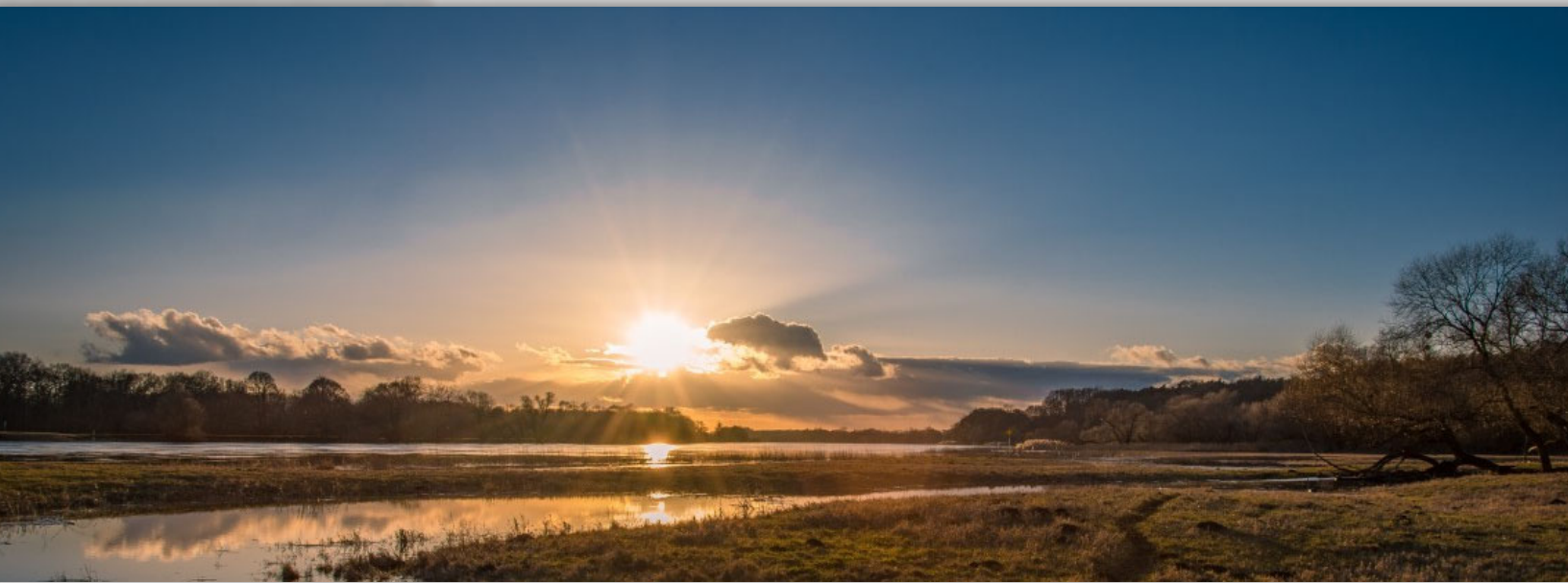




Leland Meadow Water District

Proposal

Five-Year Rate Study for Water and Sewer Services



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

1889 Alcatraz Avenue
Berkeley, CA 94703
Tel: 510 653 3399
www.bartlewells.com

December 7, 2018

Leland Meadow Water District
10454 Henshaw Drive
Stockton, CA 95219

Re: Proposal for a Water and Sewer Rate Study

Bartle Wells Associates (BWA) is pleased to submit this proposal to assist the Leland Meadow Water District with a water and sewer rate study. Bartle Wells Associates specializes in providing independent financial advisory and utility rate consulting services to California water and wastewater agencies. We have a long track record of successfully helping agencies evaluate and adopt utility rates designed to recover the costs of providing service and support long-term financial stability. And we are very familiar with the District sewer rates and finances from our prior assignments.

Our overall goal for this project would be to work closely with the District to recommend rates for designed to:

- Provide adequate funding for capital improvement needs;
- Recover the costs of providing service to and support long-term financial stability;
- Comply with the legal requirements of Proposition 218.

BWA appreciates the opportunity to assist the District with the rate study. Please contact me if you have any questions or would like any additional information.

Sincerely,

BARTLE WELLS ASSOCIATES

Erik Helgeson, MBA
Consultant

Alex Handlers, CIPMA
Principal/Vice-President

Proposal for Rate Study for Leland Meadow Water District

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BWA Firm Overview



BARTLE WELLS ASSOCIATES

The Gold Standard in California Utility Finance

Bartle Wells Associates (BWA) is an independent public finance consulting firm with expertise in utility rates and finance. Our firm was established in 1964 and has over 50 years of experience advising local governments on the complexities and challenges in public finance. BWA has advised over 500 public agency clients throughout California and the western United States. We have a diversity of abilities and experience to evaluate all types of financial issues faced by local governments and to recommend the best and most-practical solutions.

Bartle Wells Associates specializes in three professional services: utility rate and fee studies, financial plans, and project financing. We are the only independent financial advisor providing *all three* of these interrelated services to public agencies.

Bartle Wells Associates has well-qualified professional team. Our education and backgrounds include finance, civil engineering, business, public administration, public policy, and economics. The firm is owned and managed by its principal consultants.

RATE AND FEE STUDIES Our *rate studies* employ a cost-of-service approach and are designed to maintain the long-term financial health of a utility enterprise while being fair to all customers. We develop practical recommendations that are easy to implement and often phase in rate adjustments over time to minimize the impact on ratepayers. We also have extensive experience developing impact fees that equitably recover the costs of infrastructure required to serve new development. BWA has completed over 1,000 utility rate and fee studies. We have helped communities implement a wide range of water and wastewater rate structures and are knowledgeable about the legal requirements governing rates and impact fees including Proposition 218 and Government Code 66000. We develop clear, effective presentations and have represented public agencies at hundreds of public hearings to build consensus for our recommendations.



BWA has over 50 years of experience providing public agencies with independent, expert advice in the areas of utility rates and finance.

BWA Key Services

- *Financial Plans*
- *Rate & Fee Studies*
- *Project Financing*

FINANCIAL PLANS Our *financial plans* provide agencies with a flexible roadmap for funding long-term operating and capital needs. We evaluate the wide range of financing options available, develop a plan that recommends the best financing approach, and clearly identify the sources of revenue for funding projects and repaying any debt. We also help agencies develop prudent financial policies, such as fund reserve targets, to support sound financial management. BWA has developed over 2,000 water and wastewater enterprise financial plans to help public agencies fund their operating and capital programs, meet debt service requirements, and maintain long-term financial health.



PROJECT FINANCING Our *project financing* experience includes over 300 bond sales and numerous bank loans, lines of credit, and various state and federal grant and loan programs. We generally recommend issuing debt via a competitive sale process to achieve the lowest cost financing possible. To date, we have helped California agencies obtain over \$5 billion of bond financing, \$500 million in low-rate SRF loans and grants, and hundreds of millions in bank loans and lines of credit. We work only for public agencies; we are independent financial advisors and do not buy, trade, or resell bonds. Our work is concentrated on providing independent advice that enables our clients to finance their projects on the most favorable terms—lowest interest rates, smallest issue size, and greatest flexibility.

Bartle Wells Associates is a charter member of the **National Association of Municipal Advisors** (NAMA), which establishes strict criteria for independent advisory firms. All of our lead consultants are *Certified Independent Professional Municipal Advisors*. Bartle Wells Associates is a registered Municipal Advisor with the Securities and Exchange Commission (SEC Registration No. 867-00740) and is registered with the Municipal Securities Rulemaking Board (MSRB ID K0414).



Bartle Wells Associates is committed to providing value and the best advice to our clients. Our strength is *quality*—the quality of advice, service, and work we do for all our clients.

