



May 16, 2012

Attention: Administrative and Finance Committee

Resolution setting a Public Hearing date for the Water Authority's proposed calendar year 2013 Rate and Charge increases. (Action)

Purpose

The purpose of this report is to review the proposed rates and charges for calendar year 2013 and to adopt a resolution setting a time and place for a public hearing for the consideration and adoption of the proposed rate and charge increases for water, services and facilities.

Staff recommendation

Adopt Resolution Number 2012-__ setting the time and place for a public hearing on June 28, 2012, at 9:00 a.m., or as soon thereafter as may practicably be heard, during the Administrative and Finance Committee meeting, to receive comments regarding proposed rates and charges to be effective January 1, 2013.

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 existing taxes, the System Capacity Charge, the Treatment Capacity Charge, the Infrastructure Access Charge (IAC), investment income and the Standby Availability Charge are expected to raise revenues sufficient to meet the Water Authority's revenue requirement, bond covenants and other key fiscal policy goals. The proposed rates and charges would result in an "all-in" increase of 9.6% in the untreated water rate¹ and a 9.7% increase in the "all-in" treated water rate for CY 2013.

Background

Metropolitan Water Rate Increases

On April 10, 2012, MWD's Board of Directors adopted rate and charge increases for calendar years 2013 and 2014 resulting in a 5% annual "average" rate increase in each year. Based upon MWD's adopted rate and charge schedule, the cost of treated and untreated water to the Water Authority will increase by 5.9% and 6.7%, respectively, in CY 2013 (excluding the impact of MWD's fixed charges). Additionally, MWD's charge for transporting water will increase by 14.4% in 2013.

¹ The "all-in" water rate is the estimated average cost of water that includes the Water Authority's Melded Supply, Melded Treatment (if treated rate) and Transportation rates along with the Storage and Customer Service charges expressed as a \$/AF estimate. The actual average cost will vary for each member agency depending on their Customer Service and Storage charge allocations.

As discussed below, the overall effect of MWD's rates for 2013 will result in an increase of 8.5% in the Water Authority's MWD costs.

Special Agricultural Water Rate Program

In October 2008, faced with a prolonged drought, rising water costs and the realization that in the future, any "surplus" water should be stored in its own regional storage portfolio in order to meet variable municipal and industrial water demands, the MWD Board voted to terminate the Interim Agricultural Water Program (IAWP) through a five-year phase-out of the program resulting in termination December 31, 2012.

In response to MWD's phase-out of IAWP, the Water Authority Board in October 2008 approved the Transitional Special Agricultural Water Rate (TSAWR). The Board also formed a SAWR Board Workgroup to develop a recommended permanent program when IAWP terminates at the end of 2012. In March 2010, the Board approved the Workgroup recommendation for a permanent SAWR that would begin January 1, 2013 and only include the storage charge exemption. With the SAWR program set to switch from the transitional program to the permanent program on January 1, 2013, members of the agricultural community raised concerns over the financial impacts of the change. On April 26, 2012, the Board voted to extend the TSAWR program for two additional years. This action not only provides agricultural customers with additional time to transition to the higher cost of water, but also provides time for important water supply issues that could affect the rate structure to be resolved (such as the MWD rate litigation and the Carlsbad Seawater Desalination Project).

MWD Replenishment Program

The existing replenishment program has been terminated by MWD. Discussions on the adoption of a revised replenishment program have been deferred until MWD completes its Long-Range Finance Plan. MWD began development of a new Long-Range Finance Plan in 2007, and has suspended work on the plan several times over the past five years; the work is presently suspended. No costs have been allocated to, and no replenishment program rates have been published for calendar years 2013 and 2014.

Colorado River Quantification Settlement Agreement Supplies

In October 2003, the Water Authority executed two major water supply agreements as part of the Colorado River Quantification Settlement Agreement: a 45- to 75-year water conservation and transfer agreement with the Imperial Irrigation District for 200,000 acre-feet of water annually; and, a 110-year agreement with the U.S. Secretary of Interior, under which the Water Authority funded the lining of the All American and Coachella canals in the Imperial Valley (less costs paid by the State) in return for approximately 80,000 acre-feet of conserved supplies each year. The canal lining supplies became available in 2006 from the Coachella project and in 2010 from the All-American project. The supplies from Imperial Irrigation District ramp in between 2003 and 2021. In 2013, the quantity of the transfer will increase from 90,000 acre-feet to 100,000 acre-feet. The increase in quantity, and an increase in the rate for the supplies in accordance with the price schedule in the agreement, contribute to the Water Authority's proposed rate increases in 2013.

