



BOARD INFORMATION

TO: Governing Board

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

DATE: June 2, 2023

SUBJECT: Presentation of Draft 2023 Rate Proposal and Water Bill Impacts for Review, Input, Comment, and Direction on Possible Alternative Policy Changes

SUMMARY

On May 17, 2023, NBS provided a draft Water Bill Impacts for the draft 2023 Water Rate Study Alternative Policy Changes; the Board tabled this item to be further discussed at a future Special Board meeting. The goal of this meeting is to continue the discussion of the draft Water Bill Impacts for the Alternative Policy Changes (Attachment 1). At its May 17, 2023 meeting, the Board asked staff to provide customer water use by Division, which is included in Attachment 2.

The four significant water rate policy alternatives, along with specific recommendations, are:

- **Cost of Service Methodology:** the recommended alternative is to use a Commodity-Demand Methodology instead of the current Base-Extra Capacity Method to allocate costs to water rates.
- **Fixed Charge vs. Variable Charge:** alternatives for recommended changes to cost allocation that would potentially change the proportion of fixed charges.
- **Single-family Residential Tier Design:** recommended alternative changes to the existing four-tier rate structure and how water supply costs are allocated to each tier, with a discussion of meter overlay tier design for meters larger than the standard single-family residential meter.
- **Non-water Revenue:** an alternative to allocate revenue generated from sources other than water rates, such as cell tower revenue, to fund a low-income water bill assistance program reserve

At the June 13, 2023 Special meeting, staff will request Board direction on the water rate policy changes to include in the final draft 2023 Water Rate Study, tentatively to be presented on August 9, 2023.

In addition to these policy direction alternatives, the following rate study questions were addressed at the May 17, 2023 Special Board meeting with the following recommendations:

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- a) include a rate structure for dedicated irrigation meters;
- b) continue to use a uniform variable rate for multi-family residential customers; and
- c) to 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 continued discussion of the 2023 Water Rate Study into June 2023 required rescheduling the Proposition 218 required Public Hearing from August 30, 2023, to October 18, 2023. Sufficient time for the 45-day required notification period prior to the October 18, 2023 Public Hearing will be available if a final 2023 Water Rate Study is adopted in August 2023.

In addition, a Public Workshop is being scheduled on June 8, 2023, to allow the public to attend a presentation by NBS on the 2023 Water Rate Study Water Bill Impacts for Alternative Policy Changes (Attachment 1). This Public Open House will be similar to the Public Workshop held on April 19, 2023.

PAST BOARD ACTIONS

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| 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. |

FISCAL IMPACT

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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 will be presented to the Board at the June 13, 2023 Special Board meeting. The June 8, 2023 Public Workshop will require a \$1,570 increase to the NBS contract adopted on January 25, 2023, in the amount of \$58,200.

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, to be presented to the Governing Board on August 9, 2023; with the following water rate policy changes to include:
 - 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.
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, to be presented

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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
- 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.

ATTACHMENTS

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