BWA Project Manager

BWA proposes to assign Erik Helgeson, a firm consultant, as project manager for this engagement. Erik has extensive experience developing financial plans and utility rate and fee studies for California water and wastewater agencies. He is an industry expert in the areas of utility rates and finance. He serves on the American Water Works Rates and Charges Committee.

Alex Handers will provide principal review. Alex Handers a firm principal and vice-president, will serve as project manager for this engagement. He has extensive experience developing strategic financial plans and utility rate studies and has consulted for more than 150 California agencies. He is a Certified Independent Professional Municipal Advisor and Board Member of the National Association of Municipal Advisors.

Project Manager

Erik Helgeson, MPA

Consultant

Tel: 509-998-7602

Fax: 510.653.3769

E-mail: erik@bartlewells.com

Principal Review

Alex Handers, MPA, CIPMA

Principal/ Vice-President

Tel: 509-998-7602

Fax: 510.653.3399 (x109)

E-mail: ddove@bartlewells.com

Bartle Wells Associates was established in 1964 and is a California Corporation and certified State of California Small Business. The Federal ID number is 94-166440.



ALEX T. HANDLERS

Principal Consultant

Alex Handlers is a principal and vice president of Bartle Wells Associates with expertise in the areas of utility rates and finance. He has extensive experience developing long-term financial plans, utility rates, and development impact fees for utility enterprises. Alex has helped agencies implement a wide variety of water and sewer rate and fee structures and is knowledgeable about the legal requirements of rates and fees. He has managed projects for over 150 cities, counties, and special districts.

Alex is also an independent financial advisor who helps public agencies secure low-cost financing for capital projects. He is an MSRB-Registered Municipal Advisor, a Certified Independent Professional Municipal Advisor, and a current Board Member of the National Association of Municipal Advisors. He has expertise helping public agencies evaluate financing alternatives for capital improvement programs and obtain over \$2 billion in financing via bonds, COPs, bank loans/private placements, lines of credit, and various state and federal funding programs.

Education

M.P.A. - University of Washington

B.A. - Lehigh University

Certifications

Board Member – National Association of Municipal Advisors

CIPMA – Certified Independent Professional Municipal Advisor

MSRB-Registered Municipal Advisor (Series 50)

Representative Projects

* **City of San Carlos:** Developed a sewer enterprise financial plan and rate study designed to support sewer collection system capacity improvements, long-term pipeline replacements, and over \$120 million for the City's share of costs for rebuilding the regional wastewater treatment plant. Evaluated residential rate alternatives and recommended modifications to the City's sewer rate structure designed to improve rate equity and align rates with the cost of service. Updated the City's sewer capacity charges levied on new development and developed solid waste rate recommendations to support future funding requirements and restore rate equity.

* **City of Redwood City:** Developed water and sewer financial plans and utility rate studies designed to support long-term operating and capital needs while providing a defensible cost-justification for the City's water and sewer rates. BWA has assisted Redwood City on a number of financial consulting assignments since the early 2000s including developing financial plans and utility rates supporting a) construction of a \$72 million recycled water project, b) funding the City's roughly \$400 million share of improvements to the regional wastewater treatment plant, c) funding major increases in wholesale water rates, and d) increasing funding for ongoing investment in the City's aging water and sewer infrastructure.

* **Mid-Peninsula Water District (Belmont):** Developed 10-year financial plan and water rate study with a gradual phase in of rate increases and modifications to rate structure to improve equity and conservation incentive. Developed water system capacity charges levied on new development and a new water demand offset fee to recover costs for generating water supply to serve growth.

- * **City of Mountain View:** Developed 10-year water and wastewater financial plans and rate studies. Evaluated water and sewer rate structures and recommended modifications to improve rate equity and compliance with Prop. 218. Updated the City’s water and wastewater connection fees.
- * **City of San Mateo:** Developed a sewer enterprise financial plan and rate recommendations supporting funding for a roughly \$900 million wastewater capital improvement program needed to improve wet weather capacity and rebuild the City’s aging wastewater treatment plant. Transitioned residential sewer rates from 100% volumetric rates (subject to a minimum charge) to a hybrid 50% fixed & 50% volumetric rate structure.
- * **City of Sunnyvale:** Developed sewer enterprise financial projections and rate recommendations. Updated the City’s water and sewer capacity charges levied on new development.
- * **Silicon Valley Clean Water:** Developed 10-year financial plan supporting over \$750 million of capital improvements to a regional JPA that provides sewer treatment to Belmont, Redwood City, San Carlos, and the West Bay Sanitary District. Served as financial advisor on issuance of \$200 million of financing via bonds, State Revolving Fund (SRF) loans, and a line of credit.
- * **Monterey One Water** (formerly Monterey Regional Water Pollution Control Agency): Developed a long-term financial plan, sewer rate study, capacity charge study, and update of a range of miscellaneous fees and charges.
- * **City of Petaluma:** Developed water and sewer financial plans and rate studies designed to support each utility’s long-term capital improvement program. Recommendation included a gradual phase-in of rate increases along with automatic inflationary rate adjustments designed to keep rates aligned with the cost of providing service.
- * **City of San Bruno:** Developed 10-year water and wastewater financial plans and rate studies. Recommended a series of gradual annual rate increases to fund operating and capital needs and increase funding for repair and replacement of the City’s aging water and sewer infrastructure. Evaluated water and sewer rate structures and recommended modifications to improve rate equity and increase conservation incentive.
- * **Alameda County Water District:** Comprehensive development fee study; recommended a series of modifications to existing charges to improve revenue recovery, equity and fee administration
- * **Union Sanitary District:** Conducted a comprehensive analysis and update of the District’s capacity fees levied on new development. Developed a long-term financial plan supporting over \$100 million of wastewater system capital improvements.
- * **City of Fresno:** Developed wastewater enterprise financial plan and Excel-based financial model used by City staff to update financial and rate projections. Developed new water connection fees designed to recover costs of existing facilities and future supplemental water supply projects benefiting new development.
- * **City of Millbrae:** Developed a water rate study and revised the City’s Clean Bay Charged levied to fund a capital improvement program designed to eliminate sanitary sewer system overflows during major storms.
- * **City of Morro Bay:** Developed water and sewer rate studies. Developed a financial plan and rate recommendations supporting the construction of a new \$125 wastewater treatment plant with water recycling and indirect potable reuse facilities.
- * **San Francisco Public Utilities Commission:** Developed financial projections supporting over \$2 billion of bonds issued to help fund a \$4.3 billion upgrade to the Hetch-Hetchy regional water system and improvements to the City’s wastewater system

ERIK W. HELGESON



Project Consultant

Erik Helgeson is a finance and management consultant with Bartle Wells and Associates. His areas of expertise include the development of financial, ratemaking, and policy solutions for water, stormwater and wastewater utilities. He has eight years of utility finance experience- as a finance analyst at Denver Water and now as a consultant. Erik has extensive expertise in working with executive level staff and assisting in strategic decisions.