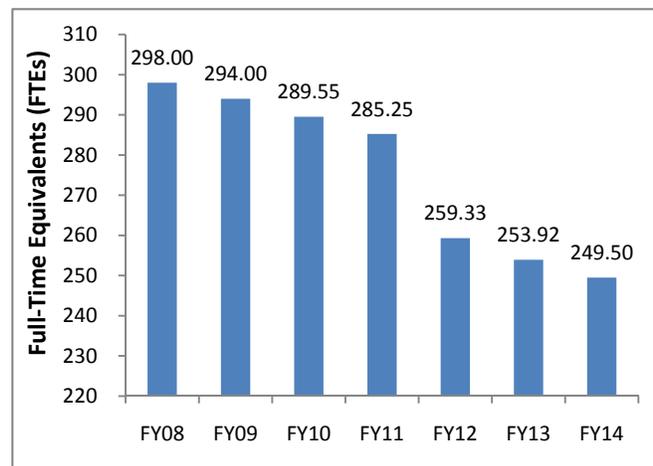
Previous Board Actions: On June 23, 2011, the Board adopted the Two-Year Budget for Fiscal Years 2012 and 2013; conducted a public hearing on CY 2012 rates and charges; and adopted CY 2012 rates and charges.

Discussion

In response to the water supply and economic challenges facing the region, the Water Authority is actively managing costs and taking other actions to mitigate the near-term rate and charge increases. Recent efforts to mitigate rate and charge increases include:

- **Operating budget reductions** – The Water Authority’s two-year budget for fiscal years 2012 and 2013 reflects a number of aggressive cost reduction and rate mitigation strategies in light of the “new normal.” Overall, the Water Authority’s current two-year budget is 16% lower than the previous two-year budget.

This includes \$6.7 million in operating department budget reductions achieved through a downsizing of staff and programs enabling the Water Authority to more efficiently fulfill its core mission. As part of this cost reduction effort, 31.3 full-time equivalent positions were eliminated. This reflects a continuation of the Water Authority’s commitment to reducing costs. For example, as shown in the sidebar chart, FTEs are reduced by 16% from



2008 to 2014. Other operating cost decreases include: reducing the budget of the water conservation program by 60 percent to right-size spending in light of significantly reduced water use in the region since 2007; providing no new local supply development funding; decreasing school education programming and small contractor outreach; reducing internal support services for finance, human resources, and information technology; and cutting back 15 percent on supply, travel and similar costs, saving nearly \$1 million from the previous two-year budget.

The mid-term budget update is scheduled for Board review in June 2012. The Water Authority is on-track with budget projections for both costs and revenues. While a few minor course corrections are likely, no additional appropriations are anticipated. One item to note is that legal expenses associated with the QSA and MWD Rate litigation may be impacted due to timing and the scope of the trial. The Water Authority continues to closely monitor these efforts and will return to the Board if needed.

- **Capital financing cost reductions** – The Water Authority reduced the costs of financing its capital projects. Recent bond refunding sales are expected to save \$19 million in financing

costs (on a present-value basis over the life of the bonds). This lowered debt service costs in fiscal year 2013 by \$2 million from previous estimates.

- **Capital Improvements Program (CIP) reprioritization** – Based upon reduced sales forecasts, 14 projects representing \$150 million in CIP expenditures were deferred until after the next budget cycle.
- **MWD budget advocacy** – The Water Authority succeeded in reducing MWD’s “average” rate increase for CY 2013 by 33% -- from the initially proposed “average” rate increase of 7.5% to 5%. This saved the region approximately \$5 million in CY 2013 MWD costs. MWD’s original proposed rate increase would have led to an estimated 11% increase in CY 2013 “all-in” untreated water rate, instead of the 9.6% proposed rate increase.
- **MWD rate litigation** – The Water Authority is challenging MWD’s rates and charges, because it believes MWD has improperly allocated supply costs to transportation charges, in a manner which discriminates against the Water Authority. The Water Authority has estimated the gross amount of transportation overcharges will increase in CY 2013 by \$17 million, to a total of \$57 million. While the filing of the litigation does not result in any immediate savings, a court decision in the Water Authority’s favor would more accurately reflect the cost of transportation services provided by MWD and reduce the Water Authority’s short-term and long-term costs MWD charges for transporting water.
- **Debt service coverage levels** – In mitigating rate impacts, the forecasted senior lien debt service coverage ratio for fiscal year 2013 is 1.35x, which is below the Water Authority Board’s policy target of 1.5x. However, coverage is projected to meet the 1.5x coverage target in fiscal year 2014. Accordingly, this one-year reduction in coverage – which will still meet all bond covenants – is a measured and reasonable step to mitigate rate increases. For example, setting the coverage ratio at 1.5x for fiscal year 2013 would require an estimated 17.5% increase in the CY 2013 “all-in” treated water rate.

