May 20, 2020

Attention: Administrative and Finance Committee

Resolution setting a Public Hearing date for the Water Authority’s proposed calendar year 2021 Rates and Charges. (Action)

Purpose
The purpose of this report is to present the recommended rates and charges for calendar year 2021 and to adopt a resolution setting a time and place for a public hearing for the consideration and adoption of the recommended rate and charge increases for water, services and facilities.

Staff recommendations
A. Adopt Resolution Number 2020-__ setting the time and place for a public hearing on June 25, 2020, at or after 9:00 a.m., or as soon thereafter as may practicably be heard, during the Administrative and Finance Committee meeting, to receive comments regarding recommended rates and charges to be effective January 1, 2021. (Action)

B. Preliminary Assessment of Calendar Year 2021 Rates and Charges. (Presentation)

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

Fiscal Impact
The recommended water rates and charges—in combination with reserves, property taxes, 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 meet the Water Authority’s revenue requirement, bond covenants and other key fiscal policy goals.

Taking the standard rate-setting approach would have resulted in the Water Authority increasing rates more than 20% to address significant cost increases from the Metropolitan Water District of Southern California (MWD), persistently low water sales, and multiple other challenges. Instead, the Water Authority is recommending unprecedented measures to provide maximum rate relief while maintaining the good financial standing and resilience. Through a combination of proposed operating budget adjustments, CIP reprioritization, cash optimization, and debt restructuring, the “All-In” untreated rate¹ will increase by 6.3%. Accounting for the decreased sales volume, the net increase to the recommended rates and charges is 3.0%.

The recommended increases to the Water Authority’s volumetric rates ($/AF) are as follows: Melded Supply 1.6%, Melded Treatment 5.4%, and Transportation 24.2%. For Supply and Treatment rates, lower sales correspond to lower costs; however, transportation costs are entirely

¹ The “All-In” rate is a comparative metric and does not reflect an actual rate to be charged. The Water Authority’s Fixed Charges are converted to a $/AF equivalent based on applicable AF measures.
fixed, and the increase reflects higher capital costs as well as a 14% reduction in acre-feet of sales by the Water Authority.

The Water Authority’s recommended Customer Service Charge remains unchanged at $25.6M and the Storage Charge is recommended to decrease 7.7% to $60M (down from $65M in CY 2020). The decrease to Storage reflects savings due to refunding of the 2011 and 2013 series debt.

The SRC and IAC are recommended to be adjusted in accordance with their Board-defined calculations. The SRC is calculated to increase 10.3% to $41.7M. This increase corresponds to the final year of ramped up IID deliveries. It is forecasted that the SRC will remain stable at this level. The IAC is forecasted to increase by 15.8% to $4.24 per month per meter equivalent. This increase would complete the Board-directed two-year ramp-up of the IAC. The recommended rate is below the prior estimate of $4.43 due to the proposed debt measures.

All rate proposals have been mitigated by various and unprecedented measures. These strategies include, projected Rate Stabilization Fund minimum draws of approximately $9.5M in FY 2021 and $33M in FY 2022, cash and debt portfolio optimization, and the use of operational storage to lower supply costs. This follows a forecasted $38M RSF draw in June 2020 (FY 2020).

**Executive Summary**

- The Water Authority has used unprecedented measures to minimize recommended rate adjustments in light of significant rate drivers and the pandemic-induced recession.
- To accommodate Board direction, three alternatives are presented: (1) Staff Recommendation, (2) No Increase to the All-In Rate, and (3) Maintain CY 2020 Rates and Charges.
- Only staff’s recommendation provides sufficient revenue to maintain existing Board policies and preserve the Water Authority’s strong credit.
- CY 2021 rate recommendation are below the mid-point of previously provided guidance.
- The recommended All-In increase is 6.3% for untreated water and 6.2% for treated water. This is equivalent to a net increase of 3.0% when adjusted for the decline in sales.
- Following a forecasted $38M use of Rate Stabilization funds in FY 2020 (June 2020), draws of $9.5M and $33M in FY 2021 and FY 2022 are forecasted to provide maximum near- and long-term rate relief.
Background

*Metropolitan Water Rate Increases*

At its April 2020 meeting, the MWD Board adopted its fiscal years 2021 and 2022 biennial budget and calendar years 2021 and 2022 rates and charges. Following the initial financial impacts stemming from the COVID-19 response, MWD staff also provided an updated recommendation to its original February proposal. The updated recommendation would result in “overall” rate increases of 3 percent in 2021 and 4 percent in 2022, reduced from the annual 5 percent “overall” rate increases proposed in February. These rate reductions were achieved by updating budget assumptions related to increasing treated water sales and reducing MWD’s Capital Investment Plan.

For CY 2021 this resulted in increases of 2.4% and 2.9% to volume-sensitive treated and untreated Full Service MWD supplies, respectively. MWD’s non-volume sensitive Readiness-to-Serve (RTS) decreased by 4.4% while the Capacity Charge increased by 21.6%. These two charges are passed straight through to the Water Authority’s Member Agencies. While the overall cost of MWD Full Service rate experienced a modest overall increase, the component costs of transporting MWD supplies or the Quantification Settlement Agreement (QSA) water to the San Diego region will increase by 10.8% in CY 2021 due to the increases in the System Access Charge (7.8%) and the System Power Charge (18.4%).

Before MWD’s budget and rates adoption, the Water Authority’s MWD Delegates advocated that MWD take measures to cut costs immediately, similar to other water agencies, and made a substitute motion to direct staff to present an updated budget and rates proposal incorporating additional cost cutting measures in May or June. They noted that MWD member agencies and ratepayers do not pay the “overall” rate; and the recommended 2021 rates would result in a more than 9 percent increase in the Water Authority’s MWD costs (or, when MWD’s two fixed charges are factored in, more than 7 percent cost increase at the retail level), which are “unacceptable.” MWD’s April recommended measures shift costs around and largely benefit treated water agencies and do little for agencies who rely on MWD for untreated water or transportation services. Although the substitute motion gained support from the Burbank, Los Angeles, San Fernando, and Water Authority delegations, it did not pass. And ultimately, the MWD Board, with a little more than 63 percent support, adopted the updated recommendation with two amendments that afford it another opportunity to revisit the adopted budget and rates by or at its September 2020 meeting.²

*Water Sales Environment*

Water demand in the San Diego region is closely linked to the local economy, population, and weather. Over the last several decades, a prosperous economy stimulated local development and population growth, which in turn produced a general upward trend in water demand. However, starting in the late-2000s, a combination of numerous factors, including economic recession, prolonged drought conditions, state-mandated emergency water use regulations, Metropolitan

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² For more information on MWD’s April 2020 budget and rate action, see the memo *Update on Metropolitan Water District Budget & Rates* in the Water Authority’s May 2020 Board Packet found here: [https://www.sdcwa.org/meetings-and-documents](https://www.sdcwa.org/meetings-and-documents).
supply allocations, and member agency water-use restrictions culminated in a dramatic multi-year decrease in total water demand. In fiscal year (FY) 2007, water demand in the Water Authority’s service area reached a record level of just over 741,000 AF. Water use in FY 2019 was roughly 463,000 AF, 38% less than FY 2007 water demand.

