Presentation Overview

- Review Financial Workshops Timeline
- Proposed Development Charges
- Financial Plan Review
  - Residential Fireline Policy
  - Financial Planning Model
  - Projected Rate Increases
- Proposed Water Rates & Charges
- Process for Activating Stage Rates
- Public Outreach Plan
- Protest Process
- Next Steps
Board Guidance

- Financial Planning Assumptions & Residential Fireline Policy
- Commodity Rates & Bimonthly Service Charges
  - % Increases
  - Two-Year
  - Uniform or Tiered Rates
  - Stage Rates
- Developer Charges
  - Incremental Component
  - Equity Buy-In Component: Phase-in over 5 years
  - Inflation adjustments
- Public Outreach Plan
- Protest Process
Financial Workshops Timeline

- February 22: Development Charges Overview
- April 26: Development Charges Follow-up and Water Rates Overview
- May 22: Mid-cycle Budget Review and Capital Improvement Program Update
- July 26: Rate Structure Discussion
- August 15: Financial Planning Scenarios
- October 25: Development Charges and Water Rates Follow-up; Public Outreach Plan
- December 13: Potentially Set Public Hearing for proposed Development Charges and Water Rates
Financial Workshops Timeline

- February 7, 2019: Rate and Fee Anticipated Adoption

Effective Dates
- March 1, 2019: Water rates are effective
- May 1, 2019: Development charges are effective
Presentation Vocabulary

- SFR = Single Family Residential
- MFR = Multi-family Residential
- EMUs = Equivalent Meter Units
- FCC = Facilities Connection Charge
- CIP = Capital Improvement Plan
- FIF = Facilities Improvement Fund
- OPEB = Other Post-employment Benefits
- CCF = Hundred Cubic Feet
- MSL = Mean Sea Level
PROPOSED DEVELOPMENT CHARGES
Facilities Connection Charges

- Equity Buy-In Component
  - New to District
  - Offsets to General Fund Capital Expenditures
- Comprehensive Approach
  - Incremental
  - Equity Buy-In
- 5 Year Phase-in Period
  - Phase in of proposed increase in FCC compared to existing FCC (20% per year)
  - To Be Adopted with Protocols for Inflation Adjustments (Construction Cost Index)
## Equity Buy-In

<table>
<thead>
<tr>
<th>Equity Buy-In Calculation</th>
<th>Cost Per EMU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Assets Value:</td>
<td>$879,613,636</td>
</tr>
<tr>
<td>Total Outstanding Debt Principal:</td>
<td>-$75,520,000</td>
</tr>
<tr>
<td>Value of Existing System:</td>
<td>$804,093,636</td>
</tr>
<tr>
<td>Current Demand (EMUs)</td>
<td>÷141,122</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$5,698</strong></td>
</tr>
</tbody>
</table>
### Incremental Cost Calculation

<table>
<thead>
<tr>
<th>Incremental Cost Calculation</th>
<th>Cost per EMU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Growth CIP:</td>
<td>$150,182,407</td>
</tr>
<tr>
<td>Less FIF Fund Balance:</td>
<td>-$55,140,916</td>
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<tr>
<td>Incremental Cost:</td>
<td>$95,041,491</td>
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<tr>
<td>Growth EMUs (2018 – 2042)</td>
<td>÷19,571</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$4,856</strong></td>
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</tbody>
</table>
Changes Since April Presentation

- Incremental charge was $5,693 in April.
  Two changes:
  - Recalculated number of connecting EMUs.
    - Counting MFR connections as 0.8 EMUs, all SFR connections continue to be treated as 1 EMU.
  - Total incremental cost decreased by $54.6 million using new CIP numbers (assumes 50% of water reliability project).
## Comprehensive Capacity Fee