Education

M.B.A., Entrepreneurship – University of Colorado, Denver

B.A., Business Administration – Gonzaga University

Representative Projects

- **Carlsbad, CA:** Played a key role in completing the 2016 water cost of service study. Created a supply-based cost allocation and supply layered, tiered, water rate design
- **City of Hemet, CA:** Water budget rate design and cost of service study (in progress)
- **Modesto Irrigation District:** Designed an allocation methodology between the district's domestic water, irrigation and electric enterprises.
- **San Miguel Community Services District, CA:** Lead consultant providing water and wastewater financial plans and rate studies. The District was nearing insolvency and large rate increases were needed to save the District.
- **Castle Pines North Metropolitan District, CO:** Lead consultant providing annual water and wastewater financial plans and rate study updates
- **City of Placerville, CA:** Analytical support for water financial plans and rate studies.
- **City of Modesto, CA:** Analytical support for water and wastewater financial plans and rate studies
- **City of Ramona, CA:** Analytical support for wastewater financial plan and rate study
- **Las Gallinas Valley Sanitary District, CA:** Support for annual budget process
- **Madera County, CA:** Lead consultant providing rate studies for twenty-three of the county's water and sewer special service districts
- **City of Willits, CA:** Lead consultant providing water and wastewater financial plans and rate studies
- **Humboldt Bay Municipal Water District, CA:** Lead consultant providing 10-year financial plan update



- **Marin Municipal Water District, Marin, CA:** Lead Analyst supporting water financial plan and rate study.
- **Sacramento County Water Authority, Sacramento, CA:** Lead analyst supporting water financial plan and rate study
- **The Cities of Pinole and Hercules, CA:** Assisted the cities with the co-financing of a wastewater project with SRF loans. This included the design of the payment and reimbursement process, the administration of the process, and navigating the State requirements.

Utility Experience

Denver Water, Denver, CO:

Senior Finance Analyst- Assisted with the annual cost of service study and financial plan, provided regular revenue reports, and oversaw the gathering and reporting of metrics to support Denver Water's organizational improvement initiatives. As the lead analyst on the initiative to change the rate design he facilitated research (customer survey and affordability study), performed rate design analysis, and assisted with stakeholder outreach (municipalities, customers, business representatives, non-profits, and Denver Water executives and Board) which led to the adoption of new rate structures. He coordinated the implementation efforts between various business units to ensure a successful rollout of the new rates and rate structures.

Professional Memberships

American Water Works Association - Rates and Charges Committee

Certifications

MSRB-Registered Municipal Advisor (Series 50)

Scope of Services

This section presents a scope of services for performing a rate study for the District. BWA's general project approach is to work closely with staff and other members of the project team, identify objectives, set milestones, have frequent communication, and remain flexible to resolve new issues. We often recommend agencies adopt gradual, annual rate adjustments to minimize the annual impact on ratepayers, prevent the need for periodic rate spikes, and keep revenues in line with annual funding needs.

Key tasks for this assignment will include:

- Coordinate with the District on identification of study objectives, key issues, and scheduling requirements
- Work with District staff to acquire financial and customer information
- Review and analyze customer data
- Evaluate financing alternatives for capital improvements and recommend a preferred approach
- Recommend minimum fund reserve targets for financial planning purposes
- Develop updated 10-year financial projections for the District, review with District staff, and incorporate input as needed
- Evaluate financial scenarios and rate increase options and discuss alternatives with District staff
- Develop a fixed rate recommendation for water and sewer service charges
- Draft a summary report explaining key findings and recommendations
- Draft Proposition 218 Notices for proposed sewer rate increases, if needed
- Present a summary of findings and recommendations at the Proposition 218 Rate Hearing
- Assist the District with the rate-adoption process and remain available to assist with any public outreach efforts

Rate Study Process



Project Schedule

PROJECT TASK	DEC/JAN				FEB/MAR				APR/MAY			
Research												
10-Year Financial Plans												
Cost of Service Rate Analysis												
Kickoff & Project Team Call												
Draft & Final Reports												
218 Period												
Rate Presentation and 218 Hearing												

Note: Individual project milestones will be established based on consultation with the project team.

Availability and Fees

1. Bartle Wells Associates is prepared to begin work upon authorization to proceed.
2. During the project development period, Bartle Wells Associates will be available at all reasonable times and on reasonable notice for meetings and for consultation with staff, attorneys, consulting engineers, and others as necessary.
3. Bartle Wells Associates will perform all work related to the assignment. Douglas Dove, a firm principal and president, will be assigned as project manager on this assignment. He will serve as the lead contact person for BWA and will be involved with the project a day-to-day basis. Doug will be assisted by Erik Helgeson, project consultant. This project team may be assisted by other BWA analysts as needed.
4. The total project cost will not exceed \$5,000 for the services defined in the scope of services. Additional services including meetings and analysis will be available on a time and materials basis. The fee is based on the following assumptions:
 - a. All necessary information will be provided by the City in a timely manner.
 - b. Development of a draft and final versions of tables, presentation, and summary report. Time and expenses involved in revising tables and assumptions may constitute additional services if not achievable within the budget.
 - c. One trip to the District for a presentation. Additional meetings or presentations may constitute additional services if not achievable within the budget.
5. Progress payments and direct expenses are payable monthly on a time and materials basis as the work proceeds as provided in our Billing Rate Schedule 2018, which will remain in effect through the duration of this assignment.
6. Bartle Wells Associates will maintain in force, during the full term of the assignment, insurance as provided in the Certificate of Insurance attached.
7. If the project is terminated for any reason, we are to be reimbursed for professional services and direct expenses incurred up to the time we receive notification of such termination.
8. This proposal may be withdrawn or amended if not accepted within 90 days of its date.
9. We will not require a formal contract of employment and will consider a letter or e-mail from an appropriate official as sufficient authority to proceed.



BARTLE WELLS ASSOCIATES
BILLING RATE SCHEDULE 2018
 Rates Effective 1/1/2018

Professional Services

Financial Analyst I	\$105 per hour
Financial Analyst II	\$130 per hour
Consultant.....	\$155 per hour
Senior Consultant.....	\$185 per hour
Senior Project Manager	\$215 per hour
Principal Consultant.....	\$255 per hour

The hourly rates for professional services include all overhead and indirect expenses. Bartle Wells Associates does not charge for administrative support services. Expert witness, legal testimony, or other special limited assignments will be billed at one and one-half times the consultant’s hourly rate.

The above rates will be in effect through December 31, 2018 at which time they will be subject to change.

Direct Expenses

Subconsultants will be billed at cost plus ten percent. Word processing and computer-assisted services related to official statement production are charged as direct expenses at \$75 per hour. Other reimbursable direct expenses incurred on behalf of the agency will be billed at cost plus ten percent. These reimbursable costs include, but are not limited to:

- Travel, meals, lodging
- Printing and photocopying
- Special statistical analysis
- Outside computer services
- Bond ratings
- Automobile mileage
- Messenger services and mailing costs
- Graphic design and photography
- Special legal services
- Legal advertisements

Insurance

Bartle Wells Associates maintains insurance in the amounts and coverage as provided in the attached schedule of insurance. Additional or special insurance, licensing, or permit requirements beyond what is shown on the schedule of insurance are billed in addition to the contract amount.

Payment

Fees are typically billed monthly for the preceding month and will be payable within 30 days of the date of the invoice. A late charge of 1.0 percent per month may be applied to balances unpaid after 60 days.



Municipal Advisor Disclosures

This section provides certain disclosures required by the Municipal Securities Rulemaking Board (MSRB) regarding our duties as a Municipal Advisor to the extent any such duties apply to this assignment.

* Bartle Wells Associates will provide advice and conduct activities with a “duty of care” and a “fiduciary duty” to the agency. Our role and responsibilities during this engagement will continue through the completion of the project.

* Bartle Wells Associates is a registered Municipal Advisor with the Securities and Exchange Commission (SEC Registration No. 867-00740) and the Municipal Securities Rulemaking Board (MSRB ID K0414).

* Bartle Wells Associates has never been cited for any legal or disciplinary action regarding municipal advisory activities.

* Bartle Wells Associates has not and will not receive any compensation from any third party seeking to provide services, municipal securities transactions, or municipal financial products related to this transaction. BWA or any of its employees will not engage in any activities that would produce a direct or indirect financial gain for the firm other than compensation for our services identified in this proposal.

