

Joint True Cost Full Disclosure Report



Summary Presentation of Findings
and Recommendations

April 27, 2006



Study Goals

1. Establish **process** to gather community information on a periodic basis.
2. Develop insights on **true cost of service** principles and evaluate the extent to which existing practices reflect these principles.
3. Establish additional **disclosure** mechanisms to ensure that the actual cost of water and sewer service to consumers is identified and that they can understand what and who is being paid for those services.



Takeaway Messages

1. Progress in disclosure of DWSD rates and rate processes
2. Must extend to all entities in region
3. Many ways to fund water & sewer – disclosure must go beyond rates
4. True cost of service principles necessary for massive investment required in water & sewer infrastructure
5. DWSD contracts offer opportunity to codify true cost & disclosure recommendations
6. Region faces a dilemma – this initiative will help
7. This report is initial effort – additional honing of recommendations and plans will be required of Consortium and others



Study Process

- Detailed Follow up of 2004 Plante & Moran Study
- 26 Sample Communities
- Focus on ALL Water and Sewer Costs and Cost Recovery Mechanisms
 - ✓ Not just a rate survey
- Audited 2004 Financial Records & Reported Planning



Disclosure Findings

- Sample Group “Drew Down” Reserves
- - Could indicate . . .
 - ✓ Insufficiency of Rates
 - ✓ Poor Revenue Conditions due to Weather
- Many Report Financial Activity as Combined Water & Sewer Fund
- Almost All Use Funding Sources Beyond User Charges
 - ✓ Costs of Many Water & Sewer Programs not in Financial Reports for Water & Sewer Funds



Disclosure Findings

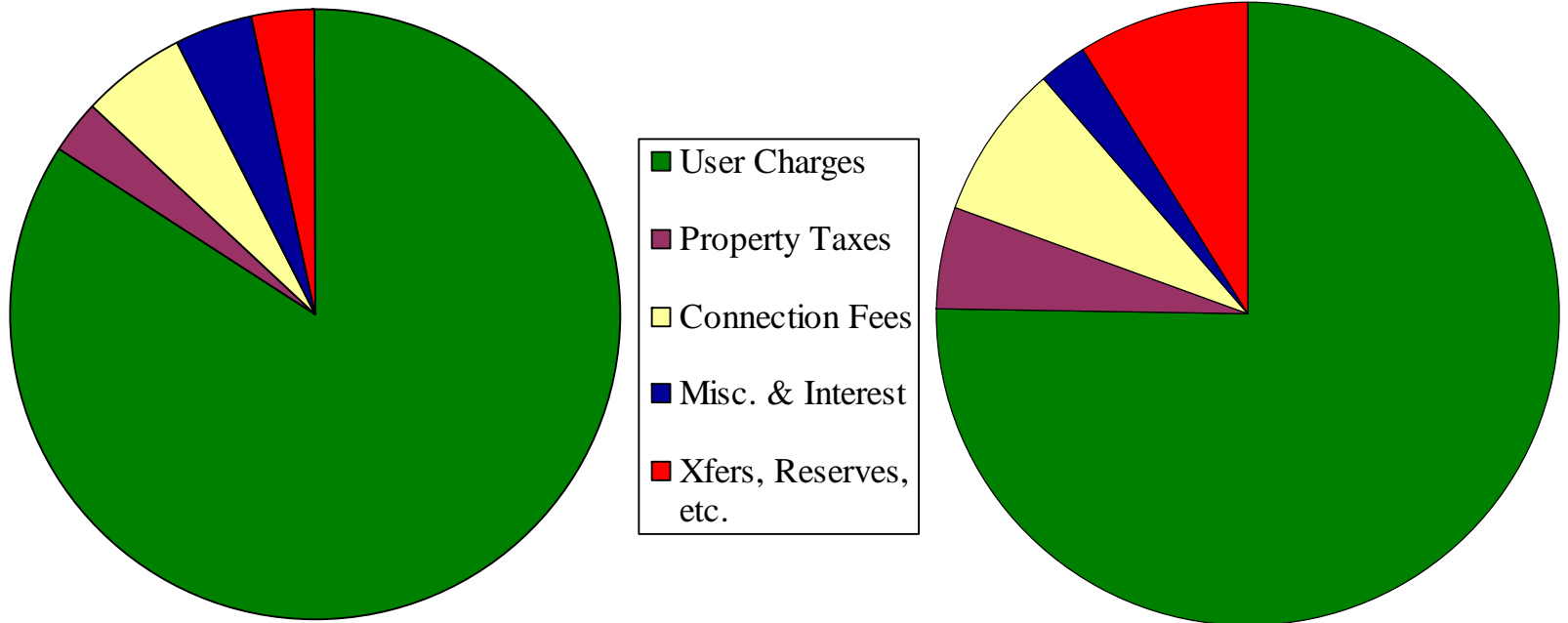
- Several Different Mechanisms for Measuring Use
 - ✓ Complicates Direct Comparisons
- 2 or More Service Providers for Retail Customers
 - ✓ Differing Assumptions Between Wholesale Service Provider and Wholesale Customer Are Not Unusual



