



June 19, 2013

Attention: Administrative and Finance Committee

Adopt the Water Authority's rates and charges for calendar year 2014, amend and restate the amounts and requirements of the System Capacity Charge and Water Treatment Capacity Charge, and continue to impose at the same rate the Standby Availability Charge successive years. (Action)

Purpose

To establish rates and charges sufficient to meet the Water Authority's revenue requirements in conformance with state law and board policies.

Staff recommendations

- a. Accept Carollo Engineers' San Diego County Water Authority Calendar Year 2014 Rates and Charges Cost of Service Rate Study, and San Diego County Water Authority Cost of Service Study Capacity Charge Report dated May 2013 included as Attachment A of this report.
- b. Adopt Ordinance No. 2013-__ an ordinance of the Board of Directors of the San Diego County Water Authority setting rates and charges for the delivery and supply of water, use of facilities, and provision of services;
- c. Adopt Ordinance No. 2013-__ an ordinance of the Board of Directors of the San Diego County Water Authority amending and restating the amounts and requirements of the System Capacity and Water Treatment Capacity Charges imposed by the Water Authority pursuant to Section 5.9 of the County Water Authority Act;
- d. Adopt Ordinance No. 2013-__ an ordinance of the Board of Directors of the San Diego County Water Authority continuing the Standby Availability Charge for successive years at the same rate;
- e. Find the actions exempt from CEQA pursuant to Public Resources Code § 21080(b)(8) and authorize the General Manager to file a notice of exemption .

Alternative

Do not set the rates and charges at the recommended increased amounts or set the rates and charges at some lesser amount than recommended. Setting rates and charges at lower than the recommended amount may result in larger rate increases in future years.

Fiscal impact

The proposed water rates and charges, in combination with existing taxes, the System Capacity Charge, the Water Treatment Capacity Charge, the Infrastructure Access Charge (IAC), investment income and the Standby Availability Charge are expected to raise revenues sufficient to meet the Water Authority's revenue requirement, bond covenants and other key fiscal policy goals.

Background

Current Rate and Charge Governing Board Policy

On June 27, 2002, the Water Authority adopted *Ordinance No. 2002-03* establishing the current revenue structure, which consists of: ad valorem property taxes, including payments of member agencies in lieu of taxes; a Water Standby Availability Charge levied pursuant to § 5.2 of the County Water Authority Act; an IAC imposed on member agencies as a condition of maintaining connections to Water Authority facilities; a capacity charge levied pursuant to § 5.9 of the County Water Authority Act; and rates and charges for delivery and supply of water, use of facilities, and provision of other services. This revenue structure is reflected in §5.00.050 of the Water Authority Administrative Code.

The June 2002 Board Action unbundled the then uniform commodity rate (commonly referred to as a postage stamp rate), creating separate commodity rates and charges for supply, treatment, transportation, customer service and storage. This action was the result of a multi-year work effort involving member agencies, Water Authority staff and consultants. The unbundling of rates and charges was effective January 1, 2003.

“Other” Key Governing Board Policies

On June 11, 1998, the Board adopted Ordinance No. 98-26 establishing both the Water Authority’s IAC and the methodology for its calculation. The IAC was established as a result of the Revenue Plan Review conducted in 1997. The adopted IAC policy defines fixed costs and establishes a target for fixed revenues of at least 25% of fixed costs. The IAC methodology is designed to be a stable charge that ensures the minimum level of 25% fixed cost coverage is achieved. Twenty-five percent was selected as the multiplier to reflect the impact of wet weather on the Water Authority’s finances. At that time, it was shown that in a two year period Water Authority commodity sales could decline 25% below the level experienced in normal weather. Because water rates are set based on normal weather water sales projections, wet weather can result in lower than projected water sales revenue that is necessary to meet debt service and/or bond covenants. Additionally, at that time, the Water Authority had implemented a significant Capital Improvement Program (CIP) that included the Emergency Storage Project (ESP). Because the debt associated with financing the CIP would magnify the revenue volatility during wet weather, it became a question as to whether revenue volatility could be managed solely by draws from the Rate Stabilization Fund (RSF). As a commitment to the prudent financial management of the Water Authority, the Board implemented the IAC policy to provide a stable funding source that would mitigate spikes in water rates during periodic weather related reductions in water demand and during periods of supply restrictions. The IAC methodology ensures that this minimum target of 25% of fixed costs will be met by fixed revenues (IAC, property taxes and stand by availability) by increasing the 25% by a 10% safety margin. The 10% increase provides assurances that the actual fixed revenues will be at least 25% of actual fixed costs since these costs and revenues can vary from the budget during the year.

