



Rural North Vacaville WD Rate Review

Table of Contents

1. Rate Review & Introduction

2. Current Information
 - Section 1. Capital Replacement and Reserve Calculations
 - Section 2. System Budget

3. Water Accountability Production vs. Sales
 - Section 3. Fixed vs. Variable Expenses

4. Recommended Water Rates
 - Section 4. Actual Calculated Rates

5. Rate Study Summary and Conclusions



1. Rate Review & Introduction

We were contacted by the General Manager, Gordon Stankowski, and the State Board issued an ARL for funding a rate study of the system.

In California, public water system accounts in any given entity, be it a Municipality or a Community Services District, are considered to be enterprise accounts. By definition, an enterprise account must, at a minimum, be self-supporting in operating budgets and funded reserves. In essence, as a public entity you should be charging enough for water and/or sewer services to ensure these accounts are self funded or supporting. The revenue that is realized from the services that are provided should be used to fund the operation of the system, as well as needed reserves and ongoing capital improvement planning and projects. We will ask a few questions to get an idea of the System's capabilities with its current rates and structures to be able to fund the System's enterprise accounts. Some of the questions we ask when reviewing the information are as follows:

- Are they currently able to fund expenditures?
- Do they have appropriate reserves and CIP reserves?
- What kind of shape is the infrastructure in?
- Are they in regulatory compliance?
- Are they able to schedule needed projects as identified in a master plan?
- Do they have a master plan?

We were able to work with District staff to get a good idea of the System's needs, including: the future plans for the District with regards to the System's capabilities to fund a CIP for the existing infrastructure, and funding needs and eligibility for State and Federal infrastructure funding programs.

In most cases, you also have certain financial criteria mandated by all of the different funding agencies within the State. So if you intend to seek public funding for infrastructure projects, the terms and conditions of receiving any loans or grants will apply to the District. These will typically carry certain criteria for reserves of debt service and insurance requirements, which will ultimately affect the cost of providing service to your customers.

There are also accepted standards and practices within municipal finance and operations that are considered good business, such as: establishing reserves for equipment, funding preventative maintenance programs, funding normal system infrastructure maintenance, funding system depreciation, establishing and funding capital improvement plans (CIP), etc. There is a big difference between paying the bills and managing your system's infrastructure.

The rate study as presented is divided into 4 sections as follows:

Section 1. Capital Replacement and Reserve calculations.

This section is used to calculate several items that are instrumental in determining the appropriate rates. We utilize this worksheet to determine the annual and monthly payments for any new loans or debt service, as well as perform Capital Improvement calculations to ensure the funds are set aside and in place for both short term and long term needed improvements to the system. We also can calculate the value of your current infrastructure, and determine the amount the system would like to set aside to fund capital improvements to the existing system.

The District identified and provided all the required information, including a 10 year CIP for improving the district's existing water system, as well as budgeted annual expenses for system depreciation and reserves

The determination of how much you should put away in reserves for aged or existing infrastructure should be based on the overall operation of the District and the age of the infrastructure. If the District has an aggressive preventive maintenance plan and does the normal routine maintenance on the system, components will quite often exceed lifetime use expectancy. In the case of a treatment facility, frequently the facility is not designed to treat to current standards or raw water quality and/or quantity issues dictate a new or refurbished plant. In any case, financial planning for these issues is a good idea. The amount of funding needed to be put in reserves can be subjective, and is usually determined by the ability of the District's customers to pay.

The District made several determinations that show on this work sheet, the first being to fund the annual reserves for the system depreciation. It was also decided to fund the cost of a new Arsenic Remediation plant for the system.

Recommendations: I would recommend the District look into funding for needed infrastructure projects via the RUS program and the State's SRF program as they may be eligible for a loan and/or grant money through these programs. I would also recommend the District evaluate current operations to ensure the ongoing preventive maintenance programs continue, and that they encompass all areas of operations. I would look to the operations staff for insight on how to prioritize current infrastructure needs for repair and/or replacement of the various infrastructure components.