Disclosure – Revenues and Financing Sources

Water

Sewer



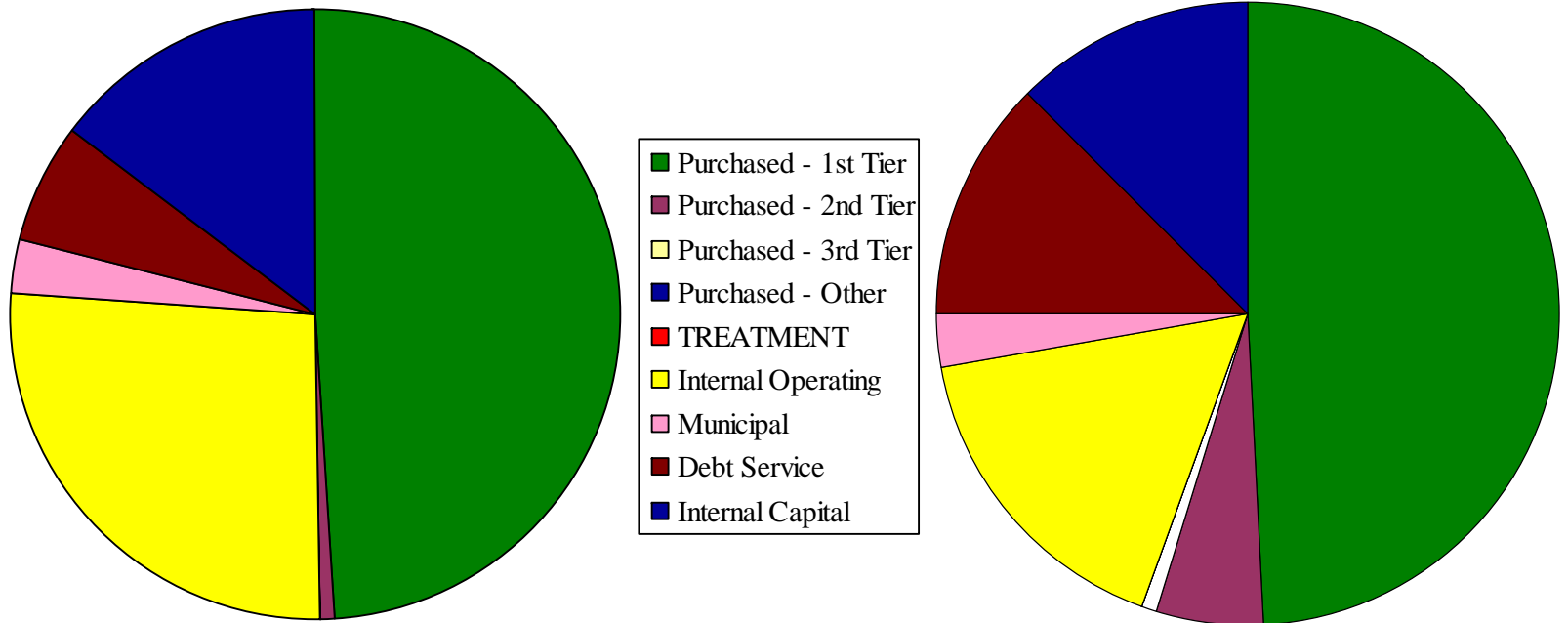
Composite of DWSD Customer Communities in the Sample Group



