Timing of Rate Changes

April 1, 2009

Board Meeting

Two Potential CWA Rate Changes

- CWA Annual Increase - Sept. 1st
  - Typically January 1st
  - Regardless of when Otay would implement a rate increase, a full 218 process would be required
  - There is sufficient time to implement on Sept. 1st

- CWA Drought Penalty Pricing - July 1st
  - 218 process completed – prepared to implement
  - Staff is evaluating a recommended implementation date
  - There is time to notify customers and implement on July 1st

Timing of Increases

- Annual Rate Increases:

  It is important for the District to match the timing of CWA rate increases in order to maintain the debt coverage ratio without causing dramatic fluctuations in rates.

- Drought Rates Implementation:

  The recommended timing of the drought rates is being evaluated. The analysis must consider the following:

1. Administrative factors
2. Customer education
3. Over allotment penalties with the declaration of Drought Stage II
4. Financial risk assessment
   - Impact on cash flow and budget fluctuations
   - Impact on debt coverage ratios
5. Greater uncertainty of projected water sales
   - Economic pressures
   - Effectiveness of drought messages
   - Impact of significant rate increases on purchases

1. Administrative Factors

Early Implementation – Two separate increases

- Consistent timing with the underlying events
- Early information on customer reaction to rate changes
- Added implementation cost and effort
- Two rate increases in a short period of time creates:
  - Training difficulties
  - Difficult historical analysis due to 3 sets of rates in a short period of time
- Adds cost to the customer notification process

Delayed Implementation – One combined rate increase

- Complicated 218 notice

2. Customer Education

Early implementation – Two separate increases

- Keeps increases distinct yet may generate questions
- More consistent with media coverage
- Earlier price signal motivates greater conservation
- Questions will be asked why there are back to back increases

Delayed Implementation – One combined rate increase

- Perception of higher increase
- Allows added time for media coverage and customer acceptance
- Gives customers added time to alter water use habits

3. Over Allotment Penalties

- Otay Penalty = 2 x Tier II water rate (approx $1,700/aft) x Otay's share of CWA's overage.
  - Approximately 3 times more than water purchased under the allotment level
  - Only if Otay exceeds its allotment and
  - Only if CWA exceeds its allotment

- Two components:
  - Allotments – To be set shortly
  - Sales Projections – Currently being evaluated

4. Financial Risk Assessment

- Cash Flow Risk – Budget Fluctuations
  - The District has always maintained healthy reserves which protect it from the cash flow risk caused by budget fluctuations.
  - While drought rates provide added flexibility they are not essential to manage cash flow risk.

- Financial Bond Covenants
  - Maintenance of the debt coverage ratio, on the other hand, due to the method of calculation cannot rely on reserves leaving:
    - Penalty pricing – creates a significant uncertainty in the debt coverage ratio
    - Drought rates – key flexibility to modify rates and manage uncertainty
    - Accurate setting of rates – is also key to limiting uncertainty

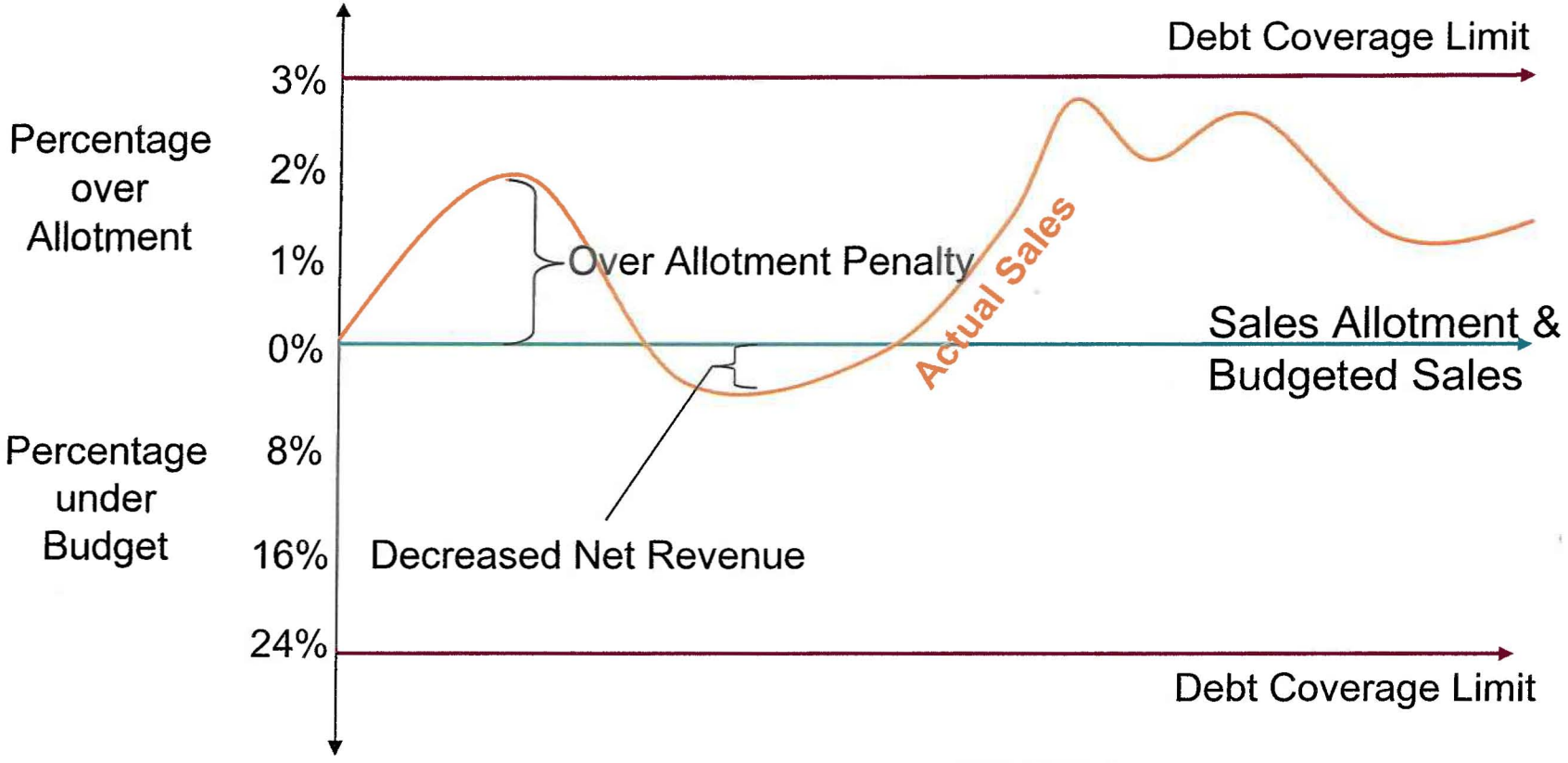
Penalty Price Impact on Debt Coverage Ratio

- Historically
  - The debt coverage ratio was relatively insensitive to variations from sales projections:
  - Water sales > Budget = greater than expected debt coverage ratio
  - Water sales < Budget = modestly lower debt coverage ratio due to the reduced purchase cost of water.