Exhibit 1

Capital Replacement Program Reserve Calculation							Exhibit 1			
						Date:	3/12/2015			
						System Number:	4810013			
System Name: Rural North Vacaville WD				Service Connections:		393				
*Enter information only in yellow cells.										
Qty	Component	Unit Cost	Installed Cost	Existing Reserve	Avg. Life Rem.	Annual Reserve	Monthly Reserve	Reserve Per Customer		
Capital Improvement Program										
1	Meter Replacement	\$338,827	\$338,827	\$0	10	\$33,882.70	\$2,823.56	\$7.18		
1	Condition Assessment	\$59,125	\$59,125	\$0	10	\$5,912.50	\$492.71	\$1.25		
1	Generators	\$161,438	\$161,438	\$0	10	\$16,143.80	\$1,345.32	\$3.42		
1	Pumping Plant Replacement	\$63,000	\$63,000	\$0	10	\$6,300.00	\$525.00	\$1.34		
1	Electrical Panel Maint & Rehab	\$15,050	\$15,050	\$0	10	\$1,505.00	\$125.42	\$0.32		
1	Tank #3 Inspection	\$32,928	\$32,928	\$0	10	\$3,292.80	\$274.40	\$0.70		
1	Tank #4 Inspection	\$32,928	\$32,928	\$0	10	\$3,292.80	\$274.40	\$0.70		
1	Tank Sand Blasting & Recoating	\$216,300	\$216,300	\$0	10	\$21,630.00	\$1,802.50	\$4.59		
1	ERP	\$22,050	\$22,050	\$0	10	\$2,205.00	\$183.75	\$0.47		
1	Pumping Plant Meter Replacement	\$19,338	\$19,338	\$0	10	\$1,933.80	\$161.15	\$0.41		
1	Air Release Valve Installation	\$12,010	\$12,010	\$0	10	\$1,201.00	\$100.08	\$0.25		
1	Sation 3 Site Improvements	\$26,250	\$26,250	\$0	10	\$2,625.00	\$218.75	\$0.56		
1	Station 4 Site Improvements	\$15,750	\$15,750	\$0	10	\$1,575.00	\$131.25	\$0.33		
1	Flushing Program	\$60,200	\$60,200	\$0	10	\$6,020.00	\$501.67	\$1.28		
1	Valve Exercising Program	\$68,600	\$68,600	\$0	10	\$6,860.00	\$571.67	\$1.45		
1	Updated Operation maps and prints	\$5,000	\$5,000	\$0	10	\$500.00	\$41.67	\$0.11		
1	Painting	\$10,750	\$10,750	\$0	10	\$1,075.00	\$89.58	\$0.23		
Subtotal New Capital Replacement Program			\$1,159,544			\$115,954.40	\$9,662.87	\$24.59		
New Project Program										
1	Arsenic Remediation Plant (Loan P&I)	\$874,308	\$874,308	\$0	40	\$21,857.70	\$1,821.48	\$4.63		
1		\$0	\$0	\$0	40	\$0.00	\$0.00	\$0.00		
Subtotal New project Program			\$874,308	\$0		\$21,857.70	\$1,821.48	\$4.63		
Total Capital Programs			\$2,033,852			\$137,812.10	\$11,484.34	\$29.22		

Section 2. System Budget

This work sheet utilizes the System's current budget numbers, the CIP numbers from section 1, and any reserves or set asides that the System desires for future improvements or additions to the System's infrastructure.

In Section 2 we determine the total amount of the desired revenue that the system needs to do the following: operate on a day to day basis, fund any infrastructure loans, meaning debt service and reserve requirements of the loans, and set aside reserve funds for needed improvements to the system.

The numbers that we utilize are taken from the information provided by the District staff.