The reduction in water demand in the Water Authority’s service area since FY 2007 was due to multiple factors, including many that unnaturally suppressed water use. Recent examples include restrictions adopted by the State Water Resources Control Board (SWRCB) in 2015 that required a 20% aggregated region-wide reduction in potable water use. This marked the first time in California’s history that conservation measures were mandated statewide in response to drought conditions - without a true accounting of water supplies available to individual agencies. In response to the 2015 SWRCB mandate, the San Diego region reduced potable water use by 21%. Also, during this period, Metropolitan’s Board of Directors announced that it would implement its Water Supply Allocation Plan, calling for a 15% cutback in FY 2016 deliveries. In response, the Water Authority approved member agency supply allocations for FY 2016. The extraordinary measures implemented by the San Diego region’s customers in response to these water use restrictions resulted in FY 2016 total regional water demand plunging to approximately 455,000 AF – demand levels not seen since the mid-1980s.

While water demand did experience an increase of 5% in FY 2017, and again at 9% in FY 2018, it was clear that water demand would not rebound to the projected 587,581 AF (an increase of 23% from FY 2017 water use) of demand in 2020 that was forecasted in the 2015 Urban Water Management Plan (UWMP). This difference created a disconnect between the 2015 UWMP long-range demand forecast, and regional water demand projections based on actual demands being experienced. Because of this disconnect, in 2018 an interim water demand forecast reset (2018 Interim Reset) was needed to adjust for a downward shift in projected total water demand since the 2015 UWMP. The 2018 Interim Reset was intended as a provisional update to support on-going Water Authority supply, facility, and financial planning activities that utilize regional long-range demand projections. The 2018 Interim Reset was not a comprehensive update of the demand forecast model or modification of underlying SANDAG demographic and economic projections. That next comprehensive update was scheduled to take place during preparation of the Water Authority’s 2020 UWMP and is currently underway.

As part of the 2018 Interim Reset, a core set of assumptions were developed based on member agency input, current demand trends, and estimated impacts associated with the mandatory water use prohibitions. These assumptions included projected annual growth in total demand between 2018 and 2020 would range from 2% to 4% a year, which was less than previous post-drought periods due to implementation of long-term water use efficiency practices. Another assumption was that post-2020, water use would maintain the same five-year incremental demand growth rate as in the 2015 UWMP.

Using the above assumptions, staff evaluated various scenarios across a range of demand trends for both near-term recovery and long-range growth in water demand through 2040. The 2018 Interim Reset normal-year scenario selected was determined to best represent a reasonable re-estimation of projected total water demand for the San Diego region. The 2018 Interim Reset showed a reduction
in projected demand in 2020 of approximately 51,000 AF, as compared to the 2015 UWMP. Beyond 2020, the 2018 Interim Reset followed the same incremental growth rate in water demand as the 2015 UWMP, resulting in a revised regional water demand projection of 655,000 AF in 2040.

To project water demands for Calendar Year 2021, several factors were considered that can influence water demands, including economic conditions, price of water and weather. Year-over-year variations in weather, particularly local rainfall, can have the largest impact on near-term consumptive water use in the San Diego region. As an example, rainfall at Lindbergh Field in FY 2017 totaled almost 13 inches (roughly 30% above normal). In FY 2018, rainfall dropped to roughly 3.5 inches. This decrease in annual precipitation was a primary driver for a year-over-year increase in water demands of 9%, or 41,000 acre-feet, for FY 17 to FY 18.

When projecting water demands for CY 2021, it is important to note that weather in the San Diego region has been wetter-than-normal in both FY 2019 and FY 2020. This contributed to the current downward trend in annual water demand, especially in areas with a significant amount of water use related to outdoor landscape and agricultural irrigation. However, in the absence of projections from the National Weather Service or National Oceanic and Atmospheric Administration regarding next winter’s rainfall, a return to normal weather is assumed. This assumption results in a moderate uptick of 2.5% in projected near-term regional water demand for the CY 2021 rate setting process, although individual demand trends may vary by member agency.

Looking ahead, the Water Authority’s 2020 UWMP will include an update of the Water Authority’s long-range water demand forecast that will reflect updated demographic and economic projections. Preliminary work on the update was initiated in September 2018 when the Board approved a services contract with Hazen and Sawyer. As a first step, a detailed data collection effort with the member agencies commenced in late 2018. The data collected included historic monthly billed account totals, water production data, and sales by customer class. Survey results were compiled and combined with similar data from the Water Authority’s 2015 UWMP update in a statistical modeling database. Monthly temperature and rainfall readings, as well as SANDAG’s Series 14 Regional Growth Forecast variables, were also gathered and incorporated into the modeling database. To facilitate regional coordination during this process, the Water Authority formed an UWMP Working Group comprised of staff from the Water Authority and its member agencies. Re-estimation of sector-level models is completed. Water Authority staff is in the process of reviewing the preliminary regional baseline water demand forecast and anticipates presenting it to the Water Authority Board of Directors in Summer 2020.