<table>
<thead>
<tr>
<th>Comprehensive Fee Calculation</th>
<th>Single Family Residential (One EMU)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Buy-In Fee (per EMU)</td>
<td>$5,698</td>
</tr>
<tr>
<td>Incremental Cost Fee (per EMU)</td>
<td>$4,856</td>
</tr>
<tr>
<td><strong>Comprehensive Capacity Fee</strong></td>
<td><strong>$10,554</strong></td>
</tr>
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</table>
# SFR Phased-In Capacity Fee*

<table>
<thead>
<tr>
<th>FCC</th>
<th>Current</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
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<tbody>
<tr>
<td>SFR Fee</td>
<td>$6,862</td>
<td>$7,600</td>
<td>$8,339</td>
<td>$9,077</td>
<td>$9,816</td>
<td>$10,554</td>
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<tr>
<td>MFR Fee</td>
<td>$5,490</td>
<td>$6,080</td>
<td>$6,671</td>
<td>$7,262</td>
<td>$7,852</td>
<td>$8,443</td>
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<tr>
<td>Dormitory Fee</td>
<td>$4,117</td>
<td>$4,560</td>
<td>$5,003</td>
<td>$5,446</td>
<td>$5,889</td>
<td>$6,332</td>
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</tbody>
</table>

SRF = 1.0 EMU  
MFR = 0.8 EMU  
Dormitory = 0.6 EMU

*Subject to annual inflation adjustments
## Non-Residential Capacity Fees

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>Equivalent Meter Ratio</th>
<th>Equity Buy-In</th>
<th>Incremental Cost</th>
<th>Total Comprehensive Capacity Fee</th>
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</thead>
<tbody>
<tr>
<td>5/8&quot;</td>
<td>1.0</td>
<td>$5,698</td>
<td>$4,856</td>
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<td>3/4&quot;</td>
<td>1.5</td>
<td>$8,547</td>
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<td>1&quot;</td>
<td>2.5</td>
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<td>8</td>
<td>$45,584</td>
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<td>3&quot;</td>
<td>17.5</td>
<td>$99,715</td>
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<td>$184,695</td>
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<tr>
<td>4&quot;</td>
<td>30</td>
<td>$170,940</td>
<td>$145,680</td>
<td>$316,620</td>
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<td>67.5</td>
<td>$384,615</td>
<td>$327,780</td>
<td>$712,395</td>
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<tr>
<td>8&quot;</td>
<td>80</td>
<td>$455,840</td>
<td>$388,480</td>
<td>$844,320</td>
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## Phase-In of Non-Residential Capacity Fees*

<table>
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<tr>
<th>Meter Size</th>
<th>Current</th>
<th>FY 2019</th>
<th>FY 2020</th>
<th>FY 2021</th>
<th>FY 2022</th>
<th>FY 2023</th>
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<td>1.5&quot;</td>
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<td>$43,076</td>
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<td>$58,580</td>
<td>$63,750</td>
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<td>$84,432</td>
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<tr>
<td>3&quot;</td>
<td>$128,143</td>
<td>$139,453</td>
<td>$150,764</td>
<td>$162,074</td>
<td>$173,385</td>
<td>$184,695</td>
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<tr>
<td>4&quot;</td>
<td>$219,675</td>
<td>$239,064</td>
<td>$258,453</td>
<td>$277,842</td>
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<td>$316,620</td>
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<td>6&quot;</td>
<td>$494,268</td>
<td>$537,893</td>
<td>$581,519</td>
<td>$625,144</td>
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<td>$712,395</td>
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<td>8&quot;</td>
<td>$585,799</td>
<td>$637,503</td>
<td>$689,207</td>
<td>$740,912</td>
<td>$792,616</td>
<td>$844,320</td>
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</table>

*Subject to annual inflation adjustments*
EMU Calculations

- Calculated existing MFR units by District estimate of existing MFR units in service area and applied 0.8 factor
- District’s future SFR and MFR projections based on 20-year Association of Bay Area Governments and city planning projections over a 25-year period
- All SFR connections (unless > 1.5" for non-fire purposes) continue to be treated as 1 EMU, regardless of meter size
Remaining Development Fee Items

- Finalize approach to Facility Reimbursement Charge
- Finalize ratio between new MFR and new SFR connections
FINANCIAL PLAN REVIEW
Residential Fireline Policy

Current Policy
Fireline Residential accounts shall be billed based on the smallest meter, but not less than 1”, that could provide adequate service absent the fire sprinkler system.

