



BOARD ACTION

TO: Governing Board

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

DATE: September 22, 2023

SUBJECT: Consideration to Approve, Receive, and File the 2023 Water Rate Study; Direct Staff to Issue a Notice Pursuant to Proposition 218; and Set a Public Hearing on December 6, 2023, to Approve Changes to the Rates for Water Service Charges to be Effective January 1, 2024

SUMMARY

The Authority began work in February 2023 to conduct the 2023 Water Rate Study (Study) for its water service charges. The Board, public, and staff met multiple times since the project started to discuss the policy direction and draft results for the Study. At its August 23, 2023 meeting, the Board gave final policy direction on the Study to NBS, the Authority's independent water rate consultant. NBS presented an overview of the adjusted rates developed in the Study and the impacts on customer water bills.

The 2023 Water Rate Study is finalized, with legal review and input incorporated. It is presented for review and the Board's consideration to set a Public Hearing to adopt the rates as presented in the Study.

The Study was performed in accordance with Proposition 218 and with guidance from the American Water Works Association's Principles of Water Rates, Fees and Charges: Manual of Water Supply Practices Principles of Water Rates, Fees, and Charges, Edition 6 (M1 Manual), and California Water Rate Setting Under Proposition 218 - A Practical Guidebook, Edition 1. The M1 Manual is the most widely used rate-setting manual among public water purveyors, and rates developed in accordance with the M1 Manual represent industry standards.

At the September 27, 2023 Board meeting, staff will also present the draft Proposition 218 Notice (Notice) that is required to be sent to customers prior to a public hearing on water rates. The Notice provides the public with information on the proposed water rate structure and upcoming public hearing, if approved by the Board. The Notice was developed in compliance with legal requirements established by Proposition 218 and went through a review process with input from the Authority's Legislative Affairs and Communications Committee, Management, Finance and Public Affairs staff, Legal Counsel, and the Authority's water rate consultant.

Memo to: Governing Board

Subject: Consideration to Approve, Receive, and File the 2023 Water Rate Study; Direct Staff to Issue a Notice Pursuant to Proposition 218; and Set a Public Hearing on December 6, 2023, to Approve Changes to the Rates for Water Service Charges to be Effective January 1, 2024

September 22, 2023

Page 2 of 8

Approving the Study at the September 27, 2023 Board meeting will allow staff to begin the required customer notification process within the following timeline:

September 28, 2023	Final preparation of the required notification and address list; documents sent to mail out to prepare notice for mailing
October 16, 2023	Required 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 6, 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

Policy Changes Considered

The Board, NBS, and staff have reviewed and determined multiple policy directions over the course of the Study's development.

At its June 13, 2023 Special meeting, the Board approved the following policy direction:

- To use a Commodity-Demand Methodology cost of service methodology instead of the current Base-Extra Capacity Method to allocate costs to water rates; the new methodology uses actual customer water use to determine demand for the calculation of charges.
- Incorporate an Irrigation customer class and rate structure for dedicated irrigation services in addition to the other non-residential customer classes of Multi-family, Commercial, Pubic Agencies, Irrigation, Other-Construction, Industrial, and Fire Protection.

At its June 28, 2023 meeting, the Board adopted the FY 2023-24 Budget used to inform the final Study and the revenue increases described in the Financial Impact section.

At its August 8, 2023 Special meeting, the Board approved the following policy direction:

- The time frame for the Study was changed from five years to three years to better evaluate long-term capital expenditures for inclusion in the upcoming water rate study. In addition, utilizing a three-year time frame will account for an accurate determination of source of water supply data to inform the Study, aligning the Study with current conditions.

Memo to: Governing Board

Subject: Consideration to Approve, Receive, and File the 2023 Water Rate Study; Direct Staff to Issue a Notice Pursuant to Proposition 218; and Set a Public Hearing on December 6, 2023, to Approve Changes to the Rates for Water Service Charges to be Effective January 1, 2024

September 22, 2023

Page 3 of 8

- Single-Family Residential Tier Design Recommendation: Continue to use a Single-family Residential 4 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.
- Fixed Charge Allocation Recommendation:
 - The fixed charge allocation will incrementally increase over the next three years to minimize the impact on customers;
 - Water Rates effective on January 1, 2025, will include a three percent additional allocation of Fixed Costs, and January 1, 2026, will include a second three percent additional allocation of Fixed Costs; and
 - 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.

