



May 18, 2016

Attention: Administrative and Finance Committee

Resolution setting a Public Hearing date for the Water Authority's proposed calendar year 2017 Rate and Charge increases (Action)

Purpose

The purpose of this report is to review the proposed rates and charges for calendar year 2017 and to adopt a resolution setting a time and place for a public hearing for the consideration and adoption of the proposed rate and charge increases for water, services and facilities.

Staff recommendation

1. Adopt Resolution Number 2016-__ setting the time and place for a public hearing on June 23, 2016, at or after 9:00 a.m., or as soon thereafter as may practicably be heard, during the Administrative and Finance Committee meeting, to receive comments regarding proposed rates and charges to be effective January 1, 2017.

Alternative

Direct staff to set a different time or date for the public hearing.

Fiscal Impact

The proposed water rates and charges, in combination with reserves, existing taxes, the System Capacity Charge, the Water Treatment Capacity Charge, the Infrastructure Access Charge (IAC), investment income, the Standby Availability Charge, and the Supply Reliability Charge (SRC), are expected to raise revenues sufficient to meet the Water Authority's revenue requirement, bond covenants and other key fiscal policy goals. The proposed M&I total cost of water¹ increase for CY 2017 is \$76/AF or 6.4% for untreated water and \$86/AF or 5.9% for treated water. These increases are mitigated by rate relief measures that included the debt restructuring completed in FY 2016 and a projected draw of approximately \$20.1 million from the Rate Stabilization Fund (RSF) in FY 2017.

Background

Metropolitan Water Rate Increases

On April 12, 2016, MWD's Board of Directors adopted rate and charge increases for calendar years 2017 and 2018 resulting in a reported 4% annual "average" rate increase in each year. Based upon MWD's adopted rate and charge schedule, the cost of treated and untreated water in CY 2017 will increase by 3.9% and 12.1%, respectively (this excludes the impact of MWD's fixed charges). While the overall cost of MWD supplies increased 4%, the costs of transporting the Quantification Settle Agreement (QSA) water to the region will increase by 6.2% in CY 2017.

¹ The total cost of water includes the Melded Supply, Melded Treatment and Transportation Rates and the fixed Customer Service, Storage and Supply Reliability Charges expressed as a \$/AF cost. The total cost of water excludes the Water Authority's IAC and MWD's RTS and Capacity Charges.

Prudent Financial Management and Long-Range Planning

The Water Authority has a long history of prudent financial planning. In 2006, the Board strengthened the Water Authority's key financial ratios by setting a Senior Lien Debt Service Coverage Ratio (DSCR) target of 1.50x and establishing a target funding level for the RSF that better protects the Water Authority against the financial impact of 2.5 years of wet weather (3.5 years max). These early actions reduced rate and charge volatility, increased protection against wet weather and mandatory water use restrictions, created a transparent and flexible RSF framework, and increased cash funding of the CIP just prior to the great recession of 2008. These early actions helped the Water Authority navigate the recession and continue to support the maintenance of the Water Authority's AA+/Aa2/AA+ credit ratings and access to lower interest rates.

In 2014, the Board, member agencies and Water Authority staff engaged in an 18-month collaborative process that identified issues related to the long-term fiscal sustainability of the Water Authority. Central to this effort was a detailed review of the Water Authority's revenue structure and evaluating potential enhancements that would further strengthen the Water Authority's future fiscal health. One of the key actions taken as part of the fiscal sustainability review was the creation of the Supply Reliability Charge (SRC). This charge, implemented in CY 2016, recognizes the importance of equitably recovering the cost of the Water Authority's investments in long-term water supply reliability in accordance with cost of service principals and California law. As adopted by the Board, the SRC recovers a portion of the water supply costs associated with the Carlsbad Desalination Plant (the Plant) and the Imperial Irrigation District's (IID) water transfers. In addition to recovering a proportionate share of the cost of water supply reliability, the SRC also helps to reduce water sales revenue volatility by increasing the amount of fixed revenues.

In January 2016, the Board adopted the 2015 Long-Range Financing Plan (LRFP). The 2015 LRFP highlights the Water Authority's transition to an operations and asset management focused agency from a construction oriented agency. The baseline \$582 million ten-year CIP is a much more modest spending level when compared to the 2008 LRFP. The largest component of the CIP is Asset Management, which makes up more than 40% of the ten-year CIP. The Asset Management program includes the Relining and Pipe Replacement Program and other infrastructure rehabilitation.

