Santa Margarita Water District

August 21, 2017

Ms. Mary Yang **VIA E-MAIL**
State Water Resources Control Board
Office of Research, Planning and Performance

Re: Comments on Program Scenarios to Provide Affordable Drinking Water to Low-Income Californians

Dear Ms. Yang:

Thank you, on behalf of the Santa Margarita Water District ("SMWD"), for the opportunity to provide written comments to the above-referenced process. We appreciate that the State Water Resources Control Board ("SWRCB") is gathering input from stakeholders for the upcoming report to the Legislature, and sincerely hope that this input will be truly considered.

SMWD has provided safe and reliable water, wastewater, and recycled water services to customers for more than 50 years. We currently serve some 165,000 customers in south Orange County including the cities of Mission Viejo and Rancho Santa Margarita as well as areas of unincorporated Orange County including Coto de Caza, Las Flores, Ladera Ranch, Rancho Mission Viejo, and Talega. Given the demographics of our service area, only a small percentage of our customers who would qualify for Low Income Rate Assistance ("LIRA"), as initially proposed by the SWRCB. However, many of our customers are marginally above the income qualification threshold (200% of the national poverty level) and are not well suited to fund the cumulative taxes that the SWRCB is currently envisioning.

With the foregoing in mind, we offer the following comments for your consideration:

1. We are unable to provide you with a "preferred" scenario from among the four presented. Each purport to provide a broad, state-wide solution to a problem that is, in many ways, isolated to limited areas of the state and limited numbers of people to whom the program would apply without providing a solution that will not require significant funding ostensibly to come from water districts and providers across the state.

2. Without significant additional information, we are unable to make a determination for the estimated costs in the four scenarios. As pointed out, administrative costs for any of the scenarios outlined are not included in the estimates. The cost of developing, implementing and administering an on-going LIRA program would represent new costs to SMWD and similarly situated water districts.

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3. In response to Question 3, additional scenarios without a nexus to the cost and funding mechanisms would not be useful. Moreover, the taxing structure that the SWRCB staff has conceptually developed does not retain a nexus to providing water nor the cost of providing water. It is merely a tax that the State would collect and then distribute funds to indigent individuals with little or no relationship to what they pay for water service. Moreover, most of those that will qualify for the tax distributions do not directly pay a water bill, as they are often renters, many of whom live in multi-family complexes with no individual water charges.

4. Regarding Question 4, since a LIRA program is ostensibly aimed at assisting low-income households with their water rates to ensure affordability, it would seem counterintuitive to provide rate assistance to households who are not currently paying a rate. The administrative burden of unbundling a rate cost from a rental or lease payment without the meter information applicable to an individual unit would be extraordinary and likely unworkable.

5. There are any number of agencies that could administer a LIRA program. Which agency does it is less important than from where the funding is derived. SMWD would not support funding a state-wide LIRA program in the form of a Public Goods Charge ("PGC.") Assuring all citizens safe drinking water is clearly a social issue for the State. The State's General Fund is the more appropriate source of funding. Requiring local water agencies to collect a new tax for the state is not the solution.

A few of additional comments:

6. The proposed new tax is regressive and will impact customers that can little afford to pay it. For those with incomes just above the State's proposed qualification guidelines, they will be asked to subsidize others, some of which have a greater ability to pay. The blanket qualification approach that the State is using fails to recognize the great diversity in cost of living across California. The SWRCB staff openly stated that it is for the "rich to pay for the poor," yet this program will affect those very people the program is purported to help.

7. The program structure that the SWRCB has presented will have a significant bond credit impact on local agencies and, thus, added cost to the water agencies. The proposed new tax is purely a cost to the utilities, with no offsetting revenues. Money will be collected from the utilities as an expense and then money will be distributed to low-income households through a non-utility program. There is no direct offset back to the utility. Consequently, the new tax will impact agencies balance sheets and bond coverage ratios. Due to the practical limitations of raising rates, many agencies will have to forego their own capital and water reliability projects. In all, even agencies with large low-income populations would be adversely affected.

8. Proposition 218 requires fees be proportionate to the cost of service to provide water. This presents a challenge to funding low-income funding programs with water rate revenue. A legislative modification to Proposition 218 requirements would provide the necessary mechanism for water agencies to develop tailored and efficient LIRA programs and still operate within the law. As part of the SWRCB's process, SWRCB staff has repeatedly noted that they are working with the University of California at Berkeley Law Center. However, no infor-

mation has been provided to stakeholders. We encourage the State to work with its legal advisors to help water agencies amend Proposition 218 in order to legalize local low-income programs.

9. Agencies currently do have some mechanisms to proportionally and legally alleviate the cost of water to low-income customers through tiered and water budget rate structures. It is important to note that this approach is legal, because it is available to <u>all</u> customers and does not singly benefit one stakeholder group over another. Water budgets, which are a form of tier water rates, can even further benefit large families by providing additional non-discretionary water allowances at a utilities lowest cost of supplies.

10. In many instances, low-income customers are also likely to be low water-use. This means that a discount program based on volumetric use might be less useful given that such charges vary due to factors such as account type (single family v multi-family, etc.) SMWD has, over the past three years, phased in a schedule of fixed charges that, by their nature, are often the largest portion of a customer's bill. It may be worth considering a program that would address a subsidy for the fixed charge. Such a reduction would assist in budgeting and accounting, would be more understandable for customers and not be a disincentive to water use efficiency and conservation.

Finally, it is important to comment on the process undertaken by the SWRCB. The stakeholder meetings were intended to provide an open forum for the public and water agencies to provide comments. However, the SWRCB noted that they were continuing to develop the program, but could not present new developments as they occur out of a need to have consistency between stakeholder meetings. We feel compelled to note that program presented at the stakeholder meetings was far too conceptual to have been presented with a request to provide feedback. The proposed program has many structural issues that could have been addressed prior to open distribution or, even better, worked through with knowledge utility leaders.

And, as pointed out previously, water bills require a nexus to costs for all the charges implemented by the agencies. and this is not the time to require that additional state charges be added to customer bills without a nexus to their water use.

We support the State Board's commitment to addressing water affordability as required by AB 401. We, too, are dedicated to ensuring our customers enjoy a safe, reliable, affordable supply of water. It is crucial to our customers, our service and our region.

Sincerely,

Dan N. Ferons

Daniel R. Ferons
General Manager