At its August 23, 2023 meeting, the Board approved the final policy directions, which NBS then incorporated into the Study as follows:

- Allocate Non-water Rate Revenue to a Rate Payer Assistance Fund for low-income ratepayers:
 - Cell Tower Lease Revenue is currently the only non-water revenue for the Authority and was 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 Study allows the Authority to fund subsidies for customers in need of assistance; and
 - Allocation of the cell tower lease revenue to a non-water rate revenue in the Study allows for flexibility on how the funds will be used; the Board would also have the option with each annual budget to revert the Rate Payer Assistance Funds back to the general fund to continue to offset operational costs.
- To set the 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 currently 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; and
 - The Study has set the SFR fire-flow customers 1-inch meter charge the same as the single-family residential 5/8-inch meter charge.

Memo to: Governing Board

Subject: Consideration to Approve, Receive, and File the 2023 Water Rate Study; Direct Staff to Issue a Notice Pursuant to Proposition 218; and Set a Public Hearing on December 6, 2023, to Approve Changes to the Rates for Water Service Charges to be Effective January 1, 2024

September 22, 2023

Page 4 of 8

The Study itself is attached and provides a full accounting of the proposed water rates and charges.

Rate Payer Assistance Fund

If the Study is adopted by the Board, then the cell tower lease revenue will be allocated to the new Rate Payer Assistance Fund on January 1, 2024. Funding the reserve will take time to accumulate an amount necessary to efficiently assist customers. Assistance to low-income customers by the recommended changes from the Study will potentially not occur until January 1, 2025. Staff will return to the Board during the development of the FY 2024-25 Budget with details for a determination of a method to implement customer bill payment assistance or with options to continued use of the cell tower revenue to offset general operating costs.

Proposition 218 Overview

Proposition 218 was approved by the California voters in 1996 and amends the California Constitution by adding articles XIII C and XIII D, which established requirements for levying new or increased "property-related fees" and limits how revenues derived from these fees may be used.

The requirements set forth under article XIII D can be divided into two categories: substantive requirements and procedural requirements.

Substantively, new or increased rates for property-related fees must comply with the following five requirements:

- Revenues derived from the fee must not exceed the funds required to provide the property-related service.
- Revenues derived from the fee shall not be used for any purpose other than that for which the fee or charge was imposed.
- The amount of a fee imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- The fee may not be imposed for a service, unless the service is actually used by, or immediately available to, the owner of the property subject to the fee. A fee based on potential or future use of a service is not permitted and standby charges must be classified as assessments subject to ballot protest and proportionality requirements for assessments.
- No fee may be imposed for general governmental services including, but not limited to police, fire, ambulance, or library services, where the service is available to the public at large in substantially the same manner as it is to property owners.

Memo to: Governing Board

Subject: Consideration to Approve, Receive, and File the 2023 Water Rate Study; Direct Staff to Issue a Notice Pursuant to Proposition 218; and Set a Public Hearing on December 6, 2023, to Approve Changes to the Rates for Water Service Charges to be Effective January 1, 2024

September 22, 2023

Page 5 of 8

Procedures for adopting new or increased property-related fees are as follows:

- Notification: Mail information regarding the proposed fee or charge to every affected property owner or customer of record. The information needs to provide directions for submitting written protests as well as information about the proposed fees or charges. This notice may be mailed with a customer's bill or separately.
- Protest hearing: Hold a hearing at least 45 days after the mailing. The purpose of the hearing is to determine whether a majority protest has occurred. Only one protest per parcel will be counted.
- Rate adoption: Reject the proposed fee or charge if written protests are presented by a majority of the property owners (including customers of record) of the parcels subject to the fees.

The legally required elements in the Notice are as follows:

- Amount of the fees or charges proposed to be imposed;
- Basis upon which the fees or charges were calculated;
- Statement regarding the reason for the imposition of the new, or increases to the existing, fees or charges;
- Description of pass-through increases and the maximum amount by which specific rates will increase as a result of any pass-through increase; and
- Date, time, and location of the public hearing at which legislative body will consider new fees or charges, or proposed increases to existing fees or charges.

