Los Molinos Community Services District Water Rate Study

Water System #CA5210003

Prepared by: Samantha Ryan & Mary Fleming

May 2025

Rural Community Assistance Corporation
3120 Freeboard Drive, Suite 201
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Funded by: State of California State Water Resources Control Board

May 30, 2025

Emma Blankenship
Small Community Technical Assistance
Division of Financial Assistance
State Water Resources Control Engineer
1001 I St. 16th Floor
PO Box 944212
Sacramento, CA 95814

Subject: Los Molinos Community Services District water rate analysis
Water System # CA5210003, Assistance Referral Number 6793

Dear Emma,

Enclosed please find the final report of the Los Molinos Community Services District (LMCSD) water rate analysis.

A draft rate study was presented to the LMCSD board on September 11, 2024, with three rate structure options. LMCSD decided they wanted to explore additional rate structure options. Additional rate structures were designed by RCAC staff in coordination with the LMCSD general manager. This rate study report was presented to the board on March 19, 2025, with three new rate structures for consideration. The LMCSD board is moving forward with rate option #4 and are scheduling a public workshop for July 1, 2025 and the Proposition 218 hearing for ~~for~~ August 13, 2025.

If you have any additional questions, feel free to contact me at (916) 508-3031 or Samantha Ryan at (707) 572-7465.

Sincerely,

Kimberley Bennett

Kimberley Bennett
RCAC, Regional Field Manager
Community & Environmental Services

Enclosure: LMCSD Rate Study
LMCSD Alternative Rate Option
CC: Los Molinos Community Services District

Executive summary

The Los Molinos Community Services District (LMCSD) was formed by election in 1994 and commenced operations in 1995 under California State Government Code 61600. LMCSD provides potable water to the unincorporated community of Los Molinos, which is located approximately 16 miles south of Red Bluff, California. LMCSD serves 398 residential and commercial connections plus 4 fire service connections.

Since LMCSD started delivering water in 1995, the water system has not increased its water rates. Over this thirty-year period, the cost of providing water service to LMCSD's customers has increased exponentially and the original water rates no longer cover even the basic operating and maintenance costs of the water system. Despite LMCSD's efforts to reduce operational costs to a minimum, LMCSD suffered a net loss of $40,163 in Fiscal Year 2023 and it is projected that the water system will suffer a net loss of $67,753 in Fiscal Year 2024. Operating at a loss limits the District's ability to address emergencies and to operate a capital replacement program to complete water system repairs and replacements. Historically, operating losses have been covered by LMCSD's cash reserves, which has led to an unsustainable decrease in LMCSD's reserves. If the trend is not reversed, LMCSD will run out of reserves by 2027 and will no longer be able to provide service to its customers. A water rate increase is needed to allow LMCSD to build reserves that will allow for the repair and replacement of aging infrastructure and to ensure that the District can provide its customers with clean, safe drinking water.

LMCSD requested a water rate analysis to evaluate the following four primary areas:

- Determine an adequate rate structure.
- Analyze reserve requirements for system sustainability.
- Review equitability of current rate structure and any recommended rate structure adjustment(s)
- Compare affordability of current rate and any recommended rate structure adjustment(s)

RCAC worked with the LMCSD general manager to project five-year budgets assuming a 4 percent annual inflation rate based on budgeted costs for the fiscal year ended 6/30/2024 (FYE 2024), with adjustments for known increases/decreases in future years. The budget projections included a Capital Replacement Reserve to be funded annually in the amount of $119,274, to be included in rates. The current rates were determined to be inadequate to sustain the LMCSD water system's projected cost of service for the present and plan for the future.

In September 2024, three initial rate adjustment options were presented to the LMCSD board. The options had three different approaches to charging a monthly base rate:

1. Option #1 parallels the American Water Works Association (AWWA) meter maximum flow limit using data from badgermet.com and sensus.com. It recovers 100 percent of fixed costs through the base rate.
2. Option #2 allocates meter base rates according to historic usage.
3. Option #3 sets all base rates at $40.00 per month regardless of meter size.

In this report, three rate adjustment options are being presented after RCAC and LMCSD explored additional rate options based on direction from the LCMSD board. These options are:

4. Option #4 allocates meter base rates according to historic usage (like Option #2) but uses an alternative fixed vs. variable allocation based on the concept that capital assets are sized above and beyond the average daily demand and that extra capacity should be assigned to variable costs.
5. Option #5 allocates meter base rates according to historic usage and uses an alternative fixed vs. variable allocation based on the concept that capital assets are sized above and beyond the average

daily demand and that extra capacity should be assigned to variable costs. It sets special base rates for the two mobile home parks based on their historic usage.

6. Option #6 allocates meter base rates according to historic usage and uses the original fixed vs. variable allocations that are based on the LCMSD's estimate of wear and tear on capital assets due to water usage. It sets special base rates for the two mobile home parks based on their historic usage.

The current usage rate for the LMCSD is tiered, with eleven hundred cubic feet included in the base rate with a usage charge per 100 cubic feet from over 1,100 cubic feet that increase in usage over 2,500 cubic feet monthly. The usage, charged in units of 100 cubic feet, will be converted to a uniform usage rate for residential and commercial customers, instead of the current tiered rate structure.

California Proposition 218 Article 13D, Section 6
(***6.1) "….The agency shall provide written notice by mail of the proposed fee or charge to the record owner of each parcel upon which the fee or charge is proposed for imposition, the amount of the fee or charge proposed, the basis upon which the amount of the proposed fee or charge was calculated***, ……."
In the landmark 2015 ruling in the case of Capistrano Taxpayers Association v. The City of San Juan Capistrano, the Fourth District of the Court of Appeal ruled that Proposition 218 requires public water agencies to calculate the actual costs of providing water at various levels of usage. In order to comply with section 6.1, tiered rates mathematical calculations must be conducted to justify how the number of units in each tier and the amount charged in each tier were determined. Because LMCSD's variable costs are at only 19 percent of the total costs of service, mathematical calculations identifying the costs of each tier becomes very complex, if not impossible, and the resulting tiers would not notably increase revenue, RCAC recommends changing the usage charges to a uniform rate. The Rate Adjustment Option in this analysis is based on a flat or uniform usage rate, in which every drop of water delivered is charged at the same rate regardless of usage.

(***6.2.b.1)*** "***Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service."***
Due to these regulations, RCAC recommends not including usage in base rates. If a connection is using less than the allotment included in the base rate, the charge is in excess of the property related service and the charge to that property is, therefore, subsidizing the rates of other users.

(6.2.b.2) "Revenues derived from the fee or charge shall not be used for any other purpose than that for which the fee or charge was imposed."
The rates calculated in the analysis were based on the cost of service for the water enterprise only.

(6.2.b.3) "*The amount of 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."*
In Bighorn-Desert View Water Agency vs. Verjil (2006) it was determined that "while tiered, or inclined rates that go up progressively in relation to usage are perfectly consonant with article XIID, Section 6, subdivision (b)(3) the tiers must still correspond to the actual cost of providing service at a given level of usage. In this case, the water agency failed to calculate the cost of actually providing water at its various tier levels. It merely allocated all its costs among the price tier levels, based not on costs, but on pre-determined usage budgets.

