

# Financial Workshop

## *Rate-setting Workshop*

### Presenters

Jonathan Wunderlich, Director of Finance & Administration

Katrina Bates, Customer Service & Systems Manager

Cody Brajevich, Customer Account Field Supervisor

Jacqueline Simon, Customer Service Supervisor

Martin Koran, Senior Financial Analyst

Rick Simonson, Senior Vice President, HF&H Consultants

# Workshop Overview

## Agenda

- Recap guidance provided at the July workshop
- Review allocation between fixed and variable charges
- Review options for drought surcharges
- Review option for utilizing multiple customer classifications with uniform rates
- Customer service/billing
- Next Steps

# Workshop Overview

## Rate-Setting Schedule

- May 23, 2024: Budget workshop
- May 30, 2024: Budget workshop
- June 13, 2024: Budget adoption
- July 18, 2024: Rate-setting workshop
  - Financial planning updates and scenarios, and discussion of tiered rates
- **August 22, 2024: Rate-setting workshop**
  - **Discussion of customer service/billing issues, fixed/variable revenues, options for drought surcharges, and option of multiple customer classes with uniform rates**
- September 26, 2024: Rate-setting workshop
  - Follow-up from July and August workshops, and confirm final proposal to develop
- December 12, 2024: Consider issuing a rate notice
- February 13, 2025: Consider approval of rate proposal

# Workshop Overview

## Board Guidance

- Receive Board feedback and direction regarding:
  - Approach to various customer service/billing issues
  - Ratio between service charge and commodity charge revenue recovery
  - Approach to drought surcharges
  - Option to utilize multiple customer classes with uniform rates

Intent is to seek Board feedback on these key issues and then continue discussion at the September workshop as needed

# Review of July Workshop

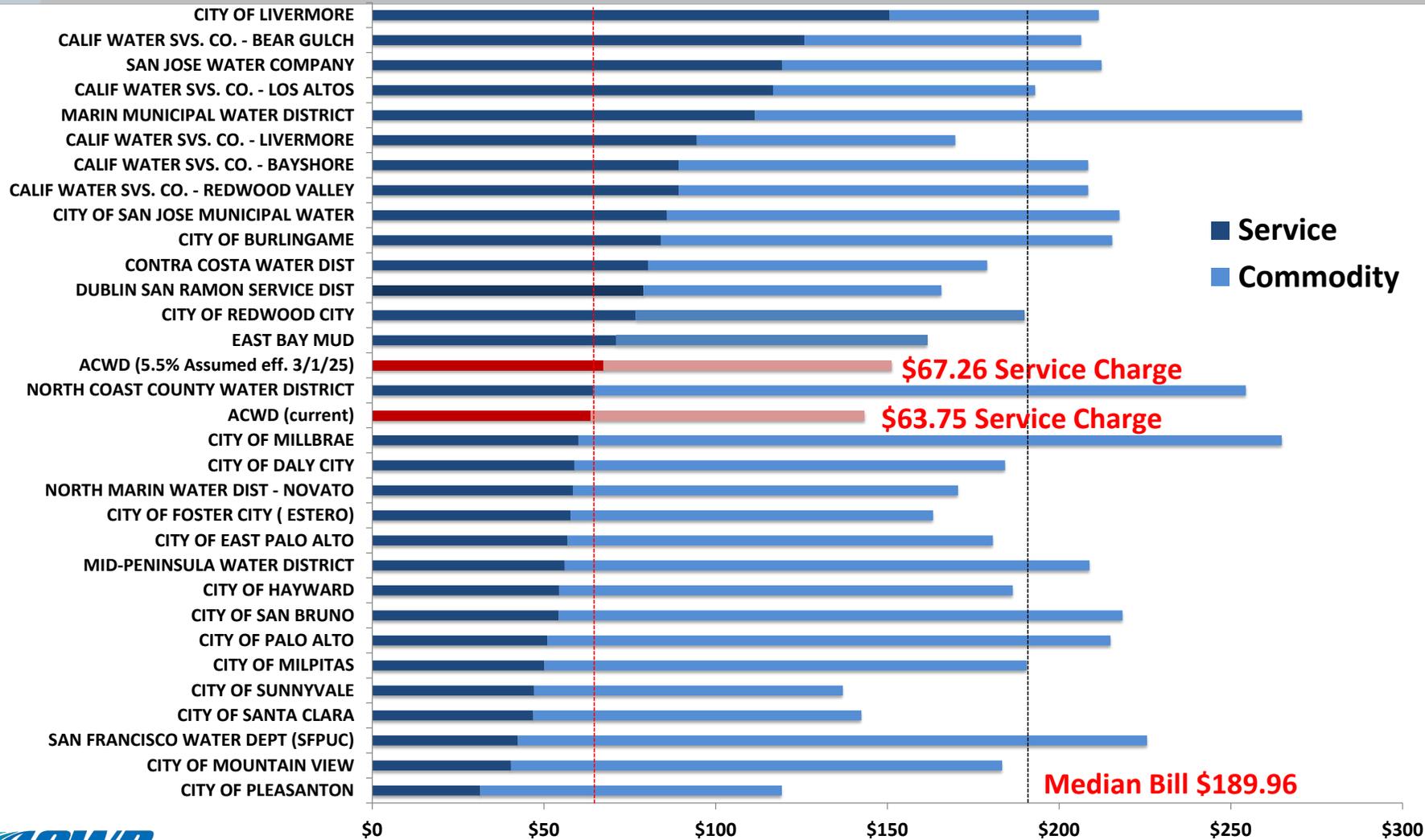
At the July workshop, the Board provided the following direction for this rates process:

- No interest in capital project deferrals or minimum SFPUC purchase (and resulting increase in water hardness)
- Staff should prepare to 1) present options for debt financing, with baseline rate increase of 5.5% vs. 4% annual rate increase, 2) provide more information on tiered rate structure and revenue stability for two tiers vs. three tiers, and 3) present an option with multiple customer classes with uniform rates (presented tonight)