The Water Authority's 2015 LRFP requires the revenues of the Water Authority be sufficient to; pay operating expenses, provide for maintenance and repair of facilities, provide for payment of principle and interest on debt, and provide reasonable reserves consistent with bond covenants and sound fiscal management. As a public agency enterprise, the Water Authority does not generate a profit. Revenues are set to meet the reasonably anticipated costs of providing service to the member agencies and do not generate revenues that are unrelated to the accomplishment of the Water Authority's purposes. While there are a large number of assumptions embedded in the 2015 LRFP, the core assumptions are those that have significant financial impacts and include water sales, local supplies, cost of imported water and transportation and the CIP. These assumptions are incorporated into the high and low rate and charge guidance provided in the document.

Comprehensive Cost of Service Reviews

Consistent with best management practices, the Water Authority retained Carollo to perform three independent comprehensive cost of service studies. The first engagement with Carollo included a comprehensive cost of service study to determine the Water Authority's CY 2014 rates and charges. The second engagement with Carollo included a comprehensive cost of service study to ensure proper implementation of the Board policies for the recovery of the costs related to the Carlsbad Desalination Project and setting CY 2015 rates and charges. The third and final Carollo engagement was the comprehensive cost of service study to ensure the proper implementation of the Fiscal Sustainability policy recommendations and the setting of CY 2016 rates and charges.

In each of these engagements, Carollo independently verified that the rates and charges were established in compliance with California legal requirements, cost of service standards, and Water Authority Board policies.

Special Agricultural Water Rate Program

On March 26, 2015, the Board approved the extension of the TSAWR program through December 31, 2020 based on the recommendation to continue the TSAWR program for the next five years and revisit the value of the program in conjunction with the review of the new Supply Reliability Charge. The recommendation recognized: 1) the benefits the M&I customers have been paying for by supporting the TSAWR program occur during supply shortages; 2) the new Supply Reliability Charge allocation methodology is impacted by the treatment of agricultural water demands; and 3) addressing the issue in one year increments is not efficient and doesn't provide a sufficient planning window for customers. The five year period will also provide a track record to ascertain what the frequency of shortage cutbacks would be over an extended time period (since the 2009 cutbacks) and allow for a better understanding of the cost and benefits of the program

Mandatory Restrictions and Water Demand Uncertainty

On May 5, 2015, the State Water Resources Control Board (SWRCB) adopted an emergency regulation requiring a 25 percent reduction in overall potable urban water use statewide in accordance with Governor Brown's April 1, 2015, Executive Order. The emergency regulation placed each urban water supplier into one of nine tiers based on an average of their July through September 2014 residential per-capita water use. The tiers are assigned to a conservation standard that ranged from a 12 percent to 36 percent reduction requirement for our member agencies. Starting June 1, 2015 and continuing through February 29, 2016, the SWRCB compared water suppliers' potable urban water use with their use for the same month in 2013 to determine if they were on track to meet their conservation standard. The San Diego region outperformed the state's aggregate regional target of 20 percent, effectively reducing its potable water use by 21 percent from June 2015 through February 2016.

On April 14, 2015 the Metropolitan Water District of Southern California (MWD) Board approved implementation of its Water Supply Allocation Plan at a Level 3 Regional Shortage Level for fiscal year 2016 in response to dwindling supplies. A Level 3 supply cutback equates to a 15 percent reduction in MWD deliveries to its member agencies compared to agencies' base period demands (FY 2013 and FY 2014).

Governor Brown issued an additional Executive Order on November 13, 2015 in anticipation of a potentially fifth consecutive dry year that directed the SWRCB to extend its May 2015 Emergency Regulation and take into account the insights gained during the first 270 days to evaluate potential modifications to the existing regulation if the drought continued. Although California's supply conditions improved over the winter, it was not enough to emerge from the statewide drought and the accompanying emergency conservation regulations. On February 2, 2016 the SWRCB approved an extension of the Emergency Regulation for an additional 270 days, addressed water supplier comments to provide greater recognition for investments in drought resistant supplies and continued the exemption for commercial agriculture. With the modifications made to the regulation by the SWRCB, the Water Authority's member agencies were able to reduce their conservation targets by up to 8% as a result of drought-resilient supplies from the Carlsbad Desalination Project.