While these cost saving actions are significant, the Water Authority is nonetheless faced with increases in the cost of water, scheduled increases in annual debt service payments and a persistent low water sales environment. These factors are driving the proposed increase in the CY 2013 rates and charges, summarized as follows:

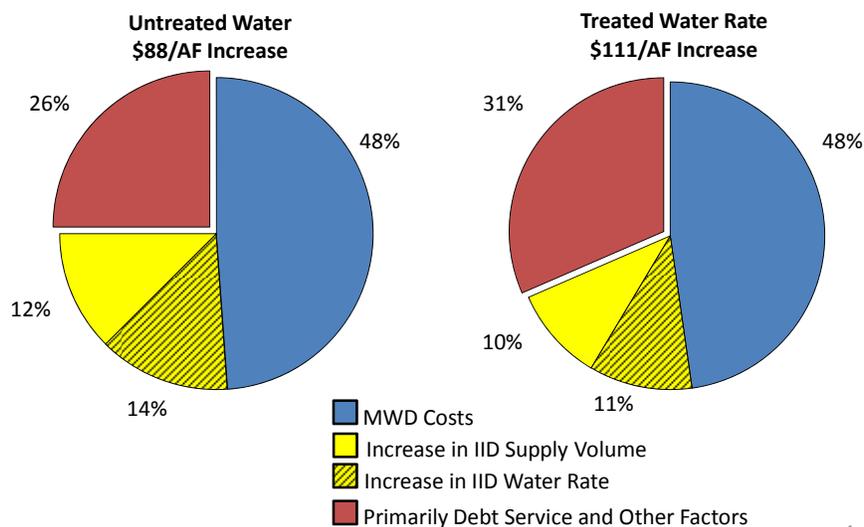
- **Increasing MWD costs** – With MWD’s Tier 1 untreated rate increasing by 5.9% and MWD’s charge for transporting water increasing by 14.4%, the Water Authority’s MWD costs are expected to increase by approximately 8.5% in CY 2013. This is the largest factor in the proposed rate increase, accounting for about 48% of the proposed rate increase, as shown in the figure below.
- **Scheduled debt service increase and other factors** – As the Water Authority executes the supply diversification and facility improvement projects that are essential to regional water reliability, the debt used to fund these projects, approved by the Water Authority Board of Directors, must be paid. After increases in purchased water costs, the scheduled \$21 million

fiscal year 2013 increase in debt service cost and other factors account for approximately 26% and 31% of the proposed untreated and treated rate increases. Other factors include reducing the senior lien debt service coverage ratio from the current fiscal year 2012 estimate of 1.47x to 1.35x in fiscal year 2013. By lower the coverage level, the impact of the additional debt service on rates and charges is mitigated. This increase reflects the Water Authority’s success in implementing its \$3.5 billion Capital Improvement Program.

- ***IID transfer volume increase and cost increase*** – Consistent with the ramp-up schedule in the Water Authority-Imperial Irrigation District water transfer, transfer volume in CY 2013 will increase by 10,000 acre-feet, bringing the annual transfer amount to 100,000 acre-feet in CY 2013. The increased quantity of IID supplies contributes about 12% of the untreated and 10% of the treated rate increases, respectively. A scheduled 10% increase in the IID supply rate accounts for about 14% and 11% of the untreated and treated rate increases, respectively. In CY 2014, the IID supply rate will increase 5%, in accordance with the agreement’s rate schedule. The canal lining project supplies account for 80,000 acre-feet in CY 2013. The cost of the canal lining supplies is comprised of debt service payments that pay for the capital improvements, and operations and maintenance; those costs remain stable through CY 2036, when the debt service on the projects is retired, and then will be reduced to cover only operations and maintenance costs.

The following graphic illustrates the key drivers of the proposed water rate increases.

Key Rate & Charge Drivers: “All-In” Rate Increases



In addition to these key drivers, the continued low sales environment drives up the average cost of Water Authority water supply and other services.