# Financial Workshop

## Bill Comparison Chart

# 2024 Median Water Bill Comparison\*



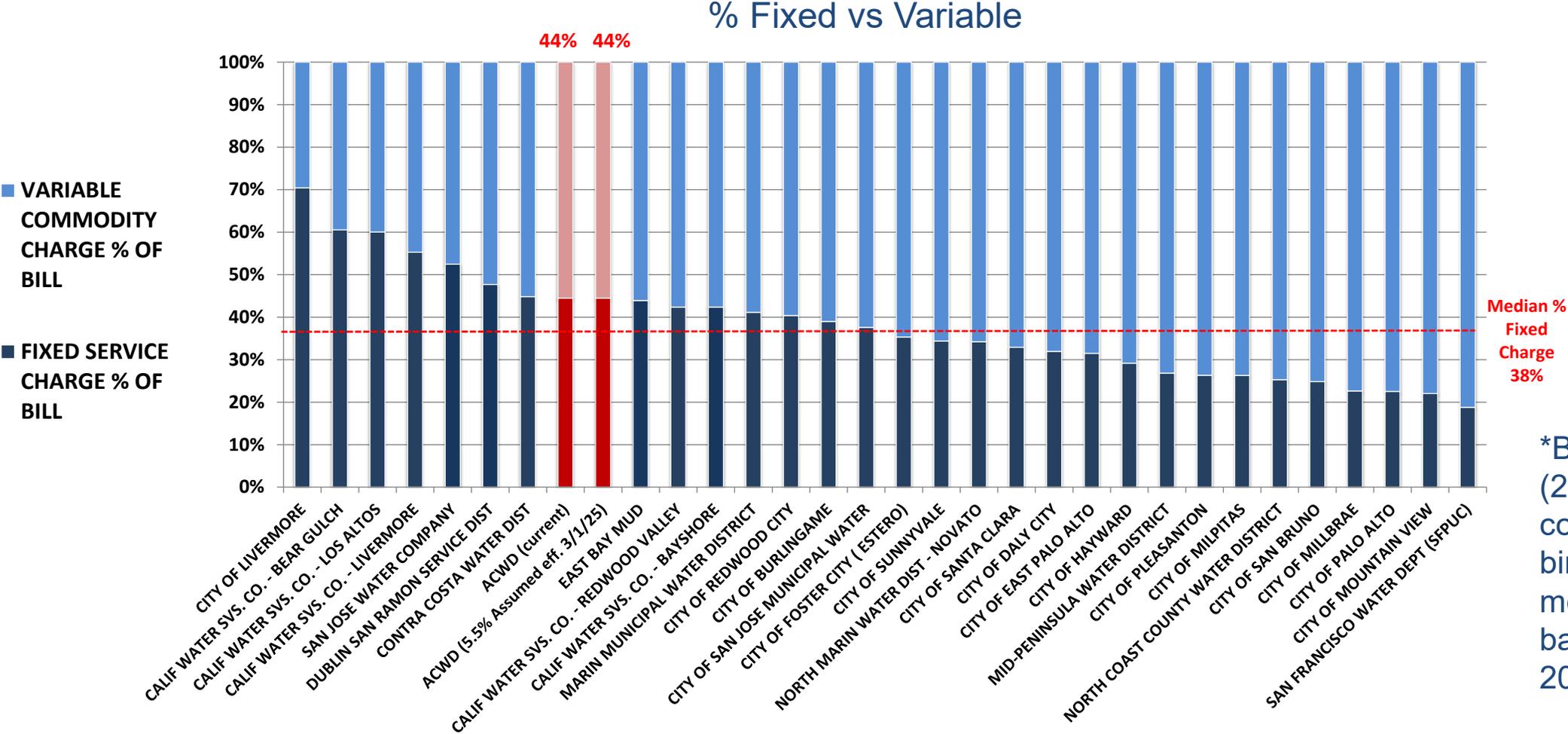
\*Based on 16 HCF (200 gallons per day) consumption bimonthly and a 5/8" or 3/4" meter. Comparison based on June 7, 2024 data.



Median Service Charge \$63.75 Board Financial Workshop August 22, 2024



# Bi-monthly Water Bill\*



\*Based on 16 HCF (200 gallons per day) consumption bimonthly and a 3/4” meter. Comparison based on June 7, 2024 data.



# Financial Workshop

- 1) Option to Utilize Multiple Customer Classes with Uniform Rates
- 2) Fixed and Variable Revenue
- 3) Options for Drought Surcharge

Presenter: Rick Simonson, Senior Vice President, HF&H Consultants



# ALAMEDA COUNTY WATER DISTRICT

RATE DESIGN AND FINANCIAL ADVISORY SERVICES

**Board Workshop**

**August 22, 2024**



**HF&H Consultants**

# PRESENTATION OUTLINE

- Multiple Customer Classes – Uniform Consumption Rates
  - As requested at July Board meeting
  - Analysis
  - Board Discussion
- Split Between Fixed and Variable Revenue
  - Analysis
  - Board Discussion
- Stage Rates
  - Analysis
  - Board Discussion



# Uniform Consumption Rates

# APPROACH TO RATE STRUCTURE

Issue:	Create Multiple Customer Classes?
Current practice	<ul style="list-style-type: none"> <li>- ACWD charges one uniform rate for all customers</li> </ul>
Rationale	<ul style="list-style-type: none"> <li>- Easiest to maintain compared to other consumption charge structures (except flat rates)</li> <li>- Easiest for customers to understand</li> </ul>
Options	<ul style="list-style-type: none"> <li>- Maintain current policy of one customer class</li> <li>- Or, introduce additional classes to recognize demand patterns amongst customer types               <ul style="list-style-type: none"> <li>- Single family residential</li> <li>- Irrigation</li> <li>- All others (Commercial, Industrial, Multi Family)</li> </ul> </li> </ul>
Outcomes	<ul style="list-style-type: none"> <li>- More exacting rate making</li> <li>- Allocate demand patterns to costs (e.g., more expensive water, larger system)</li> <li>- Additional rate-making effort</li> <li>- Additional customer outreach</li> </ul>

# APPROACH TO RATE STRUCTURE

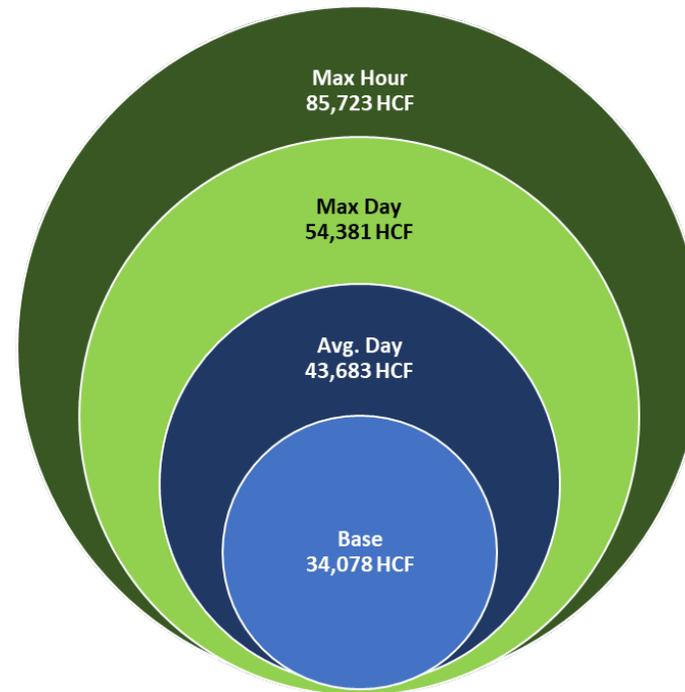
- **Current Approach to Rate Structure**
  - One customer class
  - All customers pay the same fixed service charge (by meter size)
  - All customers pay the same consumption charge for water use
    - Current = \$4.97 per HCF
    - Projected Rate (eff. 3/1/2025) = \$5.24 per HCF (5.5% increase based on current budget; subject to change during current rate process)
  