On May 9, 2016, the Governor issued Executive Order B-37-16 that extends the emergency regulation through January 2017, requires development of new water use targets as part of a permanent framework, permanently prohibits specific wasteful water uses, requires permanent monthly reporting by water agencies of water usage and conservation achieved, and strengthens requirements for Water Shortage Contingency Plans to include 5-year dry period analysis. Also on May 9, 2016, the SWRCB released a staff proposal that would allow water agencies to self-certify whether they have adequate supplies to meet demands through January 2017. An update on the status of the SWRCB proposal will be provided at the May Board meeting.

In response to improved water supply conditions, the Metropolitan Board at its May 10, 2016 meeting, rescinded allocations to its member agencies under its Water Supply Allocation Plan. The Board also declared a Water Supply Alert, which calls for continued conservation activities.

Forecasting water demands for calendar year 2017 is especially challenging given the impact of the prolonged drought on local storage supplies, uncertainty surrounding the continuance of below average annual precipitation and elevated monthly temperatures, and member agencies' response to SWRCB regulations. Water Authority staff ultimately developed a conservative demand forecast for calendar year 2017 sales revenue based on the assumption of member agencies achieving their SWRCB conservation standards.

Previous Board Actions

On June 25, 2015, the Board Adopted Ordinance No. 2015-03 setting rates and charges for the delivery and supply of water, use of facilities, and provision of services, and extending the Transitional Special Agricultural Water Rate Program and adopted Resolution No. 2015-15 continuing the Standby Availability Charge.

Discussion

There are three primary drivers behind the recommended CY 2017 rate and charge increases. The drivers are:

- **MWD rate and charge increases** – While MWD's rates and charges are reported to be going up an average of 4%, the cost of untreated water increased 12.1% or \$72/AF and the cost to transport QSA water to the service area went up 6.2% or \$27/AF. Combined

MWD's CY 2017 rates increased the Water Authority's cost of water by approximately 3.4%

- **Cost impacts desalinated water deliveries** – Starting with CY 2015 rates and charges, a multi-year strategy was developed to smooth the rate impacts of desalinated water. CY 2016 was the first full year of production from the Plant and several extraordinary measures were taken to mitigate the CY 2016 rate and charge increases including the debt defeasance, which provided a one-time rate relief of more than \$60/AF. CY 2017 rate and charge increases are a continuation of the smoothing strategy.
- **Reduced water sales environment** – The CY 2017 water sales projection is for sales to have a modest 3% increase over CY 2016 levels. Demand is expected to remain flat over the near term due to the long-term impact of the emergency water use regulations and member agency local supply development.

The recommended CY 2017 rate and charge increase is being mitigated by a projected \$20.1M draw from the RSF in FY 2017, which is approximately \$50/AF of rate relief. The draw is offsetting both the impact of a continued reduced sales environment and cost impact of desalinated water. Additional rate relief is also being realized from the recent debt refundings that have reduced debt service payments.

As part of the 2015 LRFP, staff developed a high/low rate and charge forecast to support member agency financial planning efforts. The high/low rate and charge forecasts were based upon scenarios varying the level of water sales, MWD rate and charge increases, and CIP expenditures. The CY 2017 proposed rates and charges are within that guidance. The Water Authority's total cost of untreated water is increasing by 6.4% and the cost for treated water is increasing by 5.9%. It should be noted that the actual cost of water will vary by member agency based upon each agency's fixed charge allocations.

Setting Water Rates and Charges

On an annual basis, the Water Authority staff develops proposed water rates and charges, which it presents to the Board of Directors for adoption. Water rates and charges include the Melded Supply, Melded Treatment, Transportation rates and the Customer Service, Storage and Supply Reliability charges. Each year the Water Authority undertakes the following cost of service analysis to determine water rates and charges.

- Step 1. Establish the revenue requirement—determine the total amount of revenue needed to recover the Water Authority's annual operating (operations and maintenance of facilities, cost of water, treatment costs, etc.) and capital expenditures (cash and short and long-term debt)
- Step 2. Allocate the revenue requirement and offsetting non-commodity revenues (i.e. investment income, property tax, IAC, etc.) to rate categories (Melded Supply, Melded Treatment, Transportation, Storage, Customer Service and SRC) to determine the net revenue requirement for each rate category

- Step 3. Determine rates and charges based upon the net revenue requirements, water sales projections and other key financial management metrics (i.e. senior lien debt service coverage, fund deposits and withdrawals)
- Step 4. Allocate fixed charges (Storage, Customer Service and SRC) to member agencies based on specified allocation methodologies

Consistent with best management practices, the Water Authority retained Carollo to perform a comprehensive and independent Cost of Service Study to determine CY 2016 rates and charges. The Study ensured that the Fiscal Sustainability Recommendations are implemented in compliance with California legal requirements, cost of service standards, and Water Authority Board policies. The CY 2017 rates and charges are based upon the application of that same methodology.