**Reconstituted Fiscal Sustainability Task Force**

On June 27, 2019, The Board adopted the General Manager’s Recommended Budget for Fiscal Years 2020/2021. The Board action was modified and adopted to include the reconstitution of the Fiscal Sustainability Task Force (FSTF) to provide a forum for discussion and recommendations regarding the Water Authority Rates and Charges and financial policies, ensuring fair and proportionate recovery of capital investments and continued long term financial health of the Water Authority.
In July 2019, the FSTF was established and comprised of a mix of Member Agency Managers and Water Authority Board Members. Based on guidance from the Board, the FSTF was tasked to focus on the following themes:

1. Current fixed charges (Infrastructure Access Charge and Supply Reliability Charge)
2. Special Agriculture Water Rate
3. Capital Funding Strategy (PayGo & Debt)
4. Reserve Policies (including rate stabilization fund)

Between August 2019 and February 2020, the FSTF met on ten occasions. Over this period, the task force discussed a myriad of topics focusing on the Temporary Special Agriculture Rate (TSAWR), Infrastructure Access Charge (IAC) policy, the fixed/variable charge mix, roll-off and detachment impacts, and MWD rates. To better frame these discussions, subject matter experts presented key data that impact rates and charges including budget and its development process, water demand and forecasts, cost of service and rate setting, operations and maintenance, and capital budgeting and planning.

From this discussion and analysis, the task force provided two recommendations for Board consideration including the 2nd year of the forecasted IAC ramp up be included in the CY 2021 Rates and Charges and that the TSAWR be made permanent. As such, the Board adopted a permanent Special Agricultural Water Rate (SAWR) in November and discussed that the 2nd year ramp up of IAC be incorporated in the CY 2021 Rate and Charges.

The Water Authority staff has begun the process of completing significant data analysis and long term plans supporting water demand forecasts, future CIP, and long-range financing policies and plans. The staff anticipate the completion of these plans beginning this summer through the fall of 2020. The outcome of these plans will assist the task force in developing additional objectives in support of future rates and charges and policies supporting the fiscal sustainability of the Water Authority. As such, the task force will begin discussions this summer to evaluate data from these plans to develop future recommendations for the board’s consideration.

**Creation of Permanent Special Agricultural Water Rate Program**

On March 26, 2015, the Board approved the extension of the TSAWR program through December 31, 2021. Based on the FSTF recommendation, in November 2019, the Board directed staff to develop a permanent program in coordination with the CY 2021 Rate Setting Process. Similar to the existing transitional program, the proposed Permanent Special Agriculture Water Rate (PSAWR) Program lower cost continues to recognize the reduced supply reliability. While the proposed rate is defined through the cost of service process, the specific program details and eligibility requirements are to be defined through a separate process led by Water Resources.
Prudent Financial Management and Long-Range Planning

The Water Authority has a long history of prudent financial planning. In 2006, the Board strengthened the Water Authority’s key financial ratios by setting a Senior Lien Debt Service Coverage Ratio (DSCR) target of 1.50x and establishing a target funding level for the RSF that better protects the Water Authority. These early actions helped the Water Authority navigate The Great Recession (2008) and continue to support the Water Authority’s AAA/Aa2/AA+ credit ratings and access to lower interest rates during this global pandemic (Covid-19).

In 2014, the Board, member agencies and Water Authority staff engaged in an its first FSTF process. Central to this effort was a detailed review of the Water Authority’s revenue structure and evaluating potential enhancements that would further strengthen the Water Authority’s future fiscal health. One of the key actions taken as part of the fiscal sustainability review was the creation of the Supply Reliability Charge (SRC). This charge, implemented in CY 2016, recognizes the importance of equitably recovering the cost of the Water Authority’s investments in long-term water supply reliability in accordance with cost of service principles and California law. As adopted by the Board, the SRC recovers a portion of the water supply costs associated with the Carlsbad Desalination Plant (the Plant) and the Imperial Irrigation District’s (IID) water transfer. In addition to recovering a proportionate share of the cost of water supply reliability, the SRC also helps to reduce water sales revenue volatility by increasing the amount of fixed revenues.

Many of these actions and planning efforts, are detailed and guided by the Water Authority Long-Range Financing Plan (LRFP). This planning document assists to develop and maintain consistent application of financial goals, objectives, measures, and policies. Last adopted in June 2016, staff is currently in the process of developing a 2020 LRFP.

COVID-19/Recessionary Environment

On March 4, 2020, a State of Emergency was declared in California due to the COVID-19 outbreak. Stay-at-home orders were issued, non-essential businesses were closed, and social distancing requirements were instituted. Especially relevant to the San Diego County Water Authority’s Member Agencies, though not wholesalers like the Water Authority, executive order N-42-20 suspended water shutoffs for non-payment. For the first time in the Water Authority’s seventy-five year history, a pandemic has reached San Diego, with widespread effects. The result has been economic difficulties throughout the San Diego region.

The entire nation is entering a time of economic uncertainty due to the Novel Coronavirus. More than 86 S&P 500 companies suspended earnings guidance in April, declining to proffer forecasts of the pandemic’s effect on their businesses. COVID-19 has injected uncertainty into the water provider market as well. The financial impact of the moratorium on water shutoffs is uncertain. The full impact of the stay-at-home order and phased economic reopening on water sales is unknown. The exact economic result of reduced construction on the San Diego region, which the Newsom administration projects to drop 21% statewide, is unclear. What is clear is that uncertainty is ubiquitous.
Record unemployment claims have been filed since the Coronavirus outbreak reached the U.S., vaulting the unemployment rate from under 4% to nearly 15% in two months according to the Bureau of Labor Statistics. SANDAG, who uses business-based data rather than household-based data, shows that San Diego’s unemployment numbers have skyrocketed from 3.4% on the seventh of March to 26.8% today. The prevailing opinion among economists is that the U.S. has entered a recession. Like the cause of this economic downturn, the length and the depth of the recession is still unknowable.

As of early May, Governor Newsom’s administration is projecting a $54.3 billion-dollar deficit which signals a possible decrease in state funding to local governments. Locally, SANDAG is projecting a $7.2 billion to $8.4 billion decrease in tax revenue to the San Diego region in 2020 and is forecasting a recession for the next year or two. The decade-long economic recovery appears to have come to an end.

Financial markets have also been impacted by COVID-19. Credit markets began to freeze in mid-March, and the municipal bond market was shut down to new issuers. The Federal Reserve Board reacted swiftly and created a $500 billion Municipal Liquidity Facility. Since that time, the municipal bond market has recovered, and rates have returned to near pre-COVID levels. The market is presently stable with low bond yields, though the environment could shift as a wave of municipalities issue bonds to cover revenue shortfalls.

Tempering the credit market optimism is the ratings agency perspective of regulated utilities. At Moody’s mid-March utility sector update they stated that the economic shutdown could hurt the credit quality of some utilities. S&P Global has revised its outlook for North American regulated utilities from “stable” to “negative” due in part to concerns that COVID-19 impacts will eat away at financial reserves and the ability to increase rates. Presently, maintaining responsible reserve levels is especially important to the credit rating agencies.