Disclosure – Revenue Requirements and Financing Uses

Water

Sewer

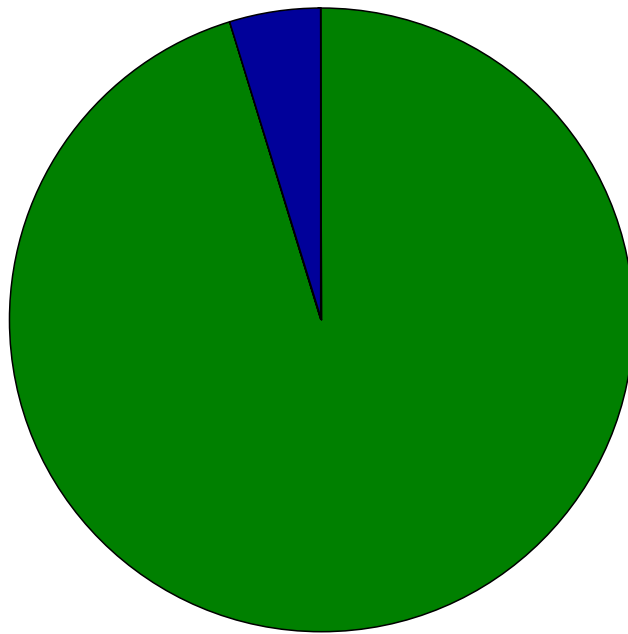


Composite of DWSD Customer Communities in the Sample Group

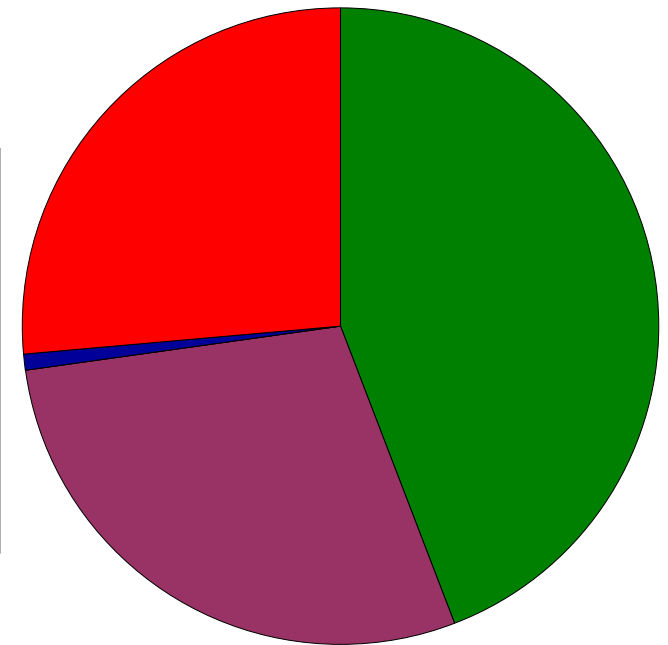


Sample Disclosure – Revenues and Financing Sources

Community 3



Community 21



- User Charges
- Property Taxes
- Connection Fees
- Misc. & Interest
- Xfers, Reserves, etc.

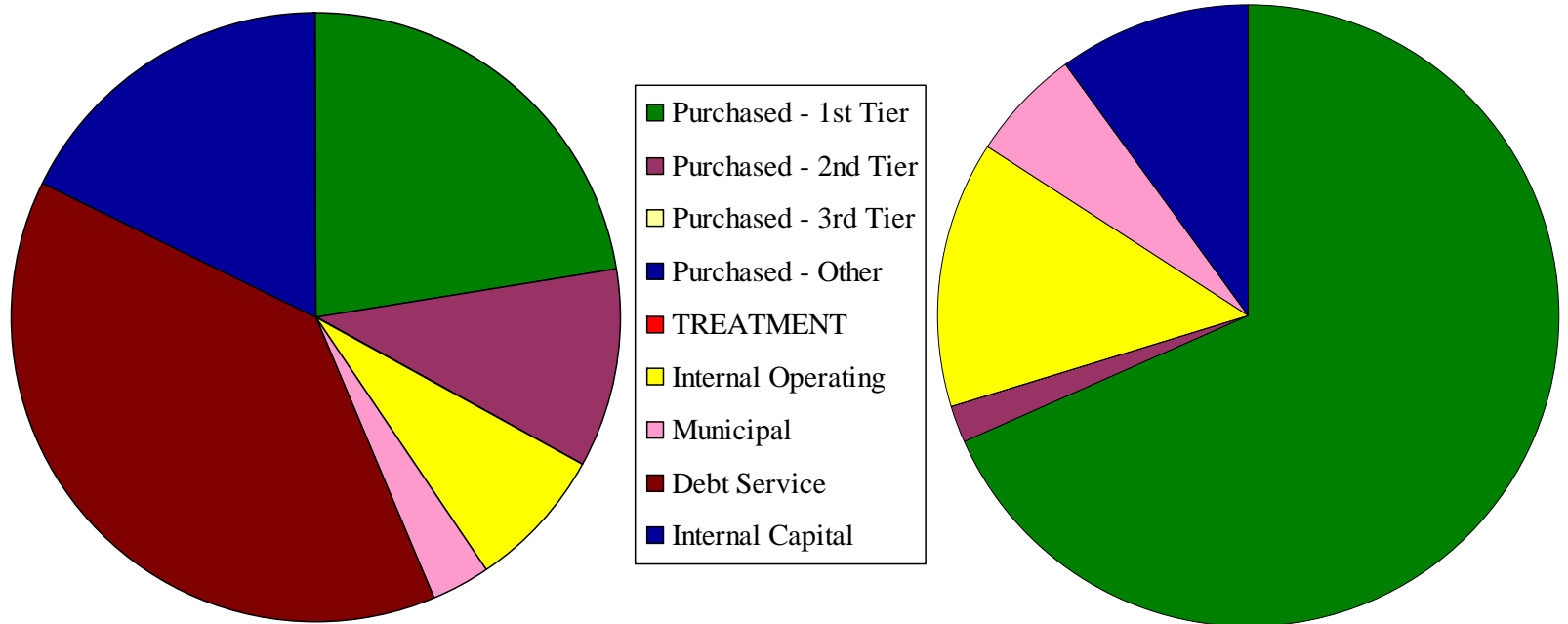
Comparison of Water Funding Sources for 2 Sample Communities