Description of Proposed Rates and Charges

Table 1 summarizes the Water Authority’s proposed CY 2016 rates and charges. A description of the Water Authority’s rates and charges is provided in subsequent sections. In addition to the Water Authority’s rates and charges shown in Table 1, certain MWD rates and charges are passed through to the member agencies.

Table 1 – Summary of Water Authority Rates and Charges			
Water Authority Rates and Charges	CY 2015 Previous	CY 2016 Current	CY 2017 Proposed
Melded Supply Rate (\$/AF)	\$764	\$780	\$855
Melded Treatment Rate (\$/AF)	\$278	\$280	\$290
Transportation Rate (\$/AF)	\$101	\$105	\$110
Untreated Transitional Special Agricultural Water Rate (\$/AF) ¹	\$582	\$594	\$666
Treated Transitional Special Agricultural Water Rate (\$/AF) ¹	\$860	\$874	\$956
Infrastructure Access Charge	\$2.76/ME ⁴	\$2.76/ME	\$2.87/ME
Customer Service Charge	\$26,400,000	\$26,400,000	\$26,400,000
Storage Charge	\$63,200,000	\$63,200,000	\$65,000,000
Supply Reliability Charge ²	NA	\$26,000,000	\$24,800,000
Standby Availability Charge per parcel or acre, whichever is greater ³	\$10	\$10	\$10
System Capacity Charge	\$4,681/ME	\$4,840/ME	TBD ⁵
Treatment Capacity Charge	\$119/ME	\$123/ME	TBD ⁵

¹ Per current Board Policy, TSAWR is set to end December 31, 2020.
² The Supply Reliability Charge was effective January 1, 2016.
³ Fiscal Year Charge.
⁴ ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.
⁵ Both the System and Treatment Capacity Charges will be administratively adjusted effective January 1, 2017 for inflation per Ordinance No. 2005-03

Table 2 summarizes MWD’s rates and charges that the Water Authority passes through to its member agencies.

Table 2 – Summary of Water Authority Pass Through Rates and Charges			
MWD Rates and Charges	CY 2015 Previous	CY 2016 Current	CY 2017 Proposed
Untreated Tier 2 Supply Rate \$/AF ¹	\$714	\$728	\$760
Replenishment Water Rate Untreated (\$/AF) ²	NA	NA	NA
Replenishment Water Rate Treated (\$/AF) ²	NA	NA	NA
MWD Capacity Charge	\$10,738,140	\$12,406,380	\$9,105,600
Readiness-to-Serve Charge ³	\$25,043,402	\$22,145,912	\$18,623,577
¹ Agencies exceeding their Tier 1 allocation are subject to the MWD Tier 2 Supply Rate. ² Discussions on the future of the replenishment program are continuing. ³ Fiscal Year Charge.			

The following rates and charges will be effective July 1, 2016:

Standby Availability Charge. The County Water Authority Act limits the maximum annual Standby Availability Charge to \$10 per acre or parcel, whichever is greater. Beginning before November 6, 1996, the Water Authority has determined that the maximum annual Standby Availability Charge should be levied on property within the Water Authority’s service area. To provide necessary funding for the CIP, the General Manager recommends that the charge continue at the \$10 maximum for fiscal year 2016-2017. The Standby Availability Charge rate is effective July 1, 2016.

The following rates and charges are being proposed effective on January 1, 2017:

Melded Untreated Supply Rate (exclusive of TSAWR deliveries). The Melded Untreated Supply Rate (Melded Supply Rate) will be set to recover the costs of purchasing Tier 1 water from MWD, water purchases from IID, payments in connection with the All-American and Coachella Canal lining projects, payments to MWD under the 2003 Exchange Agreement for conveyance of IID and Canal Lining water, desalinated water and the portion of the Water Authority’s revenue requirement allocated to the Supply rate. The revenue requirement may include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, reserve withdrawals/deposits and coverage requirements.

Table 3 on the following page shows the calculation of the Melded Supply Rate.