Prudent Financial Management and Long-Range Planning

In 2006, following the recommendations of the Rate Model Working Group (RMWG) and Administrative and Finance Committee, the Board amended the Water Authority’s financial policies regarding the RSF and Debt Service Coverage Ratio (DSCR). As part of the amendments, the Board established 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). In

addition, it established a target DSCR of 1.50x and provided the authority to establish separate funds for known, specific future expenses such as dam fills.

The overall benefits of the amendments included reduced rate volatility, increased protection against wet weather, a transparent and flexible RSF framework, and increased cash funding of the CIP. Furthermore, it strengthened key financial ratios—higher debt service coverage ratio, decreased debt ratio and increased cash days— to support the maintenance of the Water Authority’s AA+ credit ratings and access to lower rates.

Ongoing long-range financial planning includes periodically updating the Water Authority’s Long-Range Financing Plan and tracking current financial goals and objectives in the Water Authority’s Business plan.

Capacity Charges

On July 12, 1990, the Board adopted Ordinance No. 90-2 establishing the Water Authority’s capacity charge. Since then, the fee has been updated to reflect the changes in the value of system assets and authorization has been provided for automatic annual adjustments to the charges based on the annual percentage change in the Engineering News-Record Construction Cost Index for Los Angeles (ENR - CCI LA). The ENR - CCI LA tracks and records the increases in the cost of labor and benefits, fabricated standard structural steel, bulk Portland cement and lumber. The index is updated on a monthly basis.

In May 2005, the Board adopted Ordinance 2005-03 approving a change in the method of calculating and setting the System Capacity Charge and establishing a Water Treatment Capacity Charge. A description of this method of calculating the System and Water Treatment Capacity Charges can be found in Attachment A of this report. In November 2006, an adjustment based on the ENR - CCI LA to the System Capacity Charge was made increasing the charge to its current rate of \$4,326 per meter less than one inch. The Water Treatment Capacity Charge is currently \$166 per meter less than one inch.

Colorado River Quantification Settlement Agreement Supplies

In October 2003, the Water Authority executed two major water supply agreements as part of the Colorado River Quantification Settlement Agreement: a 45- to 75-year water conservation and transfer agreement with the Imperial Irrigation District for 200,000 acre-feet of water annually; and, a 110-year agreement with the U.S. Secretary of Interior, under which the Water Authority funded the lining of the All American and Coachella canals in the Imperial Valley (less costs paid by the State) in return for approximately 80,000 acre-feet of conserved supplies each year. The canal lining supplies became available in 2006 from the Coachella project and in 2010 from the All-American project. The supplies from Imperial Irrigation District ramp in between 2003 and 2021. In 2014, the quantity of the transfer will remain at 100,000 acre-feet. An increase in the rate for the supplies in accordance with the price schedule in the agreement contribute to the Water Authority’s proposed rate increases in 2014.

Metropolitan Water Rate Increase

On April 10, 2012, MWD’s Board of Directors adopted rate and charge increases for calendar years 2013 and 2014 resulting in a 5% annual “average” rate increase in each year. Based upon MWD’s

adopted rate and charge schedule, the cost of treated and untreated water to the Water Authority will increase by 5.1% and 0%, respectively, in CY 2014 (excluding the impact of MWD's fixed charges).

May 23, 2013 Board Meeting

The Water Authority's Board of Directors, on May 23, 2013, adopted a resolution setting a public hearing on June 27, 2013, at 1:00 p.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, 2014.