- Prospectively
  - The impact of selling less than expected remains modest and unchanged.
  - However, with the introduction of an allotment, the impact of selling more than the allotment is substantial.
    - Accurate budgeting to project penalties is essential
    - Monitoring sales to budget is essential
    - Use of drought pricing may be key to managing this new reality

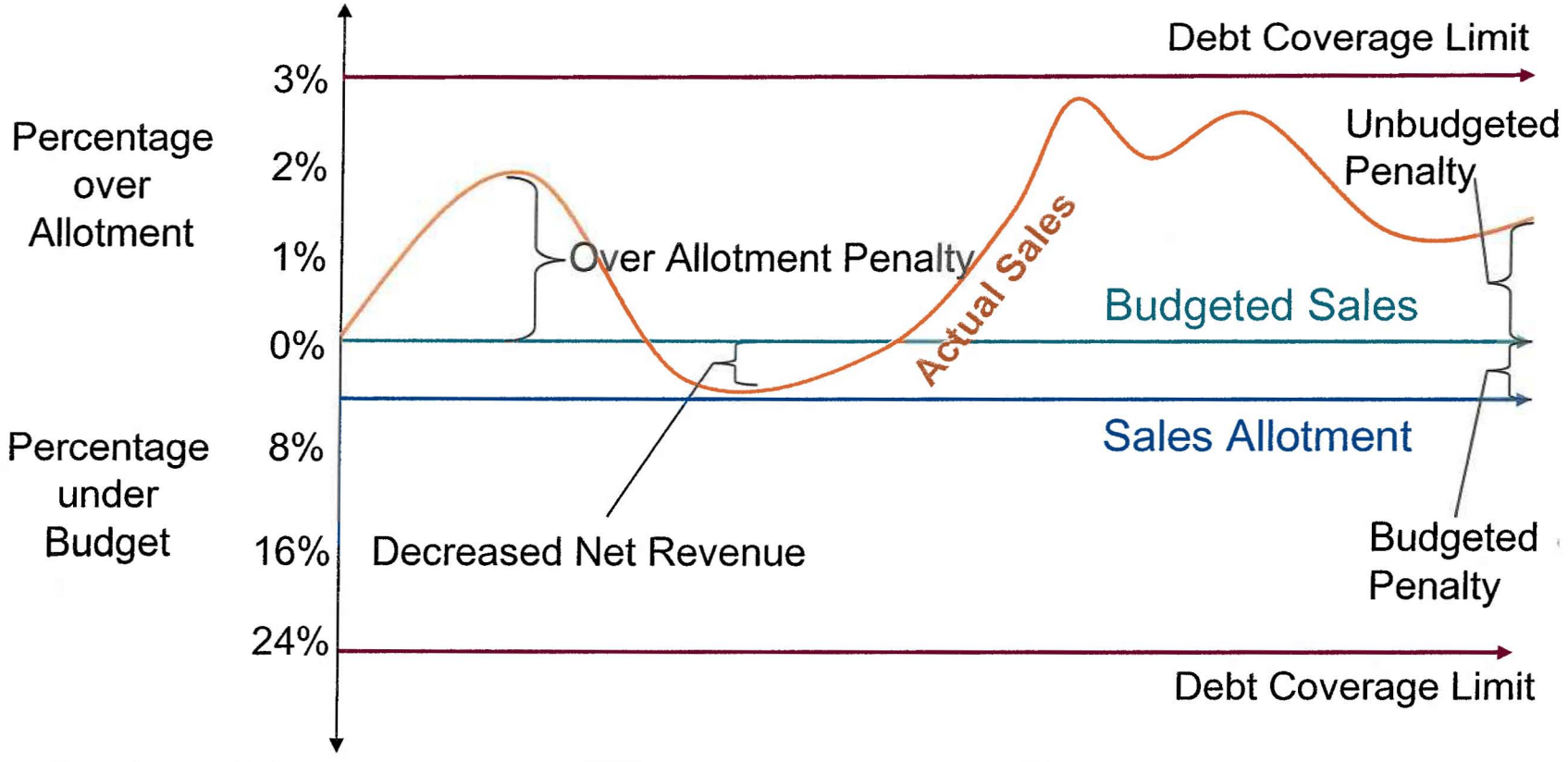
Risk Assessment - Sensitivity Analysis

- Monthly monitoring of sales will be important in order to maintain the District's required debt coverage ratio.



Risk Assessment - Sensitivity Analysis

- Monthly monitoring of sales will be important in order to maintain the District's required debt coverage ratio.



Impact of Under/Over Projected Sales

- Under projected water sales
  - May cause substantial unplanned penalties, and
  - The need to raise rates using the drought rate pricing
- Over projected water sales
  - May cause surplus funds as penalty pricing would be built into the budget
  - These funds may be used for any purpose however, the reduction of potable water dependence might be a primary use:
    - Conservation measures
    - Expansion of recycled water use

5. Growing Sales Uncertainty

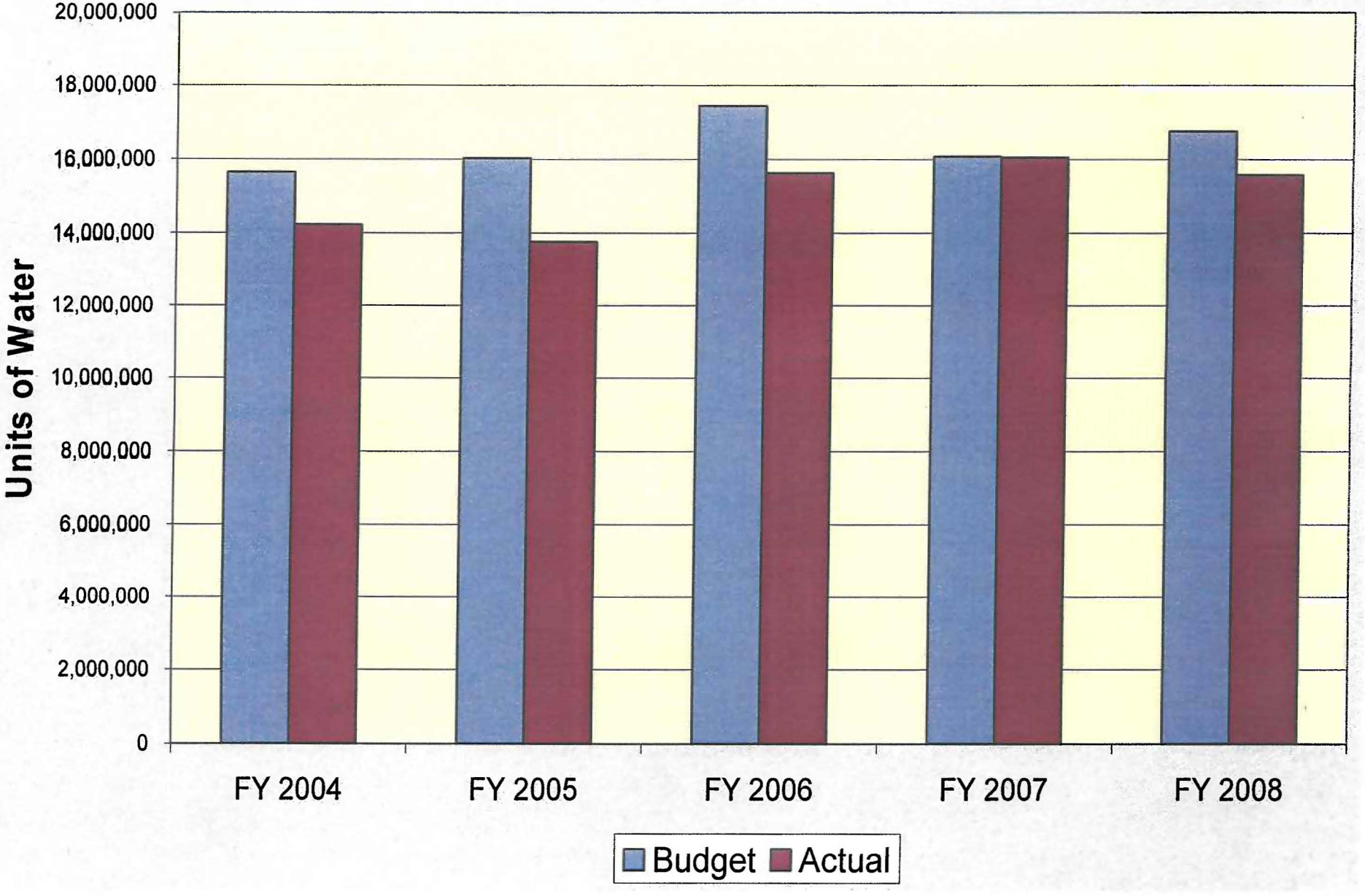
- Uncertain amount of conservation due to Economic Conditions
- Unknown amount of conservation due to Media Outreach
- Unknown effect of past and future significant rate increases
  - Jan. 2009 - 12.4% general increase
  - Jan. 2009 - Varying impact of the rate study
  - Sept. 2009 - CWA pending increase of 15% to 20%