Table 3 – Untreated Melded Supply Rate Calculation

CY 2017

Acre-Foot Sales (000's)	
MWD Tier I Deliveries	168.8
IID Deliveries	100.0
Canal Water Deliveries	80.2
Carlsbad Desalination Production	<u>42.0</u>
TOTAL A/F SALES	391.0/AF
Water Purchase Cost (in Millions)	
MWD Tier 1 Water Purchases	\$112.4
QSA Exchange with MWD Costs	83.8
IID Water Purchases	65.1
Canal Water Purchases	1.2
Desalinated Water Supply Costs	<u>82.4</u>
Subtotal Water Purchases	\$344.9
Additional Costs (in Millions)	
Supply Revenue Requirement	\$17.5
IID Socioeconomic	3.1
QSA Environmental	5.3
Groundwater Storage	<u>0.5</u>
Subtotal Other Costs	\$26.4
Offsetting Revenues (in Millions)	
Supply Reliability Charge Revenues	(\$24.8)
Cash and Reserves	<u>(12.0)</u>
Total Net Supply Costs	\$334.5
A/F RATE (Total Net Supply Cost /Total AF Sales)	\$855/AF

Based upon these options, the Melded Supply Rate will increase from its current level of \$780/AF to \$855/AF in CY 2017.

Transitional Special Agricultural Water Program Rates.

With the extension of the TSAWR program through December 31, 2020, the untreated TSAWR will be set to MWD's Tier 1 rate and increase from its current level of \$594/AF to \$666/AF. In addition, the treated TSAWR will increase from \$874/AF in CY 2016 to \$956/AF in CY 2017. The TSAWR program rates correspond to a lower level of water supply reliability for its participants.

Melded Treatment Rate. The Melded Treatment Rate will be set to recover the costs of treating water for the Water Authority and may include costs of purchasing treated water from MWD, the Levy and Olivenhain treatment plants, the Water Authority's Twin Oaks Valley Water Treatment Plant, desalinated water costs allocated to this rate and may recover certain other costs associated with the delivery of treated water. For CY 2017, the Melded Treatment Rate will increase from its current level of \$280/AF to \$290/AF. Table 4 shows the calculation of the Melded Treatment Rate.

Table 4 – Melded Treatment Rate Calculation

	<u>CY 2017</u>
Acre-Foot Sales (A/F) (000's)*	
MWD	42.4
Water Authority	54.6
Helix	16.0
Carlsbad Desalination Production	42.0
TOTAL A/F SALES	155.0 /AF
Cost (in Millions)	
MWD	\$13.3
Water Authority	16.1
Helix	3.3
Desalinated Water**	12.2
TOTAL TREATMENT COSTS	\$44.9
A/F RATE (Total Treatment Costs/Total A/F Sales)	\$290/AF

* Includes treated water deliveries intended for agriculture

**Based on proposed cost of treated water (42,000AF*\$290 = \$12.2M)

Transportation Rate. The Transportation rate is set to recover capital, operating, and maintenance costs of Water Authority-owned water delivery facilities, including facilities used to physically transport the water to member agency meters. The Transportation Rate is charged to each acre-foot of water delivered by the Authority as it occurs. For CY 2017, the Transportation Rate will increase from its current level of \$105/AF to \$110/AF.

Infrastructure Access Charge. The infrastructure access charge is imposed on member agencies as a condition of maintaining connections to Water Authority facilities. It is apportioned based on water meters within each member agency. For CY 2017, the infrastructure access charge will increase from its current level of \$2.76/ME to \$2.87/ME.

Customer Service Charge. The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority. The Customer Service Charge will be allocated among the member agencies on the basis of each agency's three-year rolling average of member agency supply purchases from the Water Authority. For CY 2016, the Customer Service Charge will remain unchanged at \$26.4M.

Storage Charge. The Storage Charge is set to recover costs associated with the Emergency Storage Program and the Carryover Storage Program. Because agricultural users that participate in the SAWR program agree to reduced or interrupted service during times of water emergencies, they will not receive benefit from the storage program; therefore, the Storage Charge is based on all non-SAWR water deliveries and will be allocated among the member agencies using a pro rata share of each agency's three-year rolling average deliveries. For CY 2017, the Storage Charge will increase from its current level of \$63.2M to \$65.0M.