In Section 2 we look at the existing operating budget. We review the System's current expenditures, as well as revenue information. We also include the information from Exhibit 1, and add those numbers to the System's expenditures for the upcoming year.

At this point we have a full picture of the desired revenue/expenditures of the system. This is important, as this is where the rubber meets the road with regards to determining your rates for services. We then take the current expenditures, both O & M and General Administrative, and calculate an inflation factor for the upcoming years. Usually it's kept around 2 or 3 %. These numbers will give the system a very good idea of where the upcoming budgets will be for all of the various categories, and forecast upcoming revenues with the same inflation factor.

As you can see on the work sheet, your total operation expenses with the numbers from the Capital Replacement Program worksheet, Exhibit 1, total \$573,121.92 for the year 2015. This includes all operating expenses, funding the capital improvement program, and funding a system depreciation account.

Please review the revenue categories at the bottom of the page, and take into consideration the revenue source that is categorized as other funds. We will only utilize the budgeted expenditures to ensure that the rate payers are funding the system's budgeted expenses for operations.

Recommendations: The District's budget is a guideline, as are most budgets. Things do change; unexpected events like infrastructure failure, changes in regulations, and sudden water quality or quantity issues can all create financial instability. Periodic review of the budget through the year is always recommended, and amending budgets can sometimes be necessary depending on the situation. Always review your expenditures. Be realistic in your expectations, and make changes as needed. The District's desired revenue is what determines your rates, so be sure they are in alignment.