Tiered rates are an effective tool in a utility's efforts to curb wasteful usage of water, an essential resource to all living things. However, according to case law on Proposition 218, tiered rates are allowable only if the water utility can justify the need for a tiered rate structure. Calculating the units in each tier and the cost of each tier is much more clear-cut in larger utilities that may need to hire additional staff with an increase

in water usage, will see large increases in chemical and power costs, may have additional costs related to their water source and can quantify the toll on capital assets as usage increases. For smaller systems, who usually have salaried staff whose time cannot be directly or indirectly linked to the amount of water delivered to its connections and whose chemical and electrical costs do not increase dramatically with increased usage, it becomes complex to quantify. Therefore, RCAC recommends converting the current tiered rate structure to a uniform rate structure. California Articles XIII C and XIII D place the burden of proof on water utilities to show that the benefit conferred to each parcel is proportional to the rate of the fee. After San Juan Capistrano, the growing body of case law on tiered water rates emerging out of the California Court of Appeals has turned tiered rate-setting into a confusing and tenuous process. If LMCSD determines to continue charging tiered rates, RCAC recommends they consult with legal counsel who is well-versed in Proposition 218 case law.

The following tables summarize the current water rates compared to Rate Options 4 through 6.

LMCSD Rates Options Comparison FYE 2025 Totals				
	Current Rates	Option #4	Option #5	Option #6
Total Operating Revenue	$105,343	$299,141	$299,445	$302,141
Total Operating Costs	$213,502	$213,502	$213,502	$213,502
Debt Service	$52,260	$52,260	$52,260	$52,260
Operating Reseves	$0	$0	$0	$0
Emergency Reserves	$0	$0	$0	$0
Capital Replacement Reserves	$0	$119,966	$120,271	$122,967
Total Costs	$265,762	$385,728	$386,033	$388,729
Net Operating Revenue/(Loss)	-$160,419	-$86,587	-$86,588	-$86,588
Non-Operating Revenue	$86,588	$86,588	$86,588	$86,588
Net Income/(Loss)	-$73,832	$0	$0	$0

Proposed Rate Adjustment Options Base Rates				
Meter Size	Current Monthly Base Rate	Adjusttment Option #4 Monthly Rate	Adjusttment Option #5 Monthly Rate	Adjusttment Option #6 Monthly Rate
5/8”	$14.00	$32.00	32.85	$41.43
2”	$14.00	$153.92	$158.01	$199.28
6”	$14.00	$918.72	$943.12	$1,189.46
Fire Service	-0-	$23.42	$23.43	$23.43
Small MHP	$14.00	$918.72	$494.39	$623.52
Large MHP	$14.00	$918.72	$1,491.72	$1,881.34

Proposed Rate Adjustment Options Usage Rates				
Monthly Usage	Current Usage Rate (Per CCF)	Adjustment Option #4 Usage Rate (Per CCF)	Adjustment Option #5 Usage Rate (Per CCF	Adjustment Option #6 Usage Rate (Per CCF
Up to 1,100 CF	$0.00	$1.35	$1.28	$0.71
1,100 – 2,500 CF CF	$0.50	$1.35	$1.28	$0.71
Over 2,500 CF	$0.75	$1.35	$1.28	$0.71

LMCSD Rate Adjustment Option #4 Average Customer Bills					
Customer Class	Average Monthly Usage (CF)	Average Monthly Usage (HCF)	Base Rate	Usage Rate	Average Bill
5/8" Meter	1,535	15	$32.00	$1.35	$52.72
2" Meter	7,841	78	$153.92	$1.35	$259.77
6" Meter	46,397	464	$918.72	$1.35	$1,545.08
Fire Service	-	-	$23.43	$1.35	$23.43
MHP - Small	23,102	231	$918.72	$1.35	$1,230.60
MHP - Large	69,691	697	$918.72	$1.35	$1,859.55

LMCSD Rate Adjustment Option #5 Average Customer Bills					
Customer Class	Average Monthly Usage (CF)	Average Monthly Usage (HCF)	Base Rate	Usage Rate	Average Bill
5/8" Meter	1,535	15	32.85	$1.28	$52.50
2" Meter	7,841	78	$158.01	$1.28	$258.37
6" Meter	46,397	464	$943.12	$1.28	$1,537.00
Fire Service	-	-	$23.43	$1.28	$23.43
MHP - Small	23,102	231	$494.39	$1.28	$790.10
MHP - Large	69,691	697	$1,491.72	$1.28	$2,383.77

LMCSD Rate Adjustment Option #6 Average Customer Bills					
Customer Class	Average Monthly Usage (CF)	Average Monthly Usage (HCF)	Base Rate	Usage Rate	Average Bill
5/8" Meter	1,535	15	$41.43	$0.71	$52.33
2" Meter	7,841	78	$199.28	$0.71	$254.95
6" Meter	46,397	464	$1,189.46	$0.71	$1,518.88
Fire Service	-	-	$23.43	$0.71	$23.43
MHP - Small	23,102	231	$623.52	$0.71	$787.55
MHP - Large	69,691	697	$1,881.34	$0.71	$2,376.15

RCAC recommends LMCSD monitor rate revenue against costs monthly to manage cash flow and review the rates annually. A comprehensive rate analysis should be conducted if there are any significant changes in the cost of service or no later than five years.

1. Introduction

Rural Community Assistance Corporation

Founded in 1978, RCAC provides training, technical, and financial resources, and advocacy so rural communities can achieve their goals and visions. Since 1978, our dedicated staff and active board, coupled with our key values: leadership, collaboration, commitment, quality, and integrity, have helped effect positive change in rural communities across the West.

RCAC's work includes environmental infrastructure (water, wastewater, and solid waste facilities), affordable housing development, economic and leadership development, and community development finance. These services are available to communities with populations of fewer than 50,000, other nonprofit groups, tribal organizations, farmworkers, colonias and other specific populations. Headquartered in West Sacramento, California, RCAC's employees serve rural communities in 13 western states and the Pacific islands.

This rate study was funded by Safe and Affordable Funding for Equity and Resilience (SAFER) Program, for which RCAC is a Technical Assistance Provider. This rate study was performed under the capacity development program at RCAC (SAFERTRAIN). This study was provided at no cost to the LMCSD due to their distinction as a disadvantaged community.

Purpose of this study

An accurate and useful rate analysis not only identifies the total annual revenue required by a utility to conduct its normal day-to-day operations, but it also anticipates and plans for future operating and capital needs. Furthermore, the analysis attempts to determine whether the projected revenue under existing rates will satisfy those needs. The primary objective of this process is to ensure that the utility can obtain sufficient funds to develop, construct, operate, maintain, and manage its water system on a continuing basis, in full compliance with federal, state, and local requirements.

Governing body responsibilities

Governing body responsibilities for the system operation include maintaining sufficient revenue and reserves to provide for ongoing maintenance for the foreseeable future. The ultimate responsibility of the governing body is to ensure preserved public health and compliance with environmental regulations.

Guiding principles of a rate study

Sustainability

Water rates should cover the costs to the water utility to allow it to provide water services for the foreseeable future and prepare for system repair and replacement. This will allow the system to continue to provide safe drinking water to future generations.

Fair

Water rates should be fair to all rate payers. The utility should not charge more for water than the cost to provide the water. However, the costs should include operations, maintenance, reserves, and all other costs related to the production, treatment, and distribution of potable water now and in the foreseeable future. Therefore, the proposed rates are based on the water utility budget, needed capital repair and replacement, and historic water consumption.

Water conservation

Water conservation is a key element of rate studies. Clean and safe water is limited, and inappropriate use of this resource negatively impacts community members.

Justifiability
Rates should be easily justifiable. When determining rate recommendations, RCAC considers if the proposed rates are necessary and justifiable, given the true costs of operating the system safely.

State or funder specific requirements
The Los Molinos Community Service District water system is not under funder requirements for reserves and rates. However, the governing body is obligated by its responsibilities to provide for sufficient reserves and long-term sustainability.