Current Application: All 1 ½” meter size fireline residential accounts are billed at the 1” meter rate.

Meter Size Counts for Fireline Residential Accounts
1 ½” – 2,085 accounts
1” – 5,680 accounts

Fiscal Impact of Current Policy: $0.9 million annually
Residential Fireline Policy

Proposed Policy
Fireline Residential accounts shall be billed based on the smallest meter that could provide adequate service absent the fire sprinkler system

Proposed application: All fireline residential accounts will be billed at the rate of the next smallest meter. Additionally, fireline residential accounts with 1 ½” sized meters have been evaluated to be billed at the rate of a meter two sizes smaller based on the number of fixtures and lot size and 1,618 accounts qualify. Staff are developing an appeals process for customers who did not initially qualify for a two meter size adjustment.

Fiscal Impact of Proposed Policy: $2.1 million annually ($1.2 million more than the current policy)
Financial Planning Model
August 15, 2018 Assumptions

- Billed Demand
  - Assume flat demand of 34 mgd for FY18 +.
  - 8% non-revenue water
- June 2018 Board Adopted CIP
- Amended FY 2018/19 Budget
- General inflation rate of +3.0%. No CIP inflation.
- Advanced Metering Infrastructure $1.49 million in FY19. $25.4 million total in CIP. 50% debt funded.
- State Water Project Override Tax: current policy.
Los Vaqueros included $0.23M for FY19, $1M for FY20, $2M for FY21 and 22, $3M for FY 23 and 24, and then $4M for FY25+.

CA Water Fix included ramping from ~$1M in FY20 to ~$9.5M in FY32. All rates funded.

Pension/OPEB: Unfunded Accrued Actuarial Liability (UAAL) amortized 15 years @ 6.5% with level $ prefunding. 14 of 15 years to go; ending FY32.

Commodity Rates & Service Charges: +5.0% in FY19, +4.0% in FY20, +4.0% in FY21, +3% in FY22+
FPM Charts from August 15, 2018 Board Workshop

**General Fund Ending Balances**

- Ending Balances
- Underfund Balances
- Target Balances

**Projected Billed Demand**

- 45 MGD
- 40 MGD
- 35 MGD
- 30 MGD
- 25 MGD
- 20 MGD


- $3.5 Million
Updates Since August 15, 2018

- Department of Water Resources State Water Project Appendix B Tables for 2018
- Union Negotiations and MCP Adjustments
- Residential Fireline Policy Scenario
- AMI: $29 million (Scenario 2) project cost. 100% Debt Issuance funded. Enhanced revenues and operational savings included.
- Medical inflation factor updated per actuary’s OPEB report
- Equity Buy-in developer charge implementation to help offset General Fund capital
- 3% Staffing Vacancy Factor
- Commodity Rates & Service Charges: +3.0% in FY19+
## Estimated 3% Increase Breakdown

<table>
<thead>
<tr>
<th></th>
<th>% of Total Cost Increase</th>
<th>Distribution of the 3% Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
<td>2.0%</td>
<td>0.06</td>
</tr>
<tr>
<td>Staffing Vacancy&lt;sup&gt;1&lt;/sup&gt;</td>
<td>-2.9%</td>
<td>-0.09</td>
</tr>
<tr>
<td>AMI Ops Savings</td>
<td>-1.0%</td>
<td>-0.03</td>
</tr>
<tr>
<td>Employee Benefits&lt;sup&gt;2&lt;/sup&gt;</td>
<td>5.8%</td>
<td>0.17</td>
</tr>
<tr>
<td>Purchased Water</td>
<td>5.4%</td>
<td>0.16</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>6.5%</td>
<td>0.19</td>
</tr>
<tr>
<td>Capital &amp; Reserves</td>
<td>84.2%</td>
<td>2.54</td>
</tr>
</tbody>
</table>

