

## 6.0 FINANCIAL IMPACT

With almost \$1.9 million in improvements recommended over the next 20 years, and only 200 customers financing the cost, the Board of Directors should plan for consistent future rate increases. Improvements can be constructed gradually by properly funding and managing a capital improvement fund, with annual monthly minimum adjustments.

Table 6-1 illustrates this scenario, with projects constructed about once every other year, which allows the capital improvement fund to be replenished. The table summarizes all of the recommended projects (12½ total miles of pipe and replacing all AMR meters), their cost, annual deposits to a capital improvement fund, and the corresponding annual impact on water rates. As shown, an average annual rate increase of 3.3% (about \$4.50 per month per customer) dedicated to capital improvements would fund all of these projects. An additional annual increase would likely be needed to fund inflation related to labor, materials, and wholesale water purchase.

Table 6-2 details projected revenue and expenses, with the basis of the projections being the actual values from the last four years. The water rate projections have been adjusted in accordance with Table 6-1, and also includes operational inflationary adjustments. Projected 1.3% annual customer growth and 3% annual inflation are factored into the revenue and expense estimates for 2023, 2025, 2030, and 2035. The water purchases and sales reflect the assumption of an average year, versus the drought-year conditions reflected in Table 2-1.

The current monthly minimum rate of \$45 would need to increase to \$50 by 2025 and to \$92 by 2035. With 3% inflationary increases, the water rate per 1,000 gallons would increase from the current value of \$8.50 to \$9.00 by 2025 and \$12.00 by 2035. The average monthly water bill, based on 5,000 gallons of usage, would increase from the current cost of \$88 to \$95 in 2025 and \$152 by 2035. Alternatively, the Board of Directors may elect to construct several or all of these improvements at one time, and finance the project through a low-interest, government-subsidized loan. Depending on the loan rate and term, the increase to the monthly minimum fee would range from \$40 to \$50.

The District's current rate structure provides an estimated \$38,000 net positive margin. Much of this can be allocated to a capital improvement fund. This annual contribution would need to be increased by \$9,000 annually to fund the projects. The 2025 budget would still include \$5,000 annually for repairs and \$21,000 for contracted services, allowing for typical annual upgrades.

In addition to water rate increases, revenues can also be generated through increased benefit unit fees. A reasonable method to establish those fees is through a proportionate valuation of the system,

such as a company would through stock valuations. As illustrated in Table 6-3, a rough estimate of all RWD No. 1 assets, primarily depreciated pipeline, is \$2 million. The approximate customer capacity of the existing pipeline and standpipe is 200 to 250. The resulting value range per meter is about \$8,000 - \$10,000. Adding in \$2,000 for the actual meter setting construction cost yields a total of \$10,000 - \$12,000. The current benefit unit fee of \$5,600 is lower than this value, but generally representative of the surrounding water districts. Over time, it would be justifiable for this to gradually increase. A fee of \$7,000 to \$8,000 is not unreasonable based on the pro-rata assessment of value.

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