Measures to Determine Sales

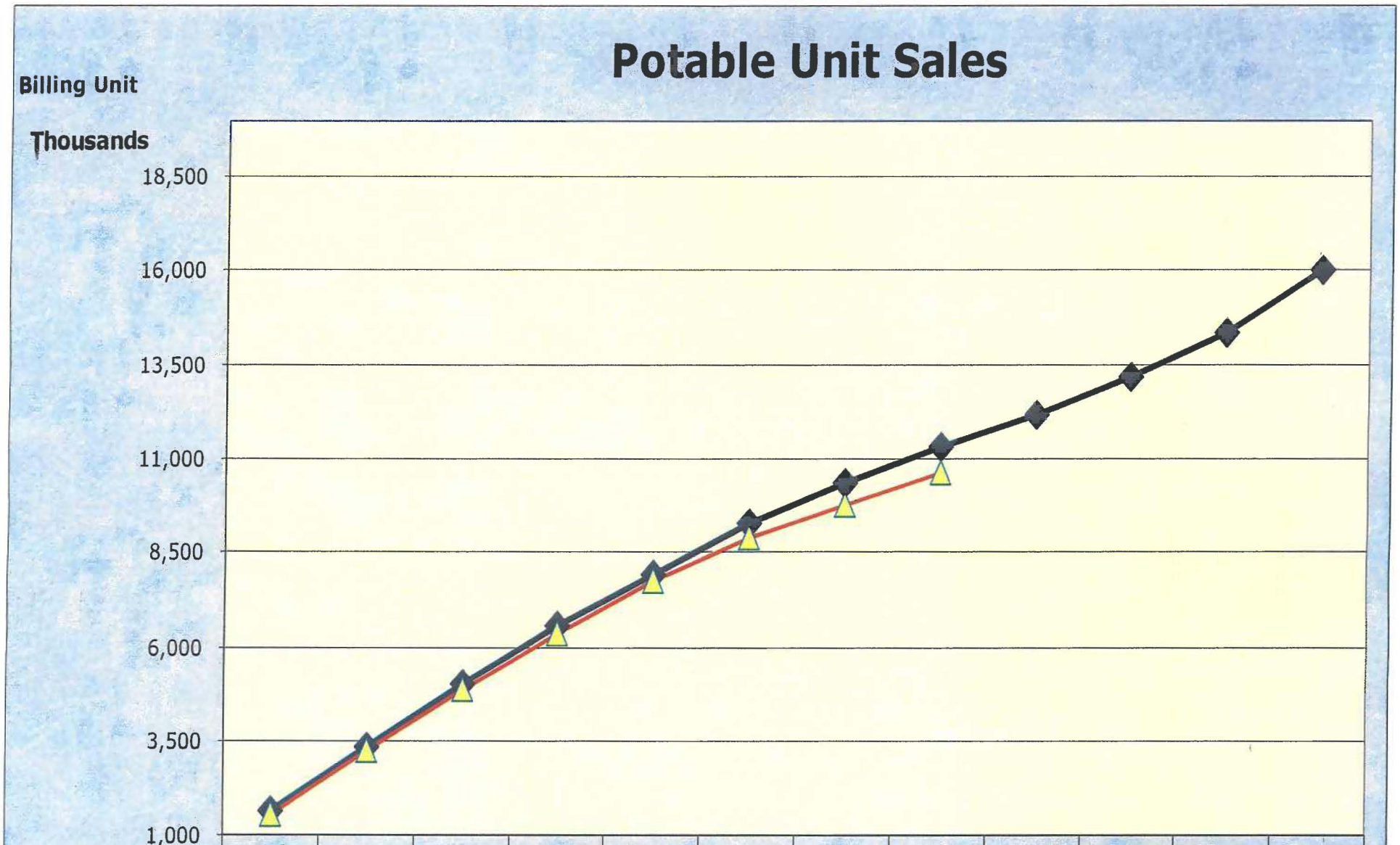
- Growth Projections
  - Currently, this has low sensitivity due to the minimal amount of growth
- Rainfall Projections
- Historical usage data
- Evaluations consider customer class differences
- Recent Trend Analysis
  - Looking at more current information to judge customer reactions to price changes and drought messages. Overall sales are down 6% from 2007, the base year used in the calculation of the allotments.

- Customer Surveys
  - Staff is calling high use customers to help determine the adjustments these users may be making in the upcoming year.
  - Plans are being considered to use a survey firm to expand this effort if the information proves to be valuable.