At the May Board Meeting, the Water Authority staff gave a presentation on the proposed rates and charges for CY 2014 and Carollo presented on their findings as well as provided reports on the Calendar Year 2014 Rates and Charges Cost of Service Rate Study and Cost of Service Study Capacity Charges. For ease of reference, the Carollo reports are provided as Attachment A. The Water Authority's May Board presentation highlighted the drivers of the CY 2014 rate and charge increases. The highlighted drivers are summarized below:

- ***Increasing MWD treatment costs*** – With MWD's treatment rate increasing by 16.9%, the Water Authority's treatment costs are expected to increase by approximately 6.5% in CY 2014.
- ***IID transfer cost increase*** – Consistent with the ramp-up schedule in the Water Authority-Imperial Irrigation District water transfer, the annual transfer amount will remain at 100,000 acre-feet in CY 2014. The cost of the IID water increases in CY 2014 a scheduled 10%.
- ***Securing a prudent financial position and advancing towards Board policy targets*** – The RSF is currently below the established funding level that provides 2.5 years of protection against wet weather. The Water Authority is targeting a RSF deposit of \$5 million in CY 2014 which will bring the RSF to approximately 85% of its established funding level.

The proposed rates and charges would result in an "all-in"¹ increase of 2.6% in the untreated water rate and a 3.5% increase in the "all-in" treated water rate for CY 2014. These increases are within the high/low guidance previously provided by staff to support member agency financial planning efforts. The proposed rates and charges balance the increased costs discussed above against the financial policies adopted by the Water Authority's Board of Directors and prudent financial management to minimize the rate increases and mitigate near term rate and charge volatility.

Previous Board Action: On May 23, 2013, the Board adopted Resolution 2013-12 setting the time and place for the public hearing on June 27, 2013 to receive comments on the proposed rates and charges.

¹ The "all-in" water rate is the estimated average cost of water that includes the Water Authority's Merged Supply, Merged Treatment (if treated rate) and Transportation rates along with the Storage and Customer Service charges expressed as a \$/AF estimate. The actual average cost will vary for each member agency depending on their Customer Service and Storage charge allocations.

Discussion

The CY 2014 proposed rates are only modestly increasing as a result of the continued commitment by the Water Authority Board and staff to actively manage costs, focus on projects with a long-term quantifiable payback, and a continuous search for efficiencies, consolidations or outsourcing, and performance improvements. This was initiated with the New Normal and the approval of the FY 2012 and FY 2013 Adopted Budget which reflected a 16% structural budget reduction over the previous multi-year budget, and remains as the core budget principle in the FY 2014 and FY 2015 Proposed Budget that was presented to the A&F Committee on May 23, 2013.

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 and Storage 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 and customer service) 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 and customer service) to member agencies based on specified allocation methodologies

Water Authority staff performed this same detailed level of rate development and review as it typically would while Carollo was retained, concurrently, to independently perform a Cost of Service Study – Phase I. The Cost of Service Study – Phase I provides for the expert review and analysis of the Water Authority’s existing cost of service methodologies to ensure compliance with all legal requirements, Board policies, and industry standards.

Independent Cost of Service Review

Consistent with best management practices, the Water Authority retained Carollo to perform an independent Cost of Service Study (the Study) to determine the Water Authority’s calendar year 2014 rates and charges. The Study focused on developing the revenue requirements, evaluating the cost allocation methodology and ensuring compliance with existing legal requirements and Board policies. Carollo has independently calculated the calendar year 2014 rates and charges and determined that the Water Authority’s rate setting process is consistent with California legal requirements, cost of service standards, and Water Authority Board policies. The Cost of Service Study report is included as Attachment A.

Description of Proposed Rates and Charges

Table 1 summarizes the Water Authority's proposed CY 2014 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.

Water Authority Rates and Charges	CY 2012 Previous	CY 2013 Current	CY 2014 Proposed
Melded M&I Supply Rate (\$/AF)	\$638	\$714	\$732
Melded M&I Treatment Rate (\$/AF)	\$234	\$256	\$274
Transportation Rate (\$/AF)	\$85	\$93	\$97
Untreated Special Agricultural Water Rate (\$/AF)	\$560	\$593	\$593
Treated Special Agricultural Water Rate (\$/AF)	\$794	\$849	\$867
Infrastructure Access Charge	\$2.60/ME ²	\$2.65/ME	\$2.68/ME
Customer Service Charge	\$26,400,000	\$26,400,000	\$26,400,000
Storage Charge	\$54,200,000	\$60,200,000	\$63,200,000
Standby Availability Charge per parcel or acre, whichever is greater ¹	\$10	\$10	\$10
System Capacity Charge	\$4,326/ME	\$4,326/ME	\$4,681/ME
Treatment Capacity Charge	\$166/ME	\$166/ME	\$119/ME
¹ Fiscal Year Charge.			
² ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.			