- **Potential Approach to Rate Structure – Three Customer Classes**
  - Single Family, Irrigation, and All Others (commercial, industrial, multi family)
  - Requires cost-of-service analysis

# COST-OF SERVICE APPROACH

- Methodology is promulgated by the American Water Works Association
  - Base-Extra Capacity approach
    - MI Manual – *Principles of Water Rates, Fees, and Charges*
    - Commonly used methodology throughout the State
- Two-step allocation process
  1. Allocate budgeted costs to “functional” services
  2. Allocate services to customer classes and charges
- Followed by rate structure design
  - Based on base/extra capacity approach (i.e., allocate costs based on demand patterns with costs specifically allocated for consumption by a customer class in excess of its base/minimum consumption)

# LEVELS OF SERVICE DRIVE THE COST OF FACILITIES

- Base Day demand
  - Mostly indoor winter demand
  - Lowest outdoor use, least 'extra' demand
- Average Day demand
  - Base demand plus average outdoor use
- Maximum Day demand
  - Average Day plus summer outdoor use
- Maximum Hour demand
  - Max Day plus maximum outdoor use



# LEVELS OF DEMAND FACTORS

	Levels of Demand			
	Non- Seasonal	Seasonal		
	Base Day	Average Day	Maximum Day	Maximum Hour
<b>Demand by Customer Category</b>				
Residential	15,436	18,907	23,237	34,855
Landscape	1,677	4,917	8,304	16,608
All Other	16,964	19,859	22,840	34,260
Total	34,078	43,683	54,381	85,723
<b>Ratio of Flows to Average Day</b>				
Residential	0.82	1.00	1.23	1.84
Landscape	0.34	1.00	1.69	3.38
All Other	0.85	1.00	1.15	1.73
Total	0.78	1.00	1.24	1.96
Level of Service	34,078	43,683	54,381	85,723
Average Day Demand	43,683	43,683	43,683	43,683
<b>Ratio of Level of Service to Average Day Demand</b>	<b>0.78</b>	<b>1.00</b>	<b>1.24</b>	<b>1.96</b>

# LEVELS OF DEMAND FACTORS

Allocation Basis	Load Factors	Demand Service Levels				Totals
		Base Day	Average Day	Maximum Day	Maximum Hour	
Base Day <i>Allocation %</i>	<b>0.78</b>	0.78 <i>100%</i>				0.78 <i>100%</i>
Average Day <i>Allocation %</i>	<b>1.00</b>	0.78 <i>78%</i>	0.22 <i>22%</i>			1.00 <i>100%</i>
Maximum Day <i>Allocation %</i>	<b>1.24</b>	0.78 <i>63%</i>	0.22 <i>18%</i>	0.24 <i>20%</i>		1.24 <i>100%</i>
Maximum Hour <i>Allocation %</i>	<b>1.96</b>	0.78 <i>40%</i>	0.22 <i>11%</i>	0.24 <i>12%</i>	0.72 <i>37%</i>	1.96 <i>100%</i>

# LEVELS OF DEMAND FACTORS

System-Wide Cost Allocation Factors	Demand Services				Service Charges		Total
	Base Day	Average Day	Maximum Day	Maximum Hour	Accounts	Capacity	
<u>Demand Services</u>							
Base Day	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Average Day	78.0%	22.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Max Day	62.7%	17.7%	19.7%	0.0%	0.0%	0.0%	100.0%
Max Hour	39.8%	11.2%	12.5%	36.6%	0.0%	0.0%	100.0%
Max Hour Only	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	100.0%
Supply - Seasonal Use	0.0%	23.8%	29.6%	46.6%	0.0%	0.0%	100.0%
Supply - Non-Seasonal Use	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
<u>Customer Services</u>							
Capacity	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%	100.0%
Accounts	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%	100.0%
<u>Composite Allocations</u>							
O&M Composite	24.3%	12.8%	15.6%	23.3%	24.0%	0.0%	100.0%
Exp Composite	17.2%	9.0%	11.0%	16.4%	16.9%	29.5%	100.0%

# FUNCTIONAL ALLOCATION

- Costs are allocated between Demand and Capacity functions

	Consumption Charge				Service Charge	Total
	Base Day	Average Day	Maximum Day	Maximum Hour		
<b>O&amp;M Expenses</b>						
Administrative & General	\$0	\$0	\$0	\$0	\$25,518,401	\$25,518,401
Source of Supply - Desal/Lake Del Valle/Base Costs	\$17,541,036	\$0	\$0	\$0	\$0	\$17,541,036
Source of Supply - SFPUC/GW	\$0	\$7,920,356	\$9,859,995	\$15,542,792	\$0	\$33,323,143
Source of Supply - SWP	\$0	\$4,678,991	\$5,824,843	\$9,181,984	\$0	\$19,685,818
Source of Supply - Water Consv/Semitropic	\$0	\$0	\$0	\$4,227,044	\$0	\$4,227,044
Pumping	\$1,028,112	\$289,789	\$322,745	\$945,585	\$0	\$2,586,231
Transmission & Distribution	\$10,059,377	\$2,835,389	\$3,157,837	\$0	\$0	\$16,052,603
Customer Accounts	\$0	\$0	\$0	\$0	\$5,232,180	\$5,232,180
Extraordinary Expense Projects	\$2,582,682	\$727,968	\$810,755	\$0	\$0	\$4,121,405
<b>Capital Expenses</b>						
Debt Service	\$0	\$0	\$0	\$0	\$7,645,691	\$7,645,691
Capital Expenses (PAYGo)	\$0	\$0	\$0	\$0	\$46,044,578	\$46,044,578
<b>Non-Rate Revenue</b>	\$0	\$0	\$0	\$0	(\$26,956,506)	(\$26,956,506)
<b>Transfers to/(from) Reserves</b>	(\$4,110,965)	(\$2,167,030)	(\$2,631,149)	(\$3,937,918)	(\$11,122,074)	(\$23,969,137)
	\$27,100,242	\$14,285,464	\$17,345,025	\$25,959,486	\$46,362,270	\$131,052,487
			Consumption COS Total	\$84,690,217		

