Amador Water Agency

Water and Wastewater Service Charges and Rate Setting Policy
Reviewed and Adopted
09-10-20

100.00 Purpose of the Policy
It is important for the Agency to have cost-based rates that are fair, equitable, and defensible. The basis for establishing water and wastewater rates that are fair, equitable, and defensible has traditionally been cost of service principles and methodologies. At the same time, some courts have historically allowed municipal entities to include a wider range of costs in the cost of service when establishing rates (e.g., conservation, efficient use, ability to pay, accrual of prudent reserves, etc.). The people of California, however, have established certain legal constraints on setting water rates pursuant to Proposition 218. Therefore, this policy has been developed to provide guidance and consistency in Agency financial planning and the rate setting decision-making process for the Board and staff. Also, this policy provides a foundation for the long-term financial sustainability of the Agency, while providing the outside financial community with a better understanding of the Agency’s commitment to managing the Agency in a financially prudent and sustainable manner.

200.00 Policy
The Agency’s water and wastewater service charges and rates will be assessed annually by staff, to confirm sufficient funding, and to assess needed adjustments to reflect inflation, construction needs, maintain bond covenants, and/or to avoid immediate or major rate adjustments. This does not imply that rates will be adjusted annually, simply that the rates are reviewed and a determination is made of their adequacy in funding the Agency.

The Agency will establish water and wastewater rates and charges using “generally accepted” rate setting and costing methodologies, including establishing appropriate cost bases for any existing or future water and or wastewater rate structure imposed or proposed to be imposed on Agency ratepayers, and in compliance with all appropriate laws (i.e., Proposition 218). The Agency will be viewed on a “stand-alone” basis to help assure self-sufficiency and sustainability. The analyses associated with “generally accepted” rate-setting techniques include the following analyses:

A. Revenue Requirement Analysis – Establishes the overall level of financial needs of the Agency. In developing the revenue requirements for the Agency, the Agency will consider the following:
   1. Revenue requirements, including anticipated external funding, will be established on a “cash basis” approach that will include all Agency

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1 Generally-accepted cost of service principles and methodologies are best defined and discussed within the American Water Works Association M-1 Manual, Principles of Water Rates, Fees and Charges.
programs, operation & maintenance expenses, any applicable
taxes/transfer payments, debt service (P&I), and capital improvements
funded from rates.
2. Revenues and costs will be annually projected for a five year period (the
proposed budget year plus four additional projected years).
3. Projections of Operations & Maintenance (O&M) costs should include
any estimated incremental O&M costs associated with increased service
levels (or future capital improvements.)
4. Agency staff will review the five year capital improvement plan and
update it regularly by way of its Asset Management Plans and Water and
Wastewater System Master Plans.
5. On an annual basis, the Agency will fund, through its rates and other
available revenues, an amount to adequately maintain the existing
infrastructure of the Agency. To achieve this goal, the Agency will fund
selected capital projects based on the Agency’s Capital Asset
Replacement Management Plans and the Water and Wastewater System
Master Plans.
6. The system’s capital improvement program will consider growth related
capital improvements, and replacement capital improvements.
7. The level of any proposed rate adjustment(s) will reflect all of the above
costs (direct, indirect and costs of administration), such that rates will be
cost-based and provide for full cost recovery of providing water and
wastewater services to customers and to other local water retailers.

B. **Cost of Service Analysis** – Determines the equitable allocation of costs (revenue
requirements) between the various customer groups.
1. When possible, a cost of service study will be utilized to equitably
allocate the Agency costs to the customer classifications of service.
2. The cost allocation methodology will utilize techniques that are
“generally accepted” by the industry (e.g. American Water Works
Association) including conservation-based methodologies. The cost of
service for the Agency will consider the specific circumstances and
unique characteristics of the Agency in the cost allocation methodology.
3. A cost of service analysis will be conducted at least once every five years
to determine if rates remain equitable between different customer classes
of service.

C. **Rate Design Analysis** – The Agency will design rates to collect the appropriate
level of revenue that reflects the rate design goals, objectives and policies of the
Agency, including water conservation policies established by the Agency Board.
1. Rate designs will be reflective of system needs, and also reflect the
greater public purpose and policy goals of the Agency Board.
2. Rate structures will be developed to promote understanding by the
Agency’s customers (e.g. bills that are easy to understand).
3. Rates will be set at a level that recovers necessary costs, by customer
classification, yet flexible enough to accomplish the Agency’s objectives.
As deemed appropriate, rate structures will be designed to reward the preservation of valuable resources (conservation), the efficient use of resources, while discouraging excessive or wasteful usage. (e.g. public purpose programs).

4. Rates will be designed to be equitable, and detailed to a level to reflect the service provided (e.g., private fire protection, multi-family services, etc).

5. Rates will balance the overall goals and objectives of the rate design process with any administrative or Agency billing issues. Providing rates that are easy to understand and administer is beneficial to both the customer and the Agency.

6. It shall be the policy of the Agency to set rates at the lowest responsible rate.

300.00 Revenue Diversification
The Agency has limited ability for revenue diversification. Where possible, the Agency will explore additional revenue sources such as grants, contract services, developer contributions, etc.

400.00 Reviews and Updates
The Agency will closely monitor the financial/rate performance of the Agency to help maintain adequate rates and charges through:

A. Annual Reviews - Agency rates will be reviewed annually as part of the budget process, to determine the adequacy of revenues, and, as necessary, adjustments made to reflect inflation, construction needs, maintain bond covenants, and avoid major increases.

B. Comprehensive Rate Studies - Agency rate studies will be conducted at least every five years to update assumptions and plan for the long-term solvency and viability of the Agency’s water and wastewater services.

500.00 Authority
The General Manager and Financial Services Manager are responsible for adherence to this policy and regular reporting of the Agency’s financial status. Board oversight will be accomplished through regular reporting of financial status and review of this Policy.

600.00 Policy Review
This Policy will be reviewed at least every two years.