Supply Reliability Charge. The Supply Reliability Charge (SRC) is a fixed charge established in 2016 to recover a portion of the costs associated with the Water Authority's highly reliable water

supplies, which includes desalinated and IID transfer waters. The charge is allocated to member agencies based upon their pro rata share of the Water Authority’s 5-year rolling M&I deliveries (agricultural deliveries are not included). For CY 2017, the SRC will decrease from its current level of \$26.0M to \$24.8M.

Capacity Charges. Capacity charges are one time fees charged to new system connections. The fee is set to recover the proportionate cost of the system necessary to serve that connection.

System Capacity Charge. This charge recovers a portion of the capital costs for the conveyance and storage facilities necessary to operate the delivery system. The current charge of \$4,840/ME for each new meter equivalent will be administratively adjusted for inflation effective January 1, 2017.

Water Treatment Capacity Charge. This charge recovers a portion of the regional water treatment facility to be collected from all future users of the facility. In keeping with the Water Authority’s policy of exempting agencies that cannot benefit from a service, the Water Treatment Capacity Charge excludes customers from the City of Del Mar, City of Escondido, and City of Poway. The current charge of \$123/ME for each new meter equivalent will be administratively adjusted for inflation effective January 1, 2017.

Table 5 presents a summary of the current Capacity Charge schedule that went into effect on January 1, 2016 and will be administratively adjusted January 1, 2017.

Table 5 CY 2016 Water Authority Capacity Charges			
Meter Size (Inches)	Factor	System Capacity Charge	Water Treatment Capacity Charge
Under 1"	1.0	\$ 4,840	\$ 123
1"	1.6	7,744	197
1.5"	3.0	14,520	369
2"	5.2	25,168	640
3"	9.6	46,464	1,181
4"	16.4	79,376	2,017
6"	30.0	145,200	3,690
8"	52.0	251,680	6,396
10"	78.0	377,520	9,594
12"	132.0	638,880	16,236

The following MWD rates and charges are passed on directly or allocated to the Water Authority’s member agencies in the same manner as MWD applies them to the Water Authority.²

² The Water Authority has opposed MWD’s cost of service methodology associated with these charges.

MWD Capacity Charge. For CY 2017, the Capacity Charge is \$8,000 per cubic foot second (cfs) of maximum daily flow requested by a MWD member agency. The Capacity Charge is a fixed charge levied on an agency's maximum daily flows over the three previous fiscal years. It recovers the cost of providing peak capacity within the distribution system, and is designed to encourage member agencies to shift demands and avoid placing large daily peaks on the MWD system during the summer months. Daily flow measured between May 1 and September 30 for purposes of billing the Capacity Charge will include deliveries (except long-term seasonal storage deliveries) made by MWD to a member agency or member agency customer including water transfers, exchanges and agricultural deliveries. As part of a separate surface storage operating agreement to manage seasonal peaking, the Authority is expected to reserve its full available capacity. The Capacity Charge will be set at \$9,105,600. The Authority's Board has directed that the Capacity Charge will be recovered proportionally based on a five-year rolling average of member agency flows during coincident peak weeks.

Readiness-to-Serve Charge. MWD's Readiness-to-Serve Charge differs from the other MWD charges in that it is set on a Fiscal Year basis. The total Readiness-to-Serve Charge will decrease from its current level of \$153 million to \$135 million. The Authority's share is set at \$31,277,430 for Fiscal Year 2016-2017. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is \$18,623,577. MWD's Readiness-to-Serve Charge will recover costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge will be allocated among MWD member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity). This allocation will be revised each year. Revenues equal to the amount of MWD Standby Charges will continue to be credited against the member agency's Readiness-to-Serve Charge obligation unless a change is requested by the member agency. The Board has directed that the Authority's Readiness-to-Serve Charge will be passed through proportionally to member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity).

Summary

Staff is seeking Board direction for which rate and charge increases should be considered at the Public Hearing on June 23, 2016.

Prepared by: David G. Shank, Financial Planning Manager
Reviewed by: Lisa Marie Harris, Director of Finance/Treasurer
Approved by: Sandra L. Kerl, Deputy General Manager

Attachments: A) Resolution of the Board of Directors of the San Diego County Water Authority fixing the time and place for a public hearing to consider: (1) Changes to the rates and charges for delivery and supply of water; (2) Continuing the existing Standby Availability Charge; and (3) Changes to the system and treatment capacity charges.

