How Allocation-based Rates are Established

“Water is the most vital resource in every human endeavor…but the economics of water area mash-up of tradition, wishful thinking and poor planning.”

Charles Fishman, The Big Thirst

“Doing the same thing over and over again and expecting a different outcome, is the definition of insanity. Think differently.”
Successful Rates = Asking the Right Questions:

1. Maintain revenue stability regardless of water sales
2. Create a “conservation ethic” (efficiency by all customers all the time)
3. Be fair and equitable to customers
4. Get board re-elected
How Allocation-based Rates Align w/ State Legislation, User Needs, Science & Logic

(# Residents) (55 gpcd) + (ET) (SF) (.80) = Household Allocation

(Reality + State Standard) + (Science + Reality + State Standard + Logic) = Win/Win
(# Residents) (55 gpcd) + (ET) (SF) (.80) = Household Allocation

Tiered Charges only for over allocation use
Typical Rate Structure Process w/ Added Steps for Sophistication

\[(\# \text{ Residents}) \times (55 \text{ gpcd}) + (\text{ET}) \times (\text{SF}) \times 0.80 = \text{Household Allocation}\]

**Process:**
1. Board/staff workshop
2. Board direction to staff
3. Staff involvement
4. Cost of service study/rate study
5. Development of landscape square footage data
6. Development of local ET
7. Billing system review/upgrade
8. Policy review
9. Board review
10. Stakeholder outreach
11. Testing the “system”
12. Public Hearing/Prop 218

SAWPA Grant
Allocation-based Rates Make Sense to Users

\[(\text{# Residents}) \times (55 \text{ gpd}) + (\text{ET}) \times (\text{SF}) \times (0.80) = \text{Allocation}\]

3 Las Virgenes MWD Board Members

Use Allocation

20% Reduction
What is the Impact of Allocation-based Rates?

- Less risk of “Fixed” revenue loss (regardless of weather, water use, drought, economy)
- Significant landscape use reduction
- New funding mechanism for efficiency programs
- High Customer response (80%+)
- Reduced urban water runoff

The water allocation process is fair
I understand the rate structure

Residential GPCD

Flows in San Diego Creek at Culver

Average Flow for July (cfs)


Drought
Tiered Rates
Landscape Rebates

El Niño 1998
A Great Story…?

WBR Implementations:

- IRWD (1991)
- Boulder, Co. (2007)
- Palmdale WD, (2008)
- Coachella Valley WD (2008)
- City of Corona (2009)
- Rancho California WD (2010)
- Elsinore Valley MWD (2010)
- El Toro WD (2010)
- Monte Vista WD (2010)
- Moulton Niguel WD (2011)
- Western Municipal WD (2011)
- East Valley WD (2015)
- Las Virgenes MWD (2016)

- “People now pay attention to leaks and water waste.” PWD
- “Agency cost recovery is right where we estimated even with significant water savings.” RCWD
- “85% of our users meet the water efficiency standards.” MNWD
- “We have 90%+ Customer Satisfaction.” IRWD
- “We had a payback for the new rate structure implementation within 6 months.” WMWD
Change is Happening...

- State Legislation
- Climate
- Public Perception

“Change” itself is “Hard”

Customers View of Agencies:

- “70% of the public has a very poor understanding of water systems and services” (AWWA, SOTWI, 2014)
- “Effectively communicating... the industry has struggled...” (AWWA SOTWI, 2014)

“"You asked us to save and then you raise our rates...”"

Or,

“Your rates are unfair for my family and business...”
Is There a Cost of **NOT** Changing?

City of 300k Accounts

- Lost $25 million between 2008-2012
  (Customers unhappy w/ fixed tiers)

Special District of 20k Accounts

- Used $5 million out of Reserves to balance the budget since 2010
  (Customers unhappy w/ fixed tiers)

Why?

- 65% of costs are fixed
- 16% of fixed costs recovered on fixed charge
- 84% of fixed costs imbedded in tiers (variable charge)
- Customers used less water, partly due to economy and drought

Source: 2006 City Rate Study
“Water is Free, why do I have to pay for it all?”

“I just had the most amazing phone call. This customer called quite upset, armed with plenty of misconceptions about the water industry that he was ready to attack me with. I was able to counter all his points in a kind but brutally honest way. It was awesome! Wish more people would call with hard questions about water and the industry.” (5/2/14) Gregory Bucy, Customer Service Rep 1, WMWD
Allocation-based Rate Structure...

- Solve for the right questions
- Equity does take more data, more time, more work
- Model any scenario
- Changes the relationship between the customer and water, and the agency and constituents

“Think differently.”
Are Tiered Water Budget Rates Legal?

“We see nothing in Article XIII, section 6, subdivision (b) (3) of the California Constitution that is incompatible with water agencies passing on the true cost of water to those consumers whose extra use of water forces water agencies to incur higher costs to supply that extra water.”

Court of Appeal – 4th District, April 20, 2015

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<th>Designed to meet Prop 218</th>
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<td>• Financial study</td>
<td>• Proportional to the parcel</td>
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<td>• Model scenarios of cost recovery</td>
<td>• Nexus between the rate per tier and the water source cost</td>
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<td>• Settle on the design that achieves the various agency goals with the least financial risk to the agency</td>
<td>• Utilize State efficiency guidelines</td>
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What Did it Look Like

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$377.84