Exhibit 2

Budget					Exhibit 2
Rural North Vacaville WD			Inflation Factor (%):	2.00%	
			Date:	3/12/2015	
			System Number:	4810013	
EXPENSES AND SOURCES OF FUNDS	2014	2015	2016	2017	2018
OPERATIONS & MAINTENANCE EXPENSES					
General Manager	41,000.00	41,820.00	42,656.40	43,509.53	44,379.72
Administration	4,500.00	4,590.00	4,681.80	4,775.44	4,870.94
Customer Billings	31,200.00	31,824.00	32,460.48	33,109.69	33,771.88
Meter Reading	12,000.00	12,240.00	12,484.80	12,734.50	12,989.19
Backflow Testing	15,200.00	15,504.00	15,814.08	16,130.36	16,452.97
Plant Operations	60,060.00	61,261.20	62,486.42	63,736.15	65,010.88
Engineering Services, Public Works	5,000.00	5,100.00	5,202.00	5,306.04	5,412.16
IFAS Technician	5,136.00	5,238.72	5,343.49	5,450.36	5,559.37
Underground Service Alert marking	12,000.00	12,240.00	12,484.80	12,734.50	12,989.19
Insurance - GL	11,000.00	11,220.00	11,444.40	11,673.29	11,906.75
Insurance - GM	2,000.00	2,040.00	2,080.80	2,122.42	2,164.86
Electricity	37,981.00	38,740.62	39,515.43	40,305.74	41,111.86
Diesel Fuel Oil, Bucktown Generator	671.00	684.42	698.11	712.07	726.31
Telephone	360.00	367.20	374.54	382.03	389.68
Road Maintenance	2,000.00	2,040.00	2,080.80	2,122.42	2,164.86
Vehicle Truck Expenses	2,664.00	2,717.28	2,771.63	2,827.06	2,883.60
Meter Reader Calibration	4,000.00	4,080.00	4,161.60	4,244.83	4,329.73
New Connections	6,000.00	6,120.00	6,242.40	6,367.25	6,494.59
Plant Maintenance and Minor Repairs	30,000.00	30,600.00	31,212.00	31,836.24	32,472.96
Tier 2 Deferred Maintenance	23,250.00	23,715.00	24,189.30	24,673.09	25,166.55
Tier 3 New Source Development	15,875.00	16,192.50	16,516.35	16,846.68	17,183.61
Depreciation Expenses	11,509.00	11,509.00	11,509.00	11,509.00	11,509.00
Total Operation and Maintenance Expenses:	333,406.00	339,843.94	346,410.64	353,108.67	359,940.67
GENERAL & ADMINISTRATIVE EXPENSES					
Legal	13,050.00	13,311.00	13,577.22	13,848.76	14,125.74
Audit	8,000.00	8,160.00	8,323.20	8,489.66	8,659.46
Accountant	12,000.00	12,240.00	12,484.80	12,734.50	12,989.19
Audit Controller Office Fee	613.00	625.26	637.77	650.52	663.53
Webmaster	2,000.00	2,040.00	2,080.80	2,122.42	2,164.86
Office Supplies	3,600.00	3,672.00	3,745.44	3,820.35	3,896.76
Office Rent	4,800.00	4,896.00	4,993.92	5,093.80	5,195.67
Lien Releases	340.00	346.80	353.74	360.81	368.03
PO Box Rental	120.00	122.40	124.85	127.34	129.89
Auto Fold Billing	762.00	777.24	792.78	808.64	824.81
Postage	3,000.00	3,060.00	3,121.20	3,183.62	3,247.30
Check Scanner	1,000.00	1,020.00	1,040.40	1,061.21	1,082.43
Bank Fees, CEO Account	1,800.00	1,836.00	1,872.72	1,910.17	1,948.38
Credit Card	420.00	428.40	436.97	445.71	454.62
Credit Card Transaction Charges	250.00	255.00	260.10	265.30	270.61
Billing Software	2,000.00	2,040.00	2,080.80	2,122.42	2,164.86
Backflow Management Software	3,500.00	3,570.00	3,641.40	3,714.23	3,788.51
Newsletter	500.00	510.00	520.20	530.60	541.22
Publications and Legal Notices	3,000.00	3,060.00	3,121.20	3,183.62	3,247.30
District Files Storage	1,000.00	1,020.00	1,040.40	1,061.21	1,082.43
Organization Memberships	3,500.00	3,570.00	3,641.40	3,714.23	3,788.51
Licences, Permits and Fees	5,989.00	6,108.78	6,230.96	6,355.57	6,482.69
Elections	1,000.00	1,020.00	1,040.40	1,061.21	1,082.43
Contingency	21,350.00	21,777.00	22,212.54	22,656.79	23,109.93
Capital Improvement Program	0.00	115,954.40	115,954.40	115,954.40	115,954.40
New Project Program	0.00	21,857.70	21,857.70	21,857.70	21,857.70
Total General and Administrative Expenses:	93,594.00	233,277.98	235,187.30	237,134.80	239,121.26
TOTAL EXPENSES (Line 30+ Line 59):	427,000.00	573,121.92	581,597.94	590,243.47	599,061.92
SOURCE OF FUNDS / REVENUES RECEIVED					
Cash Revenues (Water rates)	398,483.00	557,819.64	568,976.03	580,355.55	591,962.66
Fire Hydrant Water Meter	2,481.00	2,530.62	2,581.23	2,632.86	2,685.51
Backflow Testing	15,200.00	15,504.00	15,814.08	16,130.36	16,452.97
Late Fees	200.00	204.00	208.08	212.24	216.49
Lien/Recording Fees	1,000.00	1,020.00	1,040.40	1,061.21	1,082.43
Return Check Fees	250.00	255.00	260.10	265.30	270.61
Credit Card Convenience Fee	250.00	255.00	260.10	265.30	270.61
New Connections Deposits	6,000.00	6,120.00	6,242.40	6,367.25	6,494.59
Interest Income	2,585.00	2,636.70	2,689.43	2,743.22	2,798.09
Administration Fees	551.00	562.02	573.26	584.73	596.42
TOTAL REVENUE (Lines 64 through 73):	427,000.00	577,078.26	588,619.83	600,392.22	612,400.07
NET LOSS OR GAIN:	0.00	3,956.34	7,021.89	10,148.75	13,338.15
NET CASH FLOW (Contribution to Reserves)	0.00	141,768.44	144,833.99	147,960.85	151,150.25
Total non-water rates revenue	\$28,517.00	\$29,087.34	\$29,669.09	\$30,262.47	\$30,867.72

Section 3. Fixed Vs Variable Expenses

In Section 3 we utilize the total budgeted expenses for the utility, including funded reserves and CIP numbers, to determine the fixed versus variable expenses.

