



WATER AND SEWER RATES FREQUENTLY ASKED QUESTIONS

As a small, locally controlled government agency, the Board and staff of the TCPUD are committed to providing the highest quality and most reliable water and sewer services with the greatest efficiency and cost-effectiveness. We are ever-vigilant to new technologies and innovative opportunities to streamline our services. While our rates are comparable to our peer communities, they are typically higher than those found in larger metropolitan areas. Below is an explanation of the factors that lead to these rates. We welcome your questions and encourage you to speak with our staff at any time. It is our job to serve YOU.

Why do TCPUD water and sewer rates seem higher than other areas?

Many people express concern and have questions about water and sewer rates at Lake Tahoe as compared to other areas in California or Nevada. There are numerous factors that contribute to TCPUD's rate structure as described below. More importantly, customers are protected by revisions to the California Constitution voters approved under Proposition 218. These provisions prevent public water and sewer agencies from collecting higher rates than what is needed to provide the service.

Below are descriptions of some of the cost factors that affect TCPUD rates.

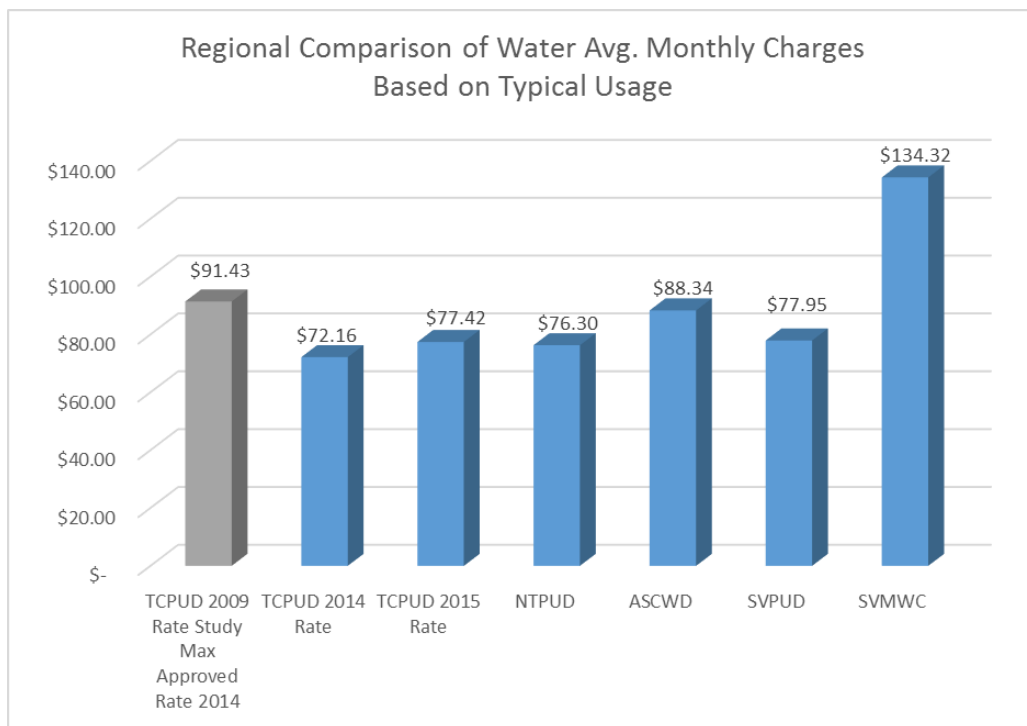
COST FACTORS:

- **Environmental costs** – the Lake Tahoe Basin is one of the most highly regulated areas in the world. These regulations increase the effort and costs associated with all repair work, new construction, reporting and permitting. It is critical to the protection of Lake Tahoe that all utilities follow these procedures, but they are often costly and time-consuming as compared to other areas in the state
- **Winter climate costs** - TCPUD pipelines and facilities are designed and installed to withstand freezing temperatures and often extreme winter conditions. Standard operations must include snow removal and access to remote sites, 365 days a year. Most areas of the state do not have these added costs.
- **Mountainous terrain costs** – utility systems with significant elevation changes require many more pump stations to deliver water to neighborhoods, and to export sewage from the Basin. These mechanical systems and the electrical charges to operate them can add significant cost in both water and sewer rates.
- **Fragmented water systems** – TCPUD serves water to only 4,600 of the 7,638 homes and businesses in the District. The water system is fragmented into 5 service areas, stretched along a long narrow strip of Lake Tahoe's shoreline. The 5 service areas are separated by 9 independent mutual, private, and other public systems in-between. Each service area has its' own water sources, tanks and delivery systems to meet the state's mandates for water supply

and fire protection. The inability to share these resources between service areas results in considerable redundancy and higher expense.

