



TO: Del Paso Manor Water District
FROM: Doug Dove & Michael DeGroot, Bartle Wells Associates
RE: Guiding Principles for Water Rate Setting
DATE: December 19, 2017

REVISED DRAFT

1. **Rates Should be Simple, Fair, and Cost-Based:** The District should establish simple, fair, and cost-based rates to the extent possible.

Discussion: Striving for understandable, cost-based rates is an important element in achieving rates that will be perceived as fair and equitable.

2. **Rates Should Comply with Legal Requirements:** Rates should be set to comply with requirements of Proposition 218 and with all other applicable federal, state, and local laws and regulations.

Discussion: Certain federal, state, and local laws have an impact on processes involved in setting the District's rate structure – most notably Proposition 218. It is imperative that the rate structure be established in compliance with these laws and regulations.

3. **Rates Should Consider Conservation Requirements:** While the District has ample groundwater supplies at this time, water is a scarce commodity in California and wasteful use should be discouraged. However, rates need to be cognitive of possible revenue loss. Conservation will help the District maintain agreements to sustain the groundwater basin.

Discussion: Most of the District is not metered, and as a result the majority of customers are on flat water rates. However, some customers are metered and to the extent possible, those rates should be designed to promote conservation.

4. **Rates Should Generate Adequate Revenues to Fund District Costs, Maintain Prudent Reserve Fund Levels, and Comply with Debt Covenants:** Rates should be set to fully fund costs to operate and maintain the water system, fund needed capital improvements, maintain prudent cash reserves, comply with outstanding debt covenants, and target funding at least 85% of the actuarially-estimated pension liability.

Discussion: Establishing rates that fully fund ongoing operation, maintenance, and capital needs and comply with regulatory requirements provides a specific means for the District to adhere to its current legal obligations of maintaining the general financial health of the District's water system.