Disclaimer

The findings, recommendations and conclusions contained in this rate analysis are based on financial information provided to RCAC by the Los Molinos Community Services District. Although reasonable care was taken to ensure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein. Any action taken on the basis of such findings, recommendations or conclusions is undertaken at the discretion of Los Molinos Community Services District. In no event will RCAC or its partners, employees or agents be liable for any decision made or action taken in reliance on the information contained in this analysis.

2. Los Molinos Community Services District

Community

Los Molinos is a census-designated place (CDP) in Tehama County, California. According to the 2020 United States Census Bureau, the zip code for the Los Molinos area has a population of 3,951 and a median household income of $55,833.

Water District

LMCSD was formed by election in 1994 and commenced operations in 1995 under California State Government Code 61600. LMCSD immediately secured a loan and grant from Rural Development to purchase the privately owned Los Molinos Water Works, and to rebuild the entire distribution system. LMCSD provides potable water to the unincorporated community of Los Molinos which is located approximately 16 miles south of Red Bluff, California.

LMCSD operates under the policy direction of a five-member Board of Directors that are elected by the public they serve (California Public Water System Number 5210003). Board members are required to be residents within the service area.

There are a total of 425 parcels within LMCSD's service area; 33 are vacant lots, 55 are commercial, leaving 335 residential parcels.

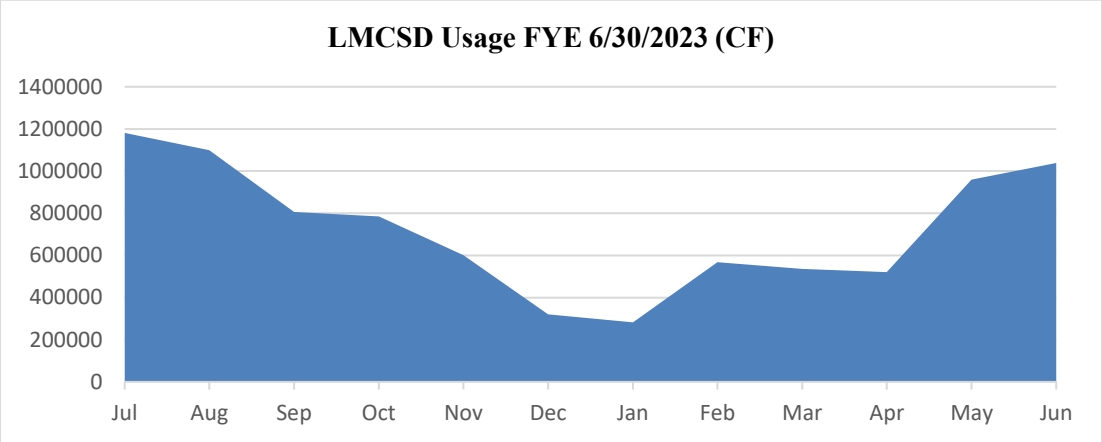
Water System Description

The Los Molinos Community Services District (LMCSD) water system is supplied by four groundwater wells. The North Center Well #2 produces 270 gallons per minute (gpm) through a 5,000-gal hydro-pneumatic tank into the distribution grid. The Sherwood Well #3 produces 325 gpm through a 10,000-gal hydro-pneumatic tank into the distribution grid. There are two wells at the Stanford Well site. The original well, Well #4**,** produces 350 gpm but can only operate simultaneously with Well #5 due to an arsenic compliance order. The blended flows go into a 212,000-gal ground storage tank, the only storage tank in the LMCSD system. Two domestic booster pumps and a fire booster pump supply the distribution grid from the storage tank.

The distribution system provides water for domestic and fire protection services. There are 48 fire hydrants. All services are metered; serving two schools, 5 public buildings, the commercial state highway zone, two mobile home parks, and approximately 390 residential and commercial connections.

Customer water use

When analyzing water rates, it is important to understand existing patterns of consumption among the system's customers. A substantial portion of customers may use a small percentage of water, and a small portion of customers may use a significant percentage. Understanding how customers use water is important when you are considering seasonal operational needs, infrastructure replacement and water use efficiency, to name some considerations. The water usage by connection for the year ended June 30, 2023, was the assumed future usage in this rate analysis. The highest usage was between May and September.



LMCSD Water Usage in FYE 6/30/2023		
Month	Year	Usage (CF)
July	2022	1,181,279
August	2022	1,098,645
September	2022	805,698
October	2022	785,399
November	2022	601,035
December	2022	320,896
January	2023	283,046
February	2023	567,354
March	2023	536,529
April	2023	520,190
May	2023	959,766
June	2023	1,039,124
Total		8,698,961

Future population and usage projections

LMCSD does not anticipate a growth in population over the five-year period covered in this rate analysis. A reduction in customer usage is expected after the rate increase is implemented. It is expected that by year 5 usage will return to its current level.

Estimated Growth of Consumption over Base Year					
	Year 1	Year 2	Year 3	Year 4	Year 5
Conservation Factor	-4.0%	-3.0%	-2.0%	-1.0%	0.0%
Community Growth Factor	0.0%	0.0%	0.0%	0.0%	0.0%
Total Consumption Adjustment	-4.0%	-3.0%	-2.0%	-1.0%	0.0%

3. Current financial condition and analysis

Rate structures

The following are types of rates structures common to drinking water systems:

- **Uniform flat rate:** Customers pay the same amount regardless of the quantity of water used. This type of rate is easiest to administer; however, it is not fair to the lowest water users and can promote high consumption, which then may cost the utility more to provide that water.
- **Single or uniform block rate:** Customers are charged a constant price per volume regardless of the amount of water used. The cost per block of water is often added to a minimum charge, or base rate, for having service available. This rate tends to be more equitable to customers as the cost to customer is in direct proportion to the amount use.
- **Inclining or increasing block rate:** This rate is designed to promote water use efficiency, as the price of water increases as the amount used increases.

LMCSD current water rate structure

LMCSD water enterprise utilizes an increasing block rate structure in which the first 1,100 cubic feet of monthly usage is included in the base rate, monthly usage from 1,101 – 2,500 cubic feet is charged at $0.50 per one hundred cubic feet and all usage above 2,500 cubic feet is charged at $0.75 per one-hundred cubic feet. The system serves a total of four hundred and two connections, four of which are for fire service. All meters are charged a uniform base rate of $14.00 per month. Revenue for the water enterprise is derived primarily from customer rates with approximately $87,000 annually in non-operating revenue to supplement the rates.

Meter Size	Base Rate	Usage Fees			No. of Connections
		1,100 CF	1,101 – 2,500 CF (per CCF)	over 2,500 CF (Per CCF)	
.0625”	$14.00	$ 0.00	$ 0.50	$ 0.75	386
2.00”	$14.00	$ 0.00	$ 0.50	$ 0.75	10
6.00”	$14.00	$ 0.00	$ 0.50	$ 0.75	2
Fire Service	$ 0.00	$ 0.00	$ 0.50	$ 0.75	4
Total Connections					402

Affordability risk and index

The affordability risk and index measure the burden of costs passed from the water utility to the users against the median household income for the area and is used by funding agencies to determine grant and low interest loan eligibility.

According to the SWRCB affordability risk guidelines, rates with affordability up to 1.5% of the MHI are considered no risk. Rates between 1.5% to 2.5% are considered a medium risk. According to the 2020 US Census Bureau, the 96055 zip code population has a Median Household Income (MHI) of $55,833.

Affordability risk =
Annual residential bill for 600 CF of water usage monthly divided by the community annual MHI

The affordability risk of the current rate structure is 0.30%.

