Public Comment
Low-Income Water Rate Assistance Program
Deadline: 2/1/19 by 12 noon

VALLEY CENTER MUNICIPAL WATER DISTRICT

A Public Agency Organized July 12, 1954

January 16, 2019

Ms. Jeanine Townsend, Clerk of the Board
State Water Resources Control Board
P.O. Box 100
Sacramento, CA 95812-2000

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SWRCB Clerk

Sent via e-mail: Ms. Jeanine Townsend, Clerk of the Board:
commentletters@waterboards.ca.gov

Subject: Comment Letter - Options for Implementation of a Statewide Low-Income Water Rate Assistance Program

Dear Ms. Townsend;

Initially, I would like to thank the State Water Resources Control Board for the opportunity to comment on "Options for Implementation of a Statewide Low Income Water Rate Assistance Program." My comments are as follows:

General Comments

For the most part, the report presents a very rational, sober discussion of the pros and cons of the various options available to generate the revenues and distribute the benefits for a Water - Low Income Rate Assistance (W-LIRA) Program.

The report clearly demonstrates that what seems to be a simple proposition on its face is very complex and fraught with logistical challenges. We agree with the general consensus that the Community Water Systems (CWS) are not the ideal way to generate revenues or distribute the benefits. CWS managed programs would have to be generated out of the whole cloth and with great, and in many cases, disproportionate expense for small to medium size CWSs serving a large portion of California's population.

Our agency would support the following approach:

- Funding the program through a slight income tax increase for businesses and/or high-earners or a combination of sales tax on bottled water sales and income tax increase can readily meet the needs of the program and minimize the disruptive impact on local retail water agencies.

- Distribution of the benefits can be done through existing and well established IOU or POU rate support programs which will reach a much higher percentage of households having individual metered electric service (93%) compared to those with individual metered water accounts (44%).

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- The prevalence of GIS systems and databases among electric and water utilities can readily facilitate the necessary exchange of service area and rate information to ensure that the correct level of support finds its way to the qualifying residents based upon the comparative monthly water costs among water agencies within an IOU or POU service area.

Appendix L Causes Great Concern

There is, however, one portion of the report, **"Appendix L: Options for Improving Affordability That Do Not Include Direct Rate Assistance,"** which has cause for some great concern.

Local Water Rate Structures Reflect Local Conditions

Even after giving a real world comparison of two water agencies (City of Mountain View and Tahoe City PUD) with similar costs for 12 units of consumption, but very different percentages for fixed versus variable costs (City of Mountain View, 16% and Tahoe City, 75%) and explaining what real world factors, such a high transient population in Tahoe City PUD, this section goes on to support exploring legislatively mandated standards for retail rate structures. The focus being that "progressive" rate structures provide the greatest savings and incentive to reduce consumption for low income rate payers, versus less progressive rate structures with higher fixed costs.

Water rate structures vary greatly from water agency to water agency, community to community. As in the case of the City of Mountain View versus Tahoe City PUD, the water use characteristics of the community often dictate the nature of the rate structure:

- Mountain View is located in the Silicon Valley, with a relatively moderate climate, a year-round population of 75,000 people and a large Tech Industry presence.

- Tahoe City PUD serves an area with extreme climate conditions, has a year-round population of approximately 8,000 people and a transient population of over 1.0 million people seasonally enjoying its recreational features.

- With extreme climatic conditions and the transient population found in Tahoe City PUD, water consumption related revenue can vary greatly over the course of a year. However, the costs of keeping the system well maintained and operating efficiently, meeting debt service payments and coverage ratio obligations, and while delivering safe high quality drinking water do not vary. The higher fixed revenues smooth out what can be significant revenue variability for the agency.

- The City of Mountain View, with nine times the year-round population, large Tech Industry presence and moderate climate, compared to Tahoe City PUD, has a larger, much more consistent revenue stream which allows for lower fixed cost revenues versus variable cost revenues.

