



Dedicated to
Satisfying our Community's
Water Needs

AGENDA
MESA WATER DISTRICT
BOARD OF DIRECTORS
Thursday, August 24, 2017
1965 Placentia Avenue, Costa Mesa, CA 92627
4:00 p.m. Special Board Meeting

CALL TO ORDER – 4:00 p.m., or as soon thereafter as the Legislative & Public Affairs Committee agenda permits.

PUBLIC COMMENTS

Non-Agendized Matters: Members of the public are invited to address the Board on matters which are not on the Agenda. Each speaker is limited to three (3) minutes. The Board will set aside thirty (30) minutes for public comments.

Agendized Matters: Members of the public may comment on Agenda items before action is taken, or after the Board has discussed the item. Each speaker is limited to five (5) minutes.

ITEMS TO BE WITHDRAWN OR REORDERED ON THE AGENDA

At the discretion of the Board, all items appearing on this agenda, whether or not expressly listed as an Action Item, may be deliberated and may be subject to action by the Board.

ACTION ITEMS:

1. WATER RATES STUDY:

Recommendation: Receive the presentation and take action as the Board desires.

REPORTS:

2. REPORT OF THE GENERAL MANAGER:
3. DIRECTORS' REPORTS AND COMMENTS:

INFORMATION ITEMS:

4. OTHER (NO ENCLOSURE):

In compliance with California law and the Americans with Disabilities Act, if you need disability-related modifications or accommodations, including auxiliary aids or services in order to participate in the meeting, or if you need the agenda provided in an alternative format, please contact the District Secretary at (949) 631-1206. Notification 48 hours prior to the meeting will enable Mesa Water District (Mesa Water) to make reasonable arrangements to accommodate your requests.

Members of the public desiring to make verbal comments utilizing a translator to present their comments into English shall be provided reasonable time accommodations that are consistent with California law.

Agenda materials that are public records, which have been distributed to a majority of the Mesa Water Board of Directors (Board), will be available for public inspection at the District Boardroom, 1965 Placentia Avenue, Costa Mesa, CA and on Mesa Water's website at www.MesaWater.org. If materials are distributed to the Board less than 72 hours prior or during the meeting, the materials will be available at the time of the meeting.

ADJOURNMENT

MEMORANDUM



*Dedicated to
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TO: Board of Directors
FROM: Paul E. Shoenberger, P.E., General Manager
DATE: August 24, 2017
SUBJECT: Water Rates Study

RECOMMENDATION

Receive the presentation and take action as the Board desires.

STRATEGIC PLAN

Goal #1: Provide a safe, abundant, and reliable water supply.
Goal #2: Practice perpetual infrastructure renewal and improvement.
Goal #3: Be financially responsible and transparent.

PRIOR BOARD ACTION/DISCUSSION

At its June 8, 2017 meeting, the Board of Directors (Board) approved a professional services contract with Raftelis Financial Consultants, Inc. for a potable and recycled water rate study for the purpose of establishing water rate schedules for five years.

DISCUSSION

Per its strategic plan, Mesa Water District's (Mesa Water®) mission statement is "Dedicated to satisfying our community's water needs" and its vision is "To be a top performing public water agency." Mesa Water's strategic plan outlines seven key goals, including the top three goals of: 1) providing a safe, abundant, and reliable water supply; 2) practicing perpetual infrastructure renewal and improvement; and, 3) being financially responsible and transparent.

As a nonprofit public water agency, Mesa Water funds operations and capital improvements through its rates revenues. Additionally, revenues from the water service rates allow Mesa Water to continue to realize its strategic plan mission, vision, and goals. Furthermore, to ensure the perpetual provision of local, safe, and reliable water for our community, it is important to regularly study rates, in relation to costs, and make any needed adjustments.

Over the past several years, Mesa Water's responsible rates and cost controls have resulted in the District accomplishing a number of key achievements, among them are:

- Efficient Operations – Since Fiscal Year 2011, Mesa Water has consistently remained one of Orange County's most efficient water agencies based on expenditures per capita.
- Financial Strength and Stability – Both Fitch and Standard & Poor's reaffirmed Mesa Water's AAA rating due to the District's good financial policies. Additionally, as of the end of Fiscal Year 2017 (June 30, 2017), Mesa Water has eliminated its unfunded pension liability, saving the District approximately \$7.6 million (net present value).

The proposed water rates are based upon a multi-year financial study which projects future costs of providing quality and reliable water service, including servicing long-term debt, current and planned infrastructure projects, and Mesa Water cash reserves. A rate adjustment may be necessary to fully fund infrastructure requirements, cover rising water costs, and offset reduced sales from continued



conservation. Several rates scenarios will be presented, each of which will enable Mesa Water to maintain its strong financial health and meet the Board’s financial goals.

Rising Costs and Reduced Sales

The increase in water supply costs is the major contributing factor to Mesa Water’s increased expenses. Energy and chemical costs to treat and distribute water have risen, as well as Mesa Water’s replenishment assessment (RA Cost) billed to replenish the local groundwater basin. In the last three years, the RA Cost has increased 51.4% and is projected to increase an additional 40.4% over the next five years. Recycled water costs have grown dramatically and are also expected to continue to increase.

Water sales, and thus revenue, are projected to be 10% below pre-drought levels as conservation continues. With continued water use efficiency, growth in demand by our ratepayers is anticipated to be virtually flat, increasing at less than one half of one percent per year. The combination of rising costs, reduced sales, and low-growth may accentuate the need for a rate adjustment for the District to reach its financial goals, and to maintain and develop its infrastructure.

Future Infrastructure Requirements

Over the next five years, Mesa Water is projecting the need to invest \$25 - \$36 million in capital improvements. These include upgrades and replacements to pipelines, valves, wells, reservoirs, and other water infrastructure. The proposed capital improvements program will continue Mesa Water’s protection of public health and safety, and ensure ongoing reliable, locally sourced water service.

Mesa Water’s Efficiency Efforts

Mesa Water continues to maximize operating efficiencies to keep rates as low as possible. Mesa Water is still among the most efficient water districts in Orange County, with the lowest expenditures per capita. Staffing totals have been reduced from a high of 72 employees to its current low of 57.75 employees and will continue to remain flat or slightly decrease. Operational efficiencies have increased resulting from the Business Process Evaluation recommendations.

The Water Rate Proposal and Proposed Scenarios

Mesa Water staff will present several options for the Board to consider that will meet the Board’s financial goals. The timeline for the proposed scenarios is from 2018 through 2022 and includes an adjustment to the previously-adopted rate increase that starts January 1, 2018.

Proposed Schedule

Should the Board wish to proceed with a rate adjustment, the schedule below is suggested:

Date	Action
Thursday, August 24, 2017	Board Workshop, Review of Rate Options
Thursday, September 14, 2017	Board Meeting, Schedule Public Hearing
Monday, September 18, 2017	Final Draft of Rate Study
Monday, September 25, 2017	Prop. 218 Notice
Thursday, November 9, 2017	Public Hearing

FINANCIAL IMPACT

Financial impact will be based on the Board’s selection, if any, of a Five-Year Water Rates scenario.



ATTACHMENTS

Attachment A: Days Cash Ratio, Historical and No Projected Rate Increases

Days Cash Ratio, Historical and No Projected Rate Increases



REPORTS:

2. REPORT OF THE GENERAL MANAGER:

REPORTS:

3. DIRECTORS' REPORTS AND COMMENTS:

There are no support materials for this item.