Affordability index=
Annual residential bill for given usage divided by the community MHI

LMCSD Current Rate Affordability by Usage					
Monthly Usage	Base Rate	Usage Fee	Total Bi-Monthly Bill	MHI	Affordability Index
1,100 CF	14.00	0.00	14.00	55,833	0.30%
2,500 CF	14.00	7.00	21.00	55,833	0.45%
5,000 CF	14.00	29.50	43.50	55,833	0.93%
7,500 CF	14.00	44.50	58.50	55,833	1.26%
10,000 CF	14.00	59.50	73.50	55,833	1.58%
Over 10,000 CF	14.00	Depends on Usage			

Five-year budget forecast

The budget for the fiscal year ending 6/30/2025 was developed by working with the LMCSD general manager to review each budget line item for fiscal year ended 6/30/2024. Because LMCSD does not anticipate unusual expenditure in the upcoming five years, projections for the subsequent four years were developed based on an assumed 4 percent annual inflation for most line items. The only exception was for utility costs, which were assumed to increase by 6 percent annually. Assumptions used when developing the 2024/2025 budget include:

- All operating costs except utilities assume an annual inflation increase of 4 percent.
- Utilities assume an annual inflation increase of 6 percent.
- Debt Service - LMCSD secured FMHA special assessment bonds to purchase and improve the distribution system in 1994. The loan resulted in an obligation to affected property owners not to exceed $986,800, payable from assessments against the properties. The annual payments are included in the budget and offset by the revenue received from property owners' assessments.
- Operating Reserves – LMCSD had adequate cash in bank on January 18, 2024, to fund slightly over 45 days of 2025 operating costs in an Operating Reserve Fund. LMCSD felt this was adequate. No further funding of operating reserves is included in the budgets. The bonds mature on September 2, 2034, and have an interest rate of 4.5 percent.
- Emergency Reserves – LMCSD determined that $50,000 to be an adequate amount for emergency reserves. The cash in the bank on January 18, 2024, was adequate to fund the emergency reserve account. No further funding of emergency reserves is included in the budgets.
- Capital Replacement Reserves (CRP) – RCAC conducted a capital replacement reserve analysis and determined an annual amount of $119,274 should be funded in a capital replacement reserve fund. That amount is included in the annual budget.

Los Molinos CSD Projected Operating Costs	Budget 6/30/2024	Projected 6/30/2025	Projected 6/30/2026	Projected 6/30/2027	Projected 6/30/2028	Projected 6/30/2029
6258 · Storage Tank Maint./ Repairs	$ 500	$ 520	$ 541	$ 562	$ 585	$ 608
6290 · Fuel Expense	$ 1,800	$ 1,872	$ 1,947	$ 2,025	$ 2,106	$ 2,190
66900 · Reconciliation Discrepancies		$ -	$ -	$ -	$ -	$ -
5660 · Other Contracts	$ 7,200	$ 7,200	$ 7,200	$ 7,200	$ 7,200	$ 7,200
6001 · Payroll - Administration	$ 25,650	$ 26,676	$ 27,743	$ 28,853	$ 30,007	$ 31,207
6002 · Payroll Office	$ 31,200	$ 32,448	$ 33,746	$ 35,096	$ 36,500	$ 37,960
6003 · Payroll Maintenance	$ 28,745	$ 29,895	$ 31,091	$ 32,334	$ 33,628	$ 34,973
6011 · Payroll Service Expense	$ 800	$ 832	$ 865	$ 900	$ 936	$ 973
6012 · Payroll Tax Expense	$ 7,972	$ 8,291	$ 8,623	$ 8,967	$ 9,326	$ 9,699
6015 · Worker Compensation	$ 2,382	$ 2,477	$ 2,576	$ 2,679	$ 2,787	$ 2,898
6050 · Dues & Subscriptions	$ 800	$ 832	$ 865	$ 900	$ 936	$ 973
6052 · Utilities Office LMMWC	$ 3,300	$ 3,465	$ 3,638	$ 3,820	$ 4,011	$ 4,212
6053 · RETIREMENT	$ 3,621	$ 4,821	$ 5,014	$ 5,214	$ 5,423	$ 5,640
6060 - Elections Expense	$ 350	$ 364	$ 379	$ 394	$ 409	$ 426
6070 - Equipment Rental	$ 150	$ 156	$ 162	$ 169	$ 175	$ 182
6120 - Bank Charges	$ 50	$ 52	$ 54	$ 56	$ 58	$ 61
6210 · Insurance - General Liability	$ 10,086	$ 10,489	$ 10,909	$ 11,345	$ 11,799	$ 12,271
6240 · Accounting & Legal	$ 5,200	$ 5,408	$ 5,624	$ 5,849	$ 6,083	$ 6,327
6245 · Maintenance North Center Well	$ 500	$ 520	$ 541	$ 562	$ 585	$ 608
6246 · Maintenance Sherwood Well	$ 500	$ 520	$ 541	$ 562	$ 585	$ 608
6247 - Maintenance - Stanford	$ 500	$ 520	$ 541	$ 562	$ 585	$ 608
6250 - Electrical Maintenance & Repair	$ 1,000	$ 1,040	$ 1,082	$ 1,125	$ 1,170	$ 1,217
6252 - Fire Hydrant Replacement & Repair	$ 200	$ 208	$ 216	$ 225	$ 234	$ 243
6253 - Pump Maintenance & Repair	$ 1,500	$ 1,560	$ 1,622	$ 1,687	$ 1,755	$ 1,825
6254 · Generator Operation & Repair	$ 1,500	$ 1,560	$ 1,622	$ 1,687	$ 1,755	$ 1,825
6255 · Water Meter Replace Repair	$ 2,000	$ 2,080	$ 2,163	$ 2,250	$ 2,340	$ 2,433
6256 · Chlorine Equip Replace Repair	$ 1,000	$ 1,040	$ 1,082	$ 1,125	$ 1,170	$ 1,217
6257 · SCADA System Repairs	$ 500	$ 520	$ 541	$ 562	$ 585	$ 608
6260 · Materials & Supplies	$ 500	$ 520	$ 541	$ 562	$ 585	$ 608
6262 · Treatment Chemicals	$ 5,000	$ 6,000	$ 6,240	$ 6,490	$ 6,749	$ 7,019
6270 · State Water Resources Control B	$ 600	$ 624	$ 649	$ 675	$ 702	$ 730
6275 · Water Testing	$ 4,500	$ 5,500	$ 5,720	$ 5,949	$ 6,187	$ 6,434
6277 · Backflow Test & Repair	$ 1,800	$ 1,872	$ 1,947	$ 2,025	$ 2,106	$ 2,190
6280 · Miscellaneous Expense	$ 300	$ 312	$ 324	$ 337	$ 351	$ 365
6291 - Propane Expense Gnerator	$ 2,000	$ 2,500	$ 2,600	$ 2,704	$ 2,812	$ 2,925
6300 · Office Expense	$ 17,000	$ 3,500	$ 3,640	$ 3,786	$ 3,937	$ 4,095
6340 · Postage Expense	$ 1,700	$ 1,768	$ 1,839	$ 1,912	$ 1,989	$ 2,068
6400 - Training/Seminars	$ 500	$ 520	$ 541	$ 562	$ 585	$ 608
6520 · Telephone-Wireless	$ 1,500	$ 1,560	$ 1,622	$ 1,687	$ 1,755	$ 1,825
6560 · Utilities-North Center Well	$ 1,000	$ 1,060	$ 1,124	$ 1,191	$ 1,262	$ 1,338
6570 · Utilities - Sherwood Well	$ 25,000	$ 26,500	$ 28,090	$ 29,775	$ 31,562	$ 33,456
6580 · Utilities - Stanford Well	$ 15,000	$ 15,900	$ 16,854	$ 17,865	$ 18,937	$ 20,073
Total Operating Expenses	$ 215,406	$ 213,502	$ 222,658	$ 232,234	$ 242,251	$ 252,728

Fixed versus variable expenses

Water must be available to customers at all times whether the customer is using the water or not. A large share of water system costs are associated with bringing the first drop of water to the customer's tap, regardless of whether any water is used. Fixed costs are those that must be recovered by LMCSD to ensure that drinking water is available to its customers.