1. Reflects adjustment to labor costs based on three-year average staff vacancy rate.
2. Includes accelerated paydown of pension and OPEB liabilities (down to 15 year schedule from 20 years)
Charts from FPM with Updated Assumptions 3.0% in FY 2019+
Charts from FPM with Updated Assumptions
Charts from FPM with Updated Assumptions

Operating Revenues vs Operating Expenses (inc dep)

Rate & Charge Revenue vs Revenue Requirement (inc Debt Service)
No AMI Add’l Revenue or Savings
4.0% in FY 2019, 3.0% in FY 2020+
AMI No Debt Financing
5.0% in FY19, 4.0% in FY20, 4.0% in FY21, 3.0% in FY22+
Examples of Non-Financial AMI Benefits

Revenue Continuity
- Better data for future rate development
- Tamper detection

Customer Engagement
- Generation of goodwill with the District’s customer base
- Billing transparency
- Proactive use of leak detection

Operational Enhancement & District Absorption
- Improve meter reading safety & vehicle footprint
- Enhanced customer service tools
Charts from FPM: Status Quo with no Revenue Adjustments

General Fund Ending Balances

- Ending Balances
- Underfund Balances
- Target Balances

Projected Billed Demand

- FY 2018
- FY 2019
- FY 2020
- FY 2021
- FY 2022
- FY 2023
- FY 2024
- FY 2025
- FY 2026
- FY 2027

- 45 MGD
- 40 MGD
- 35 MGD
- 30 MGD
- 25 MGD
- 20 MGD

- FY18 Level On Out
Charts from FPM: Status Quo with no Revenue Adjustments

**Water Debt Coverage Ratios**

- **Coverage**
- **Water Debt Coverage Ratios**
- **FY 2018**
- **FY 2019**
- **FY 2020**
- **FY 2021**
- **FY 2022**
- **FY 2023**
- **FY 2024**
- **FY 2025**
- **FY 2026**
- **FY 2027**

- **Debt Coverage Ratio**
- **Target Debt Coverage - 200%**
- **Alert Coverage**

**CIP & Funding Sources**

*Selected CIP - 18CIP-P2-o0 with smoothing non-inflated*

- **Millions**
- **FY 2018**
- **FY 2019**
- **FY 2020**
- **FY 2021**
- **FY 2022**
- **FY 2023**
- **FY 2024**
- **FY 2025**
- **FY 2026**
- **FY 2027**

- **PayGo GF CIP**
- **Existing Debt GF CIP**
- **New Debt GF CIP**
- **FIF CIP**
- **GF CIP**
Charts from FPM: Status Quo with no Revenue Adjustments

Operating Revenues vs Operating Expenses (inc dep)

Rate & Charge Revenue vs Revenue Requirement (inc Debt Service)
PROPOSED WATER RATES
Rate Design Options

- Two Rate Options:
  - 1) Uniform commodity rate with same fixed/variable revenue split
    - 33% Fixed
    - 67% Variable
  - 2) Two tier single-family commodity rates
    - Uniform commodity rate for all other customers
    - Same fixed/variable revenue split
Comparison of Rate Options

- **Uniform**
  - Minimal customer impacts
  - Ease of implementation
  - Simple to understand
  - Revenue stability

- **Tiered**
  - Affordability for essential use
  - Promotes conservation
Two Tier Single-Family Commodity Rates

- Tier 1: 0-18 ccf bimonthly usage
- Tier 2: 19+ ccf bimonthly usage

Tier justification:
- Cost differentiation based on peaking characteristics
  - Results in increase in non-residential commodity rate
Comparison of Commodity Rates (FY19) with 3% increase in revenue

