



Agenda Item No. _____
Meeting Date: April 19, 2017
Resolution: () Yes (X) No

AGENDA DOCKET FORM

SUBJECT: 2017 WATER RATE STRUCTURE STUDY STATUS UPDATE

SUMMARY: The District is conducting a comprehensive rate study on both treated and untreated water service. The study will identify the appropriate rate structure and rate design based on a cost of service analysis and incorporate recent changes, such as the projected continuation for reduced customer demands following the drought and the State’s new long-term water use efficiency policy direction. At the February 1, 2017 Board of Directors meeting, Raftelis Financial Consultants (Raftelis), the firm selected to complete the study, reviewed the scope of work and schedule.

Raftelis obtained Board concurrence for the following policy objectives to set the course of action, with weightings of each to be determined at a later time:

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

The rate study is progressing on schedule, with Raftelis planning to complete the preliminary cost of service analysis by June. In addition, Raftelis is developing the financial model that will be used as the tool to calculate the rate requirements needed to fund the District’s operating, capital, and debt service expenses. The financial model developed by Raftelis will incorporate the District’s rate setting policies, reserve fund requirements, and updated projections from the adopted 2018-2027 Capital Improvement Program and Ten-Year Financial Plan to ensure any proposed rate modifications align with and support the District’s long-term strategic plan.

The Board provided direction in key areas during the last presentation which are being addressed in the rate study as follows:

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FISCAL IMPACT: The primary intent of the 2017 Water Rate Structure Study is not to increase revenues but to ensure the appropriate allocation of costs across all customer classes.

RECOMMENDED ACTION: Receive update on the 2017 Water Rate Structure Study.

<p>_____ Desiree Castello Director of Finance</p>	<p>_____ Ronald D. Jacobsma Assistant General Manager</p>	<p>_____ Jerry Brown General Manager</p>
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SUMMARY (Continued from Page 1):

Cost of Service and Rate Design: The rate study will consider the cost-of-service based allocation of fixed and variable costs across all customer classes, recognizing the differences in types of water service and the reliability of their water supplies. Based on Board direction, consideration will be given to the timing and amount of any revised distribution of costs between fixed and variable rates in order to prevent rate spikes or inequity to water-efficient customers. Any reallocation of costs charged for water supply, reliability, and periods of peak use must align with the benefit received by high users to ensure the additional capacity is available to meet their needs. The benefits and associated costs to local businesses and resulting economic impacts would be considered. Staff will further evaluate potential economic impact concerns by providing options for Board consideration at a later date.

Drought Rates: Before completing the preliminary analysis, further direction is requested from the Board regarding the use of drought rates to recover the financial impacts of a drought as opposed to or in addition to building up drought reserves. Drought rates, if proposed, would be based on the District's Urban Water Management Plan (UWMP) Water Shortage Contingency Plan with the stages described in the UWMP used as trigger points. These stages could be defined by either hydrologic or regulatory considerations. Alternatively, drought reserves could be collected every year and allow for the accumulation of a reserve that could be used to supplement revenues during lower demand periods. There is also the possibility of a hybrid approach. Staff will present the pros and cons of each approach and seeks specific direction on this issue to inform the analysis.

Affordability Assistance Program: The District's current program provides for a 50% reduction of the fixed charge for low-income customers, who are either over the age of 62 or receiving disability insurance benefits. Approximately 700 customers currently participate in the program. Staff will seek direction from the Board on potential program modification. Proposition 218 limits the steps that can be taken, as only non-rate revenue can be used to subsidize affordability assistance. The amount of the discount, program qualifications, and presentation of information on customer billing statements will be part of the final study, as affordability is one of the study's guiding principles.

Proposition 218 Notices: At the Board's February 1, 2017 meeting, the topic of multi-year Proposition 218 notices was presented. Based on Board direction and initial focus group feedback, annual notices to customers are preferred and will be continued.

Customer Outreach: An initial customer focus group was conducted by CV Strategies in March 2017 to solicit an initial look at public perception of local water issues, District services, and the current rate structure. CV Strategies developed a telephone-based survey based on the focus group results to obtain a statistical sample of customer input. Staff will present and discuss the findings in June to assist the Board in weighting the pricing objectives. The findings will also assist in developing public outreach materials to enhance customer understanding of the rate structure and rate setting process.

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SUMMARY (Continued from Page 2):

Next Steps

The results of the financial model will be presented to the Board in June. After receiving input and direction from the Board, staff and consultants will proceed with completing the cost of service analysis and water rates development, and targeted outreach will be initiated to the affected customer groups. In August, the preliminary water rates and the feedback from the customer groups will be presented to the Board. The final rate study report and rate model are anticipated to be presented for Board adoption in October 2017 and used as the basis of the upcoming rate setting process for 2018 rates, fees, and charges.