Sample Disclosure – Revenue Requirements and Financing Uses

Community 25

Community 1



Comparison of Sewer Funding Requirements for 2 Sample Communities



Disclosure – Illustrative Water & Sewer Bill (Draft)

Water Supply Service

Water Supplier - Name

1st Tier Wholesaler - Name

2nd Tier Wholesaler - Name

Retail Delivery - Name

Total Water Charge

Fixed Charges		Variable Charges			Total Charge
Service Charge	Capacity Charge	Commodity Units	Commodity Unit Cost	Commodity Charge	
\$ 0.50	\$ -	10	\$ 0.600	\$ 6.00	\$ 6.50
\$ 0.75	\$ 4.00	10	\$ 0.100	\$ 1.00	\$ 5.75
\$ 0.50	\$ 1.00	10	\$ 0.050	\$ 0.50	\$ 2.00
\$ 5.00	\$ -	10	\$ 0.200	\$ 2.00	\$ 7.00
-----	-----		-----	-----	-----
\$ 6.75	\$ 5.00	10	\$ 0.950	\$ 9.50	\$ 21.25

Sewage Disposal Service

Treatment & Disposal - Name

1st Tier Wholesaler - Name

2nd Tier Wholesaler - Name

Retail Collection - Name

Total Sewer Charge

\$ 0.50	\$ 5.00	10	\$ 0.800	\$ 8.00	\$ 13.50
\$ 0.75	\$ 4.00	10	\$ 0.150	\$ 1.50	\$ 6.25
		10		\$ -	\$ -
\$ 5.00	\$ 1.00	10	\$ 0.200	\$ 2.00	\$ 8.00
-----	-----		-----	-----	-----
\$ 6.25	\$ 10.00	10	\$ 1.150	\$ 11.50	\$ 27.75

TOTAL UTILITY CHARGES

\$ 13.00 \$ 15.00

\$ 21.00 **\$ 49.00**

PAY THIS AMOUNT

\$ 49.00



Disclosure – Illustrative Water & Sewer Bill (Draft)

Water Supply Service

Water Supplier - Name

1st Tier Wholesaler - Name

2nd Tier Wholesaler - Name

Retail Delivery - Name

Total Water Charge

Total Charge	Percent of Bill	Applied to Operating Costs	Applied to Capital Costs
\$ 6.50	30.6%	\$ 3.90	\$ 2.60
\$ 5.75	27.1%	\$ 1.44	\$ 4.31
\$ 2.00	9.4%	\$ 1.00	\$ 1.00
\$ 7.00	32.9%	\$ 5.25	\$ 1.75
-----		-----	-----
\$ 21.25		\$ 11.59	\$ 9.66

Sewage Disposal Service

Treatment & Disposal - Name

1st Tier Wholesaler - Name

2nd Tier Wholesaler - Name

Retail Collection - Name

Total Sewer Charge

\$ 13.50	48.6%	\$ 8.10	\$ 5.40
\$ 6.25	22.5%	\$ 1.56	\$ 4.69
\$ -	0.0%	\$ -	\$ -
\$ 8.00	28.8%	\$ 6.00	\$ 2.00
-----		-----	-----
\$ 27.75		\$ 15.66	\$ 12.09

TOTAL UTILITY CHARGES

\$ 49.00	\$ 27.25	\$ 21.75
-----------------	-----------------	-----------------



Disclosure Recommendations

- Focus on more than just rates
- Embrace recommended disclosure formats
 - ✓ Periodic reporting
 - ✓ Sample bills
- Implement accounting systems that support these formats
- Update this material periodically
- Avoid “rate comparisons” until disclosure culture is fully implemented



True Cost Principles

- No one “Accepted” Approach to Financing Services
 - ✓ Myriad of acceptable practices that meet cost of service principles to varying degrees
- Future Efforts Should Focus on Establishing Recommended Guidelines
 - ✓ Appropriate Use of Property Taxes & Connection Fees
 - ✓ Capital Financing Plans that Ensure Generational Equity



Action Plans

- Consider Opportunity to Embody Recommendations in Contracts Between DWSD & Customer Communities
- Consortium & Successor Entities Should Refine and Implement Disclosure Protocols and True Cost Principles