



Revenue Shortfall & Rate Discussion

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Study Session Agendas

- January 17th

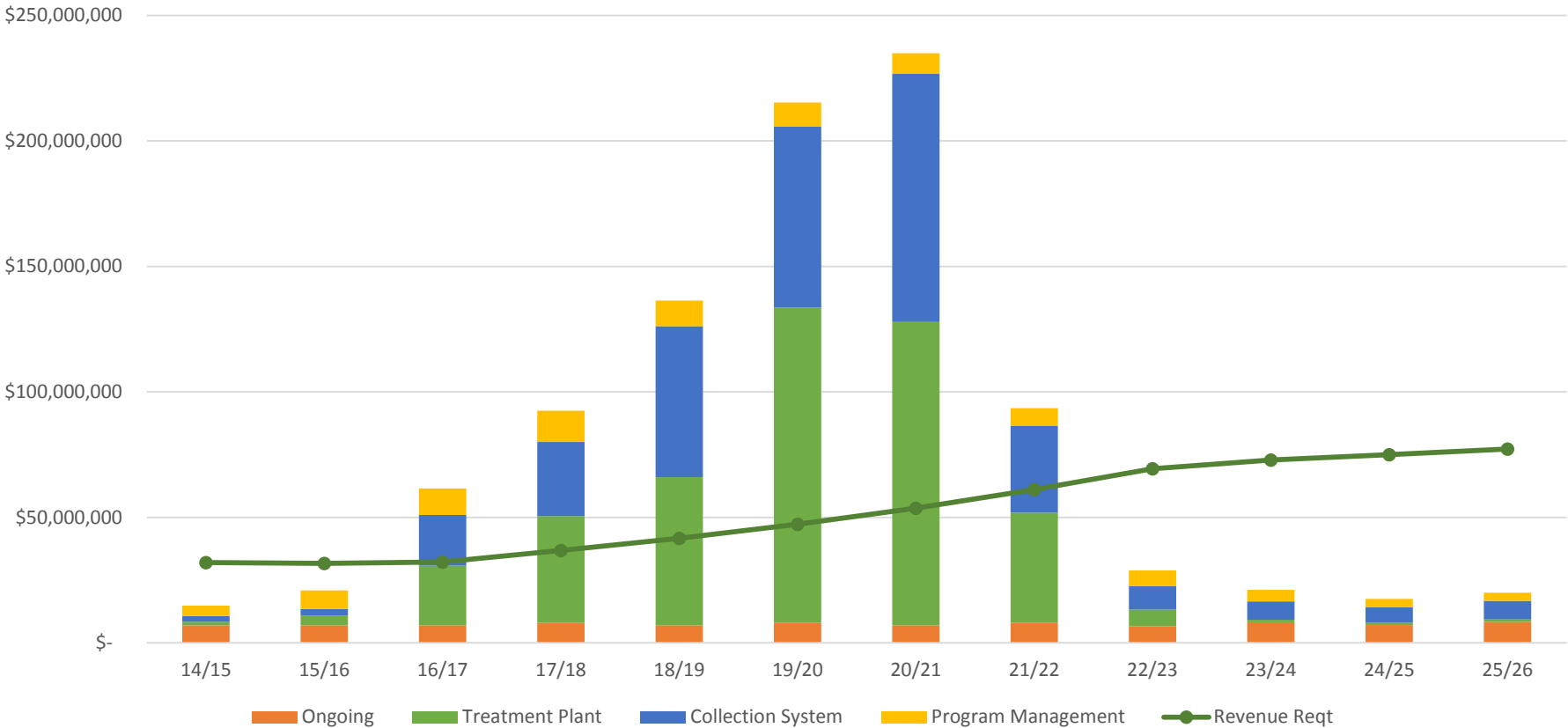
- *Revenue Shortfall and Future Revenue Requirements*
- *Rate Structure and Revenue Collection*

- February 6th

- *Financial Planning Strategies and Risk Management*
- *Multi-year Rate Adoption*
- *Rate Implementation Approaches*

