

Update of 2013 Cost/Benefit Analysis of the Acquisition of Golden State Water Company - Ojai Service Area - by Casitas Municipal Water District

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“AN ANALYSIS OF THE FINANCIAL FEASIBILITY OF PROVIDING LOWER COST WATER SERVICE TO THE OJAI SERVICE AREA OF GOLDEN STATE WATER COMPANY” was prepared on March 20, 2011. Following the Casitas Municipal Water District’s (CMWD) action to pursue acquisition of Golden State Water (GSW) the “COST / BENEFIT ANALYSIS OF CASITAS MUNICIPAL WATER DISTRICT JANUARY 29, 2013 PROPOSAL TO FUND THE ACQUISITION OF THE GOLDEN STATE WATER COMPANY OJAI WATER SERVICE AREA” was prepared on March 7, 2013 to analyze the funding alternative proposed by CMWD.

The following is the conclusion of that analysis:

Casitas' proposal would result in an economic benefit to OJAI. CASITAS' proposal would save OJAI \$758,000 the first year of the BOND and the projected annual savings would reach \$4.6 million in 10 years for an accumulative savings of \$24 million by 2023. The "typical customer" in OJAI would save \$188 in the first year and over \$5,440 through the first 10 years of the BOND....

On April 12, 2017 the Casitas Board of Directors will consider approval of a final agreement to purchase GSW Ojai service area. Four years have passed since the last analysis was completed and Ojai voters authorize \$60 million in bonds to acquire GSW. Both CMWD and GSW have increased water rates during that period. The California Public Utilities Commission recently approved GSW’s request for rate increases retroactive through 2016 (CPUC, December 2016), and GSW is preparing the next rate case filing for 2020. CMWD has published a draft proposal to increase rates through 2020 (CMWD , March 2017).

What has not changed in the past four years is the proposed funding of the acquisition of GSW by CMWD. Voters approved the sale of, not to exceed, \$60 million in bonds to be secured by property assessments. The annual property assessments are not to exceed \$2.69 million in the first year, and to increase by a maximum of 2% per year through the terms of the bonds (Casitas, January 2013).

Impact of Rate Increases

For the “Typical Customer” (Note 1), a property served with a 5/8 inch meter using 26 CCF (Note 2) of water bi-monthly, the cost of water has increased significantly since 2013. The bi-monthly cost has increased from \$168.88 to \$204.40 (Revised Cal. P.U.C. Sheet No. 7119-W*) today and will increase to \$235.95 sometime this year following implementation of the CPUC 2016 Decision. The same amount of water purchased from CMWD will cost \$71.48 effective July 1, 2017 (CMWD, March 2017). The maximum assessment for repayment of the proposed bond will be \$480 per year for a typical lot size of less than 10,000 square feet (Casitas January 2013). The annual cost of water from GSW in 2017 will be \$1,415.70. With CMWD service, including the cost of the bond, the annual water cost will be \$909.00 a savings of nearly \$507 in the first year.

Projected water sales and the distribution of those sales by customer class and tiered water rate charges is contained in Appendix E, Stipulated Quantities – Test Year 2016 (CPUC Decision December 21, 2016). Applying the CPUC approved rate schedule (Appendix G Schedule No. OJ-1-R, CPUC December 21, 2016) to projected sales, results in a total cost of water to Ojai from GSW over a one year period of \$6.2 million. Applying CMWD rates to the same sales projections and adjusting for CMWD’s slightly different tiered rates, the cost to Ojai will be \$2.24 million dollars (Attachment A). The maximum annual cost of the bond assessment in the first year will be \$2.69 million for a total cost to Ojai of \$4.93 million dollars, a saving of \$1.27million.

Future Cost Comparisons

In the 2013 Cost/Benefit Analysis a 22 year historical comparison between GSW and CMWD annual water rate increases found that GSW increased rates on average 8.1% per year. CMWD increased rates 4.2% annually over the same period. With data through 2020, GSW average rate increases are 7.6% and CMWD’ are 4.6% (Attachment B).