A fixed expense, by accounting definitions, is an expense that is regularly reoccurring for all of your customers. In determining fixed expenses for the rate study, we looked at the expenses that all customers should share in no matter what size meter or classification the customer may be within the current billing system.

A variable expense, by accounting definitions, is an expense that fluctuates for whatever reason, and is not typically the same from month to month. In determining the variable expenses for the rate study, we look at expenses that are directly related to water use, such as power or treatment chemicals.

This worksheet allows us to assign a percentage of how fixed each expense category is, and then calculates the total percentage of fixed versus variable expenses.


In reviewing this worksheet, you can see that the majority of your expenses will fall into the fixed, or base rate, category. The total percentage of the budgeted amount that falls into the base rate category is 72.92% or \$403,662.97

On the variable amount side of the budgeted numbers, we have a total of 27.08% of the budgeted amount, or \$140,941.95, which needs to be funded by the water use fees. This split is about normal, although due to increased demand for water use efficiency, there are agencies in the urban areas that are only allowed to put a maxim of 50% of the budgeted expenses onto the base rate or fixed rate. This is done in an effort to promote water conservation, but can also create financial hardship for a district if the structure for water use is not well thought out.

At this point we have figured out the total amount that needs to be funded via the base rate and the total amount that needs to be funded via usage fees.

Recommendations: Review this split of budgeted expenses on an annual basis. Things do change in the water system, and the District will need to make adjustments accordingly. This would be part of your annual review of the rates. If water use changes dramatically one way or the other, it will affect the District's ability to fund the system.

