



BOARD ACTION

TO: Governing Board

FROM: Carlos Quintero, General Manager
Rich Stevenson, Director of Finance

DATE: August 2, 2023

SUBJECT: Consideration of Recommended Single-Family Residential Tier Design and Fixed Charge Allocation Policy Direction for the Draft 2023 Water Rate Study

SUMMARY

On May 17, 2023, and June 13, 2023, the Authority's water rate consultant (NBS) presented the water bill impacts for the draft 2023 Water Rate Study Alternative Policy Changes. At its June 13, 2023 Special meeting, the Board unanimously agreed on the policy direction to use the Commodity-Demand Methodology, and to incorporate a rate structure for dedicated irrigation meters in the draft 2023 Water Rate Study.

Based on the input received from the Board during its June 13, 2023 Special meeting, and considering the recently adopted FY 2023-24 Budget, which includes a 0.5 percent revenue increase, NBS has prepared recommended policy directions for the Single-Family Residential Tier design and Fixed Charge allocation to include in the Draft 2023 Water Rate Study.

To accommodate additional time for evaluating current and future capital projects, the recently adopted FY 2023-24 Budget included adjustments to reduce capital expenditures over the next five years. Therefore, the staff suggests shortening the time-frame for the 2023 Water Rate Study from five years to three years. This change will enable a better evaluation of long-term capital expenditures for inclusion in the upcoming water rate study. Aligning the water rates with the Authority's capital planning needs, a three-year 2023 Water Rate Study will also support the policy recommendations presented by NBS as follows:

Single-Family Residential Tier Design Recommendation:

- Utilizing a three-year time frame enables the use of more accurate source of water supply data, aligning it with current conditions, instead of relying on a five-year estimate that may include potential dry years.
- The availability of new three-year source of water supply data allows for the incorporation of an additional rate design alternative, as requested by the Board on June 13, 2023.
- The recommended 2023 rate design is based on data from the final FY 2023-24 Budget.
- The attached presentation contains the recommendation from NBS and the staff.

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Fixed Charge Allocation Recommendation:

- The fixed charge allocation will incrementally increase over the next three years.
- Implementing this increase over a three-year time frame minimizes the impact on customers by spreading the increase in fixed cost allocation.
- For subsequent considerations, any further increases in the fixed cost allocation will be evaluated by the Board at its next water rate study in 2026.
- The attached presentation contains the recommendation from NBS and staff.

Board direction at its August 8, 2023 meeting on the recommended Single-Family Residential Tier design and the Fixed Charge allocation, will allow for NBS to finalize the water rate study in time for staff to begin the required customer notification process within the following timeline:

August 8, 2023	Request Board direction for NBS to finalize the water rate study
August 9, 2023	<ul style="list-style-type: none">- Tasks begin to finalize the water rates study report- NBS finalizes the study- NBS drafts and quality checks the final detailed water rate study report- Legal review of the final water rate study report- The final water rate study report will include water rates for January 1, 2024, January 1, 2025, and January 1, 2026
September 27, 2023	Board to considers the final 2023 Water Rate Study report for approval
September 28, 2023	Final preparation of notifications required by Prop 218 to inform customers of the upcoming Public Hearing on water rates
October 18, 2023	Required rate notifications are mailed informing customer of the December 5, 2023 Public Hearing for the Board to consider adoption of the rate changes proposed by the 2023 Water Rate Study
October 19, 2023	Required 45-day public notification period begins
December 5, 2023	Public Hearing for the Board to consider adoption of rate changes proposed by the 2023 Water Rate Study
January 1, 2024	New rates from the 2023 Water Rate Study will go into effect if approved by the Board on December 5, 2023

There are two outstanding items that the Board requested to consider for the water rate study. The first involves creating a water bill subsidy fund using cell tower lease revenue (bill subsidy fund). The second is to add a fixed rate for Single-family residential customers who must install a one-inch meter for fire flow, set at the same rate as a 5/8-inch fixed meter (fire flow meter rate).

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The Board asked for additional information and the fiscal impact of including these two items in the 2023 Water Rate Study. NBS will be better able to provide the fiscal impact once final direction is given on the Single-Family Residential Tier Design and the Fixed Charge allocation, and the final rate study calculation has begun.

NBS can start the completion of the 2023 Water Rate Study, based on the Board's decision at the August 8, 2023 meeting, and staff will present the fiscal impact for the bill subsidy fund and fire flow meter rate at the August 23, 2023 Board meeting. There will be enough time for NBS to incorporate these items into the 2023 Water Rate Study if the Board provides direction for the outstanding considerations at its August 23, 2023 meeting.

If the Board does not provide direction on completing the 2023 Water Rate Study, then the current structure based on the 2018 rate study would remain in place. The Authority will still need to follow all the Proposition 218 notification and public hearing processes to increase rates for the existing structure for January 1, 2024, based on the FY 2023-24 Budget revenue requirement. In addition, Proposition 218 notification and public hearing processes would need to be performed each year until a multi-year rate study can be adopted.