- **Lack of new development revenue** - most water and sewer utilities depend upon some level of revenue growth as a result of new development and utility connections. That revenue source helps to lower costs on all customers in the system. The lack of new subdivisions and development within the Tahoe Basin is seen by many as a positive for the environment and the type of community we all enjoy. As a result, a higher burden is placed on the water and sewer rates for existing customers to keep up with infrastructure rehabilitation and replacement.
- **High labor costs** – the cost of living and housing at Lake Tahoe is higher than many other areas of the state and yet we compete with these areas to recruit and retain qualified employees that meet all the required state certifications to operate our water and sewer system.

All of these factors contribute incrementally to the higher overall cost of providing service to our customers. Your elected Board Members and TCPUD’s management team constantly evaluate every possible cost-savings and efficiency factor. We partner with other agencies and organizations to achieve the maximize benefits for the least cost. In addition we routinely run comparisons with other Districts in our region to ensure our rates are very comparable with those in the region (illustrated below).



How do I know my rates are fair?

Designing water rate structures is a complicated process and this question requires a somewhat lengthy explanation. Since the voter-approved Proposition 218 changes to the California Constitution, most public water systems retain outside consultants to ensure that they fairly and equitably establish the rates, meeting all the legal requirements. This ensures that all the rate-payer protections are met and that the water system does not collect more than it needs to provide the service. TCPUD just completed such a study with HDR Engineering, Inc. Here is a link to that study:

<http://www.tcpud.org/download/general/drre14.pdf>

Why is so much of the water rate I pay “fixed” in the base charge so I pay even when I am not there?

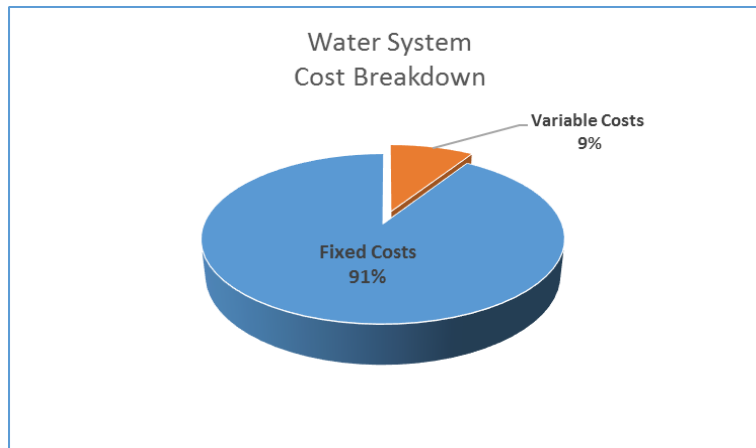
In designing water rate structures there are two competing objectives:

- 1) under the voter-approved Proposition 218 changes to the California Constitution, rates must be based on the actual system costs to serve that class of customers; and,
- 2) the state has prioritized achieving increased water conservation through pricing of consumption rates – the more water you use, the more you pay for each gallon (increasing tiers).

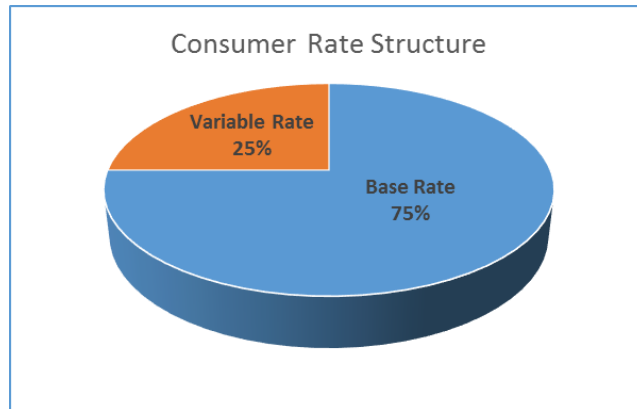
Public agencies across California balance these two factors in setting their rates, based on their own specific circumstances and type of population. They create a mixture of fixed or “base” rates along with consumption or “volumetric” rates in order to collect the revenues necessary to provide the service.