* Bartle Wells Associates is not aware of any conflicts of interest that would affect our ability to provide independent and objective advice and Municipal Advisory services in a manner consistent with the requirements of MSRB Rule G-42.

* The website address for the Municipal Securities Rulemaking Board (MSRB) is www.MSRB.org. The MSRB’s website provides a municipal advisory client brochure that describes the protections that may be provided by the MSRB rules and how to file a complaint with an appropriate regulatory authority. The municipal advisory client brochure is accessible via a link on www.MSRB.org or can be downloaded from <http://www.msrb.org/~media/Files/Resources/MSRB-MA-Clients-Brochure>.

Schedule of Insurance

SCHEDULE OF INSURANCE

Insured: BARTLE WELLS ASSOCIATES

Bartle Wells Associates will maintain in force, during the full term of the assignment, insurance in the amounts and coverage as provided in this schedule. If additional insurance is required, and the insurer increases the premium as a result, then the amount of the increase will be added to the contract price.

TYPE OF INSURANCE	COMPANY POLICY NUMBER	COVERAGES AND LIMITS	EXP. DATE
Commercial General Liability	Hartford Insurance Company Policy #35-SBA PA6857	<ul style="list-style-type: none"> ▪ \$2,000,000 General Aggregate ▪ \$2,000,000 Products Comp/Op Aggregate ▪ \$2,000,000 Personal & Advertising Injury ▪ \$1,000,000 Each Occurrence 	6/1/19
Excess/Umbrella Liability	Hartford Insurance Company Policy #35-SBA PA6857	<ul style="list-style-type: none"> ▪ \$1,000,000 Aggregate ▪ \$1,000,000 Each Occurrence 	6/1/19
Automobile Liability	Hartford Insurance Company Policy #35-UEC VU2842	<ul style="list-style-type: none"> ▪ \$1,000,000 Combined Single Limit 	6/1/19
Workers Compensation & Employers' Liability	Hartford Underwriters Insurance Company Policy #35-WEC FG7858	<p>Workers' Compensation: Statutory Limits for the State of California. Employers' Liability:</p> <ul style="list-style-type: none"> ▪ Bodily Injury by Accident - \$1,000,000 each accident ▪ Bodily Injury by Disease - \$1,000,000 each employee ▪ Bodily Injury by Disease - \$1,000,000 policy limit 	6/1/19
Professional Liability	Chubb & Son, Inc. BINDO94045	<p>Solely in the performance of services as municipal financing consultants for others for a fee.</p> <p>Limit: \$2,000,000 Per Occurrence & Aggregate (including defense costs, charges, and expenses)</p>	6/1/19



- **Water and Sewer Rate Study Example**
- **Prop. 218 Notice Example**



Madera County MD-95 (Ranchos West) Water Rate Study

June 12, 2018



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

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1 BACKGROUND & OBJECTIVES

1.1 Background

Ranchos West or Madera County Maintenance District 95 (District) provides water service to 27 improved and 2 standby units. The District is entirely funded by fees for the services it provides. Rates were last set in 2005. Currently, improved units are charged a fixed, unmetered rate of \$83.33 per month while standby units pay a flat rate of \$15 per month.

1.2 Rate Study Objectives

In 2016, Madera County retained Bartle Wells Associates (BWA) to provide financial plans and rate studies for its special districts. Key goals and objectives of the studies include developing rates that:

- Recover the costs of providing service, including operating, capital, and debt;
- Are fair and equitable to all customers;
- Are easy to understand and implement;
- Comply with the substantive cost-of-service requirements of the California Constitution, Article 13D, Section 6 (established by Proposition 218) and the general mandate of Article 10, Section 2 that prohibits the wasteful use of water;
- Support the District's long-term operational and financial stability.

This report summarizes key findings and recommendations for water rates over the next five years. The full set of tables are included in the appendix to this report.

2 LEGAL REQUIREMENTS & RATE METHODOLOGY

2.1 Constitutional Rate Requirements

The California Constitution includes two key articles that directly govern or impact the District's water rates: Article 10 and Article 13D. The water rates developed in this study were designed to comply with both of these constitutional mandates as well as various provisions of the California Water Code and Government Code that support and add further guidance for implementing these constitutional requirements. In accordance with the constitutional provisions, the proposed rates are designed to a) recover the District's cost of providing service, b) recover revenues in proportion to the cost for serving each customer, and c) promote conservation and discourage waste.

2.1.1 Article 10, Section 2

Article 10, Section 2 of the California Constitution was established by voter-approval in 1976 and requires public agencies to maximize the beneficial use of water, prevent waste, and encourage conservation. Section 2 states that:

It is hereby declared that because of the conditions prevailing in this State the general welfare requires that the water resources of the State be put to beneficial use to the fullest extent of which they are capable, and that the waste or unreasonable use or unreasonable method of use of water be prevented, and that the conservation of such waters is to be exercised with a view to the reasonable and beneficial use thereof in the interest of the people and for the public welfare.

2.1.2 Article 13D, Section 6

Proposition 218 was adopted by California voters in 1996 and added Articles 13C and 13D to the California Constitution. Article 13D, Section 6 governs property-related charges, which the California Supreme Court subsequently ruled includes ongoing utility System Charges such as water, sewer, and garbage rates. Article 13D, Section 6 establishes a) procedural requirements for imposing or increasing property-related charges, and b) substantive requirements for those charges. Article 13D also requires voter approval for new or increased property-related charges but exempts rates for water, sewer, and garbage service from this voting requirement if the appropriate procedure is followed.

The substantive requirements of Article 13D, Section 6 require the District's water rates to meet the following conditions:

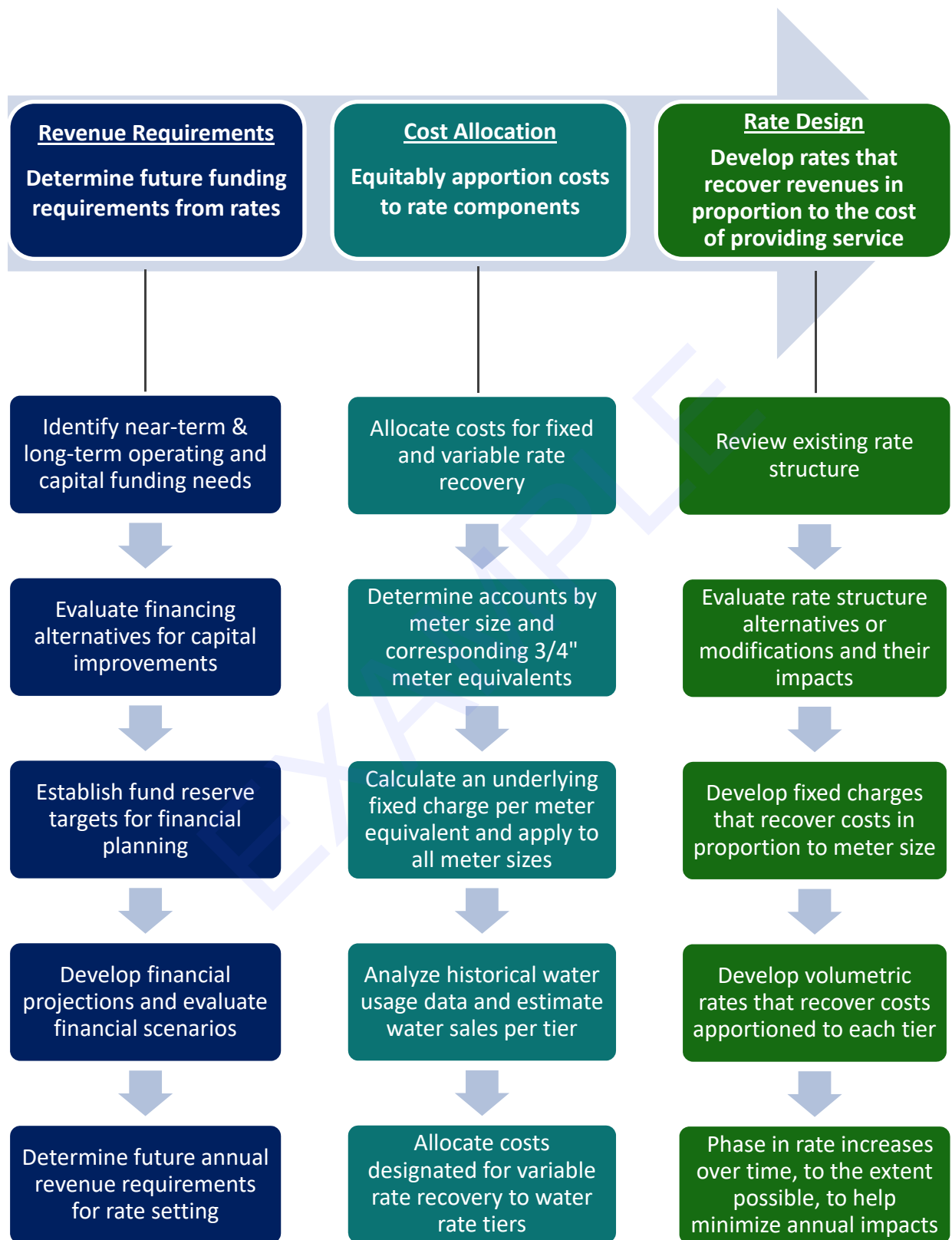
- 1) Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.