Clean Water Program Capital Expenditures

Clean Water Program
Planned Project Expenditures



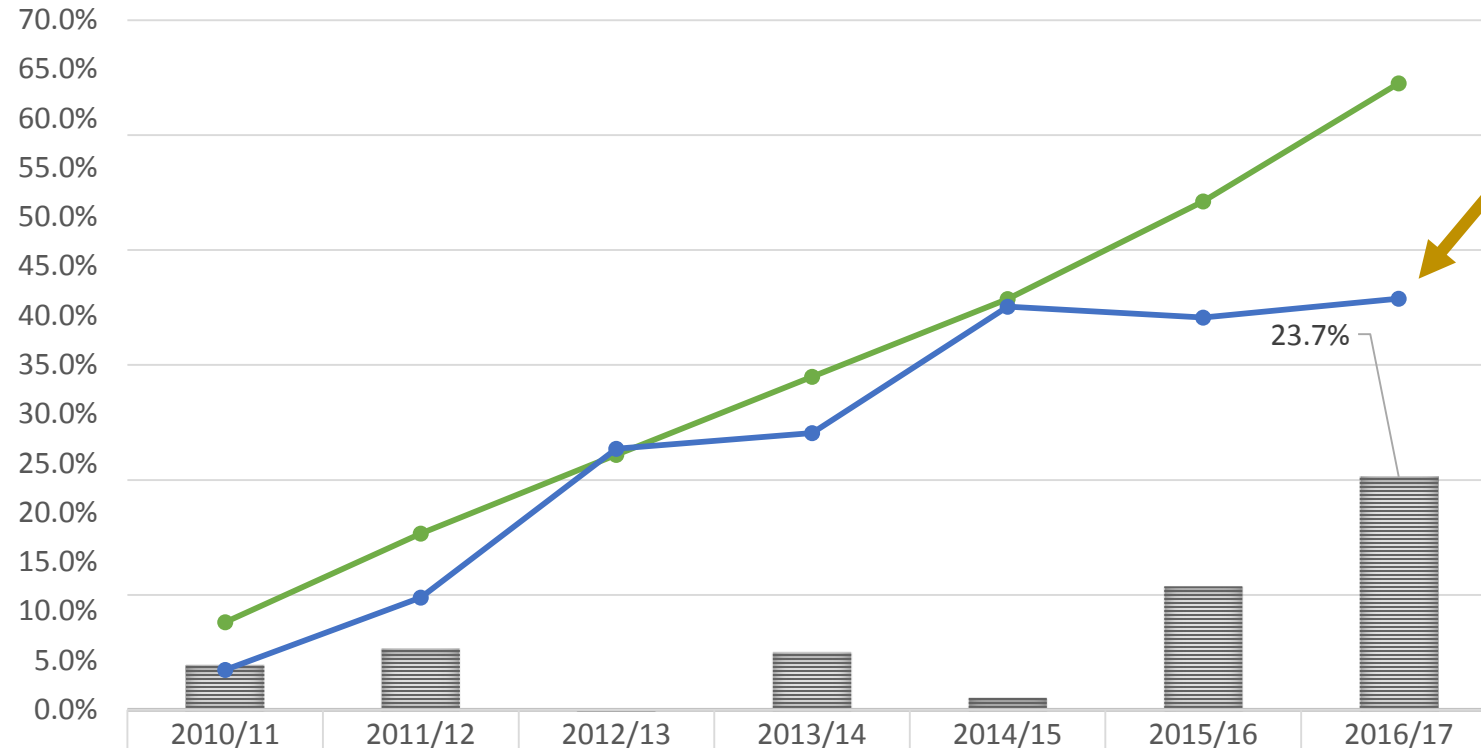
CWP = \$900 Million
over 10 years to
meet goals



Revenue Deficit from Variable Rates

Rate increases have been offset by reduced water consumption over the past two years