The term of the proposed bond is a maximum of 30 years. The savings over that period will be significant if the 30 year history of rate increases by both GSW and CMWD continue into the future. To date there is no evidence that it will not. In 2010 GSW developed a Master Plan (Golden State Water, August 2010) to identify major capital improvement and replacement projects required over the decade totaling \$28.1 million. Some portion of GSW rate increases have been the result of theses capital expenditures. However, GSW total un-depreciated plant value at the end of 2009 was \$17.8 million (Golden State December 2009). In 2016 (CPUC December 21, 2016) the total un-depreciated plant value has risen to only \$27.4 million. This demonstrates that approximately only \$10.0 million dollars of the Master Plan projects have been completed. At least \$18.0 million more in planned improvements are still required. In addition it is likely that over the next decade there will be a need for additional improvements yet to be identified. An \$18.0 million

dollar investment in capital will result in an additional \$2,070,000 increase in GSW rates under CPUC rules (3% annual depreciation plus 8.5% return on investment- CPUC December 21, 2016) or a 36% increase over and above any operating cost increases. In the CMWD proposal financing for those capital projects are included in the bond proceeds.

Looking ahead at just 10 years, the savings to Ojai by receiving service from CMWD is significant. Assuming both GSW and CMWD continue to raise rates on a pattern similar to the past 30 year history and the annual assessments for bond repayment increase by the maximum annual allowable amount of 2%, the Ojai service area customers will save \$25.8 million. The "Typical Customer" will save over \$8,500 during the same 10 year period.

Conclusion

The economic benefit to Ojai from the CMWD acquisition of GSW is even greater today than in 2013. Ojai has realized the projected costs increases from GSW rates since 2013. As a result the initial savings to Ojai and the typical customer of GSW has increased significantly from the original analysis. In addition the Ojai community has had to endure another CPUC rate case process to which the City of Ojai and many community members spent time and resources participating in a process that is deaf to the concerns of the customers served. The value of local control of Ojai's water services is even greater today than in 2013.

Notes:

Note (1) Typical Customer

Over two-thirds of GOLDEN STATE customers in the Ojai service area have 5/8 inch meters (GOLDENSTATE DEC. 2009). GOLDEN STATE cites their average or "typical customer" as a 5/8 inch metered service using an average of 13 CCF per month or 26 CCF bi-monthly (GOLDEN STATE to the Ojai City Council January 26, 2010). Based on the number of customers with 5/8 inch meters and the total GOLDEN STATE water sales data, this seems to be a reasonable characterization of a typical GOLDEN STATE customer. Throughout this report the term "typical customer" will refer to a 5/8 inch service using an average of 26 CCF bi-monthly.

Note (2) One Hundred Cubic Foot of Water (CCF)

For the purpose of this report the term "CCF", one hundred cubic feet of water, will be used when referencing water use. One "CCF" is equal to 746 gallons of water. GOLDEN STATE and CASITAS, as well as, most municipal water agencies use the "CCF" as the unit of measure for selling water. GOLDEN STATE and CASITAS water rates are based on "CCF". "CCF" is used on GOLDEN STATE billing statements

References:

Golden State Water Company, December 31, 2009, *Annual Report of District System Operations of Golden state Water Company to the Public Utilities Commission State of California Year Ended December 31, 2009* , San Dimas, California

Casitas Municipal Water District, January 29, 2013, *Rate and Method of Apportionment for Casitas Municipal Water District Community Facilities District No. 2013-1 (Ojai)*, Oak View California.

Golden State Water Company, August 2, 2010, *Report on the Maintenance and Capital Improvements of Ojai Customer Service area for years 1999 to 2009* , San Dimas, California

California Public Utilities Commission, December 21, 2016, *Decision Addressing The General Rate Case Application Of Golden State Water Company And The Proposed Settlement*, San Francisco California.

Casitas Municipal Water District, March 19, 2017, *Santec Draft Water Rate Study*, Oak View, California