# FUNCTIONAL ALLOCATION

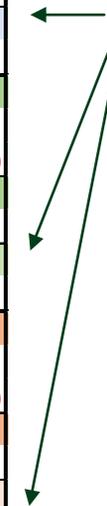
Consumption Charge Cost of Service	Base Day	Average Day	Max Day	Max Hour	Total
Operations & Maintenance	\$31,211,207	\$16,452,494	\$19,976,175	\$29,897,405	\$97,537,280
Transfers to/(from) Reserves	(\$4,110,965)	(\$2,167,030)	(\$2,631,149)	(\$3,937,918)	(\$12,847,063)
<b>Net COS Revenue Requirement</b>	\$27,100,242	\$14,285,464	\$17,345,025	\$25,959,486	\$84,690,217
<b>Units of Service (hcf)</b>					
Single Family	15,436	18,907	23,237	34,855	
Irrigation	1,677	4,917	8,304	16,608	
All Other	16,964	19,859	22,840	34,260	
	34,078	43,683	54,381	85,723	
<b>Proportional Allocation Factors</b>					
Single Family	45.30%	43.28%	42.73%	40.66%	
Irrigation	4.92%	11.26%	15.27%	19.37%	
All Other	49.78%	45.46%	42.00%	39.97%	
	100.00%	100.00%	100.00%	100.00%	
<b>Cost of Service by Customer Class</b>					
Single Family	\$12,275,577	\$6,183,109	\$7,411,529	\$10,555,235	\$36,425,450
Irrigation	\$1,333,965	\$1,608,067	\$2,648,545	\$5,029,284	\$10,619,861
All Other	\$13,490,699	\$6,494,288	\$7,284,951	\$10,374,968	\$37,644,906
	\$27,100,242	\$14,285,464	\$17,345,025	\$25,959,486	\$84,690,217

# FUNCTIONAL ALLOCATION

Consumption Charge Cost of Service	Base Day	Average Day	Max Day	Max Hour	Total
<b>Cost of Service by Customer Class</b>					
Single Family	\$12,275,577	\$6,183,109	\$7,411,529	\$10,555,235	\$36,425,450
Irrigation	\$1,333,965	\$1,608,067	\$2,648,545	\$5,029,284	\$10,619,861
All Other	\$13,490,699	\$6,494,288	\$7,284,951	\$10,374,968	\$37,644,906
	\$27,100,242	\$14,285,464	\$17,345,025	\$25,959,486	\$84,690,217
<b>Cost of Service - Single Family</b>					
Operations & Maintenance	\$14,137,718	\$7,121,054	\$8,535,819	\$12,156,409	\$41,951,000
Transfers to/(from) Reserves	(\$1,862,141)	(\$937,945)	(\$1,124,290)	(\$1,601,174)	(\$5,525,550)
<b>Total COS - Single Family Accounts</b>	\$12,275,577	\$6,183,109	\$7,411,529	\$10,555,235	\$36,425,450
			Projected water use (hcf)		6,971,556
			<b>\$ per hcf</b>		<b>\$5.22</b>
<b>Cost of Service - Irrigation</b>					
Operations & Maintenance	\$1,536,321	\$1,852,003	\$3,050,315	\$5,792,200	\$12,230,838
Transfers to/(from) Reserves	(\$202,356)	(\$243,935)	(\$401,770)	(\$762,916)	(\$1,610,977)
<b>Total COS - Irrigation Accounts</b>	\$1,333,965	\$1,608,067	\$2,648,545	\$5,029,284	\$10,619,861
			Projected water use (hcf)		1,813,122
			<b>\$ per hcf</b>		<b>\$5.86</b>
<b>Cost of Service - All Other</b>					
Operations & Maintenance	\$15,537,168	\$7,479,437	\$8,390,040	\$11,948,796	\$43,355,441
Transfers to/(from) Reserves	(\$2,046,468)	(\$985,149)	(\$1,105,089)	(\$1,573,828)	(\$5,710,535)
<b>Total COS - All Other Accounts</b>	\$13,490,699	\$6,494,288	\$7,284,951	\$10,374,968	\$37,644,906
			Projected water use (hcf)		7,322,416
			<b>\$ per hcf</b>		<b>\$5.14</b>

From Slide 7

The more seasonal use a customer class has, the higher the Consumption Charge



# BILL IMPACTS – 5.5% REVENUE INCREASE

<b>Single Family Residential (3/4" Meter)</b>								
<b>Demand</b> HCF per bi-monthly period	<b>Current Bi-Monthly Bill</b>			<b>Proposed Bi-Monthly Bill</b>			<b>Difference</b>	
	<b>Service</b>	<b>Consumption</b>	<b>Total</b>	<b>Service</b>	<b>Consumption</b>	<b>Total</b>	<b>\$</b>	<b>%</b>
Low (8 HCF)	\$63.75	\$39.76	\$103.51	\$67.26	\$41.80	\$109.06	\$5.55	<b>5.4%</b>
Average (16 HCF)	\$63.75	\$79.52	\$143.27	\$67.26	\$83.60	\$150.85	\$7.58	<b>5.3%</b>
High (32 HCF)	\$63.75	\$159.04	\$222.79	\$67.26	\$167.20	\$234.45	\$11.66	<b>5.2%</b>

<b>Irrigation (2" Meter)</b>								
<b>Demand</b> HCF per bi-monthly period	<b>Current Bi-Monthly Bill</b>			<b>Proposed Bi-Monthly Bill</b>			<b>Difference</b>	
	<b>Service</b>	<b>Consumption</b>	<b>Total</b>	<b>Service</b>	<b>Consumption</b>	<b>Total</b>	<b>\$</b>	<b>%</b>
Low (65 HCF)	\$311.45	\$323.05	\$634.50	\$328.58	\$380.72	\$709.30	\$74.80	<b>11.8%</b>
Average (129 HCF)	\$311.45	\$641.13	\$952.58	\$328.58	\$755.58	\$1,084.16	\$131.58	<b>13.8%</b>
High (258 HCF)	\$311.45	\$1,282.26	\$1,593.71	\$328.58	\$1,511.16	\$1,839.74	\$246.03	<b>15.4%</b>

<b>All Others (1" Meter)</b>								
<b>Demand</b> HCF per bi-monthly period	<b>Current Bi-Monthly Bill</b>			<b>Proposed Bi-Monthly Bill</b>			<b>Difference</b>	
	<b>Service</b>	<b>Consumption</b>	<b>Total</b>	<b>Service</b>	<b>Consumption</b>	<b>Total</b>	<b>\$</b>	<b>%</b>
Low (49 HCF)	\$101.87	\$243.53	\$345.40	\$107.47	\$251.91	\$359.38	\$13.98	<b>4.0%</b>
Average (98 HCF)	\$101.87	\$487.06	\$588.93	\$107.47	\$503.82	\$611.30	\$22.37	<b>3.8%</b>
High (196 HCF)	\$101.87	\$974.12	\$1,075.99	\$107.47	\$1,007.65	\$1,115.12	\$39.13	<b>3.6%</b>

# BOARD DISCUSSION

- Interest in creating multiple customer classes?
  - Single Family?
  - Irrigation?
  - All Others (Multi Family, Commercial, Industrial)?