Proposed Rate Increases Consistent with Past Guidance

In February 2011, 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. The CY 2013 proposed rates and charges are within that guidance. The Water Authority's "all-in" rate for treated and untreated water is increasing 9.7% and 9.6%, respectively. It should be noted that the actual cost of water will vary by member agency based upon each agency's fixed charge allocations.

Setting Rates and Charges

On an annual basis, the Water Authority develops proposed rates and charges, which it presents to the Board of Directors for adoption. 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 (such as operations and maintenance of facilities, cost of water and treatment cost) and capital expenditures (funded by cash and short- and long-term debt)
- Step 2. Allocate the revenue requirement and offsetting non-commodity revenues (such as investment income, property tax and IAC) to rate categories (melded supply, melded treatment, transportation, storage and customer service) 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 (such as senior lien debt service coverage, fund deposits and withdrawals)
- Step 4. Allocate fixed charges (storage and customer service) to member agencies based on specified allocation methodologies.

Description of Proposed Rates and Charges

Table 1 summarizes the Water Authority's proposed CY 2013 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 1, certain MWD rates and charges are passed through to the member agencies.

Table 1 – Summary of Water Authority Rates and Charges

Water Authority Rates and Charges	CY 2011 Previous	CY 2012 Current	CY 2013 Proposed
Melded M&I Supply Rate (\$/AF)	\$597	\$638	\$714
Melded M&I Treatment Rate (\$/AF)	\$215	\$234	\$256
Transportation Rate (\$/AF)	\$75	\$85	\$93
Untreated Special Agricultural Water Rate (\$/AF)	\$527	\$560	\$593
Treated Special Agricultural Water Rate (\$/AF)	\$742	\$794	\$849
Infrastructure Access Charge	\$2.49/ME ²	\$2.60/ME ²	\$2.65/ME ²
Customer Service Charge	\$23,200,000	\$26,400,000	\$26,400,000
Storage Charge	\$44,300,000	\$54,200,000	\$60,200,000
Standby Availability Charge per parcel or acre, whichever is greater ¹	\$10	\$10	\$10
¹ Fiscal Year Charge.			
² ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.			

Table 2 summarizes MWD's rates and charges that the Water Authority passes through to its member agencies.

Table 2 – Summary of Water Authority Pass Through Rates and Charges

MWD Rates and Charges	CY 2011 Previous	CY 2012 Current	CY 2013 Adopted
Untreated Tier 2 Supply Rate \$/AF ¹	\$652	\$686	\$743
Interim Agricultural Water Program Untreated (\$/AF)	\$482	\$537	NA ³
Interim Agricultural Water Program Treated (\$/AF)	\$687	\$765	NA ³
Replenishment Water Rate Untreated (\$/AF)	\$409	\$442	NA ³
Replenishment Water Rate Treated (\$/AF)	\$601	\$651	NA ³
MWD Capacity Charge	\$9,204,480	\$7,809,220	\$6,753,920
Readiness-to-Serve Charge ²	\$18,596,491	\$21,930,087	\$23,240,691
¹ Agencies exceeding their Tier 1 allocation pay the MWD bundled Tier 2 Supply Rate (System Access Rate, System Power Rate and Water Stewardship Rate) instead of the M&I Melded Supply Rate.			
² Fiscal Year Charge.			
³ The Interim Agricultural Water Program will be discontinued after 2012 and discussion on the replenishment program are continuing.			

The following proposed charge is effective July 1, 2012:

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, the General Manager recommends that the charge continue at the \$10 maximum for fiscal year 2012-2013. The Standby Availability Charge rate is effective July 1, 2012.

The following rates and charges are being proposed effective on January 1, 2013:

Melded Untreated M&I Supply Rate. The Melded Untreated Municipal and Industrial Supply Rate will be 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, and may include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, etc. For CY 2013, the Melded M&I Supply Rate will increase from its current level of \$638/AF to \$714/AF. Table 3 shows the calculation of the Melded Untreated Supply Rate.