SAN MATEO CLEAN WATER PROGRAM
REVENUE VARIANCE (%) FY11 - FY17

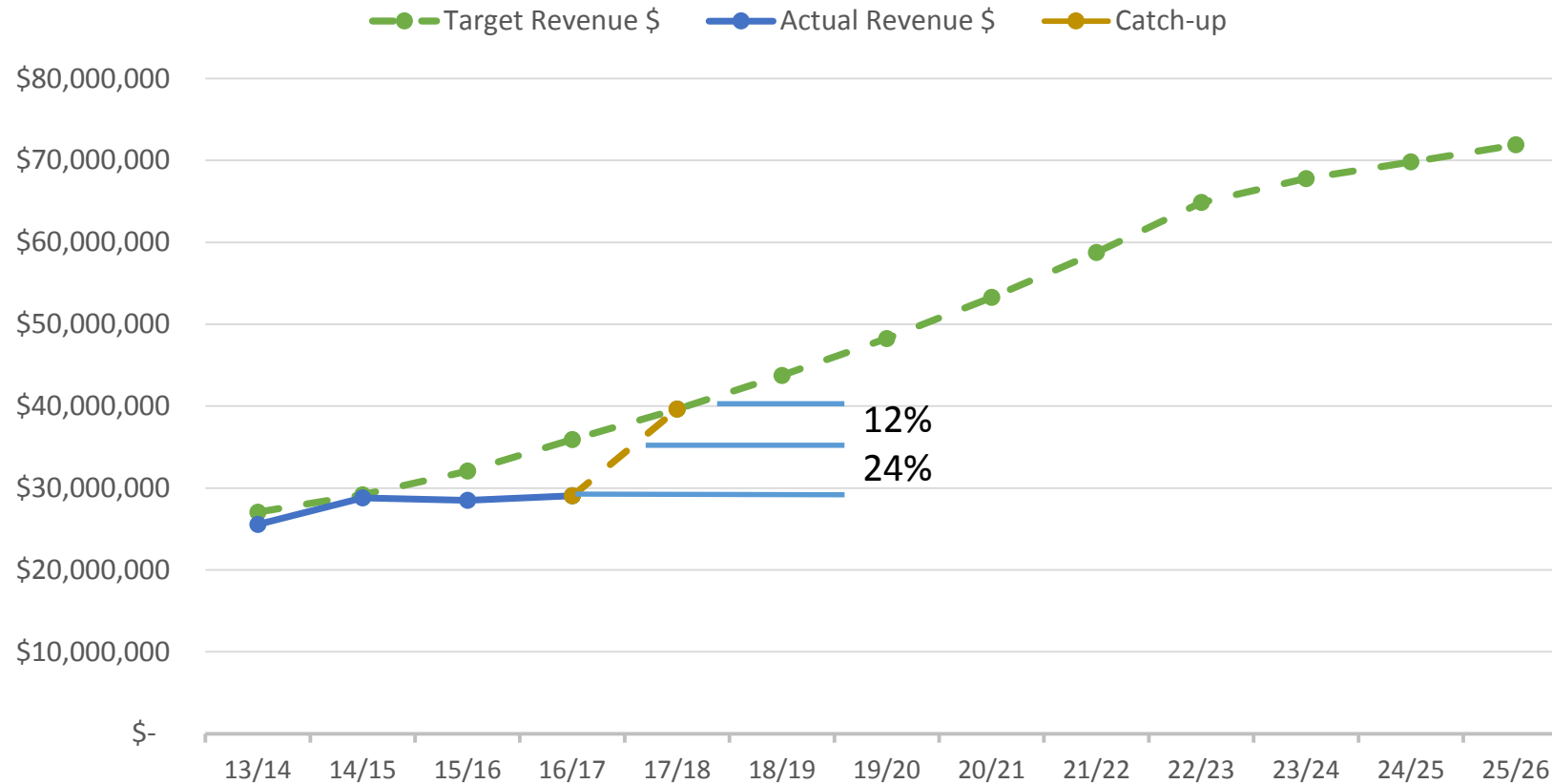


Revenue is almost 24% below target

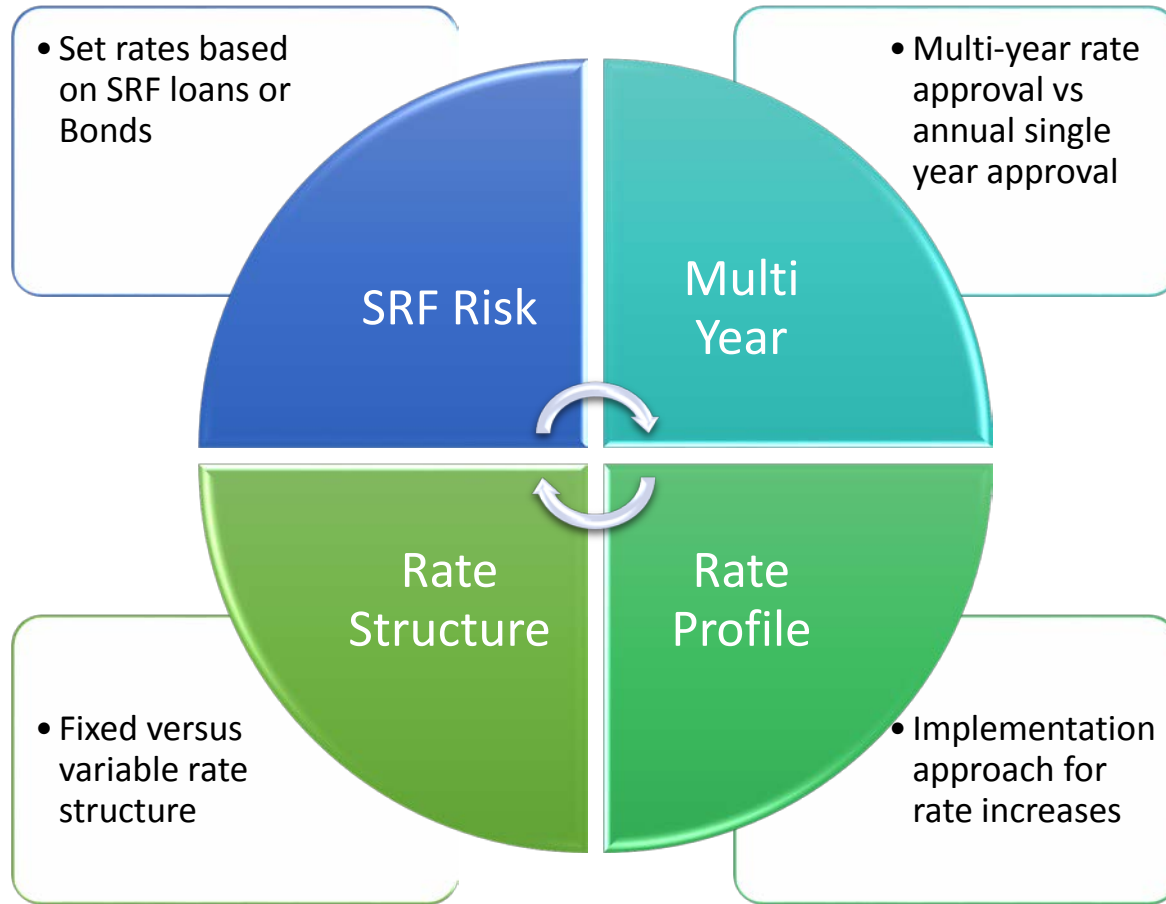
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Revenue Shortfall %	4.6%	6.3%	-0.3%	5.9%	1.3%	12.5%	23.7%
Target Revenue %	8.9%	17.9%	25.9%	33.8%	41.7%	51.6%	63.6%
Actual Revenue %	4.1%	11.4%	26.5%	28.1%	40.9%	39.8%	41.7%

Revenue Recovery and Capital Needs

SAN MATEO CLEAN WATER PROGRAM
(PROJECTED ANNUAL REVENUE)



Developing Solutions



- Fixed versus variable rate structure

Sewer Rate Structure

- How to distribute revenue requirements amongst users?
 - The rate structure defines how the revenue is collected from the users
- Goal: Promote revenue stability
- Types of rate structures
 - 100% Variable/Volumetric (based entirely on water consumption)
 - 100% Fixed (all users pay the same fee regardless of water usage)
 - Hybrid (includes both fixed and variable components in various combinations)

