



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

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June 8, 1998

City of Willits
111 East Commercial Street
Willits CA 95490

Attn: Gordon Logan
City Manager

Re: Water Rate Study Update
Recommended Water Rates, 1998/99 through 2002/03

Bartle Wells Associates prepared a water rate study for the City of Willits dated June 1997. The study recommended that rates be restructured and indicated that a rate increase would be necessary in 1998/99. This letter updates our report and proposes rates for 1998/99 through 2002/03.

Background

The City of Willits provides water service to about 2,150 customers in and adjacent to the City. Over 80 percent of the customers are single family residential customers, with 5/8 x 3/4-inch meters. The water rate consists of a monthly meter charge based on meter size and a quantity charge based on water consumption.

The 1997 report recommended that water rates be restructured in the following manner:

- All types of customers, residential and nonresidential, should pay the same charges.
- The basic meter charge should be sized to generate half the required water sales revenue.
- Charges to different sized meters should be based on the relative capacity of the meter.
- The quantity charge should be sized to generate half of the required water sales revenue.

Water Sales

The 1997 rates were based on anticipated water consumption of 370,000 hundred cubic feet (hcf). As shown in Table 1, water consumption for the prior four years varied between 370,000 and 394,000 hcf. Water consumption dropped in 1997/98, with actual sales between July and March declining by 8 percent from the prior year. This has resulted in a decrease in water revenue. The proposed rates for 1998/99 and beyond are based on water sales of 330,000 hcf per year.

Water Enterprise Revenues and Expenses

Table 2 summarizes water enterprise revenues and expenses. Table 2 shows the revenues and expenses for the last three years and the proposed budget for 1998/99. In 1997/98 Willits received over \$1 million in timber sales revenue and incurred related professional services fees of \$300,000. Other than those items, revenues and expenses have remained stable and the City has carefully controlled its operating costs. The 1998/99 budget calls for a revenue requirement of \$1.3 million. This revenue requirement is used to calculate the water rates for 1998/99.

Table 3 shows the cash flow projections and debt service coverage for the next five years, based on the following assumptions:

- Beginning balance as of July 1, 1998 of \$1.3 million, consisting of about \$300,000 in operating reserve and \$1 million in reserve restricted for capital;
- Interest on the balance at 5 percent;
- Timber sales revenue of \$500,000 in 2001/02;
- Annual increase in operating expenses of 3.5 percent;
- Capital improvements as shown in Table 4.

Table 3 also includes a calculation of the coverage tests on the City's outstanding certificates of participation (COPs) which are secured by water revenues. In issuing the COPs, the City committed to its bondholders that it would maintain a certain level of annual revenues over and above the expenses for operations and maintenance and annual debt service payments. This coverage covenant requires the City to establish and maintain rates and charges for water service which are sufficient to yield:

- Net revenues of at least 1.15 times annual debt service; and
- Net revenues excluding interest income, connection fees and timber harvest revenues of at least 1 times annual debt service.

Net revenues are total revenues of the water system less budgeted operating and maintenance expenses. As shown in the table, the City will meet its coverage requirement each year, based on the projected revenues and expenses. For 1998/99, net revenue is expected to be 1.83 times the annual debt service.

Recommended Water Rates

Table 5 presents the current water rates and the recommended rates through 2002/03. The monthly water bill for a typical single family customer for each year is as follows:

	Current	1998/99	1999/00	2000/01	2001/02	2002/03
Monthly bill	\$32.68	\$35.20	\$36.16	\$37.60	\$38.73	\$40.20
Percent increase	--	7.71%	2.74%	3.97%	2.99%	3.81%

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The monthly water bill for a typical single family customer will increase by \$2.52, or 7.7 percent in 1998/99. The increases in future years would be smaller.

Table 6 summarizes projected water revenue at the recommended rates for each year.

Conclusion

Bartle Wells Associates is also reviewing the capital improvement program and connection charges for the water enterprise. A separate report will be submitted with recommended charges.

We have enjoyed working with the City on this assignment. We appreciate the cooperation we have received from City staff. We look forward to working with the City in implementing the recommendations, and will be present at the public hearing to discuss the rate recommendation.

