



## Frequently Asked Questions Regarding the GRP Rates

### **How is the GRP rate set?**

The SJRA sets the rate for its Groundwater Reduction Plan (GRP) based on a comprehensive, independent rate model that ensures that the GRP Division operates as close to a zero-based or non-profit budget as reasonably possible. SJRA sets its rates to cover [GRP budgeted](#) operations and maintenance expenses and debt service requirements and to fund [reserves](#) based on projected water demands by Participants.

The rate includes modest reserve funds to stabilize rates charged to Participants and to provide funds for planned repairs and replacements and capital improvements. Just like what is experienced by other utilities, wet years reduce customers' demand for water, lowering the SJRA's GRP revenue and ability to pay project debt; fund operations, repairs, replacements, and capital improvements; and maintain and replenish reserves. Through the use of reserve funds, the SJRA is able to keep the rate stable for extended periods by tapping into its reserves when water usage drops. During dry years, when revenues exceed expenses, unused funds are placed in separate reserve funds so that major equipment replacements and capital improvements can be paid for on a pay-as-you-go basis, thereby minimizing or avoiding altogether the need to have short-term rate increases or issue debt to pay such expenses.

All budgets and reserve policies are presented to a committee of customer representatives, the [GRP Review Committee](#), for review and approval, so that GRP Participants fully understand the funding needs. GRP rates are only raised as a last resort after thoroughly evaluating the budget and considering reductions in expenses and delays in studies and projects. As a result of the SJRA's careful projections of water demand and funding needs, GRP rates have matched projections for six of the last seven years.

### **What happened to necessitate a rate increase and did the GRP Review Committee approve it?**

In 2014 and spring of 2015, the GRP faced a critical funding shortfall resulting from significantly below-average water demand in Montgomery County caused primarily by unexpectedly high rainfall amounts, which reduced water demand and GRP revenues. 2015 was the wettest year on record in Texas. During budget discussions in the summer of 2015, the SJRA worked closely with the GRP Review Committee to review, reduce, or delay expenses and projects, and chose to use existing operating reserve funds to make up the shortfall and avoid any impacts on the FY 2016 rate. However, due to continued record rainfalls during the spring of 2016, the GRP's operating reserve fund balances became increasingly low, and the GRP Review Committee recognized the financial risk to all Participants and unanimously approved a rate increase.

Notice of the proposed amendment to the FY 2017 GRP rates was sent to all GRP Participants in April 2016. A presentation of the proposed rate increase was given and a draft of the proposed rate order was presented to the GRP Review Committee on May 23, 2016. The Review Committee was asked to submit questions and comments prior to their being asked for their recommendation. Several members of the Review Committee pushed GRP staff to further review and justify a number of expenses, but no members of the GRP Review Committee—including Conroe's chosen representative—registered any opposition to the proposed increase. The GRP

Review Committee unanimously approved the new rate on June 20, 2016. SJRA's Board of Directors therefore unanimously adopted the Rate Order incorporating the new rates on June 23, 2016.

### **What was the primary driver of the recent rate increase?**

The primary driver of the rate increase is the fact that the balance in the "[Multi-Purpose Operating Reserve Fund](#)" for the GRP Division is too low. The reserve policy adopted by the GRP Review Committee and the SJRA Board of Directors sets a target balance for this operating reserve equal to six months of the annual operating budget of the GRP Division. At the end of FY 2016, the GRP's operating reserve fund balance was projected to be approximately three months of the annual operating budget.

During the past two years our weather has been wetter than normal. When the weather is wetter, people use less water. That means that the revenues from water used has been less than projected. Over the past two years, the GRP has been drawing down on the operating reserve fund in order to continue operating.

The GRP needs to increase the rate it charges to stop the drain on the operating reserve fund. Even with the proposed rate increase, the GRP will only have three months of average operating expenses in the operating reserve for FY 2017, and the reserve fund is projected to stay well below the six month target through the end of 2018. No deposits are projected to be made into the "[Renewal and Replacement Fund](#)" for planned repairs and maintenance during FY 2017; nor are deposits projected to be made into the "[Capital Reserve Fund](#)."

### **What makes up the GRP budget?**

More than 60% of the budget pays for debt issued to construct the surface water treatment plant and water transmission lines. Over 20% pays for the raw surface water and the chemicals and electricity used to treat and deliver the water. About 9% of the budget covers payroll and benefits. The remaining budget covers maintenance, repairs, and parts as well as overhead. Only about 2% of the budget goes to fund the reserves for the GRP. A copy of the SJRA budget, including separate budgets for all of its individual operations, is available at [www.sjra.net](http://www.sjra.net).