Exhibit 3

Fixed Vs Variable Expenses				Exhibit 3	
	Amount	% Fixed	\$ Fixed	\$ Variable	
OPERATIONS & MAINTENANCE EXPENSES					
General Manager	\$41,820.00	60%	\$25,092	\$16,728	
Administration	\$4,590.00	60%	\$2,754	\$1,836	
Customer Billings	\$31,824.00	60%	\$19,094	\$12,730	
Meter Reading	\$12,240.00	60%	\$7,344	\$4,896	
Backflow Testing	\$15,504.00	60%	\$9,302	\$6,202	
Plant Operations	\$61,261.20	60%	\$36,757	\$24,504	
Engineering Services, Public Works	\$5,100.00	60%	\$3,060	\$2,040	
IFAS Technician	\$5,238.72	60%	\$3,143	\$2,095	
Underground Service Alert marking	\$12,240.00	60%	\$7,344	\$4,896	
Insurance - GL	\$11,220.00	60%	\$6,732	\$4,488	
Insurance - GM	\$2,040.00	60%	\$1,224	\$816	
Electricity	\$38,740.62	60%	\$23,244	\$15,496	
Diesel Fuel Oil, Bucktown Generator	\$684.42	60%	\$411	\$274	
Telephone	\$367.20	60%	\$220	\$147	
Road Maintenance	\$2,040.00	60%	\$1,224	\$816	
Vehicle Truck Expenses	\$2,717.28	60%	\$1,630	\$1,087	
Meter Reader Calibration	\$4,080.00	60%	\$2,448	\$1,632	
New Connections	\$6,120.00	60%	\$3,672	\$2,448	
Plant Maintenance and Minor Repairs	\$30,600.00	60%	\$18,360	\$12,240	
Tier 2 Deferred Maintenance	\$23,715.00	60%	\$14,229	\$9,486	
Tier 3 New Source Development	\$16,192.50	60%	\$9,716	\$6,477	
Depreciation Expenses	\$11,509.00	100%	\$11,509	\$0	
Total Operation and Maintenance Expenses:	\$339,843.94		\$208,510	\$131,334	
GENERAL & ADMINISTRATIVE EXPENSES					
Legal	\$13,311.00	75%	\$9,983	\$3,328	
Audit	\$8,160.00	75%	\$6,120	\$2,040	
Accountant	\$12,240.00	75%	\$9,180	\$3,060	
Audit Controller Office Fee	\$625.26	75%	\$469	\$156	
Webmaster	\$2,040.00	75%	\$1,530	\$510	
Office Supplies	\$3,672.00	75%	\$2,754	\$918	
Office Rent	\$4,896.00	75%	\$3,672	\$1,224	
Lien Releases	\$346.80	75%	\$260	\$87	
PO Box Rental	\$122.40	75%	\$92	\$31	
Auto Fold Billing	\$777.24	75%	\$583	\$194	
Postage	\$3,060.00	75%	\$2,295	\$765	
Check Scanner	\$1,020.00	75%	\$765	\$255	
Bank Fees, CEO Account	\$1,836.00	75%	\$1,377	\$459	
Credit Card	\$428.40	75%	\$321	\$107	
Credit Card Transaction Charges	\$255.00	75%	\$191	\$64	
Billing Software	\$2,040.00	75%	\$1,530	\$510	
Backflow Management Software	\$3,570.00	75%	\$2,678	\$893	
Newsletter	\$510.00	75%	\$383	\$128	
Publications and Legal Notices	\$3,060.00	75%	\$2,295	\$765	
District Files Storage	\$1,020.00	75%	\$765	\$255	
Organization Memberships	\$3,570.00	75%	\$2,678	\$893	
Licences, Permits and Fees	\$6,108.78	75%	\$4,582	\$1,527	
Elections	\$1,020.00	75%	\$765	\$255	
Contingency	\$21,777.00	75%	\$16,333	\$5,444	
Capital Improvement Program	\$115,954.40	100%	\$115,954	\$0	
New Project Program	\$21,857.70	100%	\$21,858	\$0	
Total General and Administrative Expenses:	\$233,277.98		\$209,411.51	\$23,866.47	
Total All Expenses	\$573,121.92		\$417,921.47	\$155,200.45	
Total Expense amount to be funded by rate revenue	\$544,604.92		\$403,662.97	\$140,941.95	
Fixed-Variable as % of all Expenses			72.92%	27.08%	

Assume this relationship between fix/var expenses remains the same over the next five years.

Section 4. Actual Calculated rates:

Base Rate Calculations

This section takes the total amount of the fixed costs, and divides it by the number of customers. We will then calculate the monthly rate by dividing the total annual payment by 12 months. The monthly base rate that is established is for 5/8 residential meter size. We then calculate the base rate for larger meters based on the readily available amount of water that will flow through a 3/4 inch meter and larger, increasing the base rate by the amount of water that is available based on the meter size. The goal is to represent all the meter sizes you have in your system. The District chose to retain the current rate structure, as it was designed previously with a developed connection, undeveloped connection and supplemental future connections categories.

In review of the base rate calculation sheet, you can see that we took the targeted revenue from exhibit 3 of \$403,662.97 and then divided that by the number of customers the district serves.

Usage Rate Calculations

This section takes the numbers from section 3, and shows us the variable rate charge per 100 cu/ft of water. In this section we utilize the water usage and production numbers to determine an appropriate average for each size meter that the system has, and then that number is used to determine the price per 100 cu/ft based on the system's average consumption of water for all of the meters. This then will calculate the amount of expected revenue from water sales based on the system's current usage numbers.