RESOLUTION NO. 2016-

RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY FIXING THE TIME AND PLACE FOR A PUBLIC HEARING TO CONSIDER: (1) CHANGES TO THE RATES AND CHARGES FOR DELIVERY AND SUPPLY OF WATER, AND (2) CONTINUING THE EXISTING STANDBY AVAILABILITY CHARGE (3) CHANGES TO THE SYSTEM AND TREATMENT CAPACITY CHARGES.

WHEREAS, pursuant to the County Water Authority Act, the Board of Directors has adopted resolutions and ordinances setting rates and charges for delivery and supply of water, use of facilities and provision of other services; and

WHEREAS, the Director of Finance has provided a report recommending increases of Water Authority rates and charges a copy of which has been filed with the Clerk of the Board; and

WHEREAS, the Board of Directors desires to set a public hearing to consider comments regarding continuing the existing rates and charges

NOW, THEREFORE, IT IS HEREBY RESOLVED by the Board of Directors of the San Diego County Water Authority as follows:

1. The foregoing recitations are true and correct.
2. A public hearing will be held by the Board of Directors of the San Diego County Water Authority Administrative and Finance Committee on June 23, 2016, at 9:00 a.m., or as soon thereafter as the matter may be heard, in the Board Room of the Water Authority at 4677 Overland Avenue, San Diego, California 92123, to consider changes to the rates and charges for delivery and supply of water, use of facilities, and provision of other services as determined necessary by the Director of Finance
3. The Clerk of the Board is directed to cause the following notice to be published pursuant to Government Code Section 6066 in the newspapers of general circulation stated in paragraph 5, below:

Legal Notice

Notice is hereby given that the San Diego County Water Authority Board of Directors Administrative and Finance Committee will hold a public hearing at June 23, 2016, at 9:00 a.m. or as soon thereafter as may practicably be heard, at its offices located at 4677 Overland Avenue, San Diego, CA 92123. The purpose of the hearing is to hear objections, protests or comments from the public about proposed and recommended water rates and charges as specified below. The Water Authority also intends to continue the water standby availability charge at it existing level, and to levy property taxes as authorized by law. For further details see the memorandum dated May 18, 2016 on file with the Clerk of the Board.

The following rates and charges will be effective July 1, 2016:

Standby Availability Charge. The County Water Authority Act limits the maximum annual Standby Availability Charge to \$10 per acre or parcel, whichever is greater. Beginning before November 6, 1996, the Water Authority has determined that the maximum annual standby availability charge should be levied on property within the Water Authority's service area. To provide necessary funding for the CIP, the General Manager recommends that the charge continue at the \$10 maximum for fiscal year 2016-2017. The Standby Availability Charge rate is effective July 1, 2016. The amount of this charge has not changed since the adoption of Proposition 218 in 1996. The justification for imposition of this charge is the same as for when the charge was initially levied and as it was imposed before November 6, 1996.

The following rates and charges are being proposed effective on January 1, 2017:

Melded Untreated Supply Rate. The Melded Untreated Supply Rate will be set to recover the costs of purchasing Tier 1 water from MWD, water purchases from IID, payments in connection with the All-American and Coachella Canal lining projects, payments to MWD under the 2003 Exchange Agreement for conveyance of IID and Canal Lining water, and may include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, costs for acquisition of desalinated water pursuant to a water purchase agreement, and other supply costs. For CY 2017, the Melded Supply Rate may increase from its current level of \$780/AF to \$855/AF.

Melded Treatment Rate. The Melded Treatment Rate will be set to recover the costs of treating water for the Water Authority and may include costs of purchasing treated water from MWD, and the Levy and Olivenhain treatment plants and may recover certain other costs associated with the delivery of treated water, including certain costs of desalinated water. For CY 2017, the Melded Treatment Rate may increase from its current level of \$280/AF to \$290/AF.

Transportation Rate. The Transportation Rate is a uniform rate set to recover capital, operating and maintenance costs of the Water Authority's aqueduct system including all facilities used to physically transport the water to member agency meters. The Transportation Rate is charged to each acre-foot of water delivered by the Water Authority as it occurs. For CY 2017, the Transportation Rate may increase from its current level of \$105/AF to \$110/AF.

Transitional Special Agricultural Water Program Rates (TSAWR). The untreated TSAWR may increase from its current level of \$594/AF to \$666/AF in CY 2017. The treated TSAWR may increase from \$874/AF in CY 2015 to \$956/AF in CY 2017.

Infrastructure Access Charge. The infrastructure access charge is imposed on member agencies as a condition of maintaining connections to Water Authority facilities. It is apportioned based on retail water meters within each agency. For CY 2017, the infrastructure access charge may increase from its current level of

\$2.76/ME to \$2.87/ME. ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.