Budgeted Sales to Actual Sales

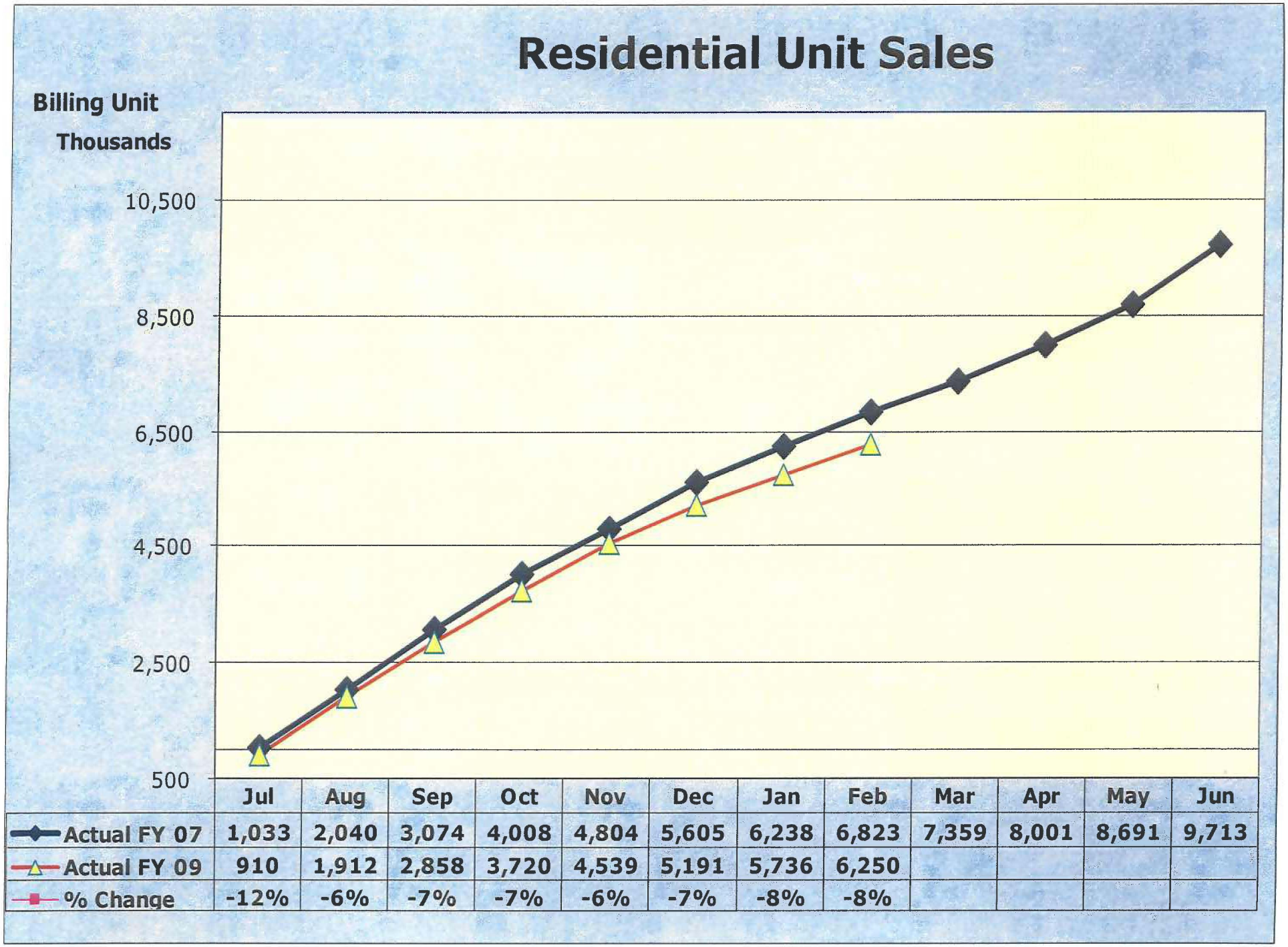


Potable Unit Sales



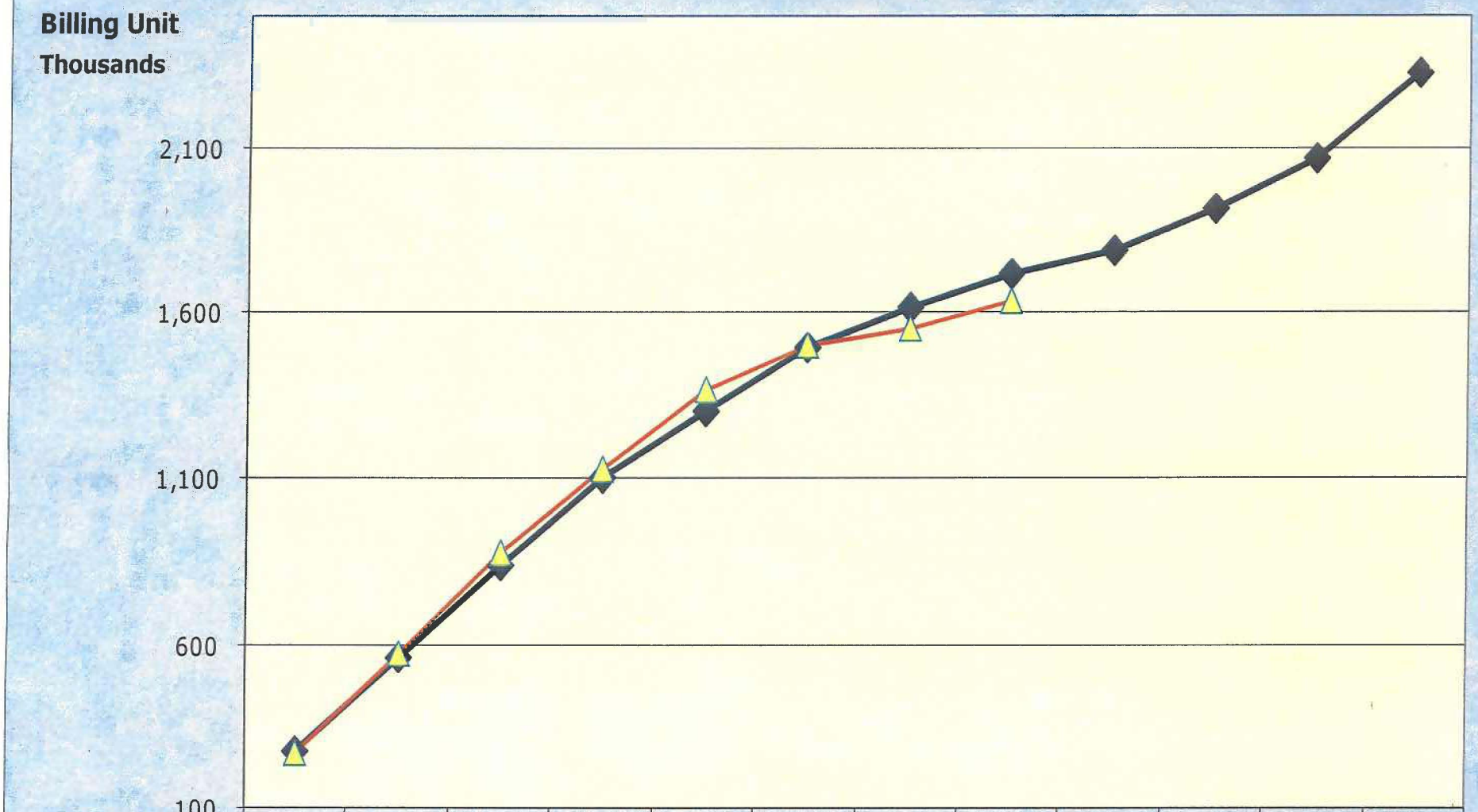
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	1,661	3,339	5,057	6,627	7,950	9,284	10,329	11,288	12,152	13,194	14,318	15,980
Actual FY 09	1,549	3,256	4,898	6,391	7,792	8,901	9,771	10,607				
% Change	-7%	-2%	-3%	-4%	-2%	-4%	-5%	-6%				