The tier rates were set up in accordance with standard requirements of the funding agencies to provide a rate structure that encourages water conservation. The district's current tiers are set up in that manner. We used the same Tier levels: 0-15ccf, 16-35ccf, and then over 35ccf. The cost at the first tier is \$2.00 per 100 cu/ft. The second Tier charge is \$5.00 per 100 cu/ft, and then \$10.00 per 100 cu/ft at the third level. Remember, this funds all usage costs as designated by exhibit 3 in the rate review. These tiers may seem excessive, but 1,500 cu/ft of water is equal to 11,220 gallons, and normal usage for a family of 4 is between 12,000 and 16,000 gallons per month. The last tier is set at 35/100 cu/ft or 3500 cu/ft and is equal to 26,180 gallons and would be considered excessive use in almost any scenario based on a monthly usage.

Exhibit 4.a

Total Rate Revenue (Base and Estimated Usage)	
Needed Total Revenue	\$544,604.92
Estimated Water Revenue with Below rates	\$546,882.00

Base Rates

Reccomended Average Yearly Base Rate Per Customer	\$1,027.13
Reccomended Average Monthly Base Rate Per Customer	\$85.59
Reccomended Total Yearly Base Rate Revenue	\$403,662.97

Base Rate Calculation

				2016	2017	2018	2019
	Meter Size in Inches	# of Connections	Proposed Base Rate	2%	2%	2%	2%
	Developed/Undeveloped Connections	393.00	\$75.50	\$77.01	\$78.55	\$80.12	\$81.72
	Supplemental Future Connections Fee	98.00	\$19.00	\$19.38	\$19.77	\$20.16	\$20.57
			Average Total Monthly Base Rate Per Customer				
			\$80.24				
			Average Total Yearly Base Rate Per Customer				
			\$962.85	982.1120611	1001.754302	1021.789388	1042.225176
		Total # of Connections	Total Yearly Revenue from Base Rate				
		393.00	\$378,402.00	\$385,970.04	\$393,689.44	\$401,563.23	\$409,594.49

Exhibit 4.b

Usage Rates

Reccomended Yearly Usage Revenue	\$140,941.946
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Usage Rate Calulation							
				2016	2017	2018	2019
Tier	Tier Cap Amount in 100 cubic feet	Price per 100/cubic feet	Example Monthly Usage Bill	2%	2%	2%	2%
1	0 to 15	\$2.00	\$30.00	\$2.04	\$2.08	\$2.12	\$2.16
2	16 to 35	\$5.00	\$175.00	\$5.10	\$5.20	\$5.31	\$5.41
3	Over 35	\$10.00	\$510.00	\$10.20	\$10.40	\$10.61	\$10.82

Estimated Yearly Usage Revenue=	\$168,480.00	\$171,849.60	\$175,286.59	\$178,792.32	\$182,368.17
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5. Rate Study Summary and Conclusions:

Rural North Vacaville Water District will need to evaluate the rates on an annual basis, especially in the first few years after the rates are implemented. Adjustments may need to be made due to ongoing issues here in California, with water quantity and quality issues being caused by the drought statewide.

The rates as presented will fund the district's capital improvement program, and provide funds for reserves. The majority of the budget (72.92%) is funded under the base rate and that should provide the stability the district needs to fund the operation of the district. The usage rates are set up to fund the remaining 27.08% of the district's budget. This revenue amount will go up or down with water use patterns, but so will your expenses in this category, as the expenses are tied to water production i.e. pumping or electrical costs associated with producing water. The expenses will fluctuate with the water use as will the revenue.

I would recommend the annual review of the rates and revenue production. I would also determine what other sources of funding are available. The rates are affected by desired revenue and that can be affected by a couple of different scenarios. The district is currently funding the capital improvements over a 10 year period. The district can adjust the length of that period on some of the capital expenditures in the CRP section, Exhibit 1, and that would affect the annual desired revenue which would then affect the rates.

I would also recommend that the district pursue long term loan and/grants, as most State programs have 20 or 40 year terms and conditions. The extended terms would also lower the annual costs or desired revenue of the system, thereby affecting the rates as well.