The San Diego region and entire country are facing a turbulent economic environment. Member Agencies are facing economic challenges, and the Water Authority is responding by balancing short-term rate relief with long-term financial health.

**Comprehensive Cost of Service Review**

Following an issued request for proposals in summer of 2019, the Water Authority selected and engaged Carollo Engineers (Carollo) to perform a Cost of Service Study to review, calculate, and validate the Recommended CY 2021 water rates and charges. In addition to this scope, Carollo assisted as part of the FSTF process by presenting an overview of the Cost of Service process and as well as an update on industry trends related to rate-setting.

In meeting this scope, Carollo reviewed the Water Authority’s cost of service methodology and financial model for continued compliance with California legal requirements, as described in the Cost of Service Study Section 2.4, American Water Works Association cost of service standards, industry best practices, and Water Authority Board Policies, as described in the Cost of Service Study Section 2.3. Together, these establish the cost of service standard that is referenced throughout the report.
Discussion

Facing significant headwinds and the continued and looming economic fallout of Covid-19, the Water Authority was facing rate pressures in excess of 20 percent. Outlined below are some of primary drivers impacting the CY 2021 rate and charge recommendations.

- **Reduced Water Sales Environment (14% Rate Impact)**
  10 months into the fiscal year, actual water sales are trending 14% below budget estimates. Forecasted CY 2021 sales are 15% below estimates a year ago. At these levels, a 1% change to sales is roughly equivalent to a 1% increase to rates. The combination continued water conservation, multiple wet-years, and now the looming economic reductions, reduced water sales are the most significant driver the proposed rate adjustments.

- **MWD Rate and Charge Increases (3% Rate Impact)**
  The cost of purchasing Full Service Untreated and Treated water increased 2.9% ($22/AF) and 2.4% ($26/AF) respectively. The cost to transport QSA water to the service area increased 10.8% or $52/AF. MWD’s Readiness-to-Serve decreased by 4.4%. The amount allocated to the Water Authority continues to decrease due to desalinated water and the IID ramp-up lower the Water Authority’s 10-year rolling average. The RTS and Capacity Charges equate to $22.8 million ($12.2 million net Standby Charge credit\(^1\)) and $9.2 million, respectively. Translated to a per acre-foot costs, the RTS and Capacity Charge equate to $314/AF and $137/AF of MWD deliveries, respectively. The RTS allocation is based on the proportion of deliveries over the last ten years, and the Capacity Charge is allocated based on the demand placed on MWD’s system during the peak demand day for each of the last three years. As directed by the Board, these charges are not incorporated into the Water Authority’s rates and charges, rather they are passed straight through to Member Agencies.

- **Scheduled Increase in IID Water Transfer Deliveries (1% Rate Impact)**
  In CY 2021, the IID water transfer deliveries will increase by 12,500 AF, which results in a $5.5M net increase in the total cost of water. CY 2021 marks peak deliveries of 205,000 AF. Following 202,500 AF in CY 2022, the primary transfer volume is stabilized at 200,000 AF. This cost increase is represented by the calculated increase to the SRC.

Some drivers are not easily quantifiable but continue to constrain or pressure rate setting.

- **Debt Coverage Driven** – The Water Authority rates continue to be pressured by its nearly $125M in annual senior lien debt service obligations and the Board’s target of 1.50x coverage. As water sales fall without a corresponding decrease in expenditures, the fixed debt service expensive becomes a larger factor.

- **Historical Rate Smoothing** – The Water Authority has long been a proponent of smooth and predictable rate setting. One downside of this smoothing is when previously identified headwinds become stronger than previously forecasted or unforeseen
challenges (Covid-19) enter the fray. A $38M draw in June 2020 is planned as part of prior rate smoothing efforts.

- **Utilization of the Rate Stabilization Fund** – CY 2021 increases are being mitigated by a projected $9.5M draw from the RSF in FY 2021 and a larger $33M draw in FY 2022. This results in approximately $61/AF of rate relief. The draw helps offset the net impact of increases to MWD rates, the volumetric increase in the IID transfer, and reduced water sales.

While some of these drivers are one-time events or costs, excessive use of the rate stabilization fund to mitigate structural rate pressures (lower water sales and MWD increases), does not provide long-term rate-relief and rates will need to increase in time to fully address those pressures.

As part of the 2015 LRFP, staff developed a high/low rate and charge forecast to support member agency financial planning efforts. The high/low rate and charge forecasts were based upon scenarios varying the level of water sales, MWD rate and charge increases, and CIP expenditures. Despite a turbulent environment not reflected in the various scenarios, the CY 2021 recommended rates and charges continued to fall well within that guidance. The Water Authority’s total cost of untreated water is recommended to increase by 6.3% and the cost for treated water is recommended to increase by 6.2%. It should be noted that the actual cost of water will vary by member agency based upon each agency’s fixed charge allocations.

**Setting Water Rates and Charges**

On an annual basis, the Water Authority staff develops recommended water rates and charges, which it presents to the Board of Directors for adoption. Historically, staff presents a single recommendation and does not forecast or opine on rates beyond that year. Facing the unparalleled challenges and uncertainty of this year’s rate setting environment, staff is providing greater transparency of its rate forecast and analyzed financial scenarios.

In addition to staff’s rate recommendation for CY 2021, the analysis now includes forecasted rates for two additional years (CY 2022 and CY 2023). While the Board is only asked to approve rates and charges for CY 2021, the two additional years will provide the Board greater context as to rate smoothing and use of reserves. Additionally, staff is providing alternative financial forecasts to better frame staff’s recommendation.

Water rates and charges include the Melded Supply, Melded Treatment, Transportation rates and the Customer Service, Storage and Supply Reliability charges. Each year the Water Authority undertakes the following cost of service analysis to determine water rates and charges.