# Split Between Fixed and Variable Revenue

# SPLIT BETWEEN FIXED AND VARIABLE COSTS AND REVENUES

- Water agencies are free to have either fixed charges, consumption charges, or both
  - Charges must not exceed the cost of providing service
  - Agencies typically have both fixed and consumption charges
    - Fixed costs are incurred regardless of how much water is used and are partially covered with fixed charges in proportion to capacity needs (i.e., meter size)
    - Consumption charges cover both variable and fixed costs in proportion to demand
    - Notable exception: LADWP has only consumption charges with no fixed charges
- Fixed charges provide revenue stability but as an industry practice do not match fixed costs
  - Other tools are also available to provide revenue stability (e.g., rate stabilization reserves, stage rate adjustments, pass-thru adjustments)

# SPLIT BETWEEN FIXED AND VARIABLE COSTS AND REVENUES

Issue:	Match fixed revenue with fixed costs?
Current practice	<p>75% of <u>costs</u> are fixed</p> <p>10% of revenue from taxes (fixed)</p> <p>29% of revenue from service charges (fixed)</p> <p>42% of revenue from non-seasonal consumption charges (“reliable”)</p> <p><u>6%</u> of revenue from other fixed/”reliable” sources</p> <p>87% of total <u>revenue</u> from fixed/”reliable” sources</p>
Rationale	Revenue stability is provided by fixed/”reliable” revenue

# SPLIT BETWEEN FIXED AND VARIABLE COSTS AND REVENUES

Issue:	Match fixed revenue with fixed costs?
Option 1	Maintain current allocation
Outcome/ Rationale	<ul style="list-style-type: none"> <li>- Revenue stability has not been an issue (see District's other tools below)</li> <li>- Avoids disparate bill impacts amongst customers caused by instituting a change in rate structure</li> </ul>
Option 2	<u>Increase</u> portion of revenue from service charges
Outcome/ Rationale	<ul style="list-style-type: none"> <li>- Increased revenue stability</li> <li>- For low-use customers, bills become less affordable because no matter how much they save, their bills are dominated by the fixed charge</li> <li>- Customer bills become less responsive to demand, weakening the conservation signal (and the reason for metering)</li> <li>- Creates disparate bill impacts; Additional outreach/public education necessary during next rate setting process</li> </ul>
<p>Other District tools which improve revenue stability</p> <ul style="list-style-type: none"> <li>- Use temporary “stage rates” during water shortage emergencies, when “non-seasonal” consumption must be curtailed</li> <li>- Maintain adequate reserves</li> <li>- Regular rate review</li> </ul>	

# SPLIT BETWEEN FIXED AND VARIABLE COSTS AND REVENUES

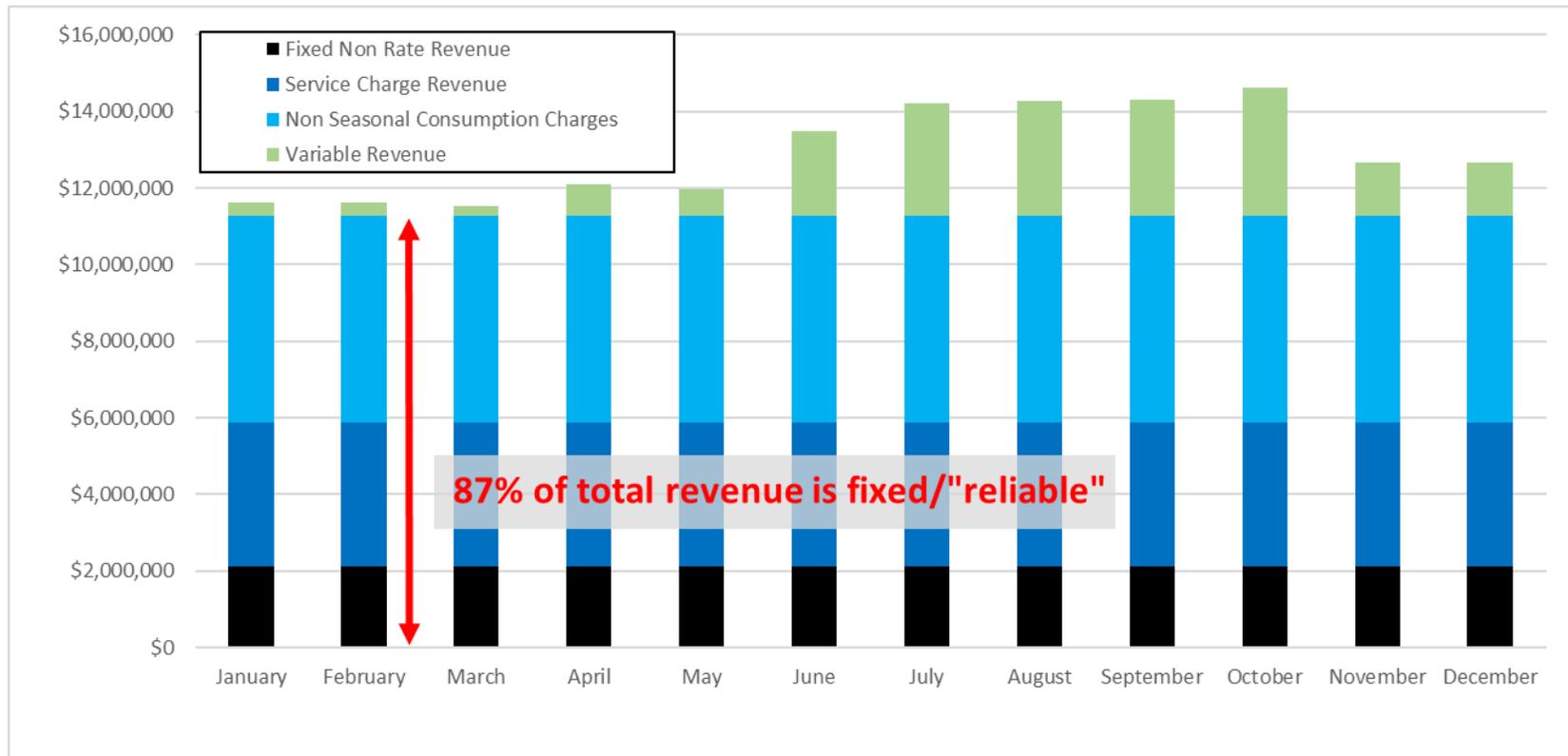
Issue:	Match fixed revenue with fixed costs?
Option 3	<u>Decrease</u> portion of revenue from service charges
Outcome/ Rationale	<ul style="list-style-type: none"> <li>- Less revenue stability than current structure</li> <li>- Customer bills become more responsive to demand, increasing the conservation signal (and the reason for metering)</li> <li>- If decreased too low, low-use customers may not cover their fair share of non-seasonal (“Base”) infrastructure costs; Others would be subsidizing</li> <li>- Creates disparate bill impacts; Additional outreach/public education necessary during next rate setting process</li> </ul>

# SPLIT BETWEEN FIXED AND VARIABLE COSTS AND REVENUES

General Fund revenue from Fixed/Reliable sources (87% of total Revenue) more than covers the District's current General Fund fixed costs (75% of total costs).