PAST BOARD ACTIONS

- | | |
|-----------------|--|
| August 23, 2023 | The Governing Board approved to allocate a Non-water Rate Revenue to a Rate Payer Assistance Fund for low-income rate payers; and the Governing Board directed to set the Single-family Residential 1-inch Fire Flow Meter Charge at the 5/8-inch Meter Charge rate. |
| August 9, 2023 | The Governing Board authorized the General Manager to approve Amendment No. 1 to the 2023 Water Rate Cost of Service Study Agreement with NBS in the amount of \$25,100. |
| August 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: <ul style="list-style-type: none">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; |

Memo to: Governing Board

Subject: Consideration to Approve, Receive, and File the 2023 Water Rate Study; Direct Staff to Issue a Notice Pursuant to Proposition 218; and Set a Public Hearing on December 6, 2023, to Approve Changes to the Rates for Water Service Charges to be Effective January 1, 2024

September 22, 2023

Page 6 of 8

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

May 17, 2023

The Governing Board tabled discussion of the 2023 Water Rate Study Water Bill Impacts for Alternative Policy Changes for Review, Input, and Comment

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

Memo to: Governing Board

Subject: Consideration to Approve, Receive, and File the 2023 Water Rate Study; Direct Staff to Issue a Notice Pursuant to Proposition 218; and Set a Public Hearing on December 6, 2023, to Approve Changes to the Rates for Water Service Charges to be Effective January 1, 2024

September 22, 2023

Page 7 of 8

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. |

FISCAL IMPACT

The FY 2023-24 Operating Expense Budget line item 10-10-100-5650 Consulting Services includes funding for the Study consulting costs. The NBS contract approved on January 25, 2023, was in the amount of \$58,200 and an amendment to NBS's contract in the amount of \$25,100 was approved by the Board on August 9, 2023. The Study is based on information from the adopted FY 2023-24 Budget that provides for a revenue increase of 0.5 percent for FY 2023-24, 6.0 percent for FY 2024-25, and 6.5 percent for FY 2025-26. FY 2024-25 and FY 205-26 revenue increases may be less than established in the Study and the actual increase will be determined with the budget process for each of the years, respectively.

The printing and postage cost to mail approximately 47,900 Proposition 218 Notices to the required customers and property owners is approximately \$20,000. The FY 2023-24 Budget line item 10-10-120-5626 Printing includes funding for the cost of the Proposition 218 notification process.

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

Memo to: Governing Board

Subject: Consideration to Approve, Receive, and File the 2023 Water Rate Study; Direct Staff to Issue a Notice Pursuant to Proposition 218; and Set a Public Hearing on December 6, 2023, to Approve Changes to the Rates for Water Service Charges to be Effective January 1, 2024

September 22, 2023

Page 8 of 8

ALTERNATIVES

1. Approve, receive, and file the 2023 Water Rate Study; direct staff to issue a notice pursuant to Proposition 218; and set a public hearing date on December 6, 2023, that is at least 45 days after mailing of the Notice to approve changes to the water rates and charges to be effective January 1, 2024, with any updates to the Notice necessary upon completion of the Study.
2. Approve, receive, and file the 2023 Water Study reflecting any Board input; direct staff to issue a Notice reflecting Board input and pursuant to Proposition 218; and set a public hearing date on December 6, 2023 that is at least 45 days after mailing of the Notice to approve changes to the water rates and charges to be effective January 1, 2024, with any updates to the Notice necessary upon completion of the Study.
3. Defer approval of the 2023 Water Rate Study, deferring the January 1, 2024 changes to water rates and charges, and provide direction to staff on revisions necessary before bringing the Study and revised Notice back to the Board for consideration.
4. Other direction as determined by the Governing Board.

RECOMMENDATION

Staff recommends that the Governing Board approve, receive, and file the 2023 Water Rate Study; direct staff to issue a notice pursuant to Proposition 218; and set a public hearing on December 6, 2023 to approve changes to the water rates and charges to be effective January 1, 2024, with any updates to the Notice necessary upon completion of the Study.

ATTACHMENTS

1. Draft 2023 Proposition 218 Notice
2. NBS 2023 Water Rate Study