VARIABLE RATES

HYBRID

FIXED RATES

Rate Structure

- Fixed versus variable rate structure

Current Rate Structure

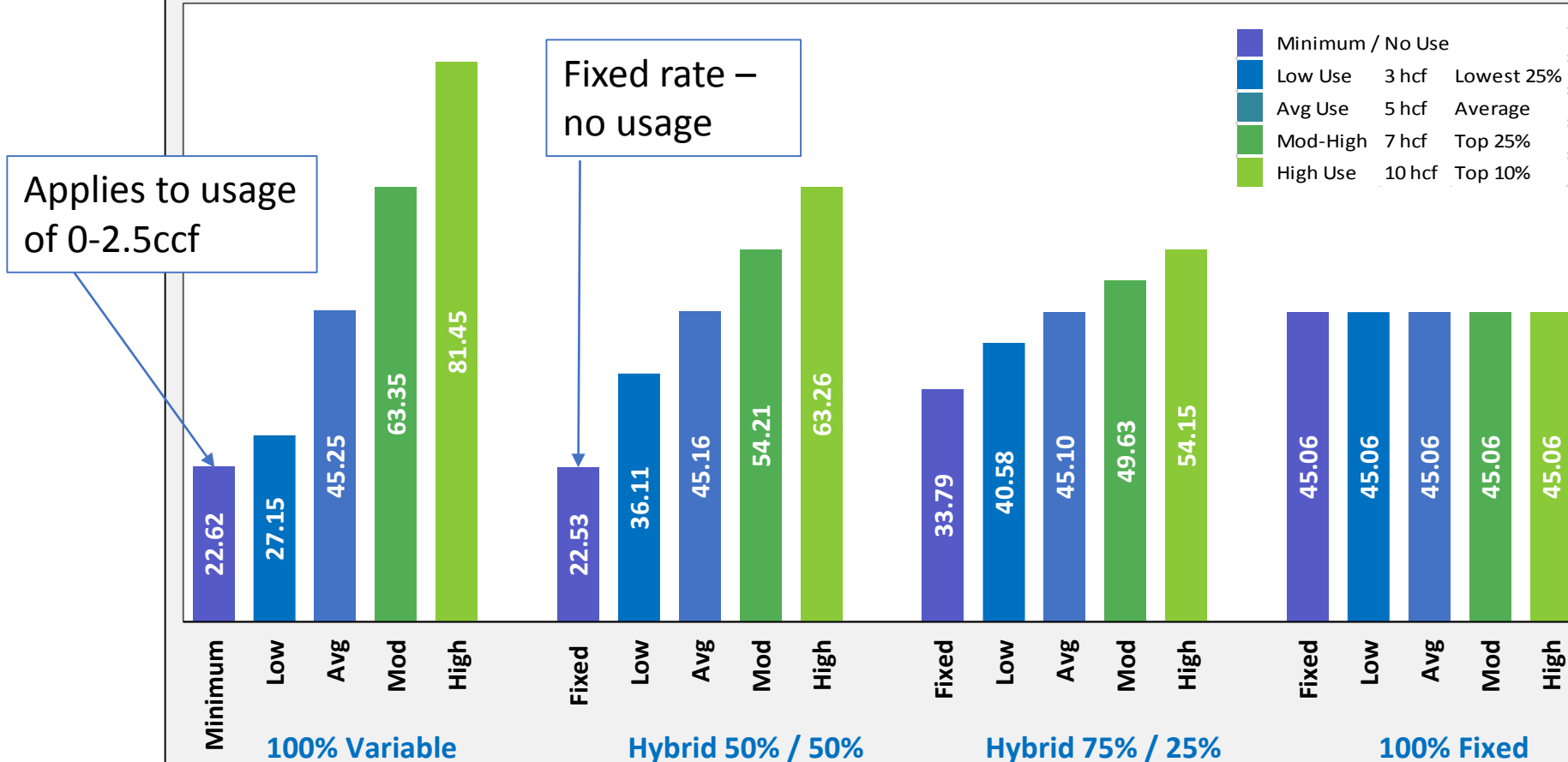
- 100% volumetric sewer rates
- Based on prior year winter water use
- Minimum charge per month
- Commercial rates vary based on wastewater strength
- Sewer bills collected on County property tax rolls

Rate Structure

- Fixed versus variable rate structure

Rate Structure Examples

Residential Sewer Charges Under a Range of Rate Structures



Example rates designed to generate same level of revenues for current fiscal year 2016/17 based on prior winter water use from 2015/16.

Rate Structure

- Fixed versus variable rate structure

Rate Structures



Less Revenue Stability
Charges Vary Based on Use
Aligns with Distribution by Usage

Greater Revenue Stability
Same Charge Regardless of Use
Aligns with Equal Distribution

