June 17, 2020

Attention: Administrative and Finance Committee

Adopt the Water Authority’s Rates and Charges for Calendar Year 2021. (Action)

Purpose
To establish rates and charges sufficient to meet the Water Authority’s revenue requirements in conformance with state law and board policies.

Staff recommendations
a. Conduct the Public Hearing;

b. Adopt Ordinance No. 2020-__ an ordinance of the Board of Directors of the San Diego County Water Authority setting rates and charges for the delivery and supply of water, use of facilities, and provision of services;

c. Adopt Resolution No. 2020-__ a resolution of the Board of Directors of the San Diego County Water Authority continuing the Standby Availability Charge;

d. Adopt Ordinance No. 2020-__ an ordinance of the Board of Directors of the San Diego County Water Authority amending and restating the System Capacity and Water Treatment Capacity Charges imposed by the Water Authority pursuant to Section 5.9 of the County Water Authority Act;

e. Find the actions exempt from CEQA pursuant to Public Resources Code § 21080(b)(8) and authorize the General Manager to file a notice of exemption.

Alternative
Direct staff to set a different time or date for the public hearing.

Fiscal Impact
The proposed water rates and charges, in combination with reserves, property tax revenues, the System Capacity Charge, the Water Treatment Capacity Charge, the Infrastructure Access Charge (IAC), investment income, the Standby Availability Charge, and the Supply Reliability Charge (SRC), are expected to raise revenues sufficient to meet the Water Authority’s revenue requirement, bond covenants and other key fiscal policy goals. The recommended M&I All-In cost of water increase for CY 2021 is $68/AF or 4.8% for untreated water and $83/AF or 4.9% for treated water. These increases continue to be mitigated by a projected draw of approximately $80 million from the Rate Stabilization Fund (RSF) over the next 24 months.
Executive Summary

- Updated proposed rates further reduce May rate proposal by 30%.
- Recent economic and market conditions resulted in updated assumptions impacting CY 2021 rate proposal.
- Treated Water Cost increasing from the CY 2020 All-In rate of $1,686 to $1,769 in CY 2021 rates, a $83 or 4.9% increase.
- Untreated Water Cost increasing from the CY 2020 All-In rate of $1,406 to $1,474 in CY 2021, rates a $68 or 4.8% increase.
- Provide more than $80 million in rate relief from the Rate Stabilization Fund over the next 24 months.

Background

At the May 28, 2020 Board meeting, staff provided a report on the proposed CY 2021 rates and charges, as well as a draft of Carollo’s independent cost of service study. The report not only provided the proposed CY 2021 rates and charges but also discussed the primary drivers behind the proposed increases. The key rate and charge drivers identified in the board report are MWD’s rate increases, increased QSA water deliveries, and the reduced water sales environment. Staff’s presentation and the Carollo Report also included two rate alternatives. These alternatives provided offered lower rates by neglecting existing Board policies and target levels. The Board memo associated with the report is provided as Attachment A.

Previous Board Actions

On May 28, 2020, the Board received the detailed staff report and Carollo’s draft cost of service study recommending the proposed CY 2021 rates and charges, and adopted Resolution 2020-05 setting the time and place for the public hearing on June 25, 2020 to receive comments on the proposed rates and charges.

Discussion

The June 25, 2020 Administrative and Finance Committee meeting has been scheduled as the time, date, and place to receive public comments regarding proposed rates and charges, including the information presented in connection with the May 28, 2020 meeting and the additional information provided in this memorandum, and any other matters pertinent to the Board’s setting of rates and charges. In addition, upon the Board’s May action, the Cost of Service Report from Carollo Engineers was finalized and is provided as Attachment B.

Benefitting from recent unanticipated economic and market conditions, certain operational efficiencies and cost assumptions were identified and incorporated to provide additional rate relief.

In its May 28th, 1st Quarter 2020 Gross Domestic Product (GDP) report, the Bureau of Economic Analysis stated that GDP decreased at an annual rate of 5.0%, down from a 4th quarter increase of 2.1%. Following this release, the Water Authority worked with one of its financial advisors, Chandler Asset Management, to revisit the forecasted escalation assumption for IID supplies. Per the existing IID agreement, these supplies are escalated annually based on the prior calendar’s (CY 2020) gross domestic product implicit price deflator (GDPIPD). Based on Chandler’s analysis, staff revised the CY 2021 forecast down to 0.5% from 2.3%.

Resulting from April and May’s water sales and related purchase costs, staff revised assumptions related to the funding of future dredging needs and other production factors. Given the unanticipated
shortfalls in desal production, the dredging costs are now assumed to be funded from CY 2020 revenues, rather than CY 2021. Similar production allowances and related costs were removed from the CY 2021 cost of water calculation and will be revisited next year.

As a result of these adjustments, the initial 6.3% rate increase (presented in May) has been reduced to a 4.8% all-in untreated rate increase. Specifically, the savings have been applied to lower the Supply Reliability Charge and Transportation rate. The Water Authority’s CY 2021 rates and charges could be further reduced, following any material adjustments from Metropolitan Water District of Southern California pending their commitment to revisit its budget and rates this fall. As with all forecasts, these additional forecasted savings have a certain level of uncertainty but are reasonable to apply to current CY 2021 assumptions. Staff does not anticipate any additional planned use of the Rate Stabilization Fund or overall financial health of the Water Authority.

The proposed actions are exempt from CEQA as provided by statute under Public Resources Code §21080(b)(8). This Statutory Exemption is stipulated for actions involving the establishment of water rates, tolls, fares, or other charges for the purpose of meeting operating expenses, including employee wages and benefits; purchasing or leasing supplies, equipment, or materials; meeting financial reserve needs and requirements; or obtaining funds for capital projects within existing service areas. The General Manager is therefore authorized to file a Notice of Exemption pursuant to Public Resources Code §21152(b) and §15061(d) of the State CEQA Guidelines (Title 14, Chapter 3, California Code of Regulations).

The Water Authority has complied with the procedural requirements for continuing the Standby Availability Charge and increasing its rates and charges for water and other services. After consideration of public comments at the Public Hearing on June 25, 2020, the staff recommends that the Board adopt the ordinance setting the water rates and charges for CY 2021.

Prepared by: David Gore, Senior Management Analyst
Reviewed by: Pierce Rossum, Rate and Debt Manager
Lisa Marie Harris, Director of Finance/Treasurer
Approved by: Dan Denham, Assistant General Manager

Attachments:
Attachment A - May 20, 2020 Board Memo on setting the public hearing for proposed CY 2021 rates and charges
Attachment B - Carollo Engineers’ Cost of Service Study dated June 2020
Attachment C - Ordinance No. 2020-__ an ordinance of the Board of Directors of the San Diego County Water Authority setting rates and charges for the delivery and supply of water, use of facilities, and provision of services
Attachment D - Resolution No. 2020-__ a resolution of the Board of Directors of the San Diego County Water Authority continuing the Standby Availability Charge
Attachment E - Ordinance No. 2020-__ an ordinance of the Board of Directors of the San Diego County Water Authority amending and restating the System Capacity and Water Treatment Capacity Charges imposed by the Water Authority pursuant to Section 5.9 of the County Water Authority Act