

WALNUT VALLEY WATER DISTRICT  
271 South Brea Canyon Road  
Walnut, California 91789

SPECIAL BOARD MEETING  
THURSDAY, SEPTEMBER 21, 2017 – 4:00 P.M.  
AGENDA

***NOTE: To comply with the Americans with Disabilities Act, if you need special assistance to participate in any Board meeting, please contact the General Manager's office at least 4 hours prior to a Board meeting to inform the District of your needs and to determine if accommodation is feasible.***

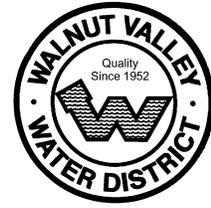
***Each item on the agenda shall be deemed to include any appropriate motion, resolution, or ordinance, to take action on any item.***

***Materials related to an item on this agenda submitted after distribution of the agenda packet are available for public review during regular business hours at the District office, located at 271 S. Brea Canyon Road, Walnut, California.***

1. Flag Salute
2. Roll Call: Mr. Ebenkamp\_\_\_\_\_ Mr. Hilden\_\_\_\_\_ Ms. Kwong\_\_\_\_\_ Ms. Lee\_\_\_\_\_ Dr. Wu\_\_\_\_\_
3. Public Comment President Wu  
The Presiding Officer may impose reasonable limitations on public comments to assure an orderly and timely meeting.
  - A. **Agenda Items** - Any person desiring to address the Board of Directors on any Agenda item may do so at the time the item is considered on the Agenda by requesting the privilege of doing so at this time and stating the Agenda item to be addressed. At the time the item is discussed, those requesting to speak will be called to do so.
  - B. **Non-Agenda Items** - At this time the public shall have an opportunity to comment on any non-agenda item relevant to the jurisdiction of the District. Reasonable time limits on each topic and on each speaker are imposed in accordance with Board policy.
4. Review of the District's Rate Setting Principles  
Presentation by Mr. Sanjay Gaur, Vice President, Raftelis Financial Consultants, Inc.
  - A. Discussion
  - B. Action Taken

Adjournment

# WVWD – Staff Report



**TO:** Board of Directors  
**FROM:** General Manager  
**DATE:** September 21, 2017  
**SUBJECT:** Review of the District's Rate Setting Principles

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Action/Discussion       Fiscal Impact       Resolution       Information Only

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## **Recommendation**

That the Board of Directors review the District's rate setting principles as a prelude to the upcoming rate setting process.

## **Background**

In 2013 the District retained the consulting firm of Raftellis Financial Consultants Inc. to conduct a Comprehensive Water Rate Study (Study). The 2013 study was conducted in two separate phases – one for the development of rate setting principles and the other for completion of a comprehensive rate study. The water rate study was conducted in close coordination with the District's Board of Directors and staff.

In November 2013 the Board formally approved the "Policy Objectives for Guiding Rate Design" (attached) which established the District's rate setting principles (Phase I of Study) and served as the basis for developing the District's rate structure and proposed rates.

### *Timeline*

The District's current rate setting approval goes through January 2019; to maintain the District's recent rate setting practice (undertaken in 2010 and 2014), new rates will need to be effective by January 2020. Staff is proposing that we start early enough to allow for sufficient Board and public input.

Attachment: as noted

## Walnut Valley Water District Policy Objectives for Guiding Rate Design

### **POLICY OBJECTIVE 1: ADMINISTRATION**

**Policy Statement:** The District Board recognizes the advantages of providing a rate structure that is easily understood by District Customers and can easily be implemented and administered by staff with the current billing software.

**Discussion:** This principle highlights the importance of keeping rate structures and the process of administering them simple. Customer education and clarity of customer bills should be considered as part of this principle.

**Advantages of the Policy Objective:** Creating rates that are easy for customers to understand will minimize rate-related customer service issues. If customers understand the basis of their bills, they will have a greater ability to comprehend their billing, how usage will affect their bill, and conclude that it is fair.