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

MWD Rates and Charges	CY 2012 Previous	CY 2013 Current	CY 2014 Adopted
Untreated Tier 2 Supply Rate \$/AF ¹	\$686	\$743	\$735
Interim Agricultural Water Program Untreated (\$/AF)	\$537	NA ³	NA ³
Interim Agricultural Water Program Treated (\$/AF)	\$765	NA ³	NA ³
Replenishment Water Rate Untreated (\$/AF)	\$442	NA ³	NA ³
Replenishment Water Rate Treated (\$/AF)	\$651	NA ³	NA ³
MWD Capacity Charge	\$7,809,220	\$6,753,920	\$8,268,900
Readiness-to-Serve Charge ²	\$21,930,087	\$23,240,691	\$24,498,074
¹ Agencies exceeding their Tier 1 allocation pay the MWD bundled Tier 2 Supply Rate (System Access Rate, System Power Rate and Water Stewardship Rate) instead of the M&I Melded Supply Rate.			
² Fiscal Year Charge.			
³ The Interim Agricultural Water Program was discontinued after 2012 and discussion on the replenishment program are continuing.			

The following rates and charges will be effective July 1, 2013:

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 2013-2014. The Standby Availability Charge rate is effective July 1, 2013.

The following rates and charges are being proposed effective on January 1, 2014:

Melded Untreated M&I Supply Rate. The Melded Untreated Municipal and Industrial 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, etc. For CY 2014, the Melded M&I Supply Rate will increase from its current level of \$714/AF to \$732/AF. Table 3 shows the calculation of the Melded Untreated Supply Rate.

Table 3 – Melded Untreated M&I Supply Rate Calculation

	<u>CY 2014</u>
Acre-Foot Sales (A/F) (000's)	
MWD Tier I	258.3
IID	100.0
Canal Water Delivery Costs	80.2
TOTAL A/F SALES	<u>438.5</u>
 Water Purchase Cost (in Millions)	
MWD Tier 1 Water Purchases	\$153.2
QSA Exchange with MWD Costs	80.2
IID Water Purchases	59.4
Canal Water Purchases	0.8
Subtotal Water Purchases	<u>\$293.6</u>
 Additional Costs (in Millions)	
Canal Cost Differential and Operating Budget Costs	\$18.2
IID Socioeconomic	3.2
QSA Environmental	5.3
Groundwater Storage	0.5
Subtotal Other Costs	<u>\$27.2</u>
 TOTAL SUPPLY COST	\$320.8
A/F RATE (Total Supply Cost /Total A/F Sales)	\$732

Melded M&I Treatment Rate. The Melded Municipal and Industrial 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, and may recover certain other costs associated with the delivery of treated water. For CY 2014, the Melded M&I Treatment Rate will increase from its current level of \$256/AF to \$274/AF. Table 4 shows the calculation of the Melded Treatment Rate.

Table 4 – Melded M&I Treatment Rate Calculation

	<u>CY 2014</u>
Acre-Foot Sales (A/F) (000's)*	
MWD	104.7
Water Authority	65.8
Helix	25.6
Olivenhain	3.8
TOTAL A/F SALES	199.9
Cost (in Millions)	
MWD	\$31.1
Water Authority	18.1
Helix	4.0
Olivenhain	1.5
TOTAL TREATMENT COSTS	\$54.7
A/F RATE (Total Treatment Costs/Total A/F Sales)	\$274

* Includes SAWR treated water deliveries.

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 2014, the Transportation Rate will increase from its current level of \$93/AF to \$97/AF.

The Water Authority will also use the Transportation rate, plus a cost-recovery based administrative charge determined by the Board of Directors, as the basis for charges paid to the Water Authority for any wheeling of non-Water Authority water through the Water Authority facilities.