Fixed costs are usually recovered from each customer on an equal basis through the use of a minimum fee (the monthly base fee). Fixed costs may cover 100% of some expenses in a system's budget, but only a portion of other types of expenses. For example, fixed expenses generally include all debt service expenses on construction loans, financial reserves for emergencies or equipment replacement, and overhead costs, like insurance and bonding. Fixed costs should also include a portion of other system operating expenses. For example, a percentage of chemical costs are fixed since they are associated with making sure that water available to connections is safe to drink. But as the water is delivered, more treatment is required, and more chemical costs are incurred based on this usage. These additional chemical costs based on usage are not typically considered fixed costs.

The method for identifying all or part of some expenses as fixed costs involves determining to what extent each of the line item expenses in the budget benefits every customer of the system regardless of their level of usage. This is a determination that each utility must make for itself. Fixed costs should generally be recovered in a system's minimum bill, the minimum monthly fee charged equally to each customer within each customer meter size (5/8 -inch, 1-inch, etc.).

For small systems with fewer customers, spreading these costs among its customers, the proportion of fixed costs will be higher than larger systems. Many small systems find it impossible to recover all fixed costs in a monthly minimum, so they tend to shift a certain percentage to the variable side. Fixed costs for small systems are usually in the range of one-third to two-thirds of the system's total operating costs and may run even higher for very small systems. It was determined that LMCSD's water system's percentage of fixed costs is 81%.

Variable costs are system expenses that are more directly related to how much water is pumped, treated, stored and distributed. Most costs for electricity, chemicals and repairs can be classified as variable costs because they are directly related to the amount of water customers use. To recover variable expenses, rate structures use a "consumption charge" or "flow charge" per volume, such as per thousand gallons or hundred cubic feet.

The rate structures are based on two different concepts of allocating costs to fixed and variable costs

- Original Allocation (rate options 1, 2, 3, & 6) - Fixed vs. variable allocations that are based on the LCMSD's estimate of wear and tear on capital assets due to water usage. 20% of capital asset wear and tear is associated with actual water usage and thus is 80% fixed and 20% variable.
- Revised Allocation (rate options 4 & 5) - Fixed vs. variable allocation based on the concept that capital assets are sized above and beyond the average daily demand and that extra capacity should be assigned to variable costs. Based on the design capacity of the source water, treatment plant, and distribution system and the average daily demand, capital asset replacement is considered 28% fixed and 72% variable.

LMCSD estimated fixed/variable costs			
		Original Allocation (RO 1, 2, 3, 6)	Revised Allocation (RO 4, 5)
Expense	5 -Year Average	% Fixed	% Fixed
Storage Tank Main/Repairs	563	100%	80%
Fuel Expense	2,028	100%	100%
Other Contracts	7,200	100%	100%
Payroll – Administration	28,897	100%	100%
Payroll - Office	35,150	100%	100%
Payroll - Maintenance	32,384	100%	100%
Payroll Service Expense	901	100%	100%
Payroll Tax Expense	8,981	100%	100%
Worker's Compensation Insurance	2,684	100%	100%
Dues & Subscriptions	901	100%	100%
Utilities - Office	3,829	100%	100%
Retirement	5,222	100%	100%
Elections Expense	394	100%	100%
Tehama County Auditors Charge		100%	100%
Insurance – General Liability	11,363	100%	100%
Interest Expense		100%	100%
Accounting & Legal	5,858	100%	100%
Maitenance North Center Well	563	100%	100%
Maintenance Sherwood Well	563	80%	80%
Generator Operation & Repair	1,690	80%	80%
Water Meter Replace Repair	2,253	80%	80%
Chlorine Equip Replace Repair	1,127	100%	80%
SCADA System Repairs	563	100%	80%
Materials & Supplies	563	80%	80%
Treatment Chemicals	6,500	80%	80%
SWRCB	676	80%	0%
Water Testing	5,958	100%	100%
Backflow Test & Repair	2,028	100%	100%
Miscellaneous Expense	338	100%	80%
Office Expense	3,791	100%	100%
Outside Services		100%	100%
Postage Expense		100%	100%
Office Supplies & Expenses		100%	100%
Telephone - Wireless	1,690	100%	100%
Utilities – North Center Well	1,195	0%	0%
Utilities – Sherwood Well	29,877	0%	0%
Utilities – Stanford Well	17,926	0%	0%
Contract Services		100%	100%
System Maintenance		100%	100%
Administration & General		100%	100%
Depreciation		100%	100%
Interest Expense		100%	100%
-		100%	100%
Equipment Rental	169	100%	100%
Bank Charges	56	100%	100%
Maintenance - Stanford	563	80%	80%

LMCSD estimated fixed/variable costs			
		Original Allocation (RO 1, 2, 3, 6)	Revised Allocation (RO 4, 5)
Expense	5 -Year Average	% Fixed	% Fixed
Electrical Maintenance & Repair	1,127	80%	80%
Fire Hydrant Replacement	225	100%	100%
Pump Maintenance & Repair	1,690	80%	80%
Training/Seminars	563	100%	100%
Propane Expense - Generator	2,708	80%	80%
Capital Replacement Reserves	119,274	80%	28%
Debt Service	52,759	100%	100%
Total % Fixed	404,708	81%	64%
Total Fixed $ Amount	404,708	328,549	260,538

4. Water system reserves

Reserves overview.

Reserves are an accepted way to stabilize and support a utility's fiscal management. Small systems usually fund the operating expenses but often do not consider putting money aside for a specific upcoming financial need or project, or for an amount that can be used to provide rate stabilization in years when revenues are unusually low, or expenditures are unusually high. The rationale for maintaining adequate reserve levels is twofold. First, it helps to ensure that the utility will have adequate funds available to meet its financial obligations in times of varying needs. Second, it provides a framework around which financial decisions can be made to determine when reserve balances are inadequate or excessive and what specific actions need to be taken to remedy the situation.

Utility reserve levels can be thought of as a savings account. Reserve balances are funds that are set aside for a specific cash flow requirement, financial need, project, task, or legal covenant. Common reserve balances are established around the following four areas: operating reserve, capital improvements and replacement, emergency, and debt service reserve. These balances are maintained to meet short-term cash flow requirements, and at the same time, minimize the risk associated with meeting financial obligations and continued operational needs under adverse conditions.

Debt service reserve

Water utilities that have issued debt to pay for capital assets will often have required reserves that are specifically defined to meet the legal covenants of the debt. Normally, debt service reserve represents an amount equal to one full annual loan payment and can be accumulated to this level over a period of five to 10 years. LMCSD secured FMHA special assessment bonds to purchase and improve the distribution system in 1994. The loan resulted in an obligation to affected property owners not to exceed $986,800, payable from assessments against the properties. The annual payments are included in the budget and offset by the revenue received from property owners' assessments. No debt reserves were required for this loan.