**Disadvantage of the Policy Objective:** Simplifying the rate structure does not always provide a maximum degree of fairness and equity. However, from the customer perspective, rates that are simple to understand may be more important than creating a complicated rate structure that achieves a higher degree of equity.

#### **Pricing Objectives**

##### ***Primary Objectives***

- **CUSTOMER UNDERSTANDING** – The ability for the rate structure to be explained in a manner that can be understood by customers and other stakeholders can have important impacts on the ability to build acceptance of rate adjustments. The degree of customer understanding can be measured through their understanding between current and a proposed rate structure.

##### ***Secondary Objectives***

- **EASE-OF-IMPLEMENTATION** – Implementing a new rate structure merits careful consideration, as rate structure implementation requires an upfront (one-time) cost such as for data gathering or billing system changes.
- **EASE-OF-ADMINISTRATION** – An easy-to-administer rate structure decreases the ongoing costs of administering the structure, made up predominantly of additional staffing costs.

### **POLICY OBJECTIVE 2: EQUITY**

**Policy Statement:** In compliance with the State Constitution (Article XIII D) and governing statutes of State Law, rates should be cost-based, fairly apportioned among customers, and account for the substantive provisions of law through a sound, technically defensible methodology.

**Discussion:** This principle highlights the importance to the District Board of the customer's perception of fairness and equity, while also recognizing that an absolute equity among all

customers and customer classes may not be achieved. Rates should generally be perceived by the District's customers as fair, reasonable, and equitable for all customers.

**Advantages of the Policy Objective:** An advantage of this principle is that it reinforces the District Board's priority of treating all customers fairly. It also underscores the importance of "District-wide" fairness and equity as opposed to appealing once customer class or stakeholder group. Also, it acknowledges the practical obstacles that may prevent perfect equity, such as, excessive administrative cost solely to achieve additional equity.

**Disadvantages of the Policy Objective:** This principle ultimately does not clearly define the terms "fair and equitable" and will still require the District Board to apply its discretion and judgment.

### **Pricing Objectives**

#### ***Primary Objectives***

- **FAIR TO THE PUBLIC** – This objective recognizes the relevance of the public's perception of how equitable a rate structure is and that managing that perception sometimes calls for informing/educating the public and other stakeholders.

#### ***Secondary Objectives***

- **EQUITABLE IN ALLOCATING WATER RESOURCE COST** – This objective states that a rate structure achieves equity by reflecting the makeup of the demands on water supply in terms of allocation to each customer and the price each customer pays for it.
- **EQUITABLE IN ALLOCATING CIP COST** – This objective states that a rate structure achieves equity by allocating the cost of capital (infrastructure) to each customer class based on each class' consumption patterns and peaking characteristics.
- **CONSISTENT RESIDENTIAL RATES (SF & MF)** – This objective would strive to have similar rate structures for all residential customer types – both single-family (SF) and multi-family (MF), if administratively possible.

## **POLICY OBJECTIVE 3: APPROPRIATE FUNDING MECHANISMS**

**Policy Statement:** The District Board recognizes the advantages of increased revenue sufficiency and stability as enabled by incorporating additional funding mechanisms or cost components into the rate structure.

**Discussion:** This principle highlights the importance of the utility to ensure adequate revenue generation for achieving a self-sustaining enterprise. Revenues must be adequate to satisfy salaries, operations and maintenance, and new and existing capital needs. Revenue generation should also be predictable to maintain favorable credit ratings (borrowing terms for critical infrastructure).

**Advantages of the Policy Objective:** The good financial practice of ensuring revenue sufficiency and stability begets additional gains in financial health; better credit ratings lower interest expense associated with borrowing to cover capital infrastructure costs.

**Disadvantages of the Policy Objective:** While pursuing a rate structure that promotes revenue stability and allows special-project funding is advantageous, setting rates to high can unfairly

charge users and may encourage the utility to be less fiscally responsible with operating and capital programs. In addition, the public may perceive the need as unnecessary.

