



BOARD ACTION

TO: Governing Board

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

DATE: August 18, 2023

SUBJECT: Consideration of Policy Direction to Include Allocation of Non-water Rate Revenue to a Rate Payer Assistance Fund and to Set the Single-family Residential 1-inch Fire Flow Meter Charge at the 5/8-inch Meter Charge Rate in the Final Draft 2023 Water Rate Study

SUMMARY

At its August 8, 2023 meeting, the Board approved the major policy directions that NBS, the Authority's water rate consultant, is now incorporating into the Draft 2023 Water Rate Study. There are currently two outstanding water rate alternatives that require Board direction:

1. Allocation of Non-water Rate Revenue to a Rate Payer Assistance Fund:
 - Cell Tower Lease Revenue is currently the only non-water revenue for the Authority, and direction is needed on allocation of these funds.
 - Currently, the cell tower lease revenue is allocated to offset water rates (use of revenue generated from water rates for customer subsidies violates regulations.)
 - Allocating the cell tower lease revenue to a non-water rate revenue fund in the Draft 2023 Water Rate Study allows the Authority to use the funds to subsidize customers in need of assistance.
 - If directed by the Board, staff could present alternatives on how an assistance fund may function to assist customers at the September 27, 2023 meeting; NBS has provided example alternatives in the attachment for information only.

2. Single-family Residential 1-inch Fire Flow Meter Charge at the 5/8-inch Meter Charge rate:
 - Some Single-family Residential customers are required to install a 1-inch meter (SFR fire-flow customers) to allow for water flow to internal fire sprinklers and are charged the one-inch meter charge.
 - These SFR fire-flow customers may not require a 1-inch meter for daily potable water consumption (drinking, hygiene, irrigation) but are required to have a 1-inch meter for public safety fire control.
 - Policy direction could be given to charge SFR fire-flow customers the lower cost 5/8-inch Meter Charge typically paid by single-family residential customers.

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- SFR fire-flow customers could be considered to use water in a similar pattern as other single-family residential and should be charged similarly.

At its June 13, 2023 meeting, the Board asked for additional information and the impact of including the Rate Payer Assistance Fund policy direction and Single-family Residential 1-inch Fire Flow Meter Charge policy direction items in the Draft 2023 Water Rate Study. NBS has provided the information for these two items in the attachment and will present the additional information and bill impacts at the August 23, 2023 Board meeting. Final direction on these two outstanding items is needed at the August 23, 2023 Board meeting for these two items to be included in the Draft 2023 Water Rate Study scheduled to be presented at the September 27, 2023 Board meeting.

PAST BOARD ACTIONS

July 8, 2023

The Governing Board 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.

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:

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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.

- 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.

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- 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.

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 designation of Rate Payer Assistance Funds and changes to the Authority's 1-inch Fire Flow Meter Charge Direction will be presented to the Board at the August 23, 2023 Special Board meeting. The NBS contract adopted on January 25, 2023, and amended on August 8, 2023 is for a not-to-exceed amount of \$83,300.

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 either or both policy changes to be included in the final Draft 2023 Water Rate Study:
 - a. Allocation of Non-water Rate Revenue to a Rate Payer Assistance Fund
 - b. Direction to set the Single-family Residential 1-inch Fire Flow Meter Charge at the 5/8-inch Meter Charge rate.
2. Provide other direction for the 2023 Water Rate Study process.
3. Other direction as determined by the Governing Board.

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RECOMMENDATION

Staff defers to the Governing Board for direction.

ATTACHMENT

NBS Presentation