FY 2024-25 Budgeted Expenses	Fixed		Variable		Total	
Source of Supply	\$14,697	8%	\$40,548	22%	\$55,245	30%
Pumping	\$1,594	1%	\$992	1%	\$2,586	1%
Water Treatment	\$14,977	8%	\$4,555	2%	\$19,532	10%
Transmission & Distribution	\$16,053	9%	\$0	0%	\$16,053	9%
Customer Accounts	\$5,232	3%	\$0	0%	\$5,232	3%
Administrative & General	\$25,518	14%	\$0	0%	\$25,518	14%
Expense Projects	\$4,121	2%	\$0	0%	\$4,121	2%
Capital Projects	\$46,045	25%	\$0	0%	\$46,045	25%
Customer Jobs	\$4,093	2%	\$0	0%	\$4,093	2%
Debt Service	\$7,646	4%	\$0	0%	\$7,646	4%
<b>Total Expenses</b>	<b>\$139,976</b>	<b>75%</b>	<b>\$46,095</b>	<b>25%</b>	<b>\$186,071</b>	<b>100%</b>
FY 2024-25 Budgeted Revenues	Fixed/Reliable		Variable		Total	
Service Charges	\$44,961	29%	\$0	0%	\$44,961	29%
Non Seasonal Consumption Charge	\$64,777	42%	\$0	0%	\$64,777	42%
Property Tax Revenue	\$15,540	10%	\$0	0%	\$15,540	10%
<b>Subtotal</b>	<b>\$125,278</b>	<b>80%</b>	<b>\$0</b>	<b>0%</b>	<b>\$125,278</b>	<b>80%</b>
Seasonal Consumption Charge	\$0	0%	\$16,760	11%	\$16,760	11%
Fireline Service Charges	\$1,049	1%	\$0	0%	\$1,049	1%
Backflow Testing	\$739	0%	\$0	0%	\$739	0%
Ground Water Replenishment	\$0	0%	\$631	0%	\$631	0%
Grant/Reimbursements	\$0	0%	\$2,938	2%	\$2,938	2%
Customer Jobs	\$4,093	3%	\$0	0%	\$4,093	3%
Interest	\$2,197	1%	\$0	0%	\$2,197	1%
Other Revenue	\$1,966	1%	\$0	0%	\$1,966	1%
<b>Total Revenue</b>	<b>\$135,322</b>	<b>87%</b>	<b>\$20,329</b>	<b>13%</b>	<b>\$155,651</b>	<b>100%</b>

# SPLIT BETWEEN FIXED AND VARIABLE COSTS AND REVENUES



# BOARD DISCUSSION

- Interest in increasing or decreasing revenue from the fixed service charge?
  - Currently getting 30% of General Fund revenue from the fixed water meter service charge and fireline service charge; the service charge is about 36% of rate revenue.
  - Other reliable revenue (e.g., property taxes, non-seasonal water charges) bring this fixed/reliable revenue to 87%.



# Stage Rates

# STAGE RATES

- During water shortages, customers are asked to conserve more than usual
  - This enhanced conservation reduces revenue from consumption charges
- Conservation reduces variable costs (e.g., water purchases, power, chemicals), but fixed costs are unchanged
- A deficit will occur unless water rates are increased to cover the net financial loss from lower water sales volume
  - Reserves are drawn down by deficits unless rates are adjusted
- Stage rates are added to existing charges during a drought to cover the net financial loss
  - Stage rates must reflect cost-based, revenue neutral adjustments
  - Derived to offset revenue shortfalls associated with each shortage reduction stage
  - Stage rates should net out any cost savings resulting from reduced water sales

# STAGE RATE OPTIONS

- Option 1: Fixed surcharge
  - Graduated charge per account based on meter size, regardless of customer type
- Option 2: Uniform per HCF surcharge to consumption rate
  - ACWD's current methodology
  - Applied to all water use, regardless of customer type
- Option 3: Tiered per HCF surcharge to consumption rate
  - For water use above a threshold (e.g., no increase in the rate per HCF until water use exceeds 13 HCF in a bi-monthly period, for example)

# OPTION #1. FIXED SURCHARGE

- Graduated surcharge in proportion to meter size
  - Surcharge equals revenue deficit divided by equivalent meter units
- Advantage
  - Revenue stability
    - Converts revenue deficit from reduced consumption to a fixed surcharge
    - Meter size reflects potential demand on the system
- Disadvantage
  - Ratepayer impact
    - Does not reflect customers' efforts to conserve that may differ by customers having the same meter size
    - Tying to meter size, and potential demand on the system, is not the same as actual demand on the system (i.e., actual water use)

# OPTION #1. EXAMPLE

- Graduated surcharge in proportion to meter size

Stage	Demand Reduction	Annual Consumption Revenue <sup>1</sup>	Revenue after Reduction	Cost Savings	Net Lost Revenue	Number of EMUs <sup>2</sup>	Bi-monthly Surcharge per EMU
0	0%	\$80,052,258	\$80,052,258	\$0	\$0	115,224	\$0.00
1	10%	\$80,052,258	\$72,047,032	(\$233,100)	\$7,772,126	115,224	\$11.24
2a	15%	\$80,052,258	\$68,044,419	(\$349,650)	\$11,658,189	115,224	\$16.86
2b	20%	\$80,052,258	\$64,041,806	(\$466,200)	\$15,544,252	115,224	\$22.48
3a	25%	\$80,052,258	\$60,039,193	(\$582,750)	\$19,430,314	115,224	\$28.11
3b	30%	\$80,052,258	\$56,036,580	(\$590,173)	\$23,425,504	115,224	\$33.88
4	40%	\$80,052,258	\$48,031,355	(\$649,656)	\$31,371,247	115,224	\$45.38
5	50%	\$80,052,258	\$40,026,129	(\$1,296,933)	\$38,729,196	115,224	\$56.02
6	60%	\$80,052,258	\$32,020,903	(\$1,750,027)	\$46,281,328	115,224	\$66.94

1. 16,107,094 HCF x \$4.97 = \$80,052,258

2. Equivalent Meter Units

# OPTION #1. EXAMPLE (CONTINUED)

## ■ Example surcharges for Stage 2a

Meter Size	Current Rate	Ratio	Bi-monthly Surcharge per EMU
5/8" & 3/4"	\$63.75	1.00	\$16.86
1"	\$101.87	1.60	\$26.98
1.5"	\$197.12	3.09	\$52.11
2"	\$311.45	4.89	\$82.46
3"	\$673.45	10.56	\$178.07
4"	\$1,206.92	18.93	\$319.22
6"	\$3,055.04	47.92	\$808.08
8"	\$5,341.38	53.79	\$907.07
10"	\$8,008.78	125.63	\$2,118.51

## OPTION 2. UNIFORM SURCHARGE PER HCF

- ACWD's current methodology
  - Surcharge equals revenue deficit divided by water supply associated with each shortage reduction stage
- Advantages
  - Relatively simple to implement given ACWD's current uniform rate structure for all customers
  - Ratepayer impact
    - Correlates with customer water use
- Disadvantage
  - Applies the same level of cutback to all customers
    - Does not reflect each customer's discretionary water uses, which is where cutbacks could be targeted

