

Key Messages

- Rate Study progressing on schedule
 - Draft financial model development

- Other tasks to be completed
 - Analyze Cost of Service and Rate Design
 - Evaluate Drought Rates
 - Review Affordability Assistance Program
 - Conduct Customer Outreach

Guiding Principles

- Ensure financial sufficiency and stability
- Provide affordable water for essential use
- Allocate costs equitably
- Encourage efficient water use
- Enhance customer understanding of the rate structure

Financial Model

- Determine revenue required to ensure financial sufficiency
- Align with long-term strategic plan
 - Rate setting and reserve policies
 - 2018-2027 CIP and 10-Year Financial Plan
- Allow for scenario analysis
 - Examine rate model's ability to evaluate different levels of usage reductions and their impacts on revenues and rates

Other Tasks to be Completed

- Cost of Service Analysis
- Rate Design
- Drought Rates
- Affordability Assistance Program
- Proposition 218 Notices
- Customer Outreach

Cost of Service Analysis

- Based on industry standards and methodology approved by AWWA
- Cost allocation among customer classes
 - Benefits received (supply, capacity, reliability)
 - Usage patterns (or peaking factors)

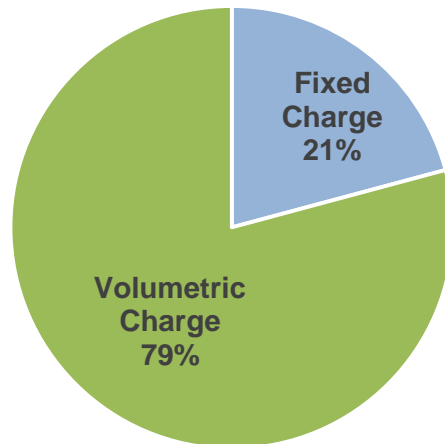
Rate Design

- Distribution of costs between fixed and variable rates will be carefully considered in order to prevent rate spikes or inequity to water efficient customers

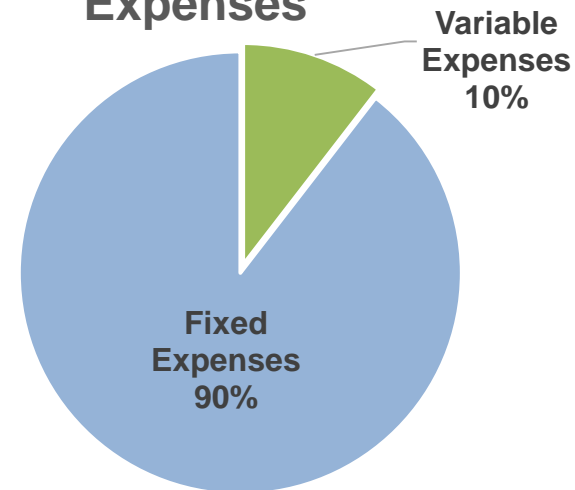
Review of Fixed-Variable Alignment

- The allocation of fixed charges (service & demand) is currently not sufficient to cover fixed cost of service.

Water Sales Revenues



Expenses



- Variable Expenses: energy, water purchases, chemicals
- Fixed Expenses: labor, equipment, materials, debt service, and capital investment

Drought Rates / Drought Reserve Comparison

	Drought Rates	Drought Reserves	Hybrid Approach
Funding	Would only be triggered with declared water shortage stages in Urban Water Management Plan	Need to collect additional revenues every year to build up drought reserves <u>prior to</u> next drought	Combination of rates and reserve use
Financial Impact	Recovers financial impact of a drought, when a drought occurs	Impact minimized when a drought occurs	Impact minimized when a drought occurs
Impact to Customers' Bills	Would not necessarily decrease when usage is reduced, due to the drought charge	Would decrease when usage is reduced	Would lessen amount and impact of drought charge
Pros:	Documented nexus to cost of service; clear trigger points; equitable; revenue predictability	Flexibility in funding and use; assists in multi-year event	Flexibility, assists in multi-year events; some nexus to cost of service, with trigger points possible
Cons:	Additional Prop 218 process prior to drought event, based on triggers; less flexibility	Less of a nexus to cost of service, more emergency driven; could be insufficient to minimize rate impact	Reactive approach; revenues uncertain; reduced cost of service nexus as compared to drought rates

Customer Outreach

- Focus group and phone surveys conducted to measure feedback in areas of quality of service, value, trust, and communication.
- Findings have multiple benefits:
 - Assists in focusing analysis and outreach for rate structure review, changes
 - Supports development of all customer outreach
 - Prioritizes future customer service enhancements
- Second customer focus group this summer to gain public perception of potential changes to rate structure

Affordability Assistance Program - Existing

- 50% reduction in fixed (service & demand) charges available to low-income customers over 62 or receiving disability insurance benefits
 - Qualifying income varies by household size (1 person < \$32.5k)
 - One page application plus proof of qualifications
 - Program communicated via publications, website, etc.
 - Continued qualification audited by staff

	FY16	FY15	FY14
Number of Participants	675	720	790
Rate Assistance Provided	\$71,558	\$76,627	\$83,834

Available Funds *	\$122,990	\$193,774	\$184,895
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* Program funded with non-rate revenues; late fees currently designated as funding source.

Affordability Assistance – Statewide Activities

- 20% of households in California at low income, challenged with drinking water affordability
- State developing a plan to fund and implement a low-income rate assistance program (AB 401)
 - Program structure proposed by February 2018
 - Proposition 218 impediments
 - Potential public goods charge
- District working with ACWA and CUWA to inform efforts and explore options for rate assistance
- Any modification to District program would be considered subsequently, if still applicable

Schedule

<u>Board Meeting</u> : Rate Study Policy Direction	February ✓
Focus Group, Customer Surveys	March – April ✓
<u>Board Meeting</u> : Rate Study Status Update	April
Financial Plan Development	April – May
Cost of Service Analysis / Rate Development	May – June
<u>Board Meeting</u> : Rate Model Review, Initial Results	June
Continued Rate Development	July
<u>Board Meeting</u> : Rates Structure / Customer Feedback	August
<u>Board Meeting</u> : Adoption of Final Report	October
2018 Rate Setting Process, Prop 218, Public Outreach	Nov. – Dec.
<u>Board Meeting</u> : Public Hearing for 2018 Rates	Jan. 3, 2018
Rates Effective	Feb. 1, 2018