Residential Unit Sales



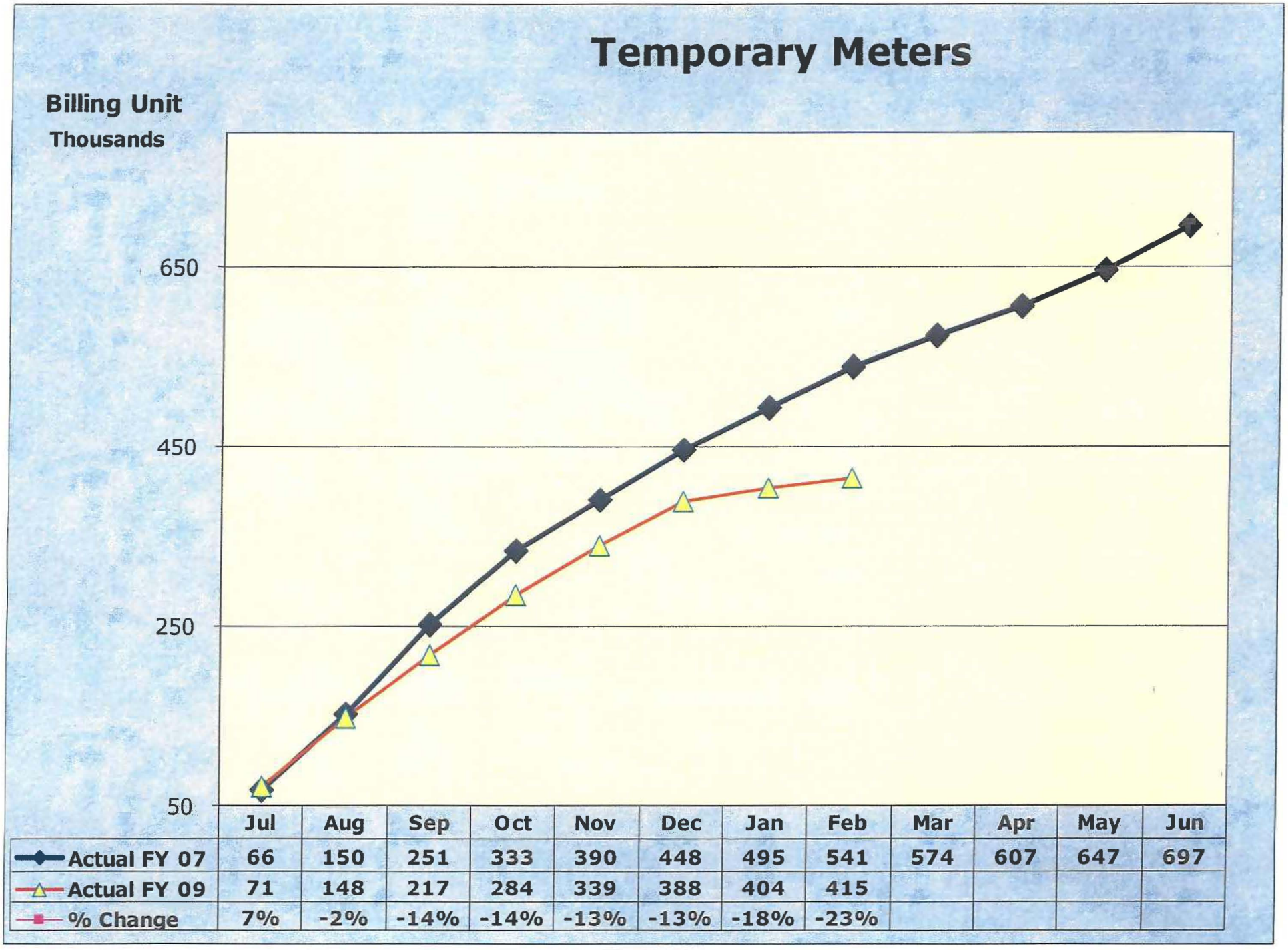
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	1,033	2,040	3,074	4,008	4,804	5,605	6,238	6,823	7,359	8,001	8,691	9,713
Actual FY 09	910	1,912	2,858	3,720	4,539	5,191	5,736	6,250				
% Change	-12%	-6%	-7%	-7%	-6%	-7%	-8%	-8%				

Landscaping and Agriculture



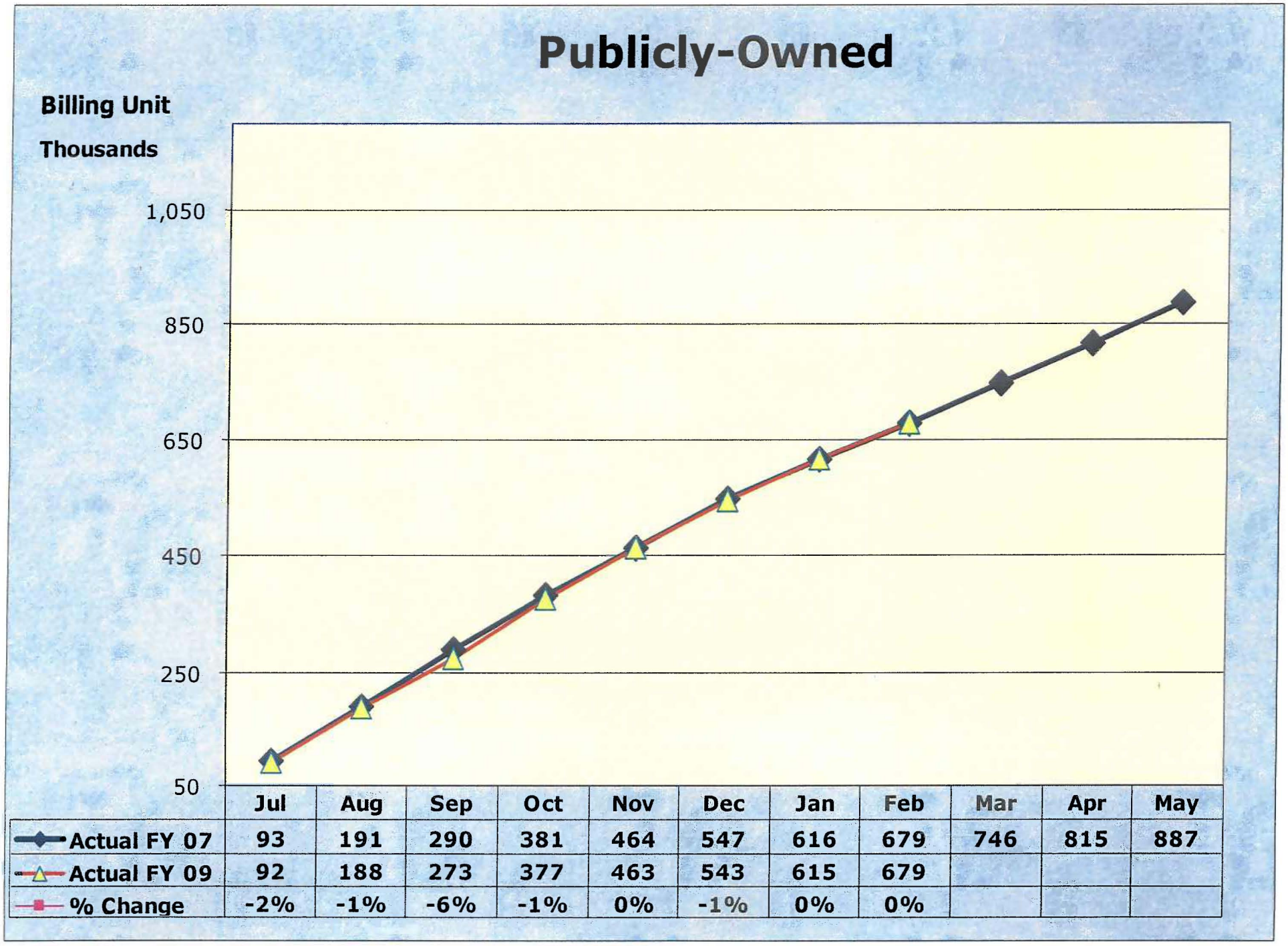
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	270	559	841	1,102	1,302	1,493	1,611	1,716	1,784	1,913	2,064	2,330
Actual FY 09	268	574	881	1,125	1,363	1,501	1,549	1,630				
% Change	-1%	3%	5%	2%	5%	1%	-4%	-5%				