PAST BOARD ACTIONS

June 13, 2023

The Governing Board provided comments to staff to incorporate into the final draft 2023 Water Rate Study, to be presented to the Governing Board on August 9, 2023, and provided direction to staff on the following:

a. Use of the Commodity-Demand Methodology:

The Governing Board unanimously agreed with the use of the Commodity-Demand Methodology.

b. Recommended five-year increase in the allocation of additional fixed costs to fixed charges:

The Governing Board unanimously agreed with the recommended five-year increase in the allocation of additional fixed costs to fixed charges, with exact target numbers to be determined at a later date.

c. Single-family residential tier re-design to include a reduction to three tiers and a blending of San Diego County Water Authority Costs to all tiers:

The Governing Board directed staff to provide more options for the tier breakdowns.

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d. Allocation of non-water revenue generated from sources other than water rates such as cell tower revenue, to fund a low-income water bill assistance program reserve:

The Governing Board took a consensus view of this item; Directors Castaneda, Delgado, Martinez, Martinez-Perez, and Yamane were in favor, and Directors Calderon-Scott and Morrison opposed; and deferred this item to another meeting.

e. Include a rate structure for dedicated irrigation meters:

The Governing Board took a consensus view of this item and unanimously agreed to include a rate structure for dedicated irrigation meters.

f. Add a fixed rate for Single-family residential customers that are required to install a one-inch meter due to fire flow that is the same as a 5/8-inch fixed meter rate:

The Governing Board directed staff to bring back fiscal impacts of staff's recommendation.

May 17, 2023

The Governing Board tabled this item.

April 26, 2023

The Governing Board directed staff to present a Cost of Service Methodology, Fixed Charge/Variable Charge, Single-family Residential Tier Design, and Non-water Revenue water rate policy alternatives and its respective bill impacts at the May 17, 2023 Special Board meeting.

February 22, 2023

The Governing Board received an Introduction to the 2023 Water Rate Cost of Service Study by NBS an information item in advance of the Study introduction to gather desired policy changes the Board may incorporated into the 2023 Water Rate Cost of Service Study.

February 22, 2023

The Governing Board approved the Rate Study Outreach Plan with the addition of community groups; recognizing that this process is still evolving and may include other participants.

February 15, 2023

The Governing Board conducted a Strategic Planning Workshop.

February 8, 2023

The Governing Board approved the FY 2023-24 Budget and 2023 Water Rate Study Calendar

January 25, 2023

The Governing Board awarded a contract to NBS in the amount of \$58,200 for the 2023 Water Rate Cost of Service Study.

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FISCAL IMPACT

The FY 2022-23 Operating Expense Budget line item 10-10-100-5650 Consulting Services includes \$125,000 for Water Rate Study Consulting costs. The fiscal impact of any potential changes to the Authority's water rates and the effect on customers will be presented to the Board at the August 8, 2023 Special Board meeting. The NBS contract adopted on January 25, 2023, was in the amount of \$58,200 and an amendment to NBS's contract in the amount of \$25,100 is being presented to the Board for approval on August 9, 2023.

POLICY / STRATEGIC PLAN

Strategic Plan Goal 3: Financial Viability (FV) – Ensure long-term financial viability of the agency through best practices, operational efficiency, and maximizing assets.

- Objective FV2: Develop a rate structure that cover the costs to provide safe and reliable water to Authority customers, meets all legal requirements, promotes water conservation, and fairly apportions cost centers to meter and commodity prices; utilize a rate stabilization reserve to regulate cost impacts associated with fluctuating water supplies
 - 001.00 Complete the 2023 Water Rate Study

ALTERNATIVES

1. Direct staff to include the recommended water rate policy changes to be included in the final draft 2023 Water Rate Study:
 - a. Water Rates will be calculated for the following three effective dates of January 1, 2024, January 1, 2025, and January 1, 2026 based on the FY 2023-24 Budget Financial Plan;
 - b. Continue to use a Single-family Residential Tier Design with costs allocated to each tier based on the least expensive water source used to allocate costs to tier 1, up to the most expensive source used to allocate costs to tier 4;
 - c. Water Rates effective on January 1, 2025 will included a 3 percent additional allocation of Fixed Costs, and January 1, 2026 will include a second 3 percent additional allocation of Fixed Costs.
2. Provide other direction for the 2023 Water Rate Study process.
3. Other direction as determined by the Governing Board.

RECOMMENDATION

Staff recommends that the Governing Board Direct staff to include the recommended water rate policy changes to be included in the final draft 2023 Water Rate Study:

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- a. Water Rates will be calculated for the following three effective dates of January 1, 2024, January 1, 2025, and January 1, 2026 based on the FY 2023-24 Budget Financial Plan;
- b. Continue to use a Single-family Residential Tier Design with costs allocated to each tier based on the least expensive water source used to allocate costs to tier 1, up to the most expensive source used to allocate costs to tier 4;
- c. Water Rates effective on January 1, 2025 will included a 3 percent additional allocation of Fixed Costs, and January 1, 2026 will include a second 3 percent additional allocation of Fixed Costs.

ATTACHMENTS

1. NBS 2023 Water Rate Study Presentation
2. Customer Water Use by Division