- Current FY18 uniform commodity rate: $4.249/ccf

- **Uniform Rates**
  - All customers:
    - $4.376/ccf

- **Tiered Rates**
  - Single-Family:
    - Tier 1: $3.902/ccf
    - Tier 2: $5.615/ccf
  - Non-Residential:
    - $4.436/ccf
## Bimonthly Meter Service Charges (FY19 & FY 20)

<table>
<thead>
<tr>
<th>Meter Size</th>
<th>Current FY18</th>
<th>Proposed FY19 3% increase</th>
<th>Proposed FY20 3% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/8” or 3/4”</td>
<td>$52.33</td>
<td>$53.89</td>
<td>$55.50</td>
</tr>
<tr>
<td>1”</td>
<td>$80.70</td>
<td>$83.12</td>
<td>$85.61</td>
</tr>
<tr>
<td>1 ½”</td>
<td>$151.59</td>
<td>$156.13</td>
<td>$160.81</td>
</tr>
<tr>
<td>2”</td>
<td>$236.67</td>
<td>$243.77</td>
<td>$251.08</td>
</tr>
<tr>
<td>3”</td>
<td>$506.08</td>
<td>$521.26</td>
<td>$536.89</td>
</tr>
<tr>
<td>4”</td>
<td>$903.11</td>
<td>$930.20</td>
<td>$958.10</td>
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<tr>
<td>6”</td>
<td>$2,278.54</td>
<td>$2,346.89</td>
<td>$2,417.29</td>
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<tr>
<td>8”</td>
<td>$3,980.09</td>
<td>$4,099.49</td>
<td>$4,222.47</td>
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<tr>
<td>10”</td>
<td>$5,965.22</td>
<td>$6,144.17</td>
<td>$6,328.49</td>
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</table>
## Commodity Rates (FY19 & FY 20)

<table>
<thead>
<tr>
<th>Uniform Option</th>
<th>Current FY18</th>
<th>Proposed FY19</th>
<th>Proposed FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Customers</td>
<td>$4.249/ccf</td>
<td>$4.376/ccf</td>
<td>$4.507/ccf</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Tiered Option</th>
<th>Current FY18</th>
<th>Proposed FY19</th>
<th>Proposed FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-Family</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1</td>
<td>$4.249/ccf</td>
<td>$3.902/ccf</td>
<td>$4.020/ccf</td>
</tr>
<tr>
<td>Tier 2</td>
<td>$4.249/ccf</td>
<td>$5.615/ccf</td>
<td>$5.784/ccf</td>
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<tr>
<td>Non-Residential</td>
<td>$4.249/ccf</td>
<td>$4.436/ccf</td>
<td>$4.569/ccf</td>
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</tbody>
</table>
FY19 Residential Bill Impacts: Uniform

Sample SFR Bills

Proposed w/ 3% Rev Adj & Tiered Rates for 3/4-in meters & no DSC in Bills

<table>
<thead>
<tr>
<th>Usage</th>
<th>Current Bills no DSC</th>
<th>Proposed Bills w/ no DSC</th>
<th>Total Impact</th>
<th>% Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>6 ccf</td>
<td>$77.82</td>
<td>$80.15</td>
<td>$2.32</td>
<td>3.0%</td>
</tr>
<tr>
<td>12 ccf</td>
<td>$103.32</td>
<td>$106.40</td>
<td>$3.08</td>
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<tr>
<td>16 ccf</td>
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<td>$123.91</td>
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<tr>
<td>23 ccf</td>
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<td>30 ccf</td>
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<td>50 ccf</td>
<td>$264.78</td>
<td>$272.69</td>
<td>$7.91</td>
<td>3.0%</td>
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FY19 Residential Bill Impacts: Tiered

Sample SFR Bills
Proposed w/ 3% Rev Adj & Tiered Rates for 3/4-in meters & no DSC in Bills