Attachment A

Golden State Water Company 2016 Projected Sales by Class of Service and Rate Tier (1)							CMWD Rates Applied to GSW 2016 Projected Sales (2)				
Customer Class	Service Connections	Usage CF/Customer	Rate Tiers	CCF /month	Projected Consumption Kccf/Tier	Projected Revenue 2016	Projected Consumption Kccf/Tier (4)	CCF /month	CMWD Rates	Projected Revenue	
Residential	2448	158.9			389.1		488.5				
			Tier 1	13	183.5	\$ 6.92	141.2	10	\$ 0.96	\$ 135,508	
			Tier 2	12	75	\$ 7.95	182.7	7	\$ 1.46	\$ 266,736	
			Tier 3	>25	130.7	\$ 9.02	65.4	33	\$ 1.46	\$ 95,411	
			Tier 4				99.332	>50	\$ 2.36	\$ 234,424	
			Total Residential Revenue				Total Residential Revenue			\$ 732,079	
					(5)						
Commercial	340	502.2			170.7	\$ 1,336,043			1.46	\$ 249,222	
Industrial	4	157.2			0.6	\$ 4,696			1.46	\$ 876	
Public	23	815.3			18.8	\$ 147,145			1.46	\$ 27,448	
Irrigation	30	864.1			6.3	\$ 49,309			1.46	\$ 9,198	
			Total Non-Residential Revenue				Total Non-Residential Revenue			\$ 286,744	
	2845	2497.7									
Total Water Sales Revenue						\$ 4,582,619	Total Water Sales Revenue				\$ 1,018,823
Golden State Water Monthly Meter Fees by Size and Class							CMWD Monthly Meter Fees by Size and Class				
Class	Meter Size	No. of Meters	Fee	Annual Total				Fee	Annual Total		
Residential	5/8 x 3/4	1732	\$ 27.99	\$ 581,744				\$ 28.75	\$ 597,540		
	3/4	248	\$ 41.99	\$ 124,962				\$ 28.75	\$ 85,560		
	1.0	410	\$ 69.98	\$ 344,302				\$ 47.91	\$ 235,717		
	1.5	32	\$130.97	\$ 50,292				\$ 95.82	\$ 36,795		
	2.0	26	\$223.95	\$ 69,872				\$ 153.36	\$ 47,848		
Total		2448		\$ 1,171,173			Total		\$ 1,003,460		
Business	5/8 x 3/4	186	\$ 34.60	\$ 77,227				\$ 22.97	\$ 51,269		
	3/4	30	\$ 51.89	\$ 18,680				\$ 22.97	\$ 8,269		
	1.0	90	\$ 86.49	\$ 93,409				\$ 38.28	\$ 41,342		
	1.5	28	\$172.98	\$ 58,121				\$ 76.56	\$ 25,724		
	2.0	56	\$276.77	\$ 185,989				\$ 122.50	\$ 82,320		
Total		390		\$ 433,428					\$ 208,925		
7ML	5/8 x 3/4	6	\$ 34.60	\$ 2,491				\$ 23.34	\$ 1,680		
	3/4	1	\$ 51.89	\$ 623				\$ 23.34	\$ 280		
	1.0	1	\$ 86.49	\$ 1,038				\$ 63.66	\$ 764		
	1.5	0	\$172.98	\$ -				\$ 121.25	\$ -		
	2.0	4	\$276.77	\$ 13,285				\$ 190.38	\$ 9,138		
Total		12		\$ 17,437			Total		\$ 11,863		
Total Annual Meter Fee Revenue						\$ 1,622,037	Total Annual Meter Fee Revenue				\$ 1,224,248
Total Revenues						\$ 6,204,656	Total Revenues				\$ 2,243,071
(1). Sales projections from CPUC December 21, 2016							(2). Rates from CMWD Rates and Regulations				
(3). Rates include all approved surcharges (CPUC December 21, 2016)							(4). Usage distributed among CMWD Rate Tiers				
(5). Distribution of non-residential usage by tiers not available. Usage distributed in proportion to residential											

Attachment B

Golden State and Casitas Historical Increase in Water Charges to the "Typical Customer"

