



Agenda Item No. _____
 Meeting Date: February 1, 2017
 Resolution: () Yes (X) No

AGENDA DOCKET FORM

SUBJECT: ESTABLISH POLICY OBJECTIVES AND DIRECTION FOR 2017 WATER RATE STUDY

SUMMARY: The District’s current rate structure, based on volumetric uniform rates, has assisted customers in managing the amount of their bills through water conservation. Due to recent challenges created by the multi-year drought and the focus on climate change, many Californians have chosen to permanently reduce water consumption. This has resulted in a “new normal” in water use and a need for the District to evaluate its long-term financial projections. The District is initiating a comprehensive rate study on both treated and untreated water service to ensure rates continue to align with cost of service requirements, are equitable amongst and within different customer classes, and provide financial stability. Through a competitive request for proposal process conducted in accordance with Administrative Procedure X-7, the District has selected Raftelis Financial Consultants (Raftelis) to lead the study and design an updated rate model. Project Manager Sanjay Gaur will attend the Board of Directors’ February 1, 2017 meeting to review the scope of work, and request Board input and concurrence on the policy objectives to be used as the framework for the rate analysis and the course of action being taken to complete the study.

The following provides a summary of the four key tasks included within the scope of work. Additional details are provided in the attached staff report.

1. Rate Setting Framework/Policy Objectives: The framework for rates and charges will be guided by policy objectives established by the Board. These objectives will guide the direction of the study while establishing a defensible allocation of costs and to determine whether the

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FISCAL IMPACT: The contracts with Raftelis and with CV Strategies both fall within the General Manager’s Board-delegated authority of \$100,000. The FY17 Finance Department budget includes sufficient funding to complete the rate structure analysis. Funding is available in the FY17 and FY18 Public Affairs Department budget for the stakeholder input and customer outreach needed throughout the process. The primary intent of 2017 Water Rate Study is not to increase revenues but to ensure the appropriate allocation of costs across all customer classes.

RECOMMENDED ACTION: Receive a presentation from Raftelis Financial Consultants regarding the District’s upcoming rate study analysis and concur with the proposed policy objectives and actions to complete the study.

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| <p>_____ Desiree Castello Director of Finance</p> | <p>_____ Ronald D. Jacobsma Assistant General Manager</p> | <p>_____ Jerry Brown General Manager</p> |
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AGENDA DOCKET FORM

SUMMARY (Continued from Page 1):

final proposal is acceptable. Based on an initial discussion with staff, the Board will be asked for input and concurrence on the following proposed objectives:

- Ensuring financial sufficiency and stability,
 - Providing affordable water for essential uses,
 - Allocating costs equitably,
 - Encouraging efficient water use, and
 - Enhancing customer understanding of the rate structure.
2. Evaluating the Financial Plan: Raftelis will consider the District's current rate structure, rate setting policies, cost of service projections, and reserve requirements to ensure that any proposed modifications align with and support the District's long-term strategic plan.
 3. Cost of Service and Rate Design: This stage will include allocation of fixed and variable costs across all customer classes. Consideration will be given to the differences in customer classes and the reliability of their water supplies.
 4. Final Report through Rate Adoption: The prior steps will lead to the design of a new rate model, and a report to document the proposed rate structure and compliance with the cost of service requirements of Propositions 218 and 26.

Customer outreach will be provided to stakeholders throughout the process both to receive customer input and disseminate information. CV Strategies (partnering with Probolsky Research) has been selected through a competitive request for proposal process to conduct customer surveys and focus groups, and assist in developing outreach strategies. The schedule and scope of work for customer outreach will be determined based on actual impacts to the various stakeholder groups.

SCHEDULE

The following provides the schedule for conducting the rate study:

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| Customer Survey | March 2017 |
| Financial Plan Development/Cost of Service Analysis | April – July 2017 |
| Targeted Outreach to Affected Customer Groups | June - October |
| Rate Structure Update to the Full Board | August 2017 |
| Board Adoption of Rate Study Final Report | October 2017 |

Completion of the rate study will precede the 2018 Rate Review Process, which normally occurs on the following stepped process and timeline:

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|--|------------------------|
| Rate Assumptions/Proposition 218 Notices | November 2017 |
| Revenue Requirements | November/December 2017 |
| Public Hearing, Consideration of Modified Rate Structure and Proposed Rates for 2018 | January 3, 2018 |