Rate Structure

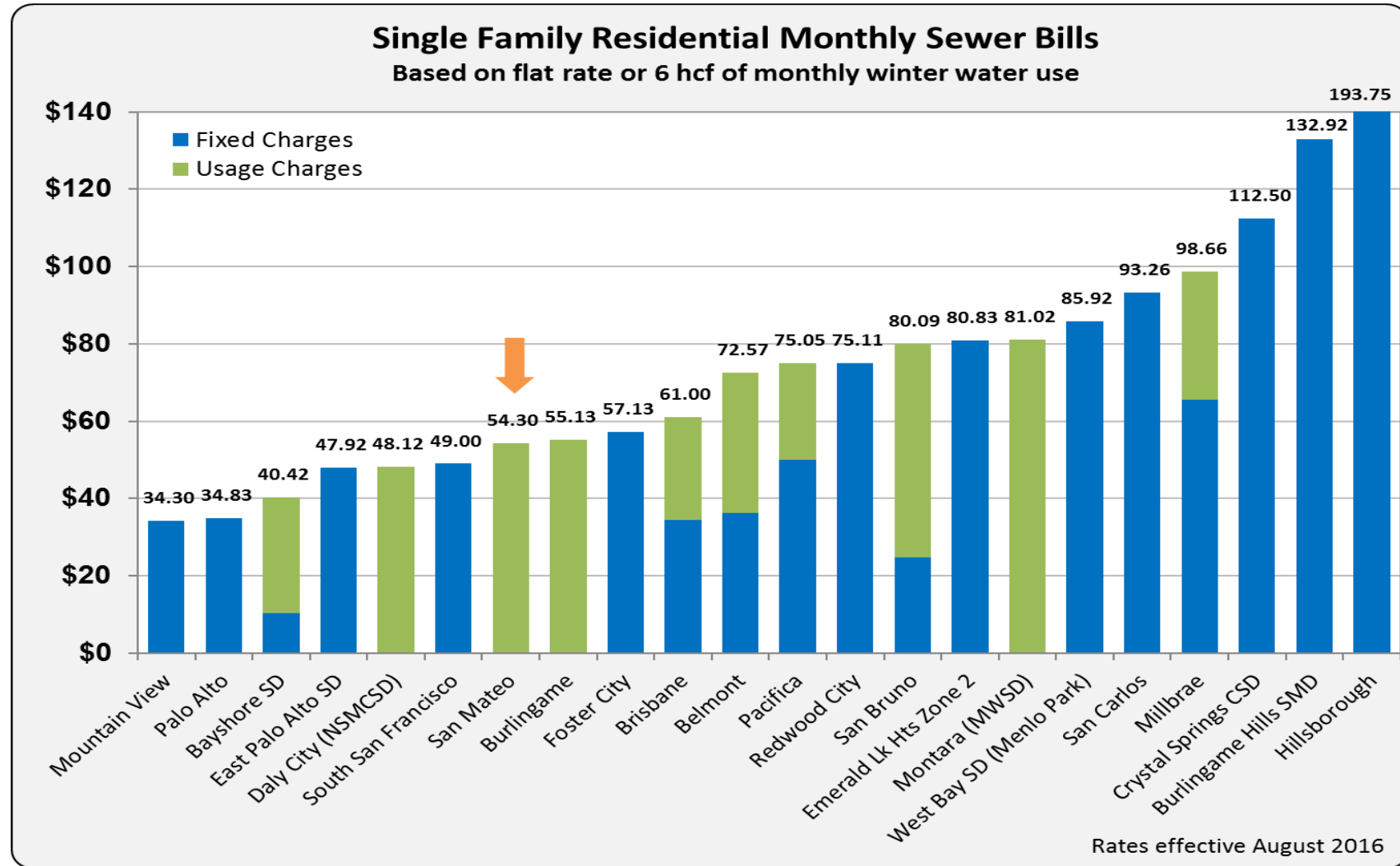
- Fixed versus variable rate structure

Sewer Rate Survey

12 – 100% Fixed

6 – Hybrid

4 – 100% Variable
(San Mateo)



Rate Structure Summary

- 100% Variable Rates
 - *Variable rates continue to have revenue risk due to less predictable annual water use*
 - *Water conservation results in lower revenues which have to be offset by greater rate increases*
- Hybrid Rates:
 - *A hybrid approach adds revenue stability with the fixed rate component, but continues to provide some benefit to customers who conserve*
- 100% Fixed Rates:
 - *Fixed rates would provide the greatest revenue surety*
 - *Customers pay the same regardless of water consumption*

VARIABLE RATES

HYBRID

FIXED RATES

Recommendations and Next Steps

- Consider a minimum 24% rate increase to partially restore the annual revenue base
- Rate structure changes are a key consideration for achieving revenue requirements
 - *Consider incorporating a fixed fee component to improve revenue stability*
- Next study session includes other considerations for financial planning and rate setting
 - *Risk Management and Future Revenue Requirements*
 - *Multi-year rate adoption and implementation strategies*
- Rate Proposals will be provided to Council for direction to move forward with FY17/18 rate setting process and Proposition 218 noticing



Questions & Comments



Supplemental Slides

Revenue Recovery and Capital Needs

SAN MATEO CLEAN WATER PROGRAM (PROJECTED ANNUAL REVENUE)