One solution for Tahoe City PUD would be to raise rates so as to accumulate extensive reserves to carry it through the winter period. This, however, would not be popular with its rate payers, and excessive water agency reserves have not been supported in public policy arenas.

There are many other comparative examples which could be discussed, but the point is that water agencies arrive at rate structure based on their current service area characteristics, as well as operational and financial circumstances, all while complying with the cost-nexus requirements of Proposition 218.

Revenue Stability Most Certainly Is a Key Priority for a CWS

There is a comment in the middle of page 54, explaining the two major reasons water agencies have rates with higher fixed costs:

"First, some water agencies prioritize stability which can be more easily achieved through imposing less progressive rates."

Revenue Stability is a priority for a CWS, as:

- CWS do not have the option to fail in the mission to reliably and safely meeting water and fire protection needs of our service areas. Sustained effort at efficient and effective system operations, maintenance and upgrading is required to meet this critical mission.

- Revenue stability is also a key factor for CWS to secure favorable bond ratings and affordable financing to upgrade and replace aging infrastructure.

The paragraph continues:

"To ensure that they can cover their fixed costs even in the context of lower consumption, such as occurs during **drought** or economic downturns.... (and still) collect (sufficient revenue to cover fixed costs) regardless of consumption."

During the last drought response program, water agencies were admonished by senior SWRCB staff for pointing out revenue losses during drought cut-backs and were advised to develop rate structures less connected to the amount of water sales. Has that directive now changed in the context of W-LIRA?

Whether a progressive rate structure provides a subsidy without direct rate assistance or not, the greater question is: will the new rate structure leave a retail water agency financially unstable, unable to reliably serve its customer base and meet its debt obligations? This is an especially critical issue in light of new, more stringent regulations:

- **Water Use Efficiency Mandates** will lower water demand and revenues;

- **Water Loss Standards** will force more aggressive infrastructure replacement efforts, and

- **Water Shut-off Regulations** will increase agency operating costs and impair cash flow.

All Water Politics Are Local

The second stated reason, on page 54, for a CWS to prefer higher fixed cost revenue rate structures is that:

"...some systems would face significant opposition from high-use customers if they attempt to impose more progressive rate structures."

It is assumed here that these new fees and charges will have to meet the test of Proposition 218. The 218 notification process will make it readily apparent to local rate payers that they are having their rates structures changed and their costs increased for the sole *purpose of subsidizing other water rate payers in their community, which may not be politically popular.*

We should be mindful that in the vast majority of cases, all retail water fees and charges are implemented by locally elected Board of Directors or City Councils, not isolated and insolated State Boards and Commissions. There is a real risk that this could result in political backlash at the local level, with regional and local water agencies possibly losing the political support of their communities even if such changes are mandated by new federal or state law.

Be Very Cautious and Collaborative

Regulatory agencies and the legislature should be very cautious about establishing rate standards on water agencies to convey a W-LIRA. There are no "standard" communities. There are no "standard" water supply, water service area, water system operational and financial conditions or circumstances. The City of Mountain View vs. Tahoe City PUD comparison clearly underscores that point.

While it might be more politically attractive and operationally practical from the state's perspective to achieve W-LIRA through rate structure design, such an approach could have serious financial and political ramifications on the state's 3,000 CWS, and 400 CWS serving over 80% of the state's population. Further, a financial and operational failure of the agencies which collectively make up California's Water Community could derail all of the state's goals for improved water quality, water use efficiency, accessibility and affordability for all Californians.

Finally, any regulatory or legislative effort to address W-LIRA through rate structure design standards should follow a lengthy, exhaustive, and collaborative process with a broad cross section of water agency operational and financial expertise to assess what can be done which respect to W-LIRA through rate structure design while preserving the long-term viability of regional and retail water agencies.

Again, thank you for the opportunity to comment on this very important topic.

Sincerely;

Gary Arant
General Manager

cc: Dave Eggerton, ACWA
M. Stapleton, SDCWA
K. Gage, SDCWA