- 2) Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.
- 3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.
- 4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question.
- 5) No fee or charge may be imposed for general governmental services, such as police or fire services, where the service is available to the public at large in substantially the same manner as it is to property owners.

2.2 Rate-Setting Methodology

The rates developed in this report use a straightforward methodology to establish an equitable system of fixed and variable charges that recover the cost of providing service and fairly apportion costs to each rate component. The general methodology used in this study is summarized on the diagram on the following page.

Cost of Service Rate-Setting Methodology



3 DISTRICT FINANCES & CASH FLOW PROJECTIONS

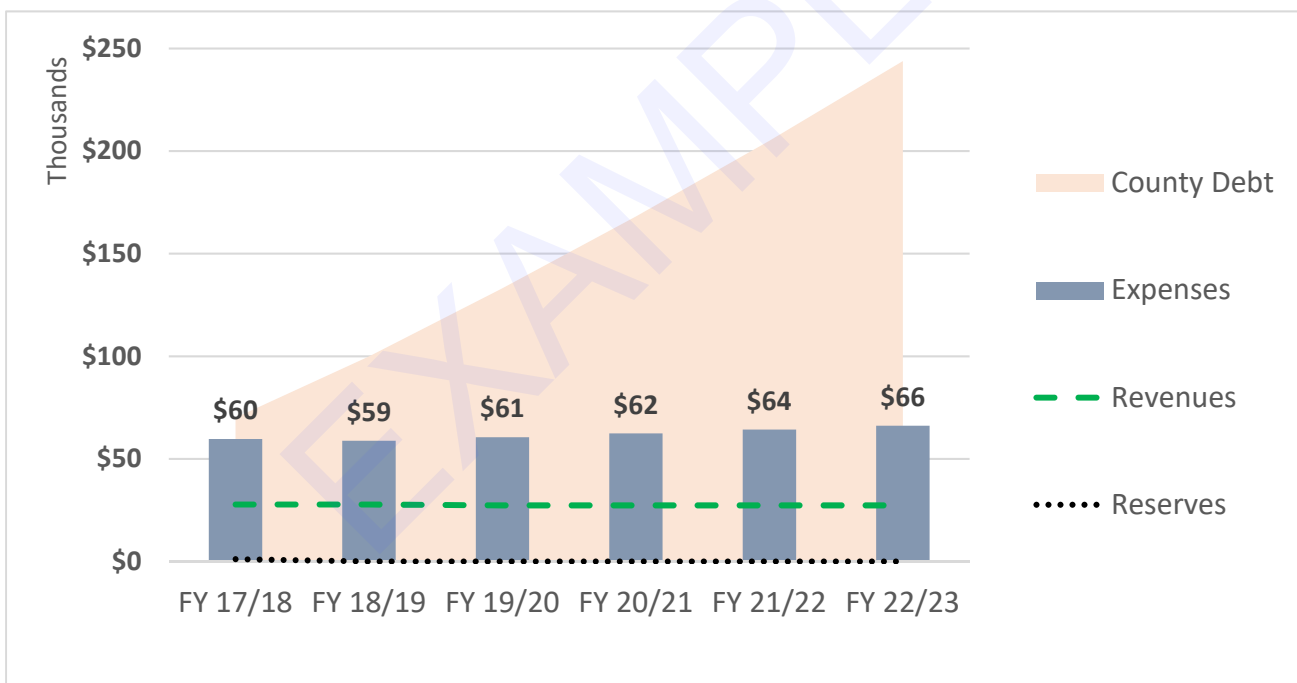
3.1 Financial Overview

The District is a financially self-supporting agency that relies entirely on revenues from user charges to fund the costs of providing service. Bartle Wells Associates conducted an independent evaluation of water enterprise finances. Key observations include:

- The District’s expenses are more than double its revenue.
- The annual deficit with no revenue increase is projected to be \$32,000 in FY 17/18 and grow to \$39,000 in FY 22/23.
- At the end of FY 17/18 the District is projected to have received \$70,000 of emergency loans from the county.

The following figure shows a 5-year cash flow projection if there are no revenue increases.

Figure 1: Projected Revenues & Expenses



3.2 Enterprise Financial Projections

BWA developed long-term cash flow projections to determine District’s annual revenue requirements and project required water rate revenue increases. The financial projections incorporate the latest information available as well as a number of reasonable and slightly conservative assumptions. Key information and assumptions include:

Reserves

- The District currently has \$23,000 in total reserves to begin FY 2017/18. However, these reserves are carried over from an emergency cashflow loan from the county in FY 16/17. The District anticipates drawing down fund reserves to \$1,000 by the end of 2017/18.

Debt

- The District is projected to end of FY 2017/18 owing \$70,000 to the county. The county has loaned the District money to allow it to continue to provide safe drinking water.

Revenue Assumptions

- Investment income is estimated based on projected reserve levels. Future projections are estimated based on conservative interest earning rates; and actual amounts will vary based on reserves and future interest earning rates.
- Other revenues are projected to stay constant for the study period.

Expense Assumptions

- Operating and maintenance costs are based on the 2018-19 budget and escalate at the annual rate of 3.0% to account for future cost inflation.

3.3 Projected Rate Increases

The following table shows the projected overall rate increases needed to meet the District’s annual revenue requirements.

Table 1. Proposed Rate Adjustments

	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
Rate Revenue Increase	125.0%	5.0%	5.0%	5.0%	5.0%

Actual impacts to customers’ monthly water bills will vary based on each customer’s level of consumption due to minor modifications to the rate structure. Note that water consumption typically varies due to seasonal variations in weather and/or other factors. Hence a single customer could face a range of impacts throughout the year depending on their variations in monthly water use.

In future years, the District can re-evaluate its future rate and revenue requirements based on future updates of long-term financial projections. The District always has the flexibility to implement rates that are lower than those adopted pursuant to the Proposition 218 process. However, future rates cannot exceed levels adopted via the Proposition 218 process without going

through the Proposition 218 process for any additional increases. Rates adopted pursuant to Proposition 218 process are essentially future rate caps.