Water Authority's Transitional Special Agricultural Water Program Rates. For CY 2014, the untreated agricultural water rate will remain at its current level of \$593/AF. The treated agricultural water rate will increase from \$849/AF in CY 2013 to \$867/AF in CY 2014. The TSAWR program rates correspond to a lower level of water supply reliability for its participants.

Infrastructure Access Charge. The IAC 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. The methodology used to calculate the IAC is provided in Attachment A. For CY 2014, the IAC will increase from its current level of \$2.65/ME to \$2.68/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 2014, 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 Project and the Carryover Storage Project. Because agricultural users that participate in the TSAWR 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-TSAWR 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 2014, the Storage Charge will increase from its current level of \$60.2M to \$63.2M.

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. The Cost of Service Study Capacity Charge Report provides a detailed discussion of the methodology used to calculate the System and Water Treatment Capacity Charges.

System Capacity Charge. This charge recovers a portion of the capital costs for the conveyance and storage facilities necessary to operate the delivery system. Application of the methodology to the conveyance and storage system capital facilities results in an increase from its current charge of \$4,326 to \$4,681 for each new meter equivalent.

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 Water Treatment Capacity Charge is set to decrease from its current level of \$166 to \$119 for each new meter equivalent connected to the treated water system. This decrease is due in part from the asset-related adjustments (deduction of outstanding debt principal) to the total value of capital assets of the treatment infrastructure.

Table 5 presents a summary of the proposed Capacity Charge schedule effective on January 1, 2014.

Table 5 Summary of Water Authority Capacity Charges			
Meter Size (Inches)	Factor (ME)	System Capacity Charge	Water Treatment Capacity Charge
Under 1"	1.0	\$4,681	\$119
1"	1.6	7,490	190
1.5"	3.0	14,043	357
2"	5.2	24,341	619
3"	9.6	44,938	1,142
4"	16.4	76,768	1,952
6"	30.0	140,430	3,570
8"	52.0	243,412	6,188
10"	78.0	365,118	9,282
12"	132.0	\$617,892	\$15,708

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

MWD Capacity Charge. For CY 2014, the Capacity Charge is \$8,600 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.

Peaking can be considered as either a seasonal demand pattern or as a year-to-year demand pattern on a water supplier's distribution system. Seasonal peaking generally occurs during summer months when water demand is higher. In the San Diego region seasonal peaking is mitigated in part by member agencies that use their local storage reserves to reduce peak day demands on the Water Authority. Year-to-year peaking occurs when member agencies elect to use available local supplies during wet years and thus reduce Water Authority purchases in such years and similarly, when local supplies are not available due to dry year conditions agencies can increase purchases to meet its demands.

Costs to maintain sufficient supplies or system capacity can be significant for a water agency. For some water agencies, peaking can be a serious issue when allocating costs among its members. If some members have significantly higher peaking patterns than others and the rate structure does not address this issue, certain members may be subject to higher costs, while others may not pay an appropriate share of the costs to keep supplies and capacity available. However in the case of the Water Authority, where imported water (from either MWD, the IID water transfer, or the canal lining projects) provides nearly 90 percent of all water supplies used within the service area, deliveries among the Water Authority's member agencies are more uniform on a seasonal and year-to-year basis. The Water Authority's operating policy is to base-load its supplies (IID, Canal water, Desalination in the future) and its treatment facilities so there is little if any impact from peaking. Thus, MWD provides most, if not all, of the additional peaking supplies. MWD presently recovers the vast majority of its revenues through its volumetric water rates, with a small portion of its peak capacity costs recovered through what it calls its "Capacity Charge." Because MWD's volumetric rate is paid in connection with purchases of water, the costs are allocated to the supply rate. Finally, the Water Authority derives approximately 25% of its revenues from the IAC, property taxes, and the water availability standby charge. It also generates revenue from charges that are allocated to member agencies based on a rolling 3 year average of deliveries, (such as the Customer Service Charge and Storage Charge). Because of these revenue policies, the Water Authority does not have subsidy issues resulting from agencies that have dramatic swings in their purchase profiles or use the Water Authority to meet their peak demands.