91% = FIXED COSTS: The vast majority of costs for delivering potable water anywhere in the state are fixed, meaning they only vary slightly based on actual water use. Maintaining millions of dollars of infrastructure and meeting increasing state and Federal water quality/consumer protection requirements are 91% of our total costs. This is similar to most other water agencies in the State.

9% = VARIABLE COSTS: These costs fluctuate on the amount of water used and are made up of pumping and treatment costs only.



If these percentages were put into a formula, TCPUD would bill 91% of its water service cost in the base rate and only 9% in consumption. However, in to better comply with conservation objectives and provide customers an opportunity to control the level of their bill, TCPUD uses a formula that receives only **75%** of the revenue from base rates and **25%** from consumption (variable) rates. This rate structure works towards the competing objectives established by the State and fully funds the cost of providing you water.



WIDELY FLUCTUATING POPULATION MAKE THE BASE RATE CRITICAL: Other areas of the state with stable year-round populations can depend upon collecting more of their fixed costs through their consumption rates, as customer usage characteristics are more uniform and predictable. They know that if people are in a home, they can depend on them using some amount of water. Within TCPUD, over 80% of our homes are not occupied year-round. However, we must be staffed and able to provide water service to our customers whenever they arrive. In addition, we must operate our water system to provide full fire protection whether they are occupying their residence or not. In areas such as Tahoe, widely fluctuating occupancies can leave a water system unable to support itself if too much of the revenue is dependent on the consumption rate.

The base charges provide a method to equitably collect a portion of the fixed costs on the system, which benefit all customers regardless of consumptive use, while still maintaining a conservation-oriented rate to reflect the cost of increased consumption.

Are my rates used to provide parks and recreation services?

The State of California mandates that revenue from water service may **ONLY** fund water service and revenue from sewer service may **ONLY** fund sewer service. No revenue from either water or sewer rates can be used to fund Parks and Recreation or any other expense of the district not directly related to providing water/sewer services.

How do you use the funds I pay for water and sewer?

All revenue from water rates goes to fund operations and maintenance, debt service and capital expenditures for the water system. The same holds true for sewer. The average age of the District's water and sewer infrastructure is over 40 years old. The District Capital Plan anticipates significant improvements and rehabilitation over the next 5 years, as illustrated in the table below. Rate revenue will cover only about 50% of these capital expenditures. The remainder will be paid for by a mix of grants, reserves, tax revenues and long-term financing.

Capital Plan for 2015 - 2016

	2015	2016	2017	2018	2019	Total
Water Capital Plan	\$ 4,307,282	\$ 9,563,174	\$ 3,534,081	\$ 1,838,823	\$ 2,938,307	\$22,181,667
Sewer Capital Plan	\$ 3,140,743	\$ 3,683,533	\$ 2,121,680	\$ 2,352,200	\$ 1,675,000	\$12,973,156
Total	\$ 7,450,040	\$ 13,248,723	\$ 5,657,778	\$ 4,193,041	\$ 4,615,326	\$35,164,908

Why haven't my rates gone up as much as projected?

The Board insists that rates are reviewed annually and adjusted as appropriate. During the last 5-year rate period (2009 – 2014) the maximum rate allowable as approved through the 2009 Prop 218 process was never implemented for sewer or water. This is due to ongoing efforts to control operating costs, phasing of the 5 year capital plan, and securing more in grant funding than expected. Levels of staffing and reductions in staff benefits have been a very significant factor in holding your rates down. At the end of 2014 the water rates were 21.1% below, and sewer rates were 24.2% below the maximum approved 2014 rates for the typical customer. The District will continue its efforts to secure outside funding and control costs rather than automatically raise rates to maximum allowable levels.

These are the most frequently asked questions we receive. We are committed to answering all of your concerns. For additional questions or to speak with a District representative please call 530-580-6057.