Temporary Meters



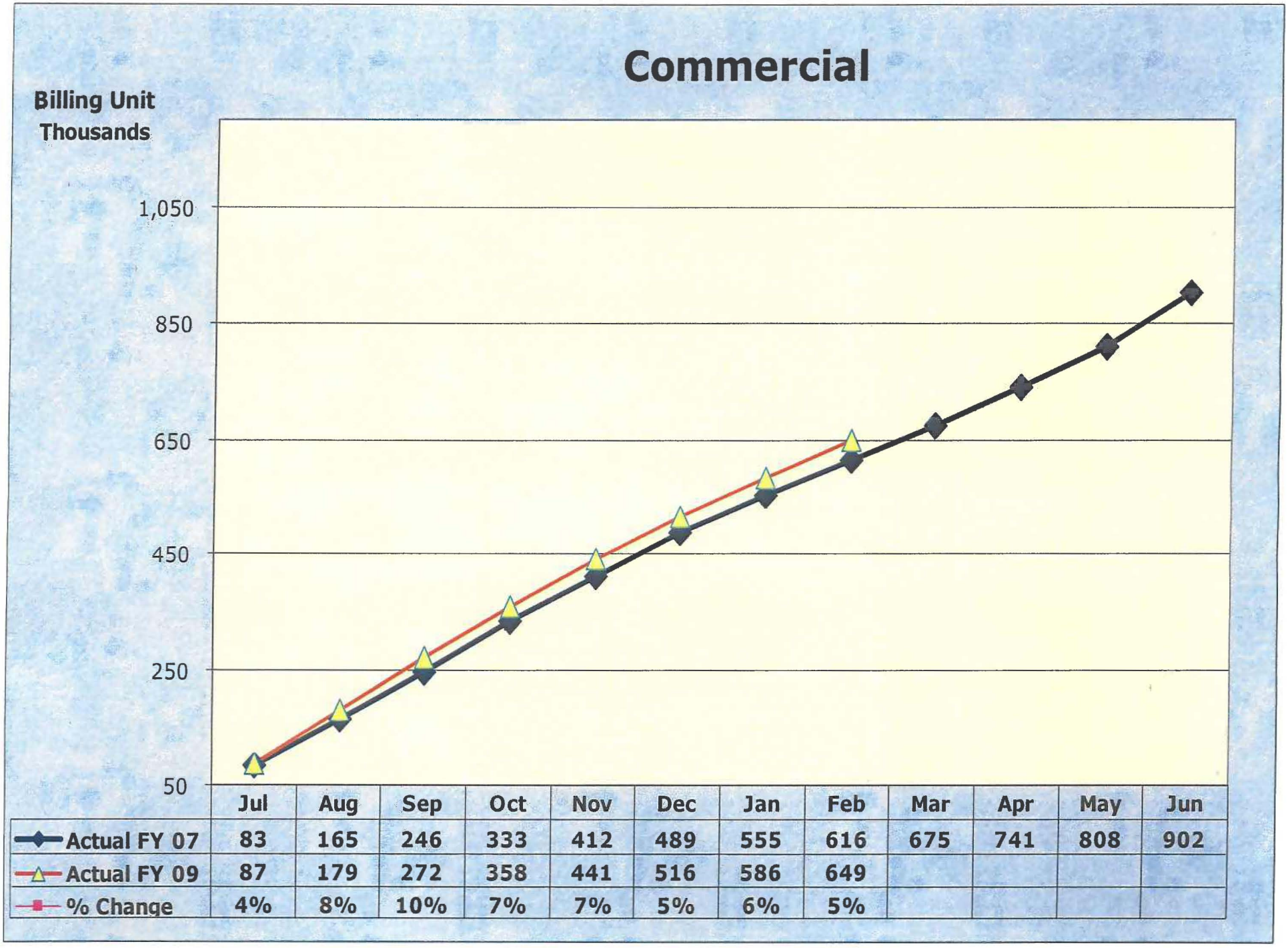
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	66	150	251	333	390	448	495	541	574	607	647	697
Actual FY 09	71	148	217	284	339	388	404	415				
% Change	7%	-2%	-14%	-14%	-13%	-13%	-18%	-23%				

Publicly-Owned



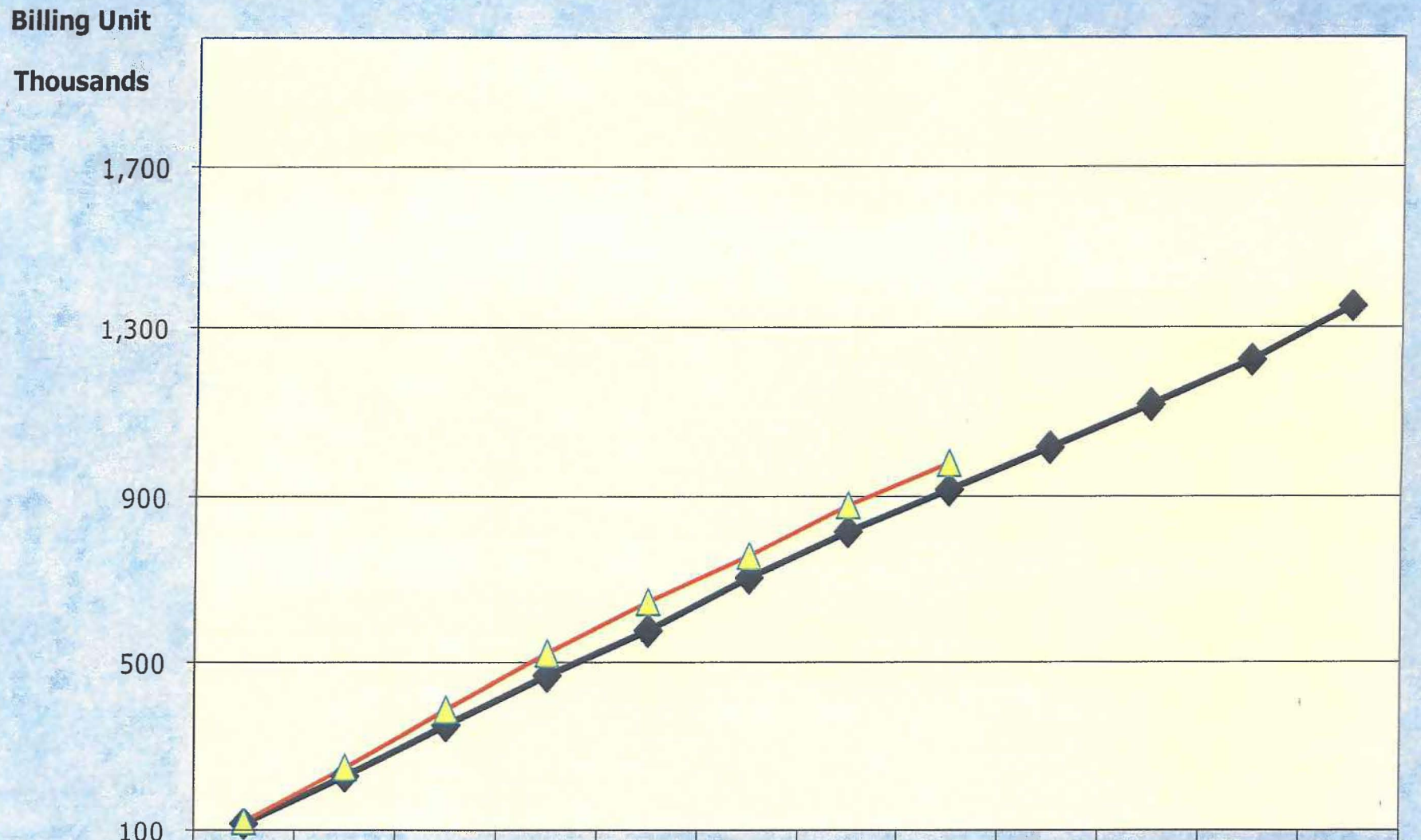
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Actual FY 07	93	191	290	381	464	547	616	679	746	815	887
Actual FY 09	92	188	273	377	463	543	615	679			
% Change	-2%	-1%	-6%	-1%	0%	-1%	0%	0%			