Operating reserve

Operating reserves are established to provide the utility with the ability to withstand short-term cash flow fluctuations. There can be a significant length of time between when a system provides a service and when a customer pays for that service. In addition, a system's cash flow can be affected by weather and seasonal demand patterns.

The State of California Water Resources Control Board conducted a needs assessment in 2024. The results of their findings are outlined in the table below.

State Water Resources Control Board Needs Assessment – Cash on Hand Valuation		
No Risk	Medium Risk	High Risk
>90 Days	30 – 90 Days	< 30 Days

Because of potential delays in collecting payment, many utilities attempt to keep an amount of cash equal to at least 90 days or 25 percent of their annual cash O&M expenses in an operating reserve to mitigate potential cash flow problems. LMCSD determined that a target of approximately 45 days of the 2025 operating budget ($26,688) would be adequate. The water enterprise cash on hand is adequate to fund day-to-day operations and fund the operating reserve account.

Emergency reserve

In addition to operating reserves, emergency reserves are a crucial tool for financial sustainability. Emergency reserves are intended to help utilities deal with short-term emergencies which arise from time to time, such as main breaks or pump failures. The appropriate amount of emergency reserves will vary

with the size of the utilities and should depend on major infrastructure assets. An emergency reserve is intended to fund the immediate replacement or reconstruction of the system's single most critical asset, an asset whose failure will result in an immediate water outage or threat to public safety. In discussing LMCSD's water enterprise needs with the general manager, it was determined that $50,000 in emergency reserves would be adequate. Cash in bank on January 18, 2024, was adequate to fund that amount.

Capital replacement reserve.

A capital replacement reserve (also called a repair and replacement reserve) is intended to be used for replacing system assets that have become worn out or obsolete. Unlike the emergency reserve fund, these reserves are intended to be used for planned replacements and improvements. Annual depreciation is frequently used to estimate the minimum level of funding for this capital reserve. But it is important to understand that depreciation expense is an accounting concept for estimating the decline of an asset's useful life and does not represent the current or future replacement cost of that asset. As an example, a brand-new system with a construction cost of $1 million and a service life of one hundred years would, in theory, be depreciating $10,000 per year to fully depreciate the equipment at the end of the 100-year period. However, the equipment will cost much more than the initial investment of $1 million when it is time to replace it.

To initiate a capital improvement plan, a small water or sewer system will start with a list of assets that includes the remaining service life, theoretical replacement costs in today's dollars and the remaining service life. It then calculates the monthly and annual reserve that must be collected from each customer to fully capitalize the replacement cost of each asset. In reality, the assets will fail and be replaced gradually, but the replacement cost of water system assets is often a shock to small systems that are struggling to keep rates reasonable. RCAC conducted a capital replacement analysis and determined that capital replacement reserves should be funded in the amount of $119,274 annually.

5. Proposed rate adjustment options

To fully recover operating costs, and fund capital replacement reserves, a rate adjustment is necessary. The rate adjustment options assume non-operating revenue in the approximate annual amount of $87,000 will be used to offset operating costs.

LMCSD current water rates against projected water costs						
	Year #1	Year #2	Year #3	Year #4	Year #5	5-Year Total
Water Service Revenue	107,000	107,000	107,000	107,000	107,000	535.000
Opeerating Costs	213,502	222,658	232,234	242,251	252,728	1,163,374
Debt Service	52,560	53,315	52,740	52740	52,740	263,795
Operating Reserves	-0-	-0-	-0-	-0-	-0-	-0-
Emergency Reserves	-0-	-0-	-0-	-0-	-0-	-0-
CRP Reserves	119,274	119,274	119,274	119,274	119,274	596,370
Total Costs	385,036	395,247	404,248	414,265	424,742	2,023,539
Net Revenue Over/(Under) Operating Costs	(278,036)	(288,247)	(297,248)	(307,265)	(317,742)	(1,488,539)
Non-Operating Revenue:						
Maintenance Service Income	12,000	12,000	12,000	12,000	12,000	60,000
Notice of Delinquent Fee	1,800	1,800	1,800	1,800	1,800	9,000
Shut Off/On Fee	2,000	2,000	2,000	2,000	2,000	10,000
Interest on Investments	10,000	10,000	10,000	10,000	10,000	50,000
Assessments	52,560	53,315	52,740	52740	52,740	263,795
Interest on Delinquent Accounts	1,360	1,360	1,360	1,360	1,360	6,799
Penalty Charges	3,500	3,500	3,500	3,500	3,500	17,500
Fire Service Income	440	440	440	440	440	2,200
Transfer Fee Income	800	800	800	800	800	4,000
Charge in Lieu of Assessemtns	308	308	308	308	308	1,540
Miscellaneous Income	1,240	1,240	1,240	1,240	1,240	6,200
Backflow Test Charges	880	880	880	880	880	4,400
Total Non-Operating Income	86,588	87,643	87,068	87,068	87,068	435,434
Net Revenue/(Loss)	(191,449)	(200,605)	(210,181)	(220,197)	(230,674)	(1,053,105)

Rate adjustment option #4

In the rate adjustment Option #4 allocates meter base rates according to historic usage but uses an alternative fixed vs. variable allocation based on the concept that capital assets are sized above and beyond the average daily demand and that extra capacity should be assigned to variable

EDU Calculations					
Meter Size	Historic Annual Usage	% of Usage	# Connections (Zero Usage Connections Not Included)	Average Annual Usage Per Connection	# EDU's
0.625	6,651,775	76%	343	19,393	1
2.000	933,663	11%	10	93,366	4.81
6.000	1,113,523	13%	2	556,762	28.71
6" Meter Breakdown for Special Rates					
Small MHP	Not Analyzed individually in this rate option, included in 6" meter total				
Large MHP					

Proposed Rate Adjustment Option #4 Base Rate		
Meter Size	Current Monthly Base Rate	Adjusttment Option #4 Monthly Rate
5/8"	$14.00	$32.00
2"	$14.00	$153.92
6"	$14.00	$918.72
Fire Service	$0.00	$23.43
Small Mobile Home Park	$14.00	$918.72
Large Mobile Home Park	$14.00	$918.72

Proposed Rate Adjustment Option #4 Usage Rate		
Monthly Usage	Current Usage Rate (Per CCF)	Rate Option #4 Usage Rate (Per CCF)
Up to 1,100 CF	$0.00	$1.35
1,100 – 2,500 CF CF	$0.50	$1.35
Over 2,500 CF	$0.75	$1.35

Rate Adjustment Option #4 Monthly 5-Year Rate Schedule					
Year	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
5/8"	32.00	32.85	33.73	34.63	35.56
2"	153.92	158.03	162.25	166.58	171.03
6"	918.72	943.25	968.43	994.29	1,020.84
Fire Service	23.43	24.06	24.70	25.36	26.03
Small Mobile Home Park	918.72	943.25	968.43	994.29	1,020.84
Large Mobile Home Park	918.72	943.25	968.43	994.29	1,020.84
Usage Rate per CCF	1.35	1.39	1.42	1.46	1.50

LMCSD Rate Adjustment Option #4 Residential Affordability by Usage					
Monthly Usage	Base Rate	Usage Fee	Total Monthly Bill	MHI	Affordability Index
600 CF	$32.00	$8.10	$40.10	$ 55,833	0.86%
1,100 CF	$32.00	$14.85	$46.85	$ 55,833	1.01%
2,500 CF	$32.00	$33.75	$65.75	$ 55,833	1.41%
5,500 CF	$32.00	$74.25	$106.25	$ 55,833	2.28%
7,500 CF	$32.00	$101.25	$133.25	$ 55,833	2.86%
9,500 CF	$32.00	$128.25	$160.25	$ 55,833	3.44%
Over 9500 CF	$32.00	Depends on Usage			