Very truly yours,

BARTLE WELLS ASSOCIATES



Lora J. Stovall, CIPFA
Principal

Table 1
 City of Willits Water Enterprise
 Annual Water Consumption (hcf)

Meter Size (inches)	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	
						3/98*	Est to 6/30
5/8 x 3/4	191,270	214,787	206,205	203,051	227,830	161,152	190,700
3/4	4,066	4,146	4,469	4,278	3,414	2,823	3,300
3/4	8,019	6,988	6,837	6,838	7,069	5,237	6,200
1	5,283	5,714	6,545	5,929	6,451	3,810	4,500
1	31,190	30,912	31,320	38,448	33,719	26,373	31,200
1-1/2	1,221	12,261	2,558	2,552	2,210	439	500
1-1/2	23,523	24,749	23,269	23,592	24,777	16,778	19,900
2	1,225	964	836	814	1,011	833	1,000
2	69,815	75,885	70,982	72,681	70,210	46,160	54,600
3	2,798	1,814	4,889	2,909	*4,377	5,797	6,900
4	1,303	1,167	2,300	1,243	3,757	2,223	2,600
6	10,209	10,566	10,464	10,423	9,860	7,246	8,600
Total	349,922	389,953	370,674	372,758	394,685	278,871	330,000

* Water consumption through March 1998

Table 2
City of Willits Water Enterprise
Revenues and Expenses

	1995/96	1996/97	Estimated 1997/98	Proposed Budget 1998/99
REVENUES				
User Charges	\$1,308,200	\$1,296,600	\$1,277,000	\$1,297,000
Penalties	4,700	5,200	4,000	5,000
Renewals	1,600	1,300	2,000	2,000
Installation charges	3,700	1,200	10,000	5,000
Hook-up fees	21,000	7,900	11,000	50,000
Other fees & charges	5,800	8,650	6,000	6,000
Interest	96,700	70,000	70,000	86,000
Timber sales	0	0	1,090,000	0
Miscellaneous	<u>1,800</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total revenues	1,443,500	1,390,850	2,470,000	1,451,000
EXPENSES				
Administration				
Salaries & benefits	18,500	31,700	36,000	51,000
Fees & permits	5,600	6,800	9,000	10,000
Supplies and services	9,100	8,800	9,000	35,000
Professional services & contracts	9,400	2,000	5,000	20,000
Taxes & assessments	800	800	1,000	1,000
Depreciation & amortization	320,400	323,700	322,000	332,000
Overhead & administration	169,000	173,700	168,000	168,000
Public utility fees	<u>78,500</u>	<u>77,200</u>	<u>0</u>	<u>0</u>
Subtotal administration	611,300	624,700	550,000	617,000
Water maintenance				
Salaries & benefits	101,800	119,200	112,000	141,000
Supplies & services	11,300	20,800	27,000	32,000
Professional services & contracts	3,200	6,900	7,000	4,000
Other departmental expense	32,700	12,900	10,000	12,000
ISF equipment charges	<u>18,400</u>	<u>22,000</u>	<u>25,000</u>	<u>20,000</u>
Subtotal water maintenance	167,400	181,800	181,000	209,000
Plant operations				
Salaries & benefits	103,800	106,800	91,000	103,000
Supplies & services	4,400	4,100	7,000	9,000
Professional services & contracts	6,900	8,300	313,000	35,000
Special departmental expense	29,700	22,800	25,000	56,000
Utilities	70,500	65,000	70,000	66,000
ISF equipment charges	<u>8,700</u>	<u>7,300</u>	<u>0</u>	<u>0</u>
Subtotal plant operations	224,000	214,300	506,000	269,000
Water engineering				
Salaries & benefits	19,500	0	0	0
Professional services & contracts	<u>0</u>	<u>5,900</u>	<u>23,000</u>	<u>23,000</u>
Subtotal water engineering	19,500	5,900	23,000	23,000
Contingencies appropriation				
	0	1,600	6,000	10,000
Debt service interest	<u>332,400</u>	<u>305,000</u>	<u>318,000</u>	<u>309,000</u>
Total expenses	1,354,600	1,333,300	1,584,000	1,437,000
Net income	88,900	57,550	886,000	14,000
Less depreciation & amort.	320,400	323,700	322,000	332,000
Total cash expenses	1,034,200	1,009,600	1,262,000	1,105,000