Table 3 – Melded Untreated M&I Supply Rate Calculation

	<u>CY 2013</u>
Acre-Foot Sales (A/F) (000's)	
MWD Tier I	250.4
IID	100.0
Canal Water Delivery Costs	80.2
TOTAL A/F SALES	430.6
Water Purchase Cost (in Millions)	
MWD Tier 1 Water Purchases	\$148.5
QSA Exchange with MWD Costs	81.6
IID Water Purchases	54.0
Canal Water Purchases	0.9
Subtotal Water Purchases	\$285.0
Additional Costs (in Millions)	
Canal Cost Differential and Operating Budget Costs	\$16.9
IID Socioeconomic	3.0
QSA Environmental	2.1
Groundwater Storage	0.4
Subtotal Other Costs	\$22.4
TOTAL SUPPLY COST	\$307.4
A/F RATE (Total Supply Cost /Total A/F Sales)	\$714

Melded M&I Treatment Rate. The Melded Municipal and Industrial Treatment Rate will be set to recover the costs of treating water for the Water Authority and may include costs of purchasing treated water from MWD, and the Levy and Olivenhain treatment plants and may recover certain

other costs associated with the provision of treated water. For CY 2013, the Melded M&I Treatment Rate will increase from its current level of \$234/AF to \$256/AF. Table 4 shows the calculation of the Melded Treatment Rate.

Table 4 – Melded M&I Treatment Rate Calculation

	<u>CY 2013</u>
Acre-Foot Sales (A/F) (000's)*	
MWD	105.4
Water Authority	61.5
Helix	25.4
Olivenhain	5.0
TOTAL A/F SALES	197.3
Cost (in Millions)	
MWD	\$26.8
Water Authority	18.3
Helix	4.0
Olivenhain	1.5
TOTAL TREATMENT COSTS	\$50.6
A/F RATE (Total Treatment Costs/Total A/F Sales)	\$256

* Includes SAWR treated water deliveries.

Transportation Rate. The Transportation Rate is a uniform rate set to recover capital, operating and maintenance costs of the Water Authority's aqueduct system, including all 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 Water Authority as it occurs. All users, member agencies and third-party wheelers will pay the Transportation Rate. A separate administration fee will also be imposed to recover the Water Authority's cost to administer the purchase and delivery of wheeled water to member agencies and third parties. For CY 2013, the Transportation Rate will increase from its current level of \$85/AF to \$93/AF.

Water Authority's Transitional Special Agricultural Water Program Rates. For CY 2013, the untreated agricultural water rate will increase from its current level of \$560/AF to \$593/AF. The treated agricultural water rate will increase from \$794/AF in CY 2012 to \$849/AF in CY 2013. The TSAWR program rates correspond to a lower level of water supply reliability for its participants.

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 retail water meters within each agency. For CY 2013, the IAC will increase from its current level of \$2.60/ME to \$2.65/ME.

Customer Service Charge. The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority and to develop and implement policies that are demonstrated to provide regional benefit and are approved by the Board. 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 purchases from the Water Authority (excludes member agency

wheeled water). For CY 2013, the Customer Service Charge will remain at its current level of \$26.4M.

Storage Charge. The Storage Charge is set to recover costs associated with the Emergency Storage Program. The Storage Charge is based on all non-agricultural water deliveries and will be allocated among the member agencies using a pro rata share of each agency's three-year rolling average deliveries (a limited three-year rolling average is used to capture impacts of highly variable deliveries by member agency). The Storage Charges includes all deliveries to member agencies and any third-party wheeling throughput. For CY 2013, the Storage Charge will increase from its current level of \$54.2M to \$60.2M.

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.²

MWD Capacity Charge. For CY 2013, the Capacity Charge is \$6,400 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 only a portion of the cost of providing peak capacity within the distribution system, and its stated purpose is 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. The Capacity Charge will be set at \$6,753,920. The Water Authority passes through the MWD Capacity Charge in the same manner as calculated by MWD: 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 levied on a fiscal year basis. The total Readiness-to-Serve Charge will increase from its current level of \$135.5 million to \$144 million in fiscal year 2012-2013. The Water Authority's share is set at \$35,881,578. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is \$23,240,691. MWD's Readiness-to-Serve Charge is intended to recover a portion of costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge is 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. Under the 2003 Amended and Restated Exchange agreement between the Water Authority and MWD, the Water Authority's QSA supplies are more properly, *not subject to the RTS charge*, because the water delivery schedule is stable, and therefore does not impose a "standby" demand or cost on MWD. 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

² The Water Authority has opposed MWD's cost of service methodology associated with these charges.

the member agency. Without conceding the propriety of the charge, the Water Authority passes through the Readiness-to-Serve Charge in the same manner as calculated by MWD.