<table>
<thead>
<tr>
<th>Volume</th>
<th>Current Bills no DSC</th>
<th>Proposed Bills w/ no DSC</th>
<th>Total Impact</th>
<th>% Impact</th>
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<tbody>
<tr>
<td>6 ccf</td>
<td>$77.82</td>
<td>$77.30</td>
<td>-$0.52</td>
<td>-0.7%</td>
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<tr>
<td>12 ccf</td>
<td>$103.32</td>
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<td>16 ccf</td>
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<td>6.5%</td>
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<tr>
<td>50 ccf</td>
<td>$264.78</td>
<td>$303.81</td>
<td>$39.03</td>
<td>14.7%</td>
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FY19 Customer Impacts: Uniform

Customer Impacts

*Proposed w/ 3% Rev Adj & Tiered Rates & No DSC & No DSC in Current Bills*

$ change in bi-monthly bills

<table>
<thead>
<tr>
<th>% Bills</th>
<th>-$15 to -$5</th>
<th>-$5 to 0</th>
<th>$0 to $5</th>
<th>$5 to $15</th>
<th>$15 to $25</th>
<th>$25 to $50</th>
<th>&gt; $50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>0%</td>
<td>0%</td>
<td>84%</td>
<td>16%</td>
<td>23%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>Non-Residential</td>
<td>0%</td>
<td>0%</td>
<td>47%</td>
<td>0%</td>
<td>0%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>
FY19 Customer Impacts: Tiered

**Customer Impacts**

*Proposed w/ 3% Rev Adj & Tiered Rates & No DSC & No DSC in Current Bills*

- **% Bills**
  - Residential
  - Non-Residential

- **$ change in bi-monthly bills**
  - -$15 to -$5: 2% Residential, 61% Non-Residential
  - -$5 to $0: 0% Residential, 0% Non-Residential
  - $0 to $5: 23% Residential, 44% Non-Residential
  - $5 to $15: 7% Residential, 21% Non-Residential
  - $15 to $25: 3% Residential, 11% Non-Residential
  - $25 to $50: 3% Residential, 10% Non-Residential
  - > $50: 2% Residential, 14% Non-Residential
WATER SHORTAGE EMERGENCY STAGE RATES
Water Shortage Emergency
Stage Rates Discussion

- **Stage Rates**
  - Recovers the financial cost of an emergency, such as a drought
  - Revenue generating mechanism
  - There is a nexus between the cost of providing service and the associated rates

- **Drought Penalties**
  - Utilizes price to enforce water rationing
  - Non-revenue generating, strictly punitive
  - A violation not based on cost of service
  - Example: City of Santa Cruz excessive water use penalties applied to residential accounts
    - $25 per ccf above 10 units
    - $50 per ccf above 11 units
Water Shortage Emergency Stage Rates Options

1. Monthly Fixed Charge
   - Example: $15 flat charge for 3/4 in. meter

2. Uniform Commodity Charge
   - Example: $0.70 per ccf

3. Uniform Percentage applied to each Tier/Class
   - Example: 20% increase applied to each tier

4. Inclining Commodity Charge
   - Example:
     - Tier 1 (0 to 10 ccf): no surcharge
     - Tier 2 (10 to 50 ccf): $1.50 per ccf
     - Tier 3 (> 50 ccf): $2.50 per ccf
FY19 Stage Rates – Uniform Commodity Rates

