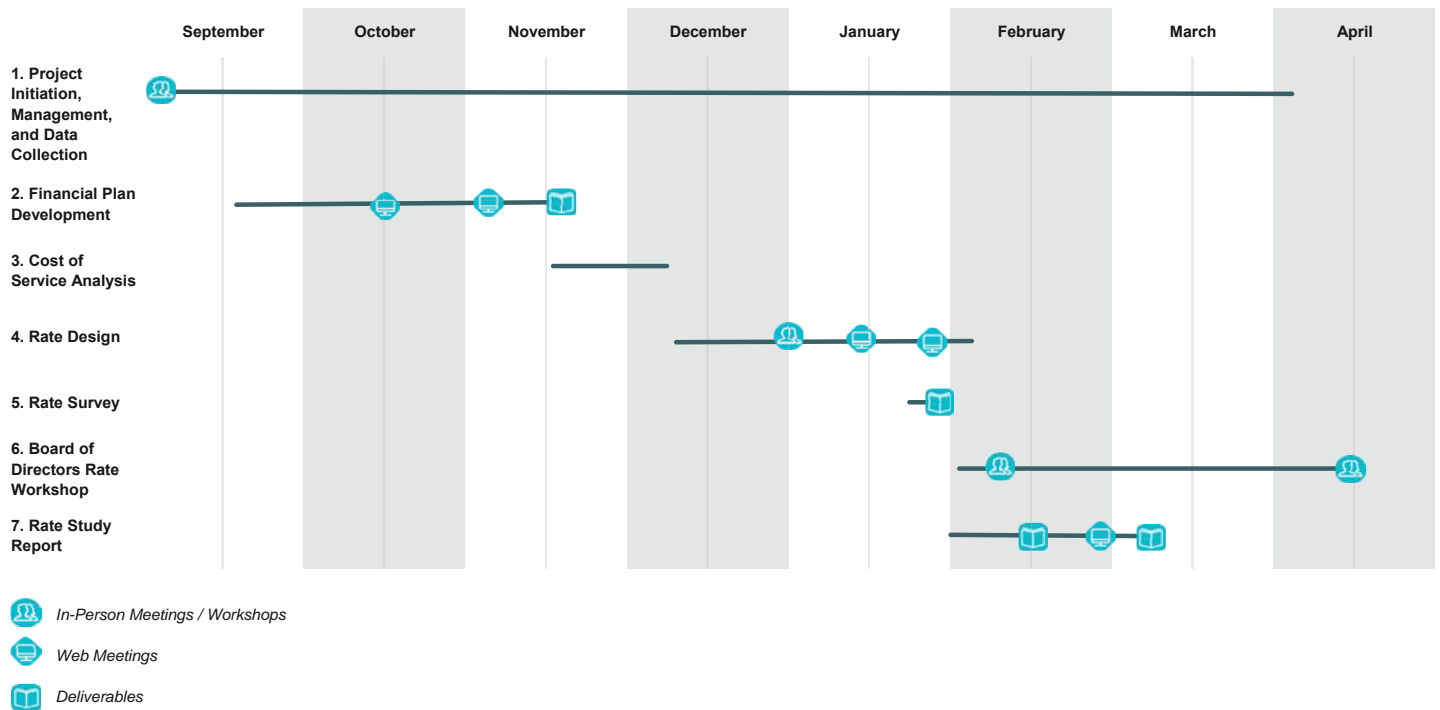
In order to comply with Proposition 218 requirements, Raftelis will prepare a rate study report documenting the rate study for all three services. A preliminary study report will include an executive summary highlighting the major issues and decisions reached during development of rates. The main body of the report will include a brief physical description of each enterprise system, service area description, an overview of operation and maintenance expenses, the capital improvement plan, the financial plan, and the proposed rates. The report will also contain a discussion on rate structure selection, rate design assumptions, and methodologies used to develop the rates. The methodology describing the cost of service and rate calculations will be described in detail so that the nexus between costs and rates is clearly defined and understandable. The report will also incorporate the results of the rate survey. This first version will be submitted to staff and the District Attorney for review and comment. We will then incorporate these revisions into the final report.

Meeting: One webinar with staff to discuss comments

Deliverables: Draft and final study reports

Schedule

Raftelis will complete the scope of services within the timeframe shown in the schedule below.



Cost

Raftelis proposes to complete the scope of work outlined in our work plan on a time-and-materials basis as shown below. The following cost proposal provides a breakdown of the estimated level of effort required for completing each task and the hourly billing rates for the personnel scheduled to complete the project.

Tasks	Webinars	Number of Meetings	Hours					Total	Total Fees & Expenses
			PM	APM	SC	Admin			
1. Project Initiation, Management, and Data Collection	0	1	6	10	6	6	28	\$6,769	
2. Financial Plan Development	2	0	4	20	54	0	78	\$16,270	
3. Cost of Service Analysis	0	0	2	16	24	0	42	\$8,870	
4. Rate Design	2	0	6	20	30	0	56	\$12,260	
5. Rate Survey	0	0	0	2	8	0	10	\$2,000	
6. Board of Directors Rate Workshop	0	2	2	16	4	0	22	\$5,229	
7. Rate Study Report	1	0	4	16	60	2	82	\$16,740	
Total Estimated Meetings / Hours	5	3	24	100	186	8	318		
Hourly Billing Rate			\$325	\$210	\$185	\$80			
Total Professional Fees			\$7,800	\$21,000	\$34,410	\$640	\$63,850		

PM - Sudhir Fardiwala,
Executive Vice President
APM - Kevin Kostniuk,
Senior Consultant
SC - Staff Consultants
Admin - Administrative
Staff

Total Fees	\$63,850
Total Expenses	\$4,288
Total Fees & Expenses	\$68,138