### **What is the GRP Review Committee?**

151 Large Volume Groundwater Users (LVGUs) joined the SJRA's Joint GRP in order to pool their resources and work together in achieving compliance with the Lone Star Groundwater Conservation District (LSGCD) groundwater reduction rules. In joining the GRP, each LVGU contracted with the SJRA and agreed to share the costs to finance the development of a surface water treatment plant and water transmission lines necessary to supply surface water and achieve the required reduction in groundwater use. Those LVGUs that joined the SJRA's GRP are called "Participants."

The 151 Participants select a panel of six representatives that meet with GRP staff monthly and watch over the SJRA's implementation and management of the GRP. This group is called the

“GRP Review Committee.” One representative is appointed by the City of Conroe, one by the Woodlands Joint Powers Agency, and one by the LSGCD to represent private water suppliers. In addition, three members are elected by the Participants to represent other cities, MUDs east of I-45, and MUDs west of I-45. Each month, the Review Committee reviews and votes on recommendations regarding budgets, contracts, rates, policies, the admission of new members to the GRP, and numerous other items related to operation of the GRP. Agendas for the meetings are publicly posted, and members of the public are able to attend.

### **How were the reserves established; what are they for?**

The reserve policy for the GRP Division was unanimously recommended for approval by the GRP Review Committee on May 19, 2014, and then approved by the SJRA Board of Directors on May 22, 2014. In addition to debt service reserves, which are required by law, the policy established a Multi-Purpose Operating Reserve Fund that should be funded at 50% of the annual operating costs of the GRP Division. It also established a Renewal and Replacement (R&R) Fund to set aside funds to replace assets having a useful life of less than 10 years that are not typically budgeted for on an annual basis (i.e. vehicles, membrane filters, and HVAC equipment), and a Capital Reserve (CIP) Fund to set aside funds for future Capital projects.

Taking into account the variations in revenues that utilities experience with wet and dry years, the policy establishes procedures for when each fund will or will not be funded. The R&R fund is not funded until the Multi-Purpose Operating Reserve is met, and the CIP fund is not funded until both the R&R fund and Multi-Purpose Operating Reserve are met. Because of the extremely wet weather over the past two years, the Operating Reserve has remained below its targeted funding level, and no contributions have been made to the R&R and CIP funds.

This approach to funding reserves is typical. Most cities and other utilities use the same kinds of mechanisms in their budgets to stabilize rates and minimize the impacts of major repairs and replacements while minimizing the need for borrowing.

### **Why is the GRP rate on my water bill higher than the rate charged by SJRA?**

The rates charged by the GRP Division to the 151 Participants are generally passed through to the retail customers with a note on the bill attributing the cost to the SJRA. Some utilities “mark up” the rate five or 10 percent to cover their own lost water due to leaks within their system or unbilled water from uses such as fire fighting or line flushing. The SJRA has no control over how individual utilities report their billing or how much they mark up the GRP rate.

For example, the City of Conroe marks up the GRP rate 23 percent, which is a 53-cent markup of the \$2.42 blended rate that they are actually charged. The utility districts in The Woodlands do not mark up the GRP rates at all, instead opting to absorb the cost of their lost or unbilled water within their own rates, which is a more accurate and transparent reporting of the costs imposed by SJRA to the retail customer.

### **What is the average water use of a typical residential household and what does the GRP rate translate to in terms of a monthly water bill?**

The average household in Texas uses approximately 10,000 gallons per month – more in the summer and less in the winter.

The GRP’s proposed rate increase for FY 2017 is \$0.18 per 1,000 gallons, which equates to \$1.80 per month. The total blended rate, including the increase, is approximately \$2.60 per 1,000 gallons, which equates to \$26 per month.

**Are there other GRPs being implemented in our region? How does SJRA’s GRP rate compare to other similar GRPs?**

SJRA is not the only entity implementing a groundwater reduction plan in our area. There are over 30 GRPs in Montgomery County, and every major city and utility throughout Harris, Galveston, and Fort Bend counties are also implementing GRPs in order to ensure the reliability of their groundwater supplies and secure additional water supplies to meet the needs of their growing populations.

There are three other entities implementing GRPs on a size and scale similar to SJRA’s. They are listed below along with their current rates.

<b>Entity</b>	<b>Groundwater Rate (per 1,000 gallons)</b>	<b>Surface Water Rate (per 1,000 gallons)</b>
North Harris County Regional Water Authority	\$2.40	\$2.85
West Harris County Regional Water Authority	\$2.25	\$2.65
North Fort Bend Water Authority	\$2.75	\$3.10
San Jacinto River Authority	\$2.50	\$2.69