Proposed Rates in Compliance with Proposition 26

In November 2010, the voters adopted Proposition 26, an initiative measure amending provisions of articles XIII A and XIII C of the California Constitution. The General Counsel and independent consultants have determined that the measure's amendment of article XIII C applies to the Water Authority and MWD. Specifically, the measure adds a new definition of tax applicable to local government agencies. As newly defined, a "tax" is "any levy, charge, or exaction of any kind imposed by a local government" except one that falls within one of seven specific categories. One of these categories includes charges for benefits or privileges paid by a recipient that do not exceed the reasonable costs of providing the benefit or privilege. Another category includes charges for services or products that do not exceed the cost of providing the service or product. The General Counsel has opined that the Water Authority's proposed rates and charges comply with the requirements of Proposition 26.

Long-Term Outlook

Over the past decade, MWD's rate increases have been the primary driver and have had a profound impact on the Water Authority's rate increases. Between 2004 and 2014, MWD's Tier 1 Untreated rate increased at a compounded annual growth rate of 7.3%.³ MWD's Tier 2 Untreated rate increased at a compounded annual growth rate of 6.5%, with the Readiness-To-Serve charge rising at a 7.8% compounded annual growth rate over that same span.

Following community outrage over water supply cutbacks imposed by MWD in 1990, the Water Authority executed the water transfer agreement with the Imperial Irrigation District in 2003 as part of the broader Colorado River Quantification Settlement Agreement. Through the water transfer agreement, the Water Authority secured a highly reliable 45- to 75-year supply of Colorado River supplies. In 2013, in accordance with the transfer's ramp-up schedule, the Water Authority will receive 100,000 acre-feet of supplies from IID. The ramp-up period culminates in 2021, when the Water Authority will begin receiving 200,000 acre-feet annually through the end of the agreement. The Water Authority also took advantage of the opportunity to line the All American and Coachella canals in the Imperial Valley desert; that agreement secured 80,000 acre-feet of water annually under a 110-year contract between the Water Authority and the U.S. Secretary of the Interior. In 2013, the Water Authority will receive 180,000 acre-feet of supplies from the QSA transfers, and 280,000 acre-feet annually starting in 2021.

The QSA supplies have materially improved the region's water supply reliability. That improved reliability was especially important during the most recent MWD supply allocation, from July 2009 through mid-April 2011. During that period, the Water Authority received approximately 264,000 acre-feet of QSA supplies which, along with local supplies, helped reduce water supply cutbacks by MWD. Importantly, if the Water Authority's supplies had instead been added to demands on MWD supplies, MWD would have had to impose a much deeper shortage allocation, withdraw even more

³ MWD's 40-year (1974-2014) Compounded Annual Growth Rate of its Full Service Tier 1 Untreated rate (its bundled full-service rate from 1974-2002, and Full Service Tier 1 Untreated from 2003-2014) is 6.2%.

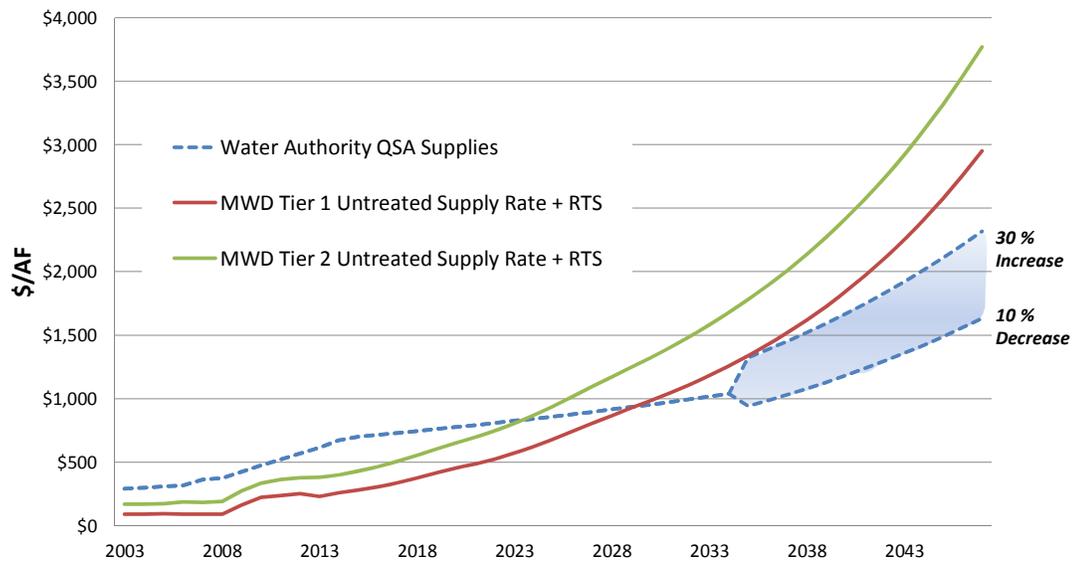
water from storage (which was already heavily depleted) or execute more spot water transfers (if available).