- Takes into account 3% revenue adjustment in FY19

<table>
<thead>
<tr>
<th>Description</th>
<th>Base Demand</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in Water Demand</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>Up to 50%</td>
</tr>
<tr>
<td>Projected Water Sales</td>
<td>38,080 AF</td>
<td>34,272 AF</td>
<td>30,464 AF</td>
<td>26,656 AF</td>
<td>19,040 AF</td>
</tr>
<tr>
<td>Unit Stage Rate ($/ccf)</td>
<td>$0.000</td>
<td>$0.469</td>
<td>$1.056</td>
<td>$1.823</td>
<td>$4.214</td>
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<tr>
<td>Uniform Commodity Rates by Stage ($/ccf)</td>
<td>$4.376</td>
<td>$4.845</td>
<td>$5.432</td>
<td>$6.199</td>
<td>$8.590</td>
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</tbody>
</table>
FY19 Stage Rates – Tiered Commodity Rates

- Takes into account 3% revenue adjustment in FY19

<table>
<thead>
<tr>
<th>Description</th>
<th>Base Demand</th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction in Water Demand</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>Up to 50%</td>
</tr>
<tr>
<td>Projected Water Sales</td>
<td>38,080 AF</td>
<td>34,272 AF</td>
<td>30,464 AF</td>
<td>26,656 AF</td>
<td>19,040 AF</td>
</tr>
<tr>
<td>Unit Stage Rate ($/ccf)</td>
<td>$0.000</td>
<td>$0.536</td>
<td>$1.205</td>
<td>$2.005</td>
<td>$4.396</td>
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</tbody>
</table>

Commodity Rates by Stage ($/ccf)

<table>
<thead>
<tr>
<th></th>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
<th>Stage 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single-Family Tier 1</td>
<td>$4.438</td>
<td>$5.107</td>
<td>$5.907</td>
<td>$8.298</td>
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<tr>
<td>Non-Residential</td>
<td>$4.972</td>
<td>$5.641</td>
<td>$6.441</td>
<td>$8.832</td>
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</table>
FY19 Stage Rates Bill Impacts: Uniform Commodity Rates

Sample SFR Bills: Current vs. Proposed FY19 Uniform Rates

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Charge</td>
<td>$52.33</td>
<td>$53.89</td>
<td>$53.89</td>
<td>$53.89</td>
</tr>
<tr>
<td>Commodity Rate</td>
<td>$67.98</td>
<td>$70.02</td>
<td>$70.02</td>
<td>$56.89</td>
</tr>
<tr>
<td>Stage Rate</td>
<td>$0.00</td>
<td>$0.00</td>
<td>$16.90</td>
<td>$13.73</td>
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<tr>
<td>Total Bi-monthly Bill</td>
<td>$120.31</td>
<td>$123.91</td>
<td>$140.80</td>
<td>$124.51</td>
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</table>
FY19 Stage Rates Bill Impacts: Tiered Commodity Rates

Sample SFR Bills: Current vs. Proposed FY19 Tiered Rates

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Fixed Charge</td>
<td>$52.33</td>
<td>$53.89</td>
<td>$53.89</td>
<td>$53.89</td>
</tr>
<tr>
<td>Commodity Rate</td>
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<td>$62.43</td>
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<tr>
<td>Stage Rate</td>
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<td>$0.00</td>
<td>$19.28</td>
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<tr>
<td>Total Bi-monthly Bill</td>
<td>$120.31</td>
<td>$116.32</td>
<td>$135.60</td>
<td>$120.28</td>
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PROCESS FOR ACTIVATING WATER SHORTAGE EMERGENCY STAGE RATES
Water Shortage Emergency Stage Rates

- Water Code Section 350 and Section 31026 authorizes the Board to declare a water shortage emergency when water demands cannot be met without depleting water supplies to insufficient levels
  - Each year staff assess imported and local water supplies, current and forecasted demand, and production constraints
  - If supplies are insufficient, staff evaluate options to utilize water stored in Semitropic water bank or, if necessary, local groundwater storage
  - District Planning limits use of local dry-year groundwater reserves to no more than 10,000 acre-feet. Minimum operating levels for the groundwater basin are +15 feet MSL for the Above Hayward Fault subbasin and 0 feet MSL for the Below Hayward Fault subbasin. However, a short-term level of -5 feet MSL at the BHF indicator well is the expected worst case for a multi-year critical drought.
  - If demands cannot be met within this framework, the Board would consider declaring a water shortage emergency (can only be declared by the Board at a properly noticed public hearing)
  - The Ordinance that declares a water shortage emergency would include the emergency stage, authorize specified water use restrictions and the appropriate stage rate, and take any other necessary actions
Water Shortage Emergency Stage Rates