Commercial



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	83	165	246	333	412	489	555	616	675	741	808	902
Actual FY 09	87	179	272	358	441	516	586	649				
% Change	4%	8%	10%	7%	7%	5%	6%	5%				

Multi-Residential Unit Sales



	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Actual FY 07	115	233	354	471	578	703	816	914	1,014	1,117	1,221	1,354
Actual FY 09	121	254	393	522	643	758	877	980				
% Change	5%	9%	11%	11%	11%	8%	8%	7%				

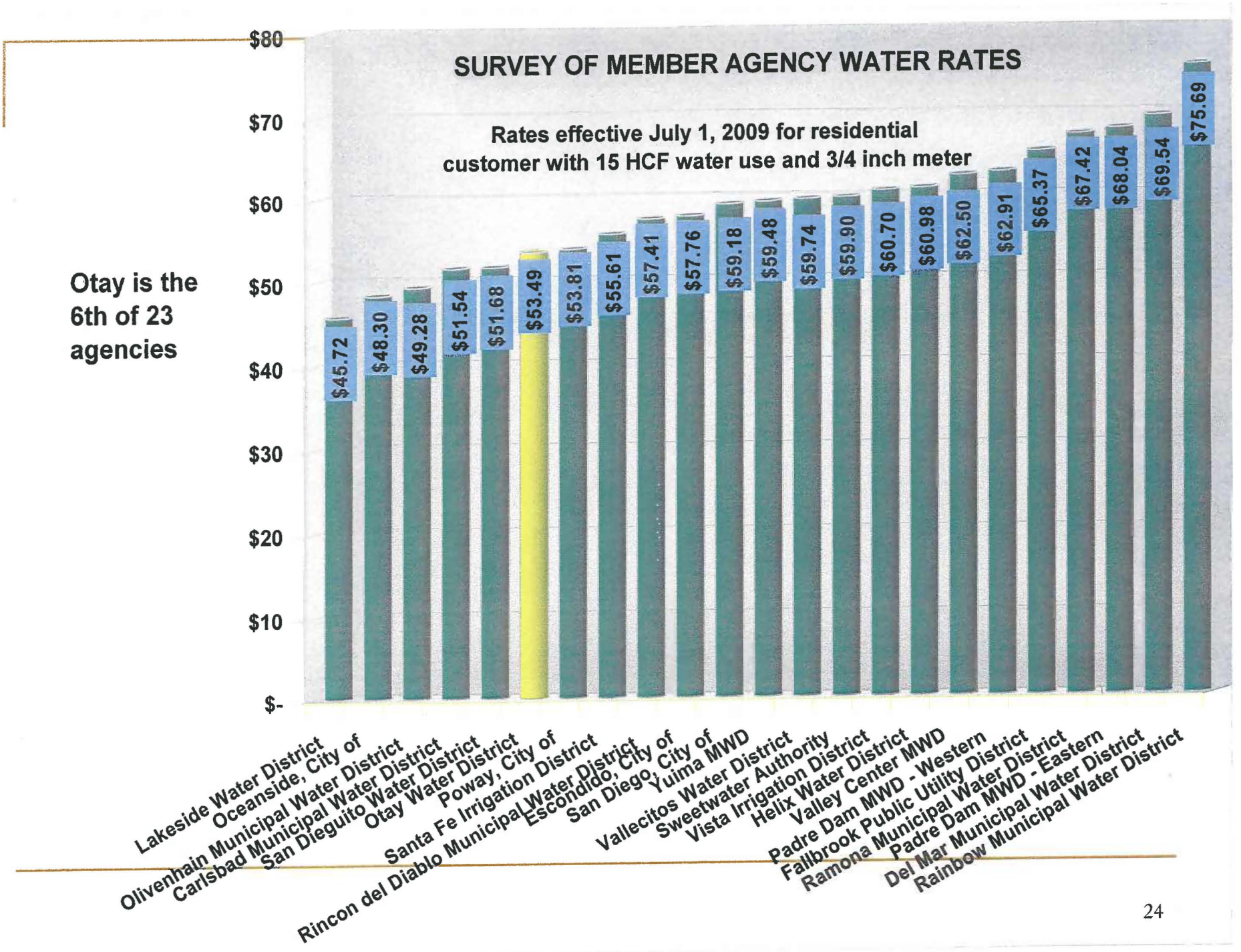
Timing of Increases

- Annual Rate Increase – recommended to match CWA
- Drought Pricing –
  - To be determined with a recommendation going to the May Board meeting. Significant factors in the recommendation are:
    - Otay Water District's water allotment
    - Projected water sales
    - Customer input on conservation
  - With the greater sensitivity of selling more water than budgeted, the need for continuous monitoring and potential adjustments has never been greater.

Other Financial Data

- The following charts are included:
  - Position Relative to Water Rates
  - Write-offs and Aging as a % of Sales
  - Aging as a % of Accounts Receivable