- **Step 1. Establish the revenue requirement**—determine the total amount of revenue needed to recover the Water Authority’s annual operating (operations and maintenance of facilities, cost of water, treatment costs, etc.) and capital expenditures (cash and short and long-term debt)
• Step 2. Allocate the revenue requirement and offsetting non-commodity revenues (i.e. investment income, property tax, IAC, etc.) to rate categories (Melded Supply, Melded Treatment, Transportation, Storage, Customer Service and SRC) to determine the net revenue requirement for each rate category
• Step 3. Determine rates and charges based upon the net revenue requirements, water sales projections and other key financial management metrics (i.e. senior lien debt service coverage, fund deposits and withdrawals)
• Step 4. Allocate fixed charges (Storage, Customer Service and SRC) to member agencies based on specified allocation methodologies

Consistent with best management practices, the Water Authority retained Carollo to perform a comprehensive and independent Cost of Service Study to determine recommended CY 2021 rates and charges to ensure that they are set in compliance with California legal requirements, cost of service standards, and Water Authority Board policies. The draft Carollo report is provided as Attachment 2.
Development of Financial Scenarios

Based on initial inputs, a preliminary rate CY 2021 rate increase of over 20% was forecasted to meet the financial obligations of the Water Authority. This is largely contributed to the continued historically low water sales and fixed cost nature of the Water Authority’s expenditures. Understanding that in any climate, this level of rate increase is not acceptable, over the course of a few months all available levers, financial or otherwise, were identified to mitigate this initial increase. Through restructuring the forecasted senior-lien debt service payments, scrubblings the operating budget, and reprioritizing identified CIP, the Water Authority was able to mitigate the 20% rate adjustment by roughly half. Below is a list of some of the rate-mitigation strategies utilized in that effort:

- Identified nearly $6M in budget savings
- Refined and updated CIP for potential deferrals and reprioritization
- Refunding of Series 2013A and 2011A&B Bonds
- Cash Optimization / Debt Restructuring
- Debt finance a portion of CIP with bonds issued in early 2021

It was at this time, the global pandemic continued to unfold and the understanding that even more needed to be done. These additional actions, while unprecedented, are not fiscally imprudent. Rather they call for recommendations outside the Water Authority’s norm. For example, the forecasted savings from refunding the Series 2013A and 2011A&B bonds were initially analyzed uniformly to maximize savings; however, by strategically taking those savings upfront (FY ’22 and ’24), provides greater near-term rate savings. Similarly, the decision to issue $120M in bonds (rather than PAYGO) and consideration of utilizing various debt structures to yield greater near-term rate relief and rate smoothing at a minimal cost.

Throughout the rate setting process and following these efforts, continued scenario and what-if analyses were performed to analyze rate and financial impacts. While the focus was on CY 2021 rates, a careful eye was constantly attuned to future rate impacts, financials reserves, and the overall fiscal sustainability and health of the Water Authority. While many scenarios were analyzed, presented below are three such rate scenarios all utilizing the same mitigation measures: (1) “Recommended Increase,” (2) “No Increase” – Maintain CY 2020 Rates, and (3) “No All-In Increase”. These scenarios and financial impacts are also detailed in Carollo’s Addendum A, provided as Attachment 3.

While the same mitigation measures are assumed for each scenario, this is done to enable apple to apple comparisons. Should the recommended rates not be approved, the ability of the Water Authority to achieve and implement these measures will be significantly impacted.
CY 2021 Rate Recommendation Scenario
The recommended CY 2021 rates and charges provide the lowest possible rates, while maintain the long-term fiscal sustainability of the Water Authority. While the rate model forecasts rates well into the future, a three-year rate time-horizon is presented to demonstrate the delicate balance and interplay of rates increases, reserves balances, and overall financial resilience. Staff is recommending an increase to the “All-In” untreated rate of 6.3% (a net increase of 3.0%). This net increase reflects that the Water Authority mitigation efforts nearly alleviated all rate drivers, other than MWD’s rate adjustment.

Despite a majority of this increase resulting from decreased sales, the recommended rates remain in line with the prior guidance provided in the Water Authority’s LRFP. In fact, it continues to be below the mid-point of High-Low forecast.

The “All-In” rate is not a published rate and is heavily influenced by changes in forecasted sales. The “All-In” rate was designed as a simple metric to assist annual rate comparisons as the Water Authority introduced increased fixed revenues. However, given the significant changes to demand, the “all-in” rate no longer provides easy comparisons or accurately reflects the magnitude of these changes. The “All-In” rate converts the Water Authority’s Fixed Charges (Customer Service, Storage, and Supply Reliability) to an acre-foot cost equivalent based on appropriate forecast sales base. These equivalent unit rates are then added to the volumetric based supply, treatment and transportation rates. As discuss above, while the “All-In” rate is increasing by 6.3%, the net increase is only 3.0% when fixed revenues are provided a constant sales baseline.

Beyond CY 2021, “All-In” rate guidance for CY 2022 and CY 2023 was smoothed around the 6-7% range in an attempt to gradually mitigate and address the financial headwinds. As shown below, these rates are forecasted to utilize the full extent of available RSF monies in both FY 2022 and FY
2023. As CY 2021 Rates and Charges influence both FY 2021 and FY 2022, additional RSF utilization in FY ’21 would cause the RSF balance to fall below its minimum target without additional increases in CY 2022.

Rates beyond CY 2021 are not being approved or voted on but are shown to provide a reference point for transparency in decision making. This is also the last year of the 2015 High/Low guidance as development of a 2020 LRFP is currently underway. This along with the development of the 2020 UWMP will provide future bookends for decision making.
**No Increase – Maintain CY 2020 Rates & Charges Alternative**

Given the current economic upheaval, a scenario was analyzed in which CY 2020 rates and charges would remain in effect for CY 2021. Effectively, no rate increase or adjustments would be made. However, the analysis uncovered that despite the extensive measures to cut expenditures and limit the Water Authority’s revenue requirement (rates), the recommended increases are necessary to meet the calculated revenue requirements, limit future rate shocks, and secure the fiscal sustainability of the Water Authority.

As with the scenario above, a three-year rate forecast was developed to demonstrate the delicate balance and interplay of rates increases, reserves balances, and overall financial accountability. Based on this scenario, the “All-In” untreated rate increases by 3.24%. Despite “no increase” to any rates and charges (as paid by member agencies), lower sales (denominator) causes the calculated Customer Service, Storage, and SRC equivalent unit rates to increases. When compared against the CY 2021 Rate Recommendation, the net increase is only 3.0%. The majority of the proposed 6.3% “All-In” increase is a result of the “All-In” calculation and not an actual rate and charges increase.

As shown above, the CY 2022 rate would necessitate a larger 10.4% increase to reach the same rate levels defined in the CY 2021 Rate Recommendation scenario. This analysis maintained constant rates between the scenarios for CY 2022 and CY 2023 in order to better compare and demonstrate the impacts to reserves (see below).