For the MWD Capacity Charge, the daily flow measured between May 1 and September 30 for purposes of billing the Charge will include deliveries (except long-term seasonal storage deliveries) made by MWD to a member agency or member agency customer including water transfers,

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

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 \$8,268,900. 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 increase from its current level of \$144 million to \$166 million in Fiscal Year 2013-2014. The Authority's share is set at \$37,213,531. After credits from the MWD Standby Charge, and administrative costs, the net Authority share is \$24,498,074. 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).

Water Authority Challenges to MWD Rates and Charges

On June 11, 2010, the Water Authority filed suit challenging MWD's 2011 and 2012 rates and charges. This suit is currently pending in the San Francisco Superior Court (*San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.* Case No. CPF-10-510830). On June 8, 2012, the Water Authority filed a new suit challenging MWD's 2013 and 2014 rates and charges. The suit was filed in Los Angeles Superior Court, but will be transferred to another county, and may ultimately be sent to San Francisco as well (*San Diego County Water Authority v. Metropolitan Water District of Southern California, et al.* Case No. BS137830). If the Water Authority is successful in these suits, it may receive a return of amounts it has been overcharged. At its meeting in February 2012, the Water Authority Board of Directors adopted a policy approving the allocation and distribution to the member agencies of any net refund proceeds (less legal expenses incurred by the Water Authority) resulting from the outcome of the MWD rate litigation, with the funds being distributed to each member agency based upon its proportional share of M&I Melded Supply deliveries for each year of the litigation. This policy was based upon the challenges asserted in the 2010 lawsuit. The 2012 lawsuit includes additional challenges that affect other MWD rate components, including the RTS charge. Staff will return to the Board at a future date with recommendations to amend the refund distribution policy to address any issues raised by the new litigation. The current Water Authority rate setting action is based upon the MWD rates and charges as adopted.

Proposed Rates in Compliance with Proposition 26

In November 2010, the voters adopted Proposition 26, an initiative measure amending provisions of articles XIII A and XIII C of the California Constitution. The General Counsel has determined that the measure's amendment of article XIII C affects the Water Authority. Specifically, the measure adds a new definition of tax applicable to local government agencies. As newly

defined, a “tax” is “any levy, charge, or exaction of any kind imposed by a local government” except one that falls within one of seven specific categories. One of these categories includes charges for benefits or privileges paid by a recipient that do not exceed the reasonable costs of providing the benefit or privilege. Another category includes charges for services or products that do not exceed the cost of providing the service or product. The General Counsel has opined that the Water Authority’s proposed rate and charges comply with the requirements of Proposition 26. Also, the requirements for Proposition 26 compliance are discussed in the San Diego County Water Authority Calendar Year 2014 Rates and Charges Cost of Service Rate Study prepared by Carollo which is included in Attachment A to this memorandum.

Public Hearing

As mentioned previously, this meeting of the Administrative and Finance Committee has been scheduled as the time, date, and place to receive public comments regarding proposed rates and charges, including the information presented in connection with the May 23, 2013 meeting and the additional information provided in this memorandum, and any other matters pertinent to the Board’s setting of rates and charges.

Summary

The Water Authority has complied with the procedural requirements for continuing the Standby Availability Charge and increasing its rates and charges for water and other services. After consideration of public comments at the Public Hearing on June 27, 2013, the staff recommends that the Board adopt the ordinance setting the water rates and charges, System Capacity, and Water Treatment Capacity Charges for calendar year 2014 and the ordinance continuing the existing Standby Availability Charge.

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

Attachments: A) Carollo Engineers' San Diego County Water Authority Calendar Year 2014 Rates and Charges Cost of Service Rate Study dated May 2013 and San Diego County Water Authority Cost of Service Study Capacity Charge Report dated May 2013

Ordinance No. 2013-__ an ordinance of the Board of Directors of the San Diego County Water Authority setting rates and charges for the delivery and supply of water, use of facilities, and provision of services.

Ordinance No. 2013-__ an ordinance of the Board of Directors of the San Diego County Water Authority amending and restating the amounts and requirements of the System Capacity and Water Treatment Capacity Charges imposed by the Water Authority pursuant to Section 5.9 of the County Water Authority Act.

Ordinance No. 2013-__ an ordinance of the Board of Directors of the San Diego County Water Authority continuing the Standby Availability Charge for successive years at the same rate.