3.4 Projected Cashflow with Rate Increases

Figure 2 shows 5-year cash flow projections incorporating the assumptions described above. The rate projections shown on the table are designed to fund the District’s cost of providing service while maintaining balanced budgets and prudent minimal levels of fund reserves each year.

Figure 2: Projected Revenues & Expenses

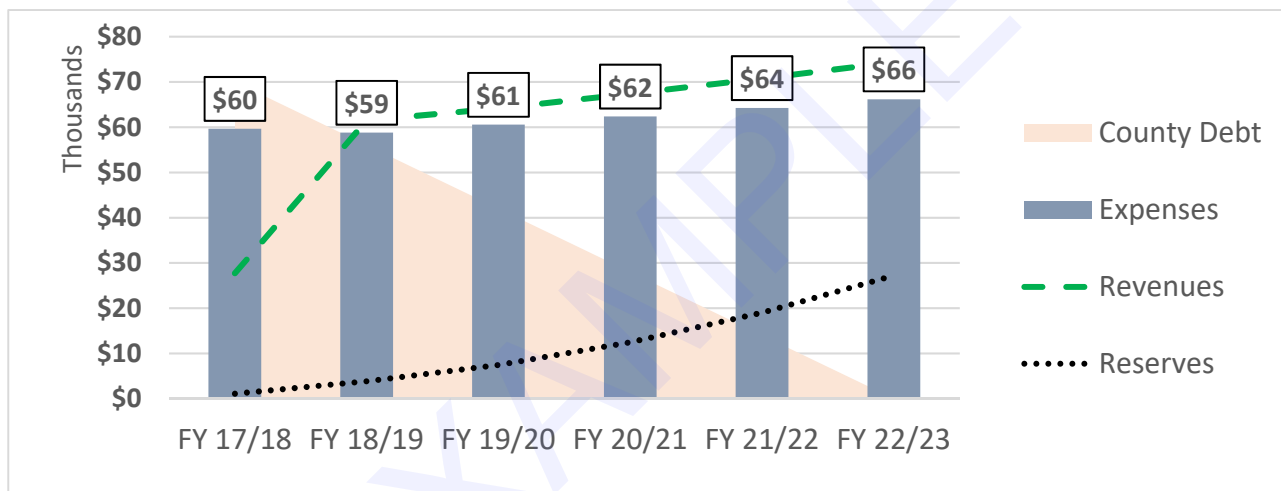


Table 2. Projected Revenues & Expenses

Item	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
Reserves						
Beginning Unrestricted Balance	\$23,024	\$1,108	\$3,842	\$7,454	\$12,474	\$19,022
Revenue Escalation						
Rate Revenue Increase	0.0%	125.0%	5.0%	5.0%	5.0%	5.0%
Revenues						
Operating Revenue						
User Charge Revenue	\$26,999	\$26,999	\$60,748	\$63,785	\$66,974	\$70,323
Additional Revenue	0	33,749	3,037	3,189	3,349	3,516
Timing Adjustment	\$0					
Other Revenue	728	761	336	336	336	336
Interest on Reserves		\$11	\$38	\$75	\$125	\$190
Total Operating Revenue	\$27,727	\$61,520	\$64,159	\$67,385	\$70,784	\$74,365
Expenses						
Operating Expenses						
Operating Expense	\$59,643	\$58,785	\$60,548	\$62,365	\$64,235	\$66,163
Total Operating Expenses	\$59,643	\$58,785	\$60,548	\$62,365	\$64,235	\$66,163
Net Revenues	-\$31,916	\$2,735	\$3,611	\$5,020	\$6,549	\$8,202
<i>Additional County Debt</i>	\$10,000	\$0	\$0	\$0	\$0	\$0
Total Reserves	\$1,108	\$3,842	\$7,454	\$12,474	\$19,022	\$27,224

4 RATE ANALYSIS

4.1 Rate Structure Modifications

The proposed rates developed in this are designed to fairly apportion costs of service to all District customers in accordance with the substantive requirements of Article 13D, Section 6 of the California Constitution and reflect the policy preferences of the District and Board of Directors. The recommended rate structure includes a volumetric component in addition to the fixed charge.

4.2 Projected Metered Consumption

The proposed rates are based on projected metered consumption of 32,000 hundred cubic feet (CCF). This is a conservative projection based on reviewing the last three years of demand and accounting for potential changes in demand when customers begin paying a volumetric charge.

4.3 Rate Derivation

The California Constitution does not give agencies leeway to arbitrarily set rates purely based on policy preferences. Instead, it provides agencies with flexibility to implement rates within a framework established by Articles 10 and 13D. Together, these Articles establish that rates should both a) discourage waste and encourage conservation of water, and b) not exceed the costs of service attributable to each parcel or customer.

Ultimately, there is no single correct way to allocate or attribute costs. Hence, five similar agencies may have five different rate structures provided each agency can establish a reasonable cost basis for their own particular rate structure within the parameters of meeting the various requirements of the California Constitution.

While there is no single correct approach for cost attribution and rate-setting, BWA believes that costs should be allocated within a reasonable range that reflects both a) underlying cost causation, to the extent such causation can reasonably be determined or estimated, and b) the policy preferences of the agency within the parameters of having a reasonable cost basis. The rates developed in this report are designed to achieve the District's policy preferences while complying with the requirements of the California Constitution.

The following table shows a detailed cost recovery allocation supporting the proposed rates.

4.3.1 Functional Allocation

The proposed rates were developed based on reasonable and equitable allocations for cost recovery from the District’s fixed charges and water quantity charges. Based on the allocations, fixed monthly charges will recover approximately 60% of total rate revenues and water quantity charges will recover roughly 40% of total rate revenues. Expense items were categorized and then allocated between fixed and variable revenue recovery based on input from district staff.

Table 3. Cost Allocation

Functional Allocation

Allocation Category	5 Year Average			Total
	Amount	Fixed	Variable	
Maintenance	\$3,557	80%	20%	100%
DEGS	\$18,165	70%	30%	100%
Administration	\$9,872	100%	0%	100%
Utilities	\$30,824	40%	60%	100%
	Functional Allocation \$	\$37,763	\$24,656	\$62,419
	Functional Allocation %	60%	40%	100%
	Revenue Requirement	\$36,449	\$24,299	\$60,748

*DEGS is the budget code for direct maintenance expense

5 PROPOSED RATES

5.1 Proposed Water Rates

The following table shows a 5-year schedule of proposed water rates incorporating a) the overall level of required rate increases to fund District’s costs of providing service, b) the proposed rate structure modifications, and c) the revenue recovery allocations that reasonably and fairly apportion costs to District’s rate structure. The rates for standby units are not changing.