### **Pricing Objectives**

#### ***Primary Objectives***

- **ENHANCE REVENUE STABILITY** – The ability of the rate structure to generate stable and predictable revenues from year to year can be an important consideration, particularly with regard to maintaining a good credit rating for borrowing money to address infrastructure needs, when needed and/or desired. It should be recognized that certain types of rate structures are more effective at maintaining revenue stability than others.

#### ***Secondary Objectives***

- **PROVIDE REVENUE SOURCE FOR RECYCLING/CONSERVATION** – The rate structure should provide a funding mechanism to expand the recycling program of the agency, and in so doing, also determine the allocation of the program's costs among customers.

## **POLICY OBJECTIVE 4: RATE STABILITY & AFFORDABILITY**

***Policy Statement:*** The District Board recognizes the importance of establishing rates that generate adequate revenues from year to year, regardless of weather or consumption characteristics. Large and unexpected year-to-year rate changes impose financial hardships on customers and may decrease the District's favor with the public in terms of revenue management, fiscal responsibility, and rate equity.

***Discussion:*** Rates are best when predictable over time, which requires a balance between generating sufficient revenue for utility operations, funding capital improvements, and maintaining customer support for required rate adjustments.

***Advantages of the Policy Objective:*** The principle attempts to stabilize the cash flow of the District and improve customer support to rate adjustments through proper revenue management of the District.

***Disadvantages of the Policy Objective:*** It is difficult to define "stable", as this term has different meanings for different people. Customers may construe stable to mean no increases from year to year.

### **Pricing Objectives**

#### ***Primary Objectives***

- **AFFORDABILITY FOR ESSENTIAL USE** – This objective addresses the importance of maintaining the price of water for essential use – i.e. that which is used for health and safety – at the lowest cost possible while considering the needs of the utility, industry practice, and regulatory conditions.
- **RATE STABILITY** – This objective aims to minimize rate increases. Careful capital and financial planning can ensure rate stability and avoid erratic changes in rates and charges from one year to the next. Also, a steady or consistent program of smaller annual rate adjustments is generally recognized as preferable to a significantly larger increase once every three or four years. *Note: This objective is not to be confused with Revenue Stability, detailed under Principle 3.*

- **MITIGATE CUSTOMER IMPACT** – Any new rate structure may result in different impacts to different customers. This objective recognizes these impacts and aim to minimize them.

## **POLICY OBJECTIVE 5: WATER-USE EFFICIENCY/CONSERVATION**

**Policy Statement:** The value of water as a limited resource should be reflected in the rates, and the District's rate structure should discourage wasteful use and encourage efficient use of water resources.

**Discussion:** This principle is intended to recognize the limited resources of the District and the State, as well as the environmental impact of generating new water resources. The District's rates should encourage the efficient use of water. This principle is intended not to discourage reasonable uses of these resources but to encourage efficient use of limited resources by pricing water, as a commodity, roughly equal to its true cost.

**Advantages of the Policy Objective:** This principle recognizes the multiple uses of our natural resources and makes a positive statement to all customers and outside parties that the District encourages the efficient use of its limited resources.

**Disadvantages of the Policy Objective:** Some customers may believe this principle necessarily implies adoption of aggressive conservation-based rates such as multi-tiered rates.

### **Pricing Objectives**

#### ***Primary Objectives***

- **CONSISTENT WITH DROUGHT MANAGEMENT ACTION PLAN** – This objective encourages the District remain consistent with the drought management plan that it has in place. Commitment to the plan allows a mechanism to allocate both water and drought penalty rates during drought conditions.

#### ***Secondary Objectives***

- **PROMOTES CONSERVATION** – The objective of water conservation aims to reduce total water use through a focus on reducing individual accounts that use above-average water use (that are asked to reduce their water use)
- **PROMOTES EFFICIENCY** – The objective of water efficiency includes development of benchmark standards associated with the appropriate amount of water use for indoor and outdoor water needs based on local characteristics of the District. Standards are set on an individual basis and on indoor and outdoor use parameters.
- **TARGET OUTDOOR WATER USE** – This objective targets outdoor water customers and use by determining the appropriate amount of water to allocate to outdoor use.