While the Board's primary motivation for the QSA agreements was improved water supply reliability, the Water Authority has also achieved an important measure of improved cost control over a significant portion of its imported water supplies. The cost of the canal lining supplies through 2036 is comprised of debt service payments and operations and maintenance costs. When the debt service is retired in 2036, the cost of the canal lining supplies will be operations and maintenance through the remaining years of the 110-year agreement. In the water transfer agreement with IID, the Water Authority has negotiated important protections against escalation in rates through several provisions. From 2003-2015, the price the Water Authority pays IID for the supply is set according to an agreed-upon schedule. From 2016-2034, price increases are tied to the Gross Domestic Product Implicit Price Deflator (GDP-IDP). Over the past 10 years (2001-2011), the GDP-IDP annual rate of 2.3%. Over a 40-year period (1971-2011), the GDP-IDP has risen 3.8% annually (compounded annual growth rate). From 2035-2047 (the final year in the initial 45-year term of the agreement), the price structure of the transfer will return to its original pricing formula. At that point, either party may elect to implement a price redetermination provision in the agreement that would set the price the Water Authority pays IID to a defined set of comparable market water transfers. Accordingly, the price the Water Authority pays IID could go either down or up, depending upon the comparable market transfers at that time.

The following table shows the impact of these price control measures in the QSA supplies. As negotiated by the Water Authority, in the early years of the QSA, the cost of the QSA supplies is higher than MWD's Tier 1 and Tier 2 Untreated supply rates. However, in later years, MWD's supply rates are projected to exceed the cost of the QSA supplies.⁴

⁴ For the purposes of this comparison, in 2035 a range is shown: an initial 10% reduction in base price, to a 30% increase in base price, with both figures escalated thereafter at 5% annually.

Water Supply Rate Comparison QSA Supplies vs. MWD Supplies



Summary

After consideration of public comments at the Public Hearing on June 28, 2012, the staff recommends that the Board adopt ordinances setting the water rates and charges for the next calendar year and continuing the existing Standby Availability Charge.

Prepared by: David G. Shank, Financial Planning Manager
Reviewed by: William C. Statler, Interim Director of Finance/Treasurer
Reviewed by: Sandra L. Kerl, Deputy General Manager
Approved by: Maureen A. Stapleton, General Manager

Attachment A: Resolution of the Board of Directors of the San Diego County Water Authority fixing the time and place for a public hearing to consider: Changes to the rates and charges for delivery and supply of water; and (2) Continuing the existing Standby Availability Charge.

RESOLUTION NO. 2012-_____

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, AND (2) CONTINUING THE EXISTING STANDBY AVAILABILITY CHARGE

WHEREAS, pursuant to the County Water Authority Act, the Board of Directors has adopted resolutions and ordinances setting rates and charges for delivery and supply of water, use of facilities and provision of other services; and

WHEREAS, the Metropolitan Water District has adopted certain rate and charge increases for water and services it provides to the Water Authority that will become effective January 1, 2013; and

WHEREAS, the County Water Authority Act and the updated Long-Range Financing Plan adopted by the Board of Directors contemplate the establishment of sufficient rates and charges, when considered along with taxes and other revenues of the Water Authority, to provide revenues for accomplishment of the Water Authority's purposes and programs as determined by the Board of Directors; and

WHEREAS, the Director of Finance has provided a report recommending increases of Water Authority rates and charges a copy of which has been filed with the Clerk of the Board; and

WHEREAS, the Board of Directors desires to set a public hearing to consider comments regarding continuing the existing rates and charges

NOW, THEREFORE, IT IS HEREBY RESOLVED by the Board of Directors of the San Diego County Water Authority as follows:

1. The foregoing recitations are true and correct.
2. A public hearing will be held by the Board of Directors of the San Diego County Water Authority Administrative and Finance Committee on June 28, 2012, at 9:00 a.m., or as soon thereafter as the matter may be heard, in the Board Room of the Water Authority at 4677 Overland Avenue, San Diego, California 92123, to consider changes to the rates and charges for delivery and supply of water, use of facilities, and provision of other services as determined necessary by the Director of Finance
3. The Clerk of the Board is directed to cause the following notice to be published pursuant to Government Code Section 6066 in the newspapers of general circulation stated in paragraph 5, below:

Legal Notice

Notice is hereby given that the San Diego County Water Authority Board of Directors Administrative and Finance Committee will hold a public hearing at June 28, 2012, at 9:00 a.m. or as soon thereafter as may practicably be heard, at its offices located at 4677 Overland Avenue, San Diego, CA 92123. The purpose of the hearing will be to hear objections, protests or comments from the public about proposed water rates and charges as specified below. The Water Authority also intends to continue the water standby availability charge at its existing level, and to levy property taxes as authorized by law. For further details see the memorandum dated May 16, 2012 on file with the Clerk of the Board.

The following rates and charges will be effective July 1, 2012:

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, the General Manager recommends that the charge continue at the \$10 maximum for fiscal year 2012-2013. The Standby Availability Charge rate is effective July 1, 2012. The amount of this charge has not changed since the adoption of Proposition 218 in 1996. The justification for imposition of this charge is the same as for when the charge was initially levied and as it was imposed before November 6, 1996.

The following rates and charges are being proposed effective on January 1, 2013:

Melded Untreated M&I Supply Rate. The Melded Untreated Municipal and Industrial Supply Rate will be 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, and may include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, etc. For CY 2013, the Melded M&I Supply Rate will increase from its current level of \$638/AF to \$714/AF.

Melded M&I Treatment Rate. The Melded Municipal and Industrial Treatment Rate will be set to recover the costs of treating water for the Water Authority and may include costs of purchasing treated water from MWD, and the Levy and Olivenhain treatment plants and may recover certain other costs associated with the delivery of treated water. For CY 2013, the Melded M&I Treatment Rate will increase from its current level of \$234/AF to \$256/AF.

Transportation Rate. The Transportation Rate is a uniform rate set to recover capital, operating and maintenance costs of the Water Authority's aqueduct system including all 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 Water Authority as it occurs. All users, member agencies and third-party

wheelers will pay the Transportation Rate. For CY 2013, the Transportation Rate will increase from its current level of \$85/AF to \$93/AF.

Water Authority's Transitional Special Agricultural Water Program Rates. For CY 2013, the untreated agricultural water rate will increase from its current level of \$560/AF to \$593/AF. The treated agricultural water rate will increase from \$794/AF in CY 2012 to \$849/AF in CY 2013.

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 retail water meters within each agency. For CY 2013, the infrastructure access charge will increase from its current level of \$2.60/ME to \$2.65/ME. ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.

Customer Service Charge. The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Water Authority, to develop policies and implement programs that benefit the region as a whole. 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 purchases from the Water Authority (excludes member agency wheeled water). For CY 2013, the Customer Service Charge will remain at its current level of \$26.4M.

Storage Charge. The Storage Charge is set to recover costs associated with the Emergency Storage Program. The Storage Charge is based on all non-agricultural water deliveries and will be allocated among the member agencies using a pro rata share of each agency's three-year rolling average deliveries (including all users, member agencies and third-party wheeling throughput). For CY 2013, the Storage Charge will increase from its current level of \$54.2M to \$60.2M.

The following MWD rates and charges are passed on directly or allocated to the member agencies as follows;

MWD Capacity Charge. For CY 2013, the Capacity Charge is \$6,400 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 Water Authority is expected to reserve its full available capacity. The Capacity Charge will be set at \$6,753,920. The Water 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 increase from its current level of \$136 million to \$144 million in Fiscal Year 2012-2013. The Water Authority's share is set at \$35,881,578. After credits from the MWD Standby Charge, and administrative costs, the net Water Authority share is \$23,240,691. 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 Water 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).

The Water Authority also intends to continue the Water Standby Availability Charge at its existing level, and to levy property taxes as authorized by law.

By Order of the Board of Directors
of the San Diego County Water Authority

Doria F. Lore
Clerk of the Board

5. The newspapers in which said notice is to be published are:

San Diego Union-Tribune
350 Camino de la Reina
San Diego, CA 92108

North County Times
1722 S. Coast Hwy
Oceanside, CA 92054

PASSED, APPROVED AND ADOPTED, this 24th day of May 2012.

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Michael T. Hogan, Chair

ATTEST:

Richard Smith, Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2012- _____ was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore
Clerk of the Board