Customer Service Charge. The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority, to develop policies and implement programs that benefit the region as a whole. The Customer Service Charge will be allocated among the member agencies on the basis of each agency's three-year rolling average of member agency purchases from the Water Authority (excludes member agency wheeled water). For CY 2017, the Customer Service Charge is recommended to remain at its current level of \$26.4M.

Storage Charge. The Storage Charge is set to recover costs associated with the Emergency Storage Program. The Storage Charge is based on all non-agricultural water deliveries and will be allocated among the member agencies using a pro rata share of each agency's three-year rolling average deliveries (including all users, member agencies and third-party wheeling throughput). For CY 2017, the Storage Charge may increase from its current level of \$63.2M to \$65.0M.

Supply Reliability Charge. The Supply Reliability Charge (SRC) is a fixed charge established in 2016 to recover a portion of the costs associated with the Water Authority's highly reliable water supplies, which includes desalinated water and IID transfer water. The charge is allocated to member agencies based upon their pro rata share of the Water Authority's 5-year rolling M&I deliveries (agricultural deliveries are not included). For CY 2017, the SRC may decrease from its current level of \$26.0M to \$24.8M.

System Capacity Charge. This charge recovers a portion of the capital costs for the conveyance and storage facilities necessary to operate the delivery system. The charge will be administratively adjusted to reflect inflation. The adjustment will be effective January 1, 2017.

Water Treatment Capacity Charge. This charge recovers a portion of the regional water treatment facility to be collected from all future users of the facility. In keeping with the Water Authority's policy of exempting agencies that cannot benefit from a service, the Water Treatment Capacity Charge excludes customers from the City of Escondido, City of Del Mar, and City of Poway. The charge will be administratively adjusted to reflect inflation. The adjustment will be effective January 1, 2017.

The following MWD rates and charges are passed on directly or allocated to the member agencies as follows;

MWD Capacity Charge. For CY 2017, the Capacity Charge is \$8,000 per cubic foot second (cfs) of maximum daily flow requested by a MWD member agency. The Capacity Charge is a fixed charge levied on an agency's maximum daily flows over the three previous fiscal years. It recovers the cost of providing peak capacity within the distribution system, and is designed to encourage member agencies to shift demands and avoid placing large daily peaks on the MWD system during the summer months. Daily flow measured between May 1 and

September 30 for purposes of billing the Capacity Charge will include deliveries (except long-term seasonal storage deliveries) made by MWD to a member agency or member agency customer including water transfers, exchanges and agricultural deliveries. As part of a separate surface storage operating agreement to manage seasonal peaking, the Water Authority is expected to reserve its full available capacity. The Capacity Charge will be set at \$9,105,600. The Water Authority's Board has directed that the Capacity Charge will be recovered proportionally based on a five-year rolling average of member agency flows during coincident peak weeks.

Readiness-to-Serve Charge. MWD's Readiness-to-Serve Charge differs from the other MWD charges in that it is set on a Fiscal Year basis. The total Readiness-to-Serve Charge will decrease from its current level of \$153 million to \$135 million. The Water Authority's share is set at \$31,277,430 for Fiscal Year 2016-2017. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is \$18,623,577. MWD's Readiness-to-Serve Charge will recover costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge will be allocated among MWD member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity). This allocation will be revised each year. Revenues equal to the amount of MWD Standby Charges will continue to be credited against the member agency's Readiness-to-Serve Charge obligation unless a change is requested by the member agency. The Board has directed that the Water Authority's Readiness-to-Serve Charge will be passed through proportionally to member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity).

The Water Authority also intends to continue the Water Standby Availability Charge at the existing level, and to levy property taxes as authorized by law.

By Order of the Board of Directors
of the San Diego County Water Authority

Melinda Cogle,
Clerk of the Board

5. The newspapers in which said notice is to be published are:

San Diego Union-Tribune
350 Camino de la Reina
San Diego, CA 92108

North County Times
1722 S. Coast Hwy
Oceanside, CA 92054

PASSED, APPROVED AND ADOPTED, this 26th day of May 2016.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Mark Weston, Chair

ATTEST:

Jim Madaffer, Secretary

I, Melinda Cogle, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2016-__ was duly adopted at the meeting of the Board of Directors on the date stated above.

Melinda Cogle
Clerk of the Board