By maintaining CY 2020 rates, the Water Authority forecasted a $6M loss on Transportation in CY 2021. The rate set in CY 2020 was to generate $50M in revenue, but given lower sales only generated roughly $44M. As sales are to be flat, this “loss” would continue in CY 2021. Maintaining the CY 2020 MSR through CY 2021 would require an additional $5.3M in rate stabilization utilization. Furthermore, the IAC and SRC would fall short of their Board directed calculations by $7M and 4M, respectively.
As CY 2021 Rates and Charges influence both FY 2021 and FY 2022, it’s necessary to look at the ending FY 2022 RSF reserve balance to fully appreciate the impact of the “No Increase” scenarios. As shown below, the RSF Balance is forecasted to decrease by $23M from the Recommended alternative. Over 3 years, the RSF would drop by $158M to $51M and results in the RSF failing to meet its minimum target by $22M or 30%. Should there be a desire maintain minimum RSF target funding in FY 2022, a 20% increase would be required in CY 2022.

!["Maintain CY 2020 Rates" RSF Balance Forecast]

<table>
<thead>
<tr>
<th>FYE 2019</th>
<th>FYE 2020</th>
<th>FYE 2021</th>
<th>FYE 2022</th>
<th>FYE 2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>RSF Ending Balance</td>
<td>$135M</td>
<td>$105M</td>
<td>$105M</td>
<td>$108M</td>
</tr>
<tr>
<td>RSF Minimum Target</td>
<td>$158M</td>
<td>$121M</td>
<td>$74M</td>
<td>$73M</td>
</tr>
<tr>
<td>RSF Maximum Target</td>
<td>$160M</td>
<td>$121M</td>
<td>$74M</td>
<td>$73M</td>
</tr>
</tbody>
</table>
No “All-In” Increase Alternative
As demands across the region fall, retail agencies have heard the customer claims of “use less but pay more.” The impact of fixed costs and increasing fixed cost recovery targets across the industry. In order to provide a true “no-increase” and maintain the existing “All-In” rate, the Water Authority’s CY 2021 rates and charges would have to decrease from its currently published rates to offset the impacts of a lower “All-In” sales denominator.

As with the prior scenarios, a three-year rate and reserve forecast were developed to demonstrate the financial and rate impacts. Based on this scenario, the “All-In” untreated rate will remain flat at the CY 2020 “All-In” rate of $1,406. The percentage increase to the forecasted CY 2022 rate climbs to 14.1%. However, the financial toll of maintain the existing “All-In” rate is untenable – requiring an additional $15M use of reserves.

As shown below, the FY 2022 RSF would fall to $36M – even with a 14.1% increase in CY 2022. That is less than half of the $73M minimum fund target. By lowering the Water Authority’s revenues and implementing this alternative, the assumed mitigation measures and low capital costs that serve as the financial baseline will certainly not be reasonable – having to increase. It would immediately jeopardize the Water Authority’s fiscal health and endanger the ability to adequately maintain the water system.
Based on the analysis above, neither the “Maintain CY 2020” nor the “No Increase” rate alternatives are recommended. Both cause the RSF balance to fall well below minimum levels putting the Water Authority’s credit rating and its planned rate mitigation strategies at significant risk. The Recommended CY 2021 Rates and Charges net increase of 3.0% provides maximum rate relief while minimizing financial sustainability and future rate shock risk.

**Impact of Downgrade on Financing Costs**

A significant decrease to reserves, even for the purposes of rate mitigation, will not be viewed favorably by rate agencies. While this would not immediately impact existing long-term debt costs, a potential downgrade or negative outlook would increase future borrowing costs and reduce refunding opportunities (savings). The Water Authority has $350M outstanding as part of the commercial paper program. While this program and our current ratings have assisted in lowering capital (borrowing) costs, a ratings downgrade would significantly increase these costs. Based on historical credit spreads, the expected outcome of one-notch downgrade from Aa2/AAA/AA+ to A2/AA/A+ would be a 0.25% to 0.50% increase in the Water Authority’s cost of debt capital. Assuming the planned 2011A/B and 2013A refunding, the Water Authority would forego between $7.3-$14.8 million of debt service savings on a net present value basis. Significantly impairing the ability to mitigate CY 2021 rate increases.

The financial flexibility and measures proposed for the recommended CY 2021 rates and charges are only available to the Water Authority given the existing ratings and continued financial prudence. Be it the planned refunding, or cash optimization, or issuance of new money – each action would be severely limited or more costly without continued support of its the strong credit rating.
**Recommended CY 2021 Rates and Charges**

Table 2 summarizes the Water Authority’s recommended CY 2021 rates and charges. A description of the Water Authority’s rates and charges is provided in subsequent sections. In addition to the Water Authority’s rates and charges shown in Table 2, MWD’s RTS and Capacity Charges are passed through to Water Authority member agencies.

Table 2 – Summary of Water Authority Rates and Charges

<table>
<thead>
<tr>
<th>Water Authority Rates and Charges</th>
<th>CY 2019 Previous</th>
<th>CY 2020 Current</th>
<th>CY 2021 Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Melded Supply Rate ($/AF)</td>
<td>$909</td>
<td>$925</td>
<td>$940</td>
</tr>
<tr>
<td>Melded Treatment Rate ($/AF)</td>
<td>$276</td>
<td>$280</td>
<td>$295</td>
</tr>
<tr>
<td>Transportation Rate ($/AF)</td>
<td>$120</td>
<td>$132</td>
<td>$164</td>
</tr>
<tr>
<td>Untreated SAWR ($/AF)¹</td>
<td>$731</td>
<td>$755</td>
<td>$777</td>
</tr>
<tr>
<td>Treated SAWR ($/AF)¹</td>
<td>$1,007</td>
<td>$1,035</td>
<td>$1,072</td>
</tr>
<tr>
<td>Infrastructure Access Charge³</td>
<td>$3.01/ME</td>
<td>$3.66/ME</td>
<td>$4.24/ME</td>
</tr>
<tr>
<td>Customer Service Charge</td>
<td>$26,000,000</td>
<td>$25,600,000</td>
<td>$25,600,000</td>
</tr>
<tr>
<td>Storage Charge</td>
<td>$65,000,000</td>
<td>$65,000,000</td>
<td>$62,500,000</td>
</tr>
<tr>
<td>Supply Reliability Charge</td>
<td>$30,200,000</td>
<td>$37,430,000</td>
<td>$39,360,000</td>
</tr>
<tr>
<td>Standby Availability Charge²</td>
<td>$10</td>
<td>$10</td>
<td>$10</td>
</tr>
<tr>
<td>System Capacity Charge³</td>
<td>$5,267/ME</td>
<td>$5,301/ME</td>
<td>$5,311/ME</td>
</tr>
<tr>
<td>Treatment Capacity Charge³</td>
<td>$146/ME</td>
<td>$147/ME</td>
<td>$148/ME</td>
</tr>
<tr>
<td>Annexation Application Fee</td>
<td>$10,681</td>
<td>$10,749</td>
<td>$10,769</td>
</tr>
</tbody>
</table>

¹ Per current Board Policy, Transitional Special Agriculture Water Rate (TSAWR) is set to end 12/31/20, with Permanent Special Agriculture Water Rate (PSAWR) replacing it immediately per parcel or acre, whichever is greater. Fiscal Year Charge.