Table 3
City of Willits Water Enterprise
Revenue and Expense Projection

Assumptions:	
Escalator	3.5%
New debt (type)	none
Interest earnings rate	5.0%

	Estimated 1997/98	Budget 1998/99	1999/00	2000/01	2001/02	2002/03
Beginning balance		\$1,300,000	\$471,300	\$441,300	\$323,800	\$281,400
REVENUES						
User charges	1,277,000	1,297,000	1,350,000	1,400,000	1,450,000	1,500,000
Interest	70,000	86,000	12,000	11,000	8,000	7,000
Other revenues	33,000	68,000	25,000	25,000	25,000	25,000
Timber sales	<u>1,090,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>500,000</u>	<u>0</u>
Total revenues	<u>2,470,000</u>	<u>1,451,000</u>	<u>1,387,000</u>	<u>1,436,000</u>	<u>1,983,000</u>	<u>1,532,000</u>
Total sources of funds	2,470,000	2,751,000	1,858,300	1,877,300	2,306,800	1,813,400
EXPENSES						
Operating expenses						
Administration	228,000	285,000	295,000	305,300	316,000	327,100
Water maintenance	181,000	209,000	216,300	223,900	231,700	239,800
Plant operations	506,000	269,000	278,400	288,100	298,200	308,600
Water engineering	23,000	23,000	23,800	24,600	25,500	26,400
Contingency	<u>15,000</u>	<u>10,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>
Total operation & maint	953,000	796,000	828,500	856,900	886,400	916,900
Net revenues	1,517,000	655,000	558,500	579,100	1,096,600	615,100
Capital expenses						
Debt Service, COPs	355,200	355,200	353,000	356,100	358,500	355,300
Water loan payments	205,500	205,500	205,500	205,500	205,500	205,500
Capital improvements	<u>205,000</u>	<u>923,000</u>	<u>30,000</u>	<u>135,000</u>	<u>575,000</u>	<u>100,000</u>
Total capital expenses	765,700	1,483,700	588,500	696,600	1,139,000	660,800
Annual sources less uses	751,300	(828,700)	(30,000)	(117,500)	(42,400)	(45,700)
Closing balance		471,300	441,300	323,800	281,400	235,700
COP coverage tests						
Net revenue > 1.15 debt svc	4.27	1.84	1.58	1.63	3.06	1.73
Net revenue - (interest + timber sales) > 1.0 debt svc	1.01	1.60	1.55	1.60	1.64	1.71

Sources: Prepared by Bartle Wells Associates.

Table 4
City of Willits Water Enterprise
Capital Improvement Requirements

	Budget	Projected			
	1997/98	1998/99	1999/00	2000/01	2001/02
Main transmission line	\$71,500	\$791,230			
Highway 101				70,000	
Harrah project		10,000			
Della Ave (1,400 ft.)					150,000
Northbrook pump station	20,000				
Redwood pump station			5,000		
Riparian revegetation	22,780	50,000			
Emergency generator	10,000	25,000			
Meter replacement	50,000	20,000	20,000	20,000	20,000
Hydrant replacement	15,000	5,000	5,000	5,000	5,000
Plant optimization	16,000				
One ton truck		22,000			
Plant expansion				40,000	400,000
Totals	205,280	923,230	30,000	135,000	575,000

Table 5
 City of Willits Water Enterprise
 Recommended Rates, 1998-2002

Meter Size	Current	Recommended				
		1998/99	1999/00	2000/01	2001/02	2002/03
5/8" x 3/4"	\$18.60	\$19.20	\$19.80	\$20.40	\$21.15	\$21.80
3/4"	27.90	28.80	29.70	30.60	31.70	32.70
1"	46.50	48.00	49.50	51.00	52.90	54.50
1 - 1/2"	93.00	96.00	99.00	102.00	105.80	109.00
2"	148.80	153.60	158.40	163.20	169.20	174.40
3"	297.60	307.20	316.80	326.40	338.40	348.80
4"	418.50	432.00	445.50	459.00	475.90	490.50
6"	930.00	960.00	990.00	1,020.00	1,057.50	1,090.00
Quantity charge/hcf	1.76	2.00	2.05	2.15	2.20	2.30
Typical single family bill*	32.68	35.20	36.16	37.60	38.73	40.20
% increase	—	7.71%	2.74%	3.97%	2.99%	3.81%

*Typical single family includes a 5/8" meter and an average of 8 hcf monthly water usage

Table 6
City of Willits Water Enterprise
Projected Revenue

	1998/99	1999/00	2000/01	2001/02	2002/03
Annual revenue requirement	\$1,297,000	\$1,350,000	\$1,400,000	\$1,450,000	\$1,500,000
Meter charge	\$19.20	\$19.80	\$20.40	\$21.15	\$21.80
Quantity charge	\$2.00	\$2.05	\$2.15	\$2.20	\$2.30
Water usage	330,000	330,000	330,000	330,000	330,000
5/8" meter equivalents	2,847	2,852	2,857	2,862	2,867
Annual meter revenue	\$656,000	\$678,000	\$699,000	\$726,000	\$750,000
Annual usage revenue	<u>660,000</u>	<u>675,000</u>	<u>710,000</u>	<u>725,000</u>	<u>759,000</u>
Total revenue	1,316,000	1,353,000	1,409,000	1,451,000	1,509,000