Rate Adjustment Option #4 Estimated Recovery of Projected Costs						
	Year #1	Year #2	Year #3	Year #4	Year #5	**5 Year Total**
Rates Revenue	299,141	308,331	317,799	327,553	337,601	**1,590,426**
Bad Debts	(599)	(618)	(637)	(656)	(677)	**(3,187)**
Total Revenue	299,141	308,331	317,799	327,553	337,601	**1,590,426**
Operating Costs	213,502	222,658	232,234	242,251	252,728	**1,163,374**
Debt Service	52,560	53,315	52,740	52740	52,740	**263,795**
Operating Reserves	-0-	-0-	-0-	-0-	-0-	**-0-**
Emergency Reserves	-0-	-0-	-0-	-0-	-0-	**-0-**
CRP Reserves	119,966	120,001	119,893	119,630	119,201	**598,691**
Total Costs	385,729	395,974	404,867	414,621	424,669	**2,025,859**
Net Operating Revenue Over/(Under) Operating Costs	(86,588)	(87,643)	(87,068)	(87,068)	(87,068)	**(435,434)**
Non-Operating Revenue						
Maintenance Service Income	12,000	12,000	12,000	12,000	12,000	**60,000**
Notice of Delinquent Fee	1,800	1,800	1,800	1,800	1,800	**9,000**
Shut Off/On Fee	2,000	2,000	2,000	2,000	2,000	**10,000**
Interest on Investments	10,000	10,000	10,000	10,000	10,000	**50,000**
Assessments	52,560	53,315	52,740	52740	52,740	**263,795**
Interest on Delinquent Accounts	1,360	1,360	1,360	1,360	1,360	**6,799**
Penalty Charges	3,500	3,500	3,500	3,500	3,500	**17,500**
Fire Service Income	440	440	440	440	440	**2,200**
Transfer Fee Income	800	800	800	800	800	**4,000**
Charge in Lieu of Assessments	308	308	308	308	308	**1,540**
Miscellaneous Income	1,240	1,240	1,240	1,240	1,240	**6,200**
Backflow Test Charges	880	880	880	880	880	**4,400**
Total Non-Operating Income	86,588	87,643	87,068	87,068	87,068	**435,434**
Net Income/(Loss)	0.00	0.00	0.00	0.00	0.00	**0.00**

Rate adjustment Option #5

In the rate adjustment Option #5 allocates meter base rates according to historic usage and uses an alternative fixed vs. variable allocation based on the concept that capital assets are sized above and beyond the average daily demand and that extra capacity should be assigned to variable costs. It sets special base rates for the two mobile home parks based on their historic usage.

EDU Calculations					
Meter Size	Historic Annual Usage	% of Usage	# Connections (Zero Usage Connections Not Included)	Average Annual Usage Per Connection	# EDU's
0.625	6,651,775	76%	343	19,393	1
2.000	933,663	11%	10	93,366	4.81
6.000	1,113,523	13%	2	556,762	28.71
6" Meter Breakdown for Special Rates					
Small MHP	227,226	3.2%	1	227,226	15.05
Large MHP	836,297	9.6%	1	836,297	45.41

Proposed Rate Adjustment Option #5 Base Rate		
Meter Size	Current Monthly Base Rate	Adjusttment Option #5 Monthly Rate
5/8"	$14.00	$32.85
$153.92$918.722"	$14.00	$158.01
$918.726"	$14.00	$943.12
Fire Service	$0.00	$23.43
Small Mobile Home Park	$14.00	$494.39
Large Mobile Home Park	$14.00	$1,491.72

Proposed Rate Adjustment Option #5 Usage Rate		
Monthly Usage	Current Usage Rate (Per CCF)	Rate Option #5 Usage Rate (Per CCF)
Up to 1,100 CF	$0.00	$1.28
1,100 – 2,500 CF CF	$0.50	$1.28
Over 2,500 CF	$0.75	$1.28

Rate Adjustment Option #5 Monthly 5-Year Rate Schedule					
Year	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
5/8"	32.85	33.73	34.63	35.56	36.52
2"	158.01	162.24	166.59	171.06	175.64
6"	943.12	968.40	994.35	1,021.00	1,048.36
Fire Service	23.43	24.06	24.70	25.36	26.04
Small Mobile Home Park	494.39	507.64	521.25	535.22	549.56
Large Mobile Home Park	1,491.72	1,531.70	1,572.75	1,614.90	1,658.17
Usage Rate per CCF	1.28	1.31	1.35	1.39	1.42

LMCSD Rate Adjustment Option #5 Residential Affordability by Usage					
Monthly Usage	Base Rate	Usage Fee	Total Monthly Bill	MHI	Affordability Index
600 CF	$32.85	$7.68	$40.53	$ 55,833	0.87%
1,100 CF	$32.85	$14.08	$46.93	$ 55,833	1.01%
2,500 CF	$32.85	$32.00	$64.85	$ 55,833	1.39%
5,500 CF	$32.85	$70.40	$103.25	$ 55,833	2.22%
7,500 CF	$32.85	$96.00	$128.85	$ 55,833	2.77%
9,500 CF	$32.85	$121.60	$154.45	$ 55,833	3.32%
Over 9500 CF	$32.85	Depends on Usage			

Rate Adjustment Option #5 Estimated Recovery of Projected Costs						
	Year #1	Year #2	Year #3	Year #4	Year #5	**5 Year Total**
Rates Revenue	300,046	309,230	318,691	328,438	338,478	**1,594,882**
Bad Debts	(600)	(618)	(637)	(657)	(677)	**(3,190)**
Total Revenue	299,445	308,612	318,054	327,781	337,801	**1,591,692**
Operating Costs	213,502	222,658	232,234	242,251	252,728	**1,163,374**
Debt Service	52,560	53,315	52,740	52740	52,740	**263,795**
Operating Reserves	-0-	-0-	-0-	-0-	-0-	**-0-**
Emergency Reserves	-0-	-0-	-0-	-0-	-0-	**-0-**
CRP Reserves	120,271	120,281	120,147	119,858	119,400	**599,957**
Total Costs	386,033	396,254	405,122	414,849	424,868	**2,027,126**
Net Operating Revenue Over/(Under) Operating Costs	(86,588)	(87,643)	(87,068)	(87,068)	(87,068)	**(435,434)**
Non-Operating Revenue						
Maintenance Service Income	12,000	12,000	12,000	12,000	12,000	**60,000**
Notice of Delinquent Fee	1,800	1,800	1,800	1,800	1,800	**9,000**
Shut Off/On Fee	2,000	2,000	2,000	2,000	2,000	**10,000**
Interest on Investments	10,000	10,000	10,000	10,000	10,000	**50,000**
Assessments	52,560	53,315	52,740	52740	52,740	**263,795**
Interest on Delinquent Accounts	1,360	1,360	1,360	1,360	1,360	**6,799**
Penalty Charges	3,500	3,500	3,500	3,500	3,500	**17,500**
Fire Service Income	440	440	440	440	440	**2,200**
Transfer Fee Income	800	800	800	800	800	**4,000**
Charge in Lieu of Assessments	308	308	308	308	308	**1,540**
Miscellaneous Income	1,240	1,240	1,240	1,240	1,240	**6,200**
Backflow Test Charges	880	880	880	880	880	**4,400**
Total Non-Operating Income	86,588	87,643	87,068	87,068	87,068	**435,434**
Net Income/(Loss)	0.00	0.00	0.00	0.00	0.00	**0.00**

Rate adjustment Option #6

In the rate adjustment Option #6 allocates meter base rates according to historic usage and uses the original fixed vs. variable allocations that are based on the LCMSD's estimate of wear and tear on capital assets due to water usage. It sets special base rates for the two mobile home parks based on their historic usage.