² Discussions on the future of the replenishment program are continuing.

³ ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.

Table 3 summarizes MWD’s rates and charges that the Water Authority passes through to its member agencies. MWD’s Readiness-to-Serve Charge is based on a 10-year rolling average of deliveries (excluding exchange). As such, the Water Authority’s Member Agencies are seeing a direct benefit of its IID ramp-up and desalination supplies.

Table 3 – Summary of Water Authority Pass Through Rates and Charges

<table>
<thead>
<tr>
<th>MWD Rates and Charges</th>
<th>CY 2019 Previous</th>
<th>CY 2020 Current</th>
<th>CY 2021 Recommended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Untreated Tier 2 Supply Rate $/AF¹</td>
<td>$817</td>
<td>$842</td>
<td>$819</td>
</tr>
<tr>
<td>Replenishment Water Rate Untreated ($/AF)²</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Replenishment Water Rate Treated ($/AF)²</td>
<td>NA</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>MWD Capacity Charge</td>
<td>$8,262,020</td>
<td>$8,019,440</td>
<td>$9,153,850</td>
</tr>
<tr>
<td>Readiness-to-Serve Charge³</td>
<td>$14,870,729</td>
<td>$12,909,485</td>
<td>$11,739,042</td>
</tr>
</tbody>
</table>

¹ Agencies exceeding their Tier 1 allocation are subject to the MWD Tier 2 Supply Rate.

² Discussions on the future of the replenishment program are continuing.

³ Fiscal Year Charge. Net of Stand-by-Charge and Admin Fee.
The following rates and charges will be effective July 1, 2020:

**Standby Availability Charge.** The County Water Authority Act limits the maximum annual Standby Availability Charge to $10 per acre or parcel, whichever is greater. Beginning before November 6, 1996, the Water Authority has determined that the maximum annual Standby Availability Charge should be levied on property within the Water Authority’s service area. To provide necessary funding for the CIP, it is recommended that the charge continue at the $10 maximum for fiscal year 2021.

**Annexation Application Fee.** The Annexation Application Fee recovers the full administrative cost of service associated with an application for annexation and recovers the costs incurred throughout the annexation process. The updated Annexation Processing Fee of $10,769 per application would be effective July 1, 2020.

The following rates and charges are being recommended effective on January 1, 2021:

**Melded Supply Rate.** The Melded Supply Rate (MSR) is set to recover the costs of purchasing Tier 1 water from MWD, water purchases from IID, payments in connection with the All-American and Coachella Canal lining projects, payments to MWD under the 2003 Exchange Agreement for conveyance of IID and Canal Lining water, desalinated water, and the portion of the Water Authority’s revenue requirement allocated to supply. The revenue requirement may also include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, reserve withdrawals/deposits and coverage requirements. Based upon these inputs, the Melded Supply Rate would increase from its current level of $925/AF to $940/AF in CY 2021.

**Permanent Special Agricultural Water Program Rates.**
With development and creation of a permanent special agriculture water rate program, the untreated PSAWR will be set to MWD’s Tier 1 rate and increase from its current level of $755/AF to $777/AF in CY 2021. In addition, the treated PSAWR will increase from $1,035/AF in CY 2020 to $1,072/AF in CY 2021. The PSAWR program rates correspond to a lower level of water supply reliability for its participants.

**Melded Treatment Rate.** The Melded Treatment Rate (MTR) is set to recover the costs of treating water for the Water Authority and may include costs of purchasing treated water from MWD, the Levy and Olivenhain treatment plants, the Water Authority’s Twin Oaks Valley Water Treatment Plant, desalinated water costs allocated to this rate and may recover certain other costs associated with the delivery of treated water. For CY 2021, the Melded Treatment Rate will increase from its current level of $280/AF to $295/AF. In CY 2021, the Water Authority is forecasting a decrease in treated production from 68,884 AF in CY 2020 to 56,842 AF. Overall, treated sales are forecasted to decrease 7%, while the Water Authority’s related treatment costs are forecast to increase 3.0%.

**Transportation Rate.** The Transportation rate is set to recover capital, operating, and maintenance costs of Water Authority-owned water delivery facilities, including facilities used to physically transport the water to member agency meters. The Transportation Rate is charged to each acre-foot
of water delivered by the Authority as it occurs. For CY 2021, the Transportation Rate will increase from its current level of $120/AF to $132/AF.

**Infrastructure Access Charge.** The infrastructure access charge is imposed on member agencies as a condition of maintaining connections to Water Authority facilities. It is apportioned based on water meters within each member agency. Starting with last year’s CY 2020 rates, the infrastructure access charge is to increase as part of a two-year ramp up. This ramp up will facilitate the Water Authority’s transition from a partially debt-funded to a wholly PayGo funded capital program. The increases will also enable greater flexibility in fully utilizing available reserves as these revenues are fixed and replace less stable volumetric revenues. The CY 2021 IAC will increase to $4.24/ME per month from $3.66/ME. This increase is less than the $4.43 that was previously forecasted last year.

As the infrastructure access charge is a revenue offset, any limit to the IAC ramp-up would result in a corresponding increase to water rates (or complete loss of revenues). As rate revenue is subject to demand volatility, the Water Authority’s forecasted drawdown of reserves would need to be reassessed.

**Customer Service Charge.** The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority. The Customer Service Charge will be allocated among the member agencies on the basis of each agency’s three-year rolling average of member agency supply purchases from the Water Authority. For CY 2021, the Customer Service Charge will remain at $25.6M.

