

September 29, 2009

To: WSWA Members

From: Doug Marshall, Treasurer

Re: New Rate Schedule for Discussion at Oct. 5<sup>th</sup> Annual Meeting

As discussed in my Treasurer's Report, which was distributed with the Annual Meeting Agenda, the budget we developed also requires your board to adopt a new rate structure for monthly water charges. This memo shares the Board's current thinking on rates.

Members were invited to the last 5 board meetings, when the budget and rate schedule were being developed. At next Monday's meeting, Jeff will follow our past practice, to invite comment on budgets and rate changes at a member meeting before final action, then recess the member meeting for an open board meeting and final board action.

It is difficult to increase rates to the degree proposed, especially in the current economy, but I strongly believe it is necessary. WSWA has depleted \$6K of reserves over the past 3 years, when we should instead have been building reserves for major repairs (see Treas. Rept., long term capital needs). We have an obligation to ensure that our system can dependably deliver water in the future, but candidly, I am not certain what is proposed will be adequate. I recommended the more moderate revenue levels you see, in the belief they are realistic, understandable, and (based on several conversations) acceptable. We must continue to reduce our costs, and use the savings to rebuild reserves.

Summary of Rate Schedule: The board's thinking is described below, but the biggest change is to replace the current usage charge formula (a series of fixed monthly charges over various gallonage ranges) with an incremental cost for every gallon used:

- Charge all members a base fee of \$65 each month.
- Beginning with the first gallon used, the cost is 1.2 cents/gal.
- After 3600 gallons, the cost increases by one-third of a cent, to 1.53 cents/gal.
- After 6000 gallons, the cost increases again, by half a cent, to 2.03 cents/gal.
- A member exceeding 13,500 gallons (450\*30) will be assessed a surcharge of \$50, while continuing to pay 2.03 cents/gal.
- New charges will be effective 10/1/09 for parcels which are hooked up. Those not hooked up will pay monthly under the new rate structure, effective 1/1/10.

This schedule is illustrated in the attached graph and table. To learn what your monthly charges would have been under this schedule, please contact me.

The Board's Thinking: Seven meetings, dozens of emails, and the give and take involved, all gradually reconciled many differing opinions and ultimately focused our

thinking on this concept. The process was so involved, I can only give you my personal interpretation of our rationale and goals.

Our first decision was to improve the rate structure, rather than proportionally increase the schedule as has been done in the past. An incremental cost for each gallon of water would encourage wiser usage. Currently WSWA prices the first 3,000 gal/mo (100 gal/day) into a fixed charge, effectively making water “free” up to that point. Then after usage moves above 3,000 into the next price category, additional water is “free” up to 3,750 gallons (125 gpd); same from 3751 to 4500 (150 gpd); etc. During FY2008 and FY2009, we had 506 monthly billings with actual water usage; 86% were for less than 4500 gallons. So most of us, unless we happen to be aware of approaching 3000 or 4500 gallons, have little financial incentive to fix a leaky faucet or irrigate carefully.

The board considered many variations of a base fee plus per gallon usage charges. We sought a “fair” division of revenue between the two factors. We also wanted per gallon fees that would appropriately encourage conservation, without unnecessarily discouraging reasonable levels of use. After “a lot” of discussion about how to do this, the following concept seemed fair: (1) the cost to have a system “on standby” for each member to use, or not, should be shared equally in the base fee; then (2) the system’s costs of actually distributing water should be recovered from usage charges.

This makes sense, but as with all cost accounting it’s tough to sort out which costs are truly “fixed” (and would be required even if we distributed no water) and which are “variable” (and attributable to usage). For example, if we distribute no water, we still need a water manager to keep the system operable and meet regulatory requirements, but that manager would be less busy than Gary has been. In the end, I guesstimated half to 2/3 of his monthly fee would be needed to maintain a pressurized system with no usage.

To help you follow this thinking, we revised the chart of accounts you see in our P&L and Budget spreadsheet. The “Water System Operations” costs should be covered by the usage charges, except some of Gary’s contract payment was reallocated to the base fee. The base fee also covers “Overhead” items, and all present and future money for maintenance and improvement (the capital cost lines in the P&L), because those are needed to keep the system going, today and into the future. Anyone could second guess my specific cost allocations, but I hope everyone agrees the concept is sensible.

That process indicated a base fee in the range of \$60-65/month, for 37 of us to finance a fully functional system even if no water is used. We decided on \$65, which provides more revenue stability, but not before examining alternatives based at \$55 and \$60.

We regularly asked ourselves what would be “fair” to those who are not yet hooked up, who now pay \$480/year. Those who now are hooked up but use no water would see an increase to \$65. As the board saw it, both groups enjoy the same benefit of being able to