Table 4. Proposed Water Rates

Summary	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
	<i>Existing</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
Improved Parcels	27	27	27	27	27	27
Unimproved Parcels	2	2	2	2	2	2
Rates for Improved Parcels With Meters						
Monthly Fixed Rate	\$83.33	\$112.50	\$118.13	\$124.04	\$130.25	\$136.77
Volumetric Rate (per CCF)		\$0.76	\$0.80	\$0.84	\$0.89	\$0.94
Debt Repayment Charge		\$43.21	\$43.21	\$43.21	\$43.21	\$43.21
Total Monthly Fixed Charge		\$155.71	\$161.34	\$167.25	\$173.46	\$179.98

APPENDIX A

Additional Water Rate Study Table

ES 1
MD-95 Ranchos West
Executive Summary

Summary	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
	<i>Existing</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
Improved Parcels	27	27	27	27	27	27
Unimproved Parcels	2	2	2	2	2	2
Rates for Improved Parcels With Meters						
Monthly Fixed Rate	\$83.33	\$112.50	\$118.13	\$124.04	\$130.25	\$136.77
Volumetric Rate (per CCF)		\$0.76	\$0.80	\$0.84	\$0.89	\$0.94
Debt Repayment Charge		\$43.21	\$43.21	\$43.21	\$43.21	\$43.21
Total Monthly Fixed Charge		\$155.71	\$161.34	\$167.25	\$173.46	\$179.98

Table 1
MD-95 Ranchos West
Projected Operating Revenues

Revenue	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
	<i>Actual</i>	<i>Actual</i>	<i>Estimated</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
Rate Revenue	\$26,633	\$26,055	\$26,999	\$60,748	\$63,785	\$66,974	\$70,323	\$73,839
Other Revenue								
Construction	\$91	\$91	\$0					
Other Fines/Penalties	\$2,471	\$935	\$133	\$375				
Delinquent Bill Penalty	\$43	\$1	\$50	\$50				
Interest on Cash	\$61	\$94	\$209					
Standby	\$336	\$336	\$336	\$336	\$336	\$336	\$336	\$336
Total Other Revenue	\$3,001	\$1,456	\$728	\$761	\$336	\$336	\$336	\$336
Total Operating Revenue	\$29,634	\$27,511	\$27,727	\$61,509	\$64,121	\$67,310	\$70,659	\$74,175
<i>% Change from Previous Year</i>		-7.2%	0.8%	121.8%	4.2%	5.0%	5.0%	5.0%

Table 2
MD-95 Ranchos West
Projected Operating Expenses

Inflation Factors			Inflation	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
Inflation Factor			General					3.0%	3.0%	3.0%	3.0%
Expenses	Category	Inflation	FY 15/16	FY 16/17	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23	
			<i>Actual</i>	<i>Actual</i>	<i>Estimated</i>	<i>Budgeted</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	
Communication Services	Administration	General	\$238	\$239	\$196	\$240	\$247	\$255	\$262	\$270	
Insurance Expense	Administration	General	255	267	270	1,305	\$1,344	\$1,384	\$1,426	\$1,469	
General Insurance	Administration	General	350	357	381	365	\$376	\$387	\$399	\$411	
Maintenance of Equipment	Maintenance	General	121	0	0	0	\$0	\$0	\$0	\$0	
Maintenance - Bldgs & Improvement	Maintenance	General	167	314	627	0	\$0	\$0	\$0	\$0	
Maintenance - Water System	Maintenance	General	2,231	1,433	3,100	3,350	\$3,451	\$3,554	\$3,661	\$3,770	
Direct Maintenance Expense - DEGS	DEGS	General	20,704	13,599	21,234	17,107	\$17,621	\$18,149	\$18,694	\$19,255	
Memberships	Administration	General	163	161	156	165	\$170	\$175	\$180	\$186	
Postage	Administration	General	13	14	0	0	\$0	\$0	\$0	\$0	
Professional & Specialized Services	Administration	General	18,084	100	235	0	\$0	\$0	\$0	\$0	
Audit/Accounting Services	Administration	General	227	215	225	2,008	\$2,068	\$2,130	\$2,194	\$2,260	
SD-Administration Overhead	Administration	General	1,180	1,628	3,211	2,656	\$2,736	\$2,818	\$2,902	\$2,989	
Special Departmental Expense	Administration	General	343	351	467	470	\$484	\$499	\$514	\$529	
Gas & Electricity	Utilities	General	30,624	27,101	28,882	29,030	\$29,901	\$30,798	\$31,721	\$32,673	
Interfund Expend - Cost Plan	Administration	General	\$664	\$661	\$659	\$2,088	\$2,151	\$2,216	\$2,282	\$2,351	
Total Operating Expenses			\$75,362	\$46,440	\$59,643	\$58,785	\$60,548	\$62,365	\$64,235	\$66,163	
<i>% Change from Previous Year</i>				-38.4%	28.4%	-1.4%	3.0%	3.0%	3.0%	3.0%	

Table 3
MD-95 Ranchos West
Existing and Proposed Debt

Description	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
	<i>Budget</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
County Debt						
Beginning Balance*	\$60,000	\$70,000	\$56,000	\$42,000	\$28,000	\$14,000
New Water Debt	10,000	0	0	0	0	0
Debt Repayment		\$14,000	\$14,000	\$14,000	\$14,000	\$14,000
Ending Balance	\$70,000.00	\$56,000.00	\$42,000.00	\$28,000.00	\$14,000.00	\$0.00

*Balance reflects \$15,000 of expenses identified after the publication of the FY 18/19 budget

Table 4
MD-95 Ranchos West
Cash Flow Projection

Item	FY 17/18	FY 18/19	FY 19/20	FY 20/21	FY 21/22	FY 22/23
Reserves						
Beginning Unrestricted Balance	\$23,024	\$1,108	\$3,842	\$7,454	\$12,474	\$19,022
Revenue Escalation						
Rate Revenue Increase	0.0%	125.0%	5.0%	5.0%	5.0%	5.0%
Revenues						
Operating Revenue						
User Charge Revenue	\$26,999	\$26,999	\$60,748	\$63,785	\$66,974	\$70,323
Additional Revenue	0	33,749	3,037	3,189	3,349	3,516
Timing Adjustment	\$0					
Other Revenue	728	761	336	336	336	336
Interest on Reserves		\$11	\$38	\$75	\$125	\$190
Total Operating Revenue	\$27,727	\$61,520	\$64,159	\$67,385	\$70,784	\$74,365
Expenses						
Operating Expenses						
Operating Expense	\$59,643	\$58,785	\$60,548	\$62,365	\$64,235	\$66,163
Total Operating Expenses	\$59,643	\$58,785	\$60,548	\$62,365	\$64,235	\$66,163
Net Revenues	-\$31,916	\$2,735	\$3,611	\$5,020	\$6,549	\$8,202
<i>Additional County Debt</i>	\$10,000	\$0	\$0	\$0	\$0	\$0
Total Reserves	\$1,108	\$3,842	\$7,454	\$12,474	\$19,022	\$27,224

**Table 5
MD-95 Ranchos West
Customers Data**

Customer Data

Summary	FY 16/17	FY 17/18
	<i>Budgeted</i>	<i>Projected</i>
Parcels		
Improved	27	27
Standby	2	2
Total	<u>29</u>	<u>29</u>
Demand Units		
Improved	27	27
Standby	0	0
Total	<u>27</u>	<u>27</u>
Annual Metered Consumption (CCF)		
Total Demand*	<u>32,000</u>	<u>32,000</u>

*Demand based on FY 16/17 meter reads

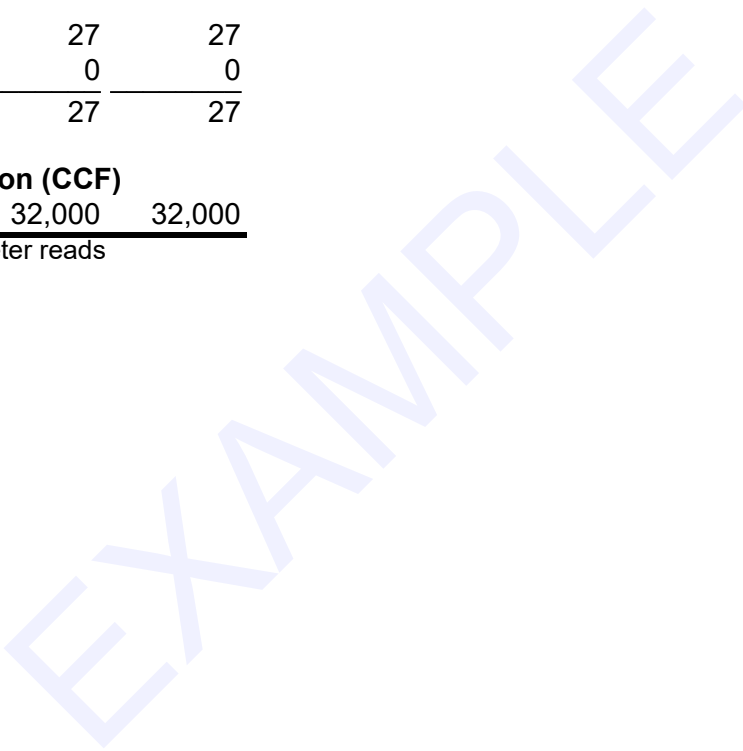


Table 6
MD-95 Ranchos West
Cost Allocation

Functional Allocation

Allocation Category	5 Year Average			Total
	Amount	Fixed	Variable	
Maintenance	\$3,557	80%	20%	100%
DEGS	\$18,165	70%	30%	100%
Administration	\$9,872	100%	0%	100%
Utilities	\$30,824	40%	60%	100%
Functional Allocation \$		\$37,763	\$24,656	\$62,419
Functional Allocation %		60%	40%	100%
Revenue Requirement		\$36,449	\$24,299	\$60,748