**Storage Charge.** The Storage Charge is set to recover costs associated with the Emergency Storage Program and the Carryover Storage Program. Because agricultural users that participate in the SAWR program agree to reduced or interrupted service during times of water emergencies, they will not receive benefit from the storage program; therefore, the Storage Charge is based on all non-SAWR water deliveries and will be allocated among the member agencies using a pro rata share of each agency’s three-year rolling average deliveries. For CY 2021, the Storage Charge will decrease to $60M (from $65M) stemming from the proposed refunding and cash optimization.

**Supply Reliability Charge.** The Supply Reliability Charge (SRC) is a fixed charge established in 2016 to recover a portion of the costs associated with the Water Authority’s highly reliable water supplies, which includes desalinated and IID transfer waters. The charge is allocated to member agencies based upon their pro rata share of the Water Authority’s 5-year rolling M&I deliveries (agricultural deliveries are not included). For CY 2021, the SRC will increase from its current level of $37.4M to $41.3M. This increase reflects the final year of IID ramp-up deliveries. As such, the SRC is forecasted to remain relatively flat in future years.

**Capacity Charges.** Capacity charges are one-time fees charged to new system connections. The fee is set to recover the proportionate cost of the system necessary to serve that connection. The change reflects an increase of 0.2% in the Engineering News Record - Los Angeles Consumer Cost Index.

**System Capacity Charge.** This charge recovers a portion of the capital costs for the conveyance and storage facilities necessary to operate the delivery system. The current
charge of $5,301/ME for each new meter equivalent will be administratively adjusted to $5,312/ME effective January 1, 2021.

**Water Treatment Capacity Charge.** This charge recovers a portion of the regional water treatment facility to be collected from all future users of the facility. In keeping with the Water Authority’s policy of exempting agencies that cannot benefit from a service, the Water Treatment Capacity Charge excludes customers from the City of Del Mar, City of Escondido, and City of Poway. The current charge of $147/ME for each new meter equivalent will remain at $148/ME effective January 1, 2021.

Table 4 presents a summary of the CY 2021 Capacity Charge schedule that will be in effect January 1, 2021.

**Table 4 CY 2021 Water Authority Capacity Charges**

<table>
<thead>
<tr>
<th>Meter Size (Inches)</th>
<th>Factor</th>
<th>System Capacity Charge</th>
<th>Water Treatment Capacity Charge</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 1”</td>
<td>1</td>
<td>$5,312</td>
<td>$148</td>
</tr>
<tr>
<td>1”</td>
<td>1.6</td>
<td>$8,499</td>
<td>$237</td>
</tr>
<tr>
<td>1.5”</td>
<td>3</td>
<td>$15,936</td>
<td>$444</td>
</tr>
<tr>
<td>2”</td>
<td>5.2</td>
<td>$27,622</td>
<td>$770</td>
</tr>
<tr>
<td>3”</td>
<td>9.6</td>
<td>$50,995</td>
<td>$1,421</td>
</tr>
<tr>
<td>4”</td>
<td>16.4</td>
<td>$87,117</td>
<td>$2,427</td>
</tr>
<tr>
<td>6”</td>
<td>30</td>
<td>$159,360</td>
<td>$4,440</td>
</tr>
<tr>
<td>8”</td>
<td>52</td>
<td>$276,224</td>
<td>$7,696</td>
</tr>
<tr>
<td>10”</td>
<td>78</td>
<td>$414,336</td>
<td>$11,544</td>
</tr>
<tr>
<td>12”</td>
<td>132</td>
<td>$701,184</td>
<td>$19,536</td>
</tr>
</tbody>
</table>
The following MWD rates and charges are passed on directly or allocated to the Water Authority’s member agencies in the same manner as MWD applies them to the Water Authority.³

**MWD Capacity Charge.** For CY 2021, the Capacity Charge is increasing by nearly 22% to $10,700 per cubic foot second (cfs) of maximum daily flow requested by a MWD member agency. The Capacity Charge is a fixed charge levied on an agency’s maximum daily flows over the three previous fiscal years. It recovers the cost of providing peak capacity within the distribution system and is designed to encourage member agencies to shift demands and avoid placing large daily peaks on the MWD system during the summer months. Daily flow measured between May 1 and September 30 for purposes of billing the Capacity Charge will include deliveries (except long-term seasonal storage deliveries) made by MWD to a member agency or member agency customer including water transfers, exchanges and agricultural deliveries. As part of a separate surface storage operating agreement to manage seasonal peaking, the Authority is expected to reserve its full available capacity. The Capacity Charge will be set at $9,153,850. The Authority’s Board has directed that the Capacity Charge will be recovered proportionally based on a five-year rolling average of member agency flows during coincident peak weeks.

**Readiness-to-Serve Charge.** MWD’s Readiness-to-Serve Charge differs from the other MWD charges in that it is set on a Fiscal Year basis. The total Readiness-to-Serve Charge will decrease from its current level of $136 million to $130 million. The Authority’s share is set at $23,951,671 for Fiscal Year 2020-2021. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is $11,739,042. MWD’s Readiness-to-Serve Charge will recover costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge will be allocated among MWD member agencies on the basis of each agency’s ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity). This allocation will be revised each year. Revenues equal to the amount of MWD Standby Charges will continue to be credited against the member agency’s Readiness-to-Serve Charge obligation unless a change is requested by the member agency. The Board has directed that the Authority’s Readiness-to-Serve Charge will be passed through proportionally to member agencies on the basis of each agency’s ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity).

³ The Water Authority has challenged MWD’s cost of service methodology associated with these charges.
Summary
Based on the results of the Cost of Service Study, staff proposes the Board move forward with the CY 2021 Rate Recommendation. Staff is seeking Board direction for which rate and charge increases should be considered at the Public Hearing on June 25, 2020.

Prepared by: Pierce Rossum, Rate and Debt Manager
Reviewed by: Lisa Marie Harris, Director of Finance/Treasurer
Approved by: Dan Denham, Deputy General Manager

Attachments:
Attachment 1 - Resolution of the Board of Directors of the San Diego County Water Authority fixing the time and place for a public hearing to consider: (1) Changes to the rates and charges for delivery and supply of water; (2) Continuing the existing Standby Availability Charge; and (3) Changes to the system and treatment capacity charges.
Attachment 2 - Carollo’s draft Cost of Service Study for Calendar Year 2021 Rates and Charges
Attachment 3 - Carollo’s draft Cost of Service Study Addendum A