		CMWD			
		GSW	(6)	GSW	CMWD
(1)	90	\$ 32.67	\$ 27.00	Increase	Increase
	91	\$ 35.48	\$ 28.32	8.6%	4.9%
	92	\$ 38.54	\$ 25.59	8.6%	-9.6%
	93	\$ 41.86	\$ 28.13	8.6%	9.9%
	94	\$ 45.46	\$ 29.14	8.6%	3.6%
	95	\$ 49.37	\$ 31.07	8.6%	6.6%
	96	\$ 53.63	\$ 33.06	8.6%	6.4%
	97	\$ 58.24	\$ 34.02	8.6%	2.9%
(2)	98	\$ 63.26	\$ 35.07	8.6%	3.1%
	99	\$ 74.64	\$ 36.94	18.0%	5.3%
	2000	\$ 75.05	\$ 39.26	0.5%	6.3%
	2001	\$ 71.43	\$ 42.41	-4.8%	8.0%
	2002	\$ 72.27	\$ 45.02	1.2%	6.2%
	2003	\$ 73.86	\$ 50.76	2.2%	12.7%
	2004	\$ 77.04	\$ 51.62	4.3%	1.7%
	2005	\$ 83.28	\$ 57.16	8.1%	10.7%
	2006	\$ 87.69	\$ 61.32	5.3%	7.3%
	2007	\$ 92.25	\$ 64.95	5.2%	5.9%
	2008	\$ 124.47	\$ 60.94	34.9%	-6.2%
	2009	\$ 121.74	\$ 62.54	-2.2%	2.6%
(3)	2010	\$ 119.55	\$ 62.54	-1.8%	0.0%
(4)	2011	\$ 151.14	\$ 62.54	26.4%	0.0%
(5)	2012	\$ 168.88	\$ 65.57	11.7%	4.8%
	2013	\$ 182.22	\$ 72.32	7.9%	10.3%
	2014	\$ 196.62	\$ 72.32	7.9%	0.0%
	2015	\$ 204.40	\$ 72.32	4.0%	0.0%
(7)	2016	\$ 235.95	\$ 72.32	15.4%	0.0%
(8)	2017	\$ 254.59	\$ 71.48	7.9%	-1.2%
	2018	\$ 274.70	\$ 80.06	7.9%	12.0%
	2019	\$ 296.40	\$ 89.66	7.9%	12.0%
	2020	\$ 319.82	\$ 100.42	7.9%	12.0%
Average Annual Increase				7.6%	4.6%

(1) 1990 Charge is from L.A. Times March 22,1990. Rate increase
Straight-line average from 1990 to 1999

(2) Rate of Increases 1999-2009 (Golden State August 2010)

(3) Includes Surcharges PUC Advise Letter 1393-W

(4) Includes surcharges CPUC Sheet No. 6091

(5) Includes surcharges CPUC Sheet No. 6506

Attachment C					
Projected Savings for Ojai Service Area in Millions of Dollars					
	GSW Average Increase of 7.6%	CMWD Average Increase of 4.6%	Bond Increase of 2%	CMWD + Bond	Savings
2017	\$ 6.20	\$ 2.24	\$ 2.69	\$ 4.93	\$ 1.27
2018	\$ 6.67	\$ 2.51	\$ 2.74	\$ 5.25	\$ 1.42
2019	\$ 7.18	\$ 2.81	\$ 2.80	\$ 5.61	\$ 1.57
2020	\$ 7.72	\$ 3.15	\$ 2.85	\$ 6.00	\$ 1.72
2021	\$ 8.31	\$ 3.29	\$ 2.91	\$ 6.20	\$ 2.11
2022	\$ 8.94	\$ 3.44	\$ 2.97	\$ 6.41	\$ 2.53
2023	\$ 9.62	\$ 3.60	\$ 3.03	\$ 6.63	\$ 2.99
2024	\$ 10.35	\$ 3.77	\$ 3.09	\$ 6.86	\$ 3.50
2025	\$ 11.14	\$ 3.94	\$ 3.15	\$ 7.09	\$ 4.05
2026	\$ 11.99	\$ 4.12	\$ 3.21	\$ 7.34	\$ 4.65
Total					\$25.80

Projected Savings for "Typical Customer Over Next 10 Years					
	GSW Average Increase of 7.6%	CMWD Average Increase of 4.6%	Bond Increase of 2%	CMWD + Bond	Savings
2017	\$ 1,416	\$ 429	\$ 480	\$ 909	\$ 507
2018	\$ 1,523	\$ 480	\$ 490	\$ 970	\$ 553
2019	\$ 1,639	\$ 538	\$ 499	\$ 1,037	\$ 602
2020	\$ 1,764	\$ 603	\$ 509	\$ 1,112	\$ 652
2021	\$ 1,898	\$ 630	\$ 520	\$ 1,150	\$ 748
2022	\$ 2,042	\$ 659	\$ 530	\$ 1,189	\$ 853
2023	\$ 2,197	\$ 690	\$ 541	\$ 1,230	\$ 967
2024	\$ 2,364	\$ 721	\$ 551	\$ 1,273	\$ 1,091
2025	\$ 2,544	\$ 754	\$ 562	\$ 1,317	\$ 1,227
2026	\$ 2,737	\$ 789	\$ 574	\$ 1,363	\$ 1,374
Total					\$8,573