EDU Calculations					
Meter Size	Historic Annual Usage	% of Usage	# Connections (Zero Usage Connections Not Included)	Average Annual Usage Per Connection	# EDU's
0.625	6,651,775	76%	343	19,393	1
2.000	933,663	11%	10	93,366	4.81
6.000	1,113,523	13%	2	556,762	28.71
6" Meter Breakdown for Special Rates					
Small MHP	227,226	3.2%	1	227,226	15.05
Large MHP	836,297	9.6%	1	836,297	45.41

Proposed Rate Adjustment Option #6 Base Rate		
Meter Size	Current Monthly Base Rate	Adjusttment Option #6 Monthly Rate
5/8"	$14.00	$41.43
$153.92$918.722"	$14.00	$199.28
$918.726"	$14.00	$1,189.46
Fire Service	$0.00	$23.43
Small Mobile Home Park	$14.00	$623.52
Large Mobile Home Park	$14.00	$1,881.34

Proposed Rate Adjustment Option #6 Usage Rate		
Monthly Usage	Current Usage Rate (Per CCF)	Adjustment Option #6 Usage Rate (Per CCF)
Up to 1,100 CF	$0.00	$0.71
1,100 – 2,500 CF CF	$0.50	$0.71
Over 2,500 CF	$0.75	$0.71

Rate Adjustment Option #6 Monthly 5-Year Rate Schedule					
Year	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029
5/8"	32.85	33.73	34.63	35.56	36.52
2"	158.01	162.24	166.59	171.06	175.64
6"	943.12	968.40	994.35	1,021.00	1,048.36
Fire Service	23.43	24.06	24.70	25.36	26.04
Small Mobile Home Park	494.39	507.64	521.25	535.22	549.56
Large Mobile Home Park	1,491.72	1,531.70	1,572.75	1,614.90	1,658.17
Usage Rate per CCF	1.28	1.31	1.35	1.39	1.42

LMCSD Rate Adjustment Option #6 Affordability by Usage					
Monthly Usage	Base Rate	Usage Fee	Total Monthly Bill	MHI	Affordability Index
600 CF	$41.43	$4.26	$45.69	$ 55,833	0.98%
1,100 CF	$41.43	$7.81	$49.24	$ 55,833	1.06%
2,500 CF	$41.43	$17.75	$59.18	$ 55,833	1.27%
5,500 CF	$41.43	$39.05	$80.48	$ 55,833	1.73%
7,500 CF	$41.43	$53.25	$94.68	$ 55,833	2.03%
9,500 CF	$41.43	$67.45	$108.88	$ 55,833	2.34%
Over 9500 CF	$41.43	Depends on Usage			

Rate Adjustment Option #6 Estimated Recovery of Projected Costs						
	Year #1	Year #2	Year #3	Year #4	Year #5	**5 Year Total**
Rates Revenue	302,747	311,495	320,494	329,752	339,276	**1,603,763**
Bad Debts	(605)	(623)	(641)	(660)	(679)	**(3,208)**
Total Revenue	302,141	310,872	319,853	329,092	338,597	**1,600,556**
Operating Costs	213,502	222,658	232,234	242,251	252,728	**1,163,374**
Debt Service	52,560	53,315	52,740	52740	52,740	**263,795**
Operating Reserves	-0-	-0-	-0-	-0-	-0-	**-0-**
Emergency Reserves	-0-	-0-	-0-	-0-	-0-	**-0-**
CRP Reserves	122,967	122,541	121,946	121,169	120,197	**608,821**
Total Costs	388,729	398,514	406,921	416,160	425,665	**2,035,989**
Net Operating Revenue Over/(Under) Operating Costs	(86,588)	(87,643)	(87,068)	(87,068)	(87,068)	**(435,434)**
Non-Operating Revenue						
Maintenance Service Income	12,000	12,000	12,000	12,000	12,000	**60,000**
Notice of Delinquent Fee	1,800	1,800	1,800	1,800	1,800	**9,000**
Shut Off/On Fee	2,000	2,000	2,000	2,000	2,000	**10,000**
Interest on Investments	10,000	10,000	10,000	10,000	10,000	**50,000**
Assessments	52,560	53,315	52,740	52740	52,740	**263,795**
Interest on Delinquent Accounts	1,360	1,360	1,360	1,360	1,360	**6,799**
Penalty Charges	3,500	3,500	3,500	3,500	3,500	**17,500**
Fire Service Income	440	440	440	440	440	**2,200**
Transfer Fee Income	800	800	800	800	800	**4,000**
Charge in Lieu of Assessments	308	308	308	308	308	**1,540**
Miscellaneous Income	1,240	1,240	1,240	1,240	1,240	**6,200**
Backflow Test Charges	880	880	880	880	880	**4,400**
Total Non-Operating Income	86,588	87,643	87,068	87,068	87,068	**435,434**
Net Income/(Loss)	0.00	0.00	0.00	0.00	0.00	**0.00**

6. Conclusions and recommendations

Key points to remember with any rate adjustment:

- Successful utilities are those that strive to be transparent. In day-to-day operations, LMCSD should strive to promote its services (highlights and the low points), and continuously educate residents on why it is necessary to raise and adjust rates.
- The ability of the recommended rate structures to generate adequate revenue will depend on maintaining a vigorous collection and shut-off policy to keep delinquent accounts at a minimum.
- In order to achieve and maintain long-term viability, LMCSD should review its rates annually, or no less than a minimum of every two years. Keeping track of customer seasonal and annual water demands will help determine operations needs, budget forecasts and rate adjustments.
- LMCSD should raise rates as soon as possible to provide sufficient revenues for funding future operations and to adequately fund reserves.
- LMCSD should establish policies for reserve accounts as recommended above.
- LMCSD should designate reserves on its financial statements.
- CRP reserves should be moved to and maintained in the highest interest bearing accounts available to offset inflation.

7. Proposition 218

California approved Proposition 218 in 1996 requiring agencies to adopt property fees and charges in accordance with a defined public process found in article XIII D or by associated court decision. Water and wastewater rates are user fees under the definition and must meet the following requirements:

- Revenues derived from the fee or charge must not exceed the funds required to provide the property-related service.
- Revenue from the fee or charge must not be used for any purpose other than that for which the fee or charge is imposed.
- No fee or charge may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in the same manner as it is to property owners.
- The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- The fee or charge may not be imposed for service, unless the service is actually used by, or immediately available to, the owner of the property in question.

Written notice should be given to both the record owners and customers within the area subject to the fee or charge. The notice shall include the following:

- The formula or schedule of charges by which the property owner or customer can easily calculate their own potential charge.
- The basis upon which the amount of the proposed fee or charge is to be imposed on each parcel. An explanation of the costs which the proposed fee will cover and how the costs are allocated among property owners.
- Date, time, and location of a public hearing on the rate adjustment. The public hearing must occur 45 or more days after the mailing of the notice.
- A statement that there is a 120-day statute of limitations for challenging any new, increased, or extended fee or charge.

California's Proposition 218 provides that a customer of LMCSD or owner of record of a parcel or parcels subject to the proposed rate increases may submit a protest against any or all of the proposed rate increases by filing a written protest with LMCSD at or before the time the public hearing has concluded. Only one protest per parcel is counted. If written protests are filed by a majority of the affected parcels, the proposed rate increases will not be imposed.