# OPTION #2. EXAMPLE

Stage	Demand Reduction	Annual Consumption Revenue <sup>1</sup>	Revenue after Reduction	Cost Savings	Net Lost Revenue	Demand (HCF)	Surcharge per HCF
0	0%	\$80,052,258	\$80,052,258	\$0	\$0	16,107,094	\$0.00
1	10%	\$80,052,258	\$72,047,032	(\$233,100)	\$7,772,126	14,496,385	\$0.54
2a	15%	\$80,052,258	\$68,044,419	(\$349,650)	\$11,658,189	13,691,030	\$0.85
2b	20%	\$80,052,258	\$64,041,806	(\$466,200)	\$15,544,252	12,885,675	\$1.21
3a	25%	\$80,052,258	\$60,039,193	(\$582,750)	\$19,430,314	12,080,321	\$1.61
3b	30%	\$80,052,258	\$56,036,580	(\$590,173)	\$23,425,504	11,274,966	\$2.08
4	40%	\$80,052,258	\$48,031,355	(\$649,656)	\$31,371,247	9,664,256	\$3.25
5	50%	\$80,052,258	\$40,026,129	(\$1,296,933)	\$38,729,196	8,053,547	\$4.81
6	60%	\$80,052,258	\$32,020,903	(\$1,750,027)	\$46,281,328	6,442,838	\$7.18

1. 16,107,094 HCF x \$4.97 = \$80,052,258

## OPTION #3. TIERED SURCHARGE PER HCF

- Similar to Option 2 but focuses surcharge on higher, discretionary water use
- Tiers
  - Tier 1 - No surcharge for essential water use
    - Threshold could equal winter water use (i.e., proxy for indoor use; 13 HCF per bi-monthly period) for Stage 1 and less with successive stage reductions
  - Tier 2 – Surcharge for potentially non-essential uses (e.g., irrigation)
    - All use above Tier 1
  - Not recommended without creating customer classes

## OPTION #3. TIERED SURCHARGE PER HCF (CONT)

- Surcharge equals revenue deficit in each tier divided by water use in each tier
- Advantages
  - Does not surcharge essential water use
  - Shifts recovery of revenue deficit to discretionary water use
- Disadvantages
  - Relatively complex
    - Deriving shortage reductions for higher tiers and associated revenue deficits
    - Requires communication with customers to understand that surcharges are not penalties

# OPTION #3. EXAMPLE: SFR ONLY; 2 TIERS

- Tier breakpoint at 13 HCF bi-monthly
- All other customers use Option 2 (uniform) surcharge for all water use

Stage	Demand Reduction	Annual Consumption Revenue <sup>1</sup>	Revenue after Reduction	Cost Savings	Net Lost Revenue	Demand (HCF) <sup>2</sup>	Surcharge per HCF
0	0%	\$34,648,634	\$34,648,634	\$0	\$0	2,582,638	\$0.00
1	10%	\$34,648,634	\$31,183,770	(\$100,892)	\$3,363,972	2,056,863	\$1.64
2a	15%	\$34,648,634	\$29,451,339	(\$151,337)	\$5,045,958	1,808,128	\$2.79
2b	20%	\$34,648,634	\$27,718,907	(\$201,783)	\$6,727,944	1,571,593	\$4.28
3a	25%	\$34,648,634	\$25,986,475	(\$252,229)	\$8,409,930	1,348,673	\$6.24
3b	30%	\$34,648,634	\$24,254,044	(\$255,442)	\$10,139,148	1,140,165	\$8.89
4	40%	\$34,648,634	\$20,789,180	(\$281,187)	\$13,578,266	772,035	\$17.59
5	50%	\$34,648,634	\$17,324,317	(\$561,345)	\$16,762,972	477,649	\$35.09
6	60%	\$34,648,634	\$13,859,454	(\$757,456)	\$20,031,725	262,733	\$76.24

1. 6,971,556 HCF x \$4.97 = \$34,648,634

2. 2,673,038 HCF in demand above 13 HCF; Demand reduced per Staff billing analysis

# SUMMARY OF CUSTOMER IMPACTS

- Impacts per account at various consumption levels at Stage #2
- Impacts are in addition to non stage rate bills
- Option #3 calculations apply to Single Family customers only

Customer Impact - Stage 2a (3/4" meter)			
Stage Rate Option	8 HCF	16 HCF	32 HCF
Option #1	\$16.86	\$16.86	\$16.86
Option #2	\$6.80	\$13.60	\$27.20
Option #3	\$0.00	\$6.66	\$42.18

# BOARD DISCUSSION

- Which option for Single Family Residential?
- Which option for All Other?
- If tiered, how many? Appropriate breakpoints? Tier 1 surcharge?

	Option #1	Option #2	Option #3
<b>Fixed Component</b>	per meter size	None	None
<b>Surcharge on Consumption</b>			
<u>Single Family Residential</u>			
Tiers	None	Uniform	2 or 3
Breakpoints [Note #1]	None	Uniform	Note #2
Apply Surcharge to Tier 1?	None	None	Yes or No
<u>All Other (Commercial/Industrial/Multi Family)</u>			
Tiers	None	Uniform	2 or 3
Breakpoints	None	Uniform	Note #3
Apply Surcharge to Tier 1?	None	None	Yes or No

1. Breakpoints may reduce as stages increase
2. 13 HCF (Winter Water Use); 16 HCF (average day demand); other?
3. Uniform, 155 HCF (average day demand), other?

# Customer Service Update

## Delinquent Accounts, Property Tax Roll, and Other Billing Updates

Presenters:

Cody Brajevich, Customer Account Field Supervisor

Jacqueline Simon, Customer Service Supervisor

Katrina Bates, Customer Services and Systems Manager

# Presentation Overview

- Review of Current Collection Processes on Active and Closed Accounts
- Provide update on delinquent accounts
- Review of property tax use for delinquent collections
- Procedural requirements and operational considerations for service charge and delinquency collections on the property tax roll
- Other billing topics update

# Current Collection Process

## Collections on Active Accounts (Processed by District Staff):

- The Board approved Collection and Residential Water Service Termination Policy was implemented to ensure compliance with SB 998.
- Policy outlines process and timeline for collecting on past due balances for active accounts
- Process includes written and verbal notifications, including hanging of door tags
- Provides process for appeals, disputes, and payment arrangements
- Assesses qualifying delinquencies on active single-family owner-occupied residential accounts on the property tax roll on annual basis

# Collections on Active Accounts

## Current Collections Timeline on All Active Accounts:

Number of Days from Bill Issuance Date:

- Late Fee Assessed (Automated, \$5.00 Fee) – Day 28 (seven days after bill due date)
- Final Notice Mailed (Automated) – Day 67
- 48 Hour Door Tag Issued (Manual, \$20.00 Fee) – Day 74
- Courtesy Phone Call (Manual) – Day 80
- Service Disconnected (Manual, \$20.00 Fee) – Day 81
- Funds Received – Starting Day 82

# Collections and Delinquencies

## Fiscal Year 2023/24 Statistics

**Late Notices Issued: 54,597**

**Final Notices Issued: 7,493**

**48 Hour Notice Door Tags: 5,190**

- Total Customers Receiving Door Tag – 3,146 Customers
  - Residential – 2934 Customers
  - Non-Residential – 212 Customers