- Following Board adoption of a water shortage emergency stage rate, the District would provide 30 days advance notice of stage rate implementation
- Stage rates have been developed based on the water shortage emergency stages defined in the District’s Urban Water Management plan as follows:
  - Stage 1: Up to 10% conservation
  - Stage 2: Up to 20% conservation
  - Stage 3: Up to 30% conservation
  - Stage 4: Up to 50% conservation
- The proposed stage rates were calculated to recover the lost revenue from conservation during a water shortage emergency
- District operating costs could increase or decrease depending on the cause of the water shortage emergency
Water Shortage Emergency Stage Rates

- The Urban Water Management Plan (Plan) identifies four water shortage emergency stages with increasingly strict actions to achieve necessary conservation.
- Stages 2-4 include mandatory water use restrictions and staff recommends these levels include stage rates to maintain financial sufficiency despite reduced water demand.
- Stage 1 calls for extensive public outreach, but requests voluntary conservation. A Stage 1 rate would maintain financial sufficiency; however:
  - Stage 1 conservation is less certain than Stages 2-4 due to its voluntary nature.
  - The District’s Rate Stabilization Reserve could be used to help cover revenue shortfalls during a Stage 1, but the District may want to increase this reserve if it would be used in this manner.
  - It’s unclear how long a Stage 1 emergency would last without escalating or ending.
Outreach Plan

- Community Information Meetings
  - One or two meetings in mid-January
  - Open house format

- Presentations – Fall/Winter
  - City Councils
  - Community Organizations
  - Additional Stakeholders

- Public Notifications & Information
  - More comprehensive Proposition 218 mailer
  - Bill message
  - Tri City Voice information piece
  - Website, Social Media
PROTEST PROCESS
Protest Process

- Accept protests in the following forms:
  - Electronically (via a form on the District website)
  - Written protests submitted either before or during the public hearing
- 6,409 electronic protests submitted in 2017
  - Protests were not required to identify the property or confirm property interest, but most did
  - About 1,500 were potentially invalid (duplicate address or outside the District)
- Should protests be required to identify the property and confirm property interest?
- Should staff validate submitted protests?
NEXT STEPS
Board Guidance

- Financial Planning Assumptions & Residential Fireline Policy
- Commodity Rates & Bimonthly Service Charges
  - % Increases
  - Two-Year
  - Uniform or Tiered Rates
  - Stage Rates
- Developer Charges
  - Incremental Component
  - Equity Buy-In Component: Phase-in over 5 years
  - Inflation adjustments
- Public Outreach Plan
- Protest Process
Next Steps

- Develop Public Outreach and Prop. 218 Mailings
- November 13: Finance Committee
  - Review all other miscellaneous rates and charges
- December 13: Board meeting
  - Set Public Hearing for Commodity Rates & Service Charges and Approve Prop. 218 Mailings
  - Set Public Hearing for Developer Charges
  - Review Miscellaneous rates and charges
- December 21: Deadline to Mail Prop. 218 Notices
Next Steps (cont.)

- January 1, 2019: Developer Notification Letter Mailed Out
- Mid-January 2019: Community Meeting(s)
- February 7, 2019: Board Meeting
  - Public Hearing for Commodity Rates & Service Charges
  - Public Hearing for Developer Charges
  - Consider Adoption of Amendments to the Rate & Fee Schedule
- March 1, 2019: Effective Date for Commodity Rates, Service Charges and Miscellaneous Charges
- May 1, 2019: Effective Date for Developer and New Water Service-Related Charges
QUESTIONS