Otay is the 6th of 23 agencies



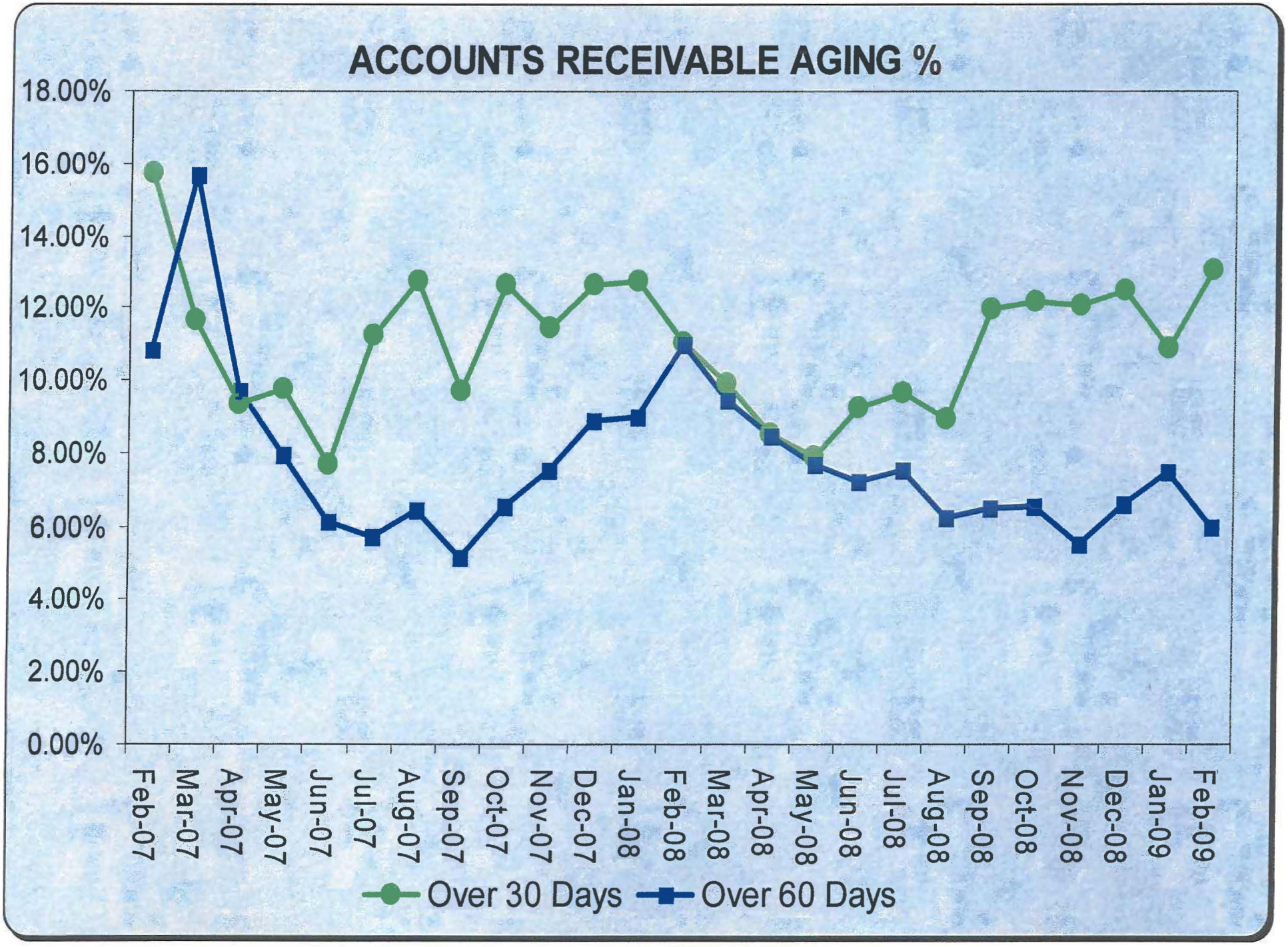
Accounts Receivables

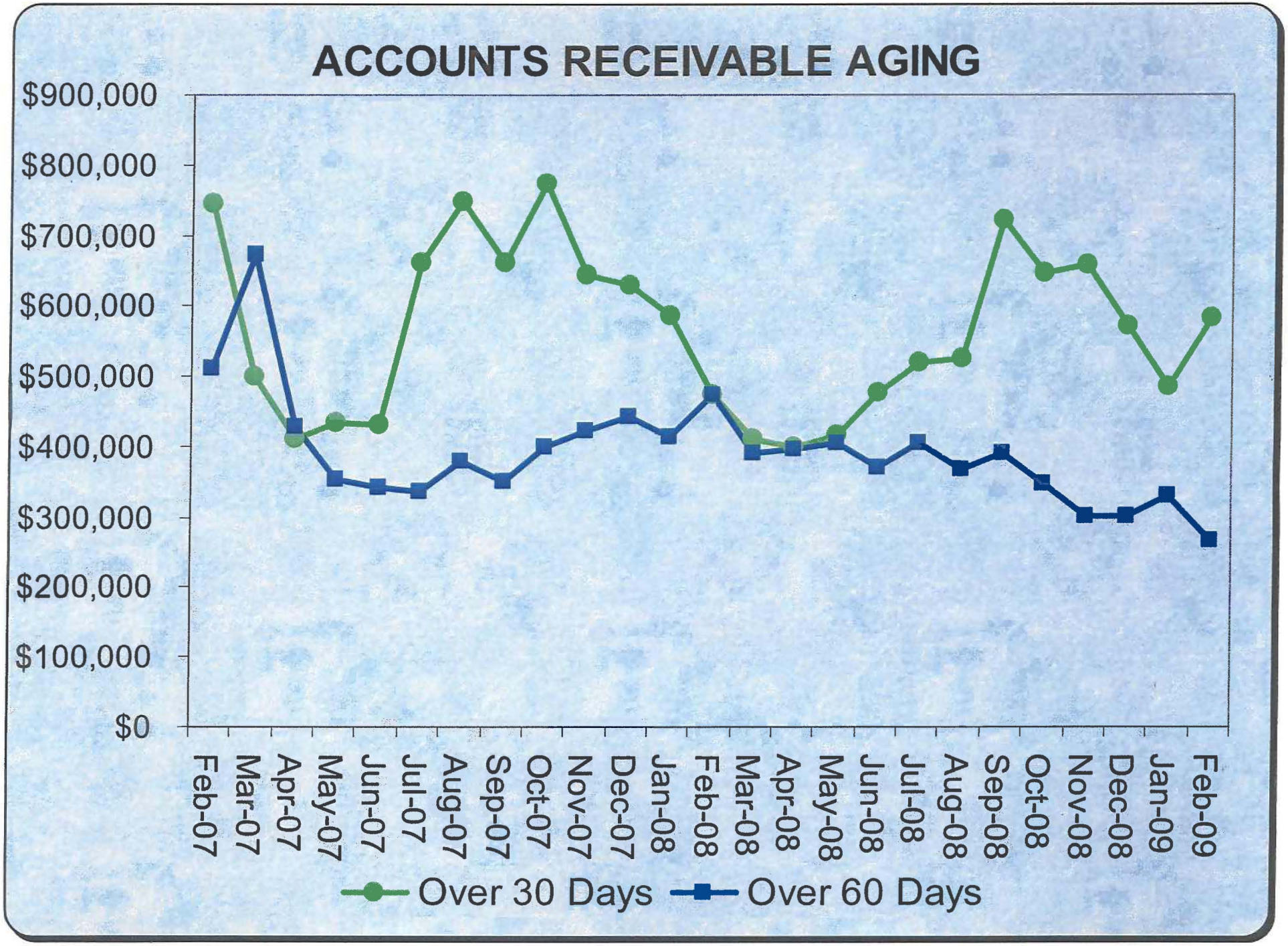
- Monthly Table of Aging and Write-Offs (as a percentage of sales)

	Mar 08	Apr 08	May 08	Jun 08	Jul 08	Aug 08	Sep 08	Oct 08	Nov 08	Dec 08	Jan 09	Feb 09	12 Month AVG
30 Days	11.9	9.0	8.9	9.4	10.4	9.0	13.9	13.5	16.0	17.9	16.1	19.2	12.9%
60 Days	11.3	9.0	8.6	7.3	8.1	6.3	7.5	7.3	7.3	9.5	11.0	8.8	8.5%
Write-offs	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.36%

- Annual Table of Aging and Write-Offs (as a percentage of sales)

	6-30-06	6-30-07	6-30-08	Thru 02/09
30 Days	9.9%	10.7%	11.2%	12.4%
60 Days	8.8%	8.5%	8.8%	8.3%
Write-offs	0.33%	0.19%	0.23%	0.36%


ACCOUNTS RECEIVABLE AGING %
18.00%
16.00%
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
Sep-08
Oct-08
Nov-08
Dec-08
Jan-09
Feb-09
Over 30 Days
Over 60 Days


ACCOUNTS RECEIVABLE AGING
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
Feb-07
Mar-07
Apr-07
May-07
Jun-07
Jul-07
Aug-07
Sep-07
Oct-07
Nov-07
Dec-07
Jan-08
Feb-08
Mar-08
Apr-08
May-08
Jun-08
Jul-08
Aug-08
Sep-08
Oct-08
Nov-08
Dec-08
Jan-09
Feb-09
Over 30 Days
Over 60 Days