**Service Terminations: 525**

- Total Customers Disconnected – 454 Customers
  - Residential – 421 Customers
  - Non-Residential – 33 Customers
  - Pending Reconnection: 10 (9 residential)

# Delinquent Accounts and Balances

## Past Due Accounts/Balances as of July 2024:

- Number of Active Past Due Accounts – 2,041
  - Residential – 1,367 (Owner Occupied – 989)
  - Non-Residential – 674
- Total Active Past Due Balances – \$326,432.35
  - Residential – \$193,038.18 (Owner-Occupied – \$38,789.55 *Credit*)
  - Non-Residential - \$133,394.17

## Past Due Accounts/Balances as of July 2024:

- 67% of past due accounts due to residential customers
- 59% of past due balances due to residential customers

## Accounts with Payment Arrangements as of July 2024: 38

- Residential – 30 (Owner-Occupied 15)
- Non-Residential – 8

# Collections on Closed Accounts

## **Collections on Closed Accounts (Involves Third-Party Agency):**

- Late Fee Assessed (Automated, \$5.00 Fee) – Day 28
- Write Off Warning Letter (Automated) – Day 66
- Property Owner notification of potential write off (Automated) – Day 66
- Courtesy phone call to Customer of Record (Manual) – Day 67-89
- Account written off and referred to third-party agency (Manual) – Day 90
- Property Owner notification of write off/referral (Automated) – Day 90

## **Third-Party Collection Agency Referral (an average of 48 accounts totaling \$23,000 were referred monthly):**

- Residential (owner occupied) – 319 accounts, \$79,602.70
- Residential (rental) – 219 accounts, \$65,758.70
- Residential Multi-Family – 10 accounts, \$5,963.74
- Commercial – 35 accounts, \$122,622
- Total – 583 accounts, \$273,947.14 (0.23% of water revenue)

# Procedural Requirements – Billing Service Charge on Property Tax

Under Health and Safety Code Sections 5470 et seq.

- Prepare a written report, describing each parcel of real property receiving the services and to be charged
- The first time the service charge is collected on the property roll, the Board must hold a public hearing and mail notice to all property owners on the last equalized tax roll whose properties are described in the report
  - In subsequent years, notice by newspaper publication is sufficient
- At the hearing, the Board must hear and consider all objections or protests
  - A majority protest of those listed in the report is necessary to prevent placing the service charge on the property tax bill
- $\frac{2}{3}$  Board Majority required for adoption of the resolution and report
- This information would also be due to the County in August

# Financial Analysis

Financial effect of billing the service charge on the property tax roll:

- Costs
  - Administrative fee to county: \$440K (\$5/account)
  - Consultant costs: \$25K
- Financial Improvements
  - Collections: \$97K
  - Payment processing fees: \$196K (based on current experience with credit card payment fees)
  - Revenue from vacant accounts: \$56K
- Net Result: Cost of \$116K

# Procedural Requirements – Delinquent Charges

## Under Water Code Sections 31701 et seq.

- Notify property owners with delinquent charges to be collected on the property tax roll each year
  - No public hearing or newspaper notice required
  - No protest process for delinquent charges
- By a simple majority, adopt a resolution containing a statement of delinquent charges and approving a Service Agreement with the County
  - Charges must be 60+ days delinquent as of July 1
  - This statement must be furnished to the County Board of Supervisors and Auditor by August 1st annually
- Balances referred will no longer subject the customer to shutoffs, there would be no additional SB 998 requirements

# Current Property Tax Roll Process

## Property Tax Roll Process:

Active Accounts that are over 60 days past due on owner-occupied, single family residential accounts:

- June 1<sup>st</sup> – First warning notices (Automated)
- Payment Arrangements Cutoff – June 30<sup>th</sup>
- July 1<sup>st</sup> – Letter of intent to collect on property tax bill (Automated)
- July 31<sup>st</sup> – Final review of accounts (Manual)
- Property Tax Assignment – August 1<sup>st</sup> (Manual)

# Property Tax Roll Delinquencies

## Past Due Accounts/Balances Assigned in 2023:

- Total Delinquent accounts as of June 1, 2023 - 355
- Number of Active Past Due Assigned – 13
- Total Active Past Due Balances – \$1,610.32

## Past Due Accounts/Balances Assigned in 2024:

- Total Delinquent Accounts as of June 1, 2024 - 166
- Number of Active Past Due Assigned – 39
- Total Active Past Due Balances – \$3,994.86

# Recommendation

## **Continue with Board Approved Collections & Residential Water Termination Policy:**

- All accounts would follow established policy
- Forward single-family owner-occupied residential accounts to the Property Tax Roll.

**OR**

## **Include Residential Multi-Family Owner-Occupied Accounts on the Property Tax Roll:**

- Any outstanding balances over 60 days past due on owner occupied Multi-Family single unit residential accounts (Condos and Townhomes) would be referred to the property tax roll

# Other Billing Topics

## Billing in Whole Units:

- Due to billing system limitations, bills are generated using whole HCF units. Any partial consumption is billed on the next billing cycle.

## Proration with AMI:

- Billing proration is based on number of days they are on a certain rate vs. the new rate structure/amount.
- Percentage is calculated and applied to determine rate to charge consumption.

## Monthly Billing:

- Proposal to switch to monthly billing is on pause due to preliminary Board feedback and other critical, major projects such as an upgrade to the billing system. Staff will work to further promote ebilling, which will reduce the cost of monthly billing, and consider bringing the proposal back to the Board in the future.

# Conclusion

## Recap Board guidance

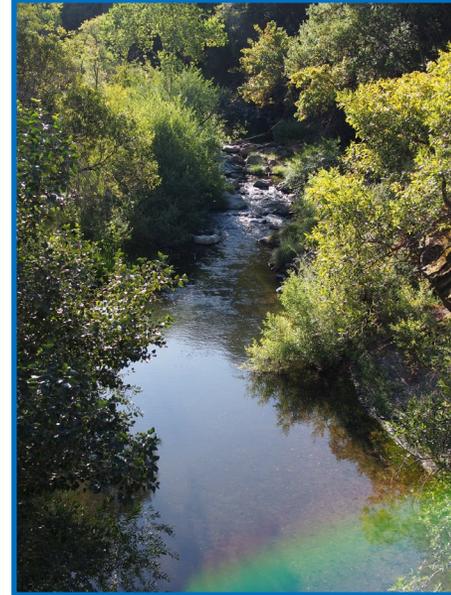
- Approach to customer service/billing
- Fixed/variable revenues
- Approach to drought surcharges
- Option for multiple customer classes with uniform rates

## Next Steps

- Discuss more specific scenarios and refine proposal at Board workshop September 26
- At December 13 Board meeting, consider approval to issue rate notice

# Stay Connected to the District

- [www.acwd.org](http://www.acwd.org)
- ACWD Aqueduct Newsletter
- Facebook  & Twitter   
@AlamedaCountyWD



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# Questions?