*

Allocation Units	Fixed	Variable
Units Demand Units		Projected CCF
Total	27.0	32,000
Rates	Fixed	Variable
	\$/Month	\$/CCF
Metered Rates	\$112.50	\$0.76

CURRENT MONTHLY WATER RATE SCHEDULE

Meter Charge:	
5/8-Inch	\$26.46
3/4-Inch	39.72
1-Inch	66.60
1 1/2-Inches	132.00
2-Inches	211.20
3-Inches	423.60
4-Inches	595.20
6-Inches	\$1,323.60
Private Fire Protection Service:	
4-Inches	\$30.00
6-Inches	40.00
8-Inches	\$60.00
Quantity Charge:	
<i>Single Family</i>	
0 to 3,000 cubic feet	\$3.78
3,001 to 10,000 cubic feet	6.96
10,001 to 19,000 cubic feet	9.36
19,001 cubic feet and above	\$11.76
<i>All Other Users</i>	
All cubic feet	\$7.20

CURRENT MONTHLY SEWER RATE SCHEDULE

Single Family Users:	\$739.00 Annual Rate per
Equivalent Domestic Unit (EDU)	EDU
Commercial & Industrial Users:	
Low-Strength	\$6.93 per 100 cubic feet
Domestic-Strength	8.45 per 100 cubic feet
High-Strength	\$13.25 per 100 cubic feet
Minimum Annual Rate	\$739.00

CITY OF WILLITS
CITY CLERK
111 EAST COMMERCIAL STREET
WILLITS, CALIFORNIA 95490
RETURN SERVICE REQUESTED

QUESTIONS? Please call (707) 459-4601 if you have any questions regarding the proposed rate increases.

**NOTICE OF PROPOSED
INCREASES TO
WATER AND SEWER
RATES**



PUBLIC HEARING

**JUNE 15, 2017
at 6:30 p.m.**

**CITY OF WILLITS
COUNCIL CHAMBERS
111 EAST COMMERCIAL
STREET
WILLITS, CA 95490**

NOTICE OF PUBLIC HEARING

The City of Willits, in compliance with Article XIID of the California State Constitution and the Proposition 218 Omnibus Implementation Act, is hereby notifying all affected property owners of the following:

1. The City is proposing to increase the monthly rates for its Water and Sewer Utilities. The purpose of the proposed increase is to adequately fund the ongoing costs of providing water and sewer service to properties within the City. Revenue from water and sewer rates pay for operations, maintenance, debt service, and capital improvements for the City's Water and Sewer systems.
2. This notice includes the proposed schedule of rates for the 2017/18 fiscal year through the 2021/22 fiscal year. If the proposed rate increases are approved by the City Council, the rates will become effective August 1st of each successive fiscal year and remain in effect until otherwise modified by the City Council. The Water and Sewer rates cannot exceed the amounts adopted by the City Council without providing future written notice to property owners.

COMMENTS AND WRITTEN PROTEST

A Public Hearing will be held on Wednesday, July 26, 2017 at 6:30 p.m. at the City of Willits, City Council Chambers, located at 111 East Commercial Street in Willits, California. The City Council will hear and consider all oral and written testimony concerning the proposed Water and Sewer rates. **If you oppose the proposed rate changes, you may submit a formal written protest at the hearing or, via postal mail or hand-delivery, to the City Clerk. A formal written protest must be submitted in writing and state any opposition to the proposed increases, contain a description of the property (the property address is preferred), and include the original signature of the property owner. (Fax or e-mail are not acceptable.)** Protests will be tabulated pursuant to procedures adopted by the City Council. If written protests are submitted with respect to a majority (50% plus 1) of the parcels within the City, then the proposed changes will not be imposed. Written Protests must be received prior to the close of the public hearing on July 26th, 2017. Protests may be mailed to:

City Clerk
 City of Willits
 111 East Commercial Street
 Willits, California 95490

PROPOSED MONTHLY WATER RATE SCHEDULE

The proposed rates will be effective August 1st in 2017 and effective July 1st in each remaining year of the notice period. Monthly, every water connection will be subject to both a Base Rate and a Usage Rate.

Monthly Base Water Rate

Meter Size	2017	2018	2019	2020	2021
5/8"	\$23.46	\$24.05	\$24.66	\$25.28	\$25.92
3/4"	35.19	36.07	36.98	37.91	38.86
1"	58.65	60.12	61.63	63.18	64.76
1 1/2"	117.30	120.24	123.25	126.34	129.50
2"	187.69	192.39	197.20	202.13	207.19
3"	375.37	384.76	394.38	404.24	414.35
4"	586.52	601.19	616.22	631.63	647.43
6"	\$1,173.04	\$1,202.37	\$1,232.43	\$1,263.25	\$1,294.84

Usage Rate Per 100 Cubic Feet, Single Family Residential Users

100 Cubic Feet	2017	2018	2019	2020	2021
0 to 6	\$5.68	\$5.83	\$5.98	\$6.13	\$6.29
Above 6	\$7.86	\$8.06	\$8.27	\$8.48	\$8.70

Usage Rate Per 100 Cubic Feet, All Other Users

Cubic Feet	2017	2018	2019	2020	2021
All Usage	\$7.10	\$7.28	\$7.47	\$7.66	\$7.86

Monthly Rate Per Private Fire Protection Service Connection

Meter Size	2017	2018	2019	2020	2021
4"	\$127.20	\$130.38	\$133.64	\$136.99	\$140.42
6"	254.40	260.76	267.28	273.97	280.82
8"	\$407.04	\$417.22	\$427.66	\$438.36	\$449.32

PROPOSED MONTHLY SEWER RATE SCHEDULE

The proposed rates will be effective August 1st in 2017 and effective July 1st in each remaining year of the notice period. Monthly, every connection to the Sewer system will be subject to either a Base Rate or Quantity Rate.

Annual Rate Per Dwelling Unit, Residential Sewer Users

User Class	2017	2018	2019	2020	2021
Single Family	\$790.73	\$846.09	\$888.40	\$928.38	\$970.16

Quantity Rate Per 100 Cubic Feet of Water Consumption, Commercial and Industrial Users

User Class	2017	2018	2019	2020	2021
Low-Strength	\$6.93	\$7.42	\$7.94	\$8.34	\$8.72
Domestic-Strength	8.45	9.05	9.69	10.18	10.64
High-Strength	\$13.25	\$14.18	\$15.18	\$15.94	\$16.66

Minimum Annual Rate Per Connection, Commercial and Industrial Users

User Class	2017	2018	2019	2020	2021
All	\$790.73	\$846.09	\$888.40	\$928.38	\$970.16