

**PURSUANT TO EXECUTIVE ORDER N-25-20 ISSUED BY GOVERNOR NEWSOM,  
ONE OR MORE BOARD MEMBERS MAY PARTICIPATE IN THE MEETING  
VIA TELECONFERENCE**

AGENDA FOR A WORKSHOP MEETING OF THE BOARD OF DIRECTORS  
OF THE VALLECITOS WATER DISTRICT  
WEDNESDAY, SEPTEMBER 9, 2020, AT 3:00 P.M.  
VIA TELECONFERENCE

NOTICE TO THE PUBLIC

Due to the evolving situation with the COVID-19 Novel Coronavirus and Executive Order N-35-20, so long as state or local public health officials have imposed or recommended social distancing measures Vallecitos Water District will hold future meetings via teleconferencing and allow members of the public to observe and address the meeting telephonically or otherwise electronically. During this period of time, Vallecitos Water District will not be making any physical location available for members of the public to observe the meeting and offer public comment. The public is encouraged to watch and participate in the meeting from the safety of their homes. The meeting can be viewed on the agenda page located on the main page of the District's website. Public comments or questions can be submitted to the following email address: [PublicComment@vwd.org](mailto:PublicComment@vwd.org). All written comments that are received at least 90 minutes before the meeting will be provided to the Board, and a record of the receipt of comment will be noted during the meeting. Members of the public viewing the meeting via the Zoom videoconferencing platform can express their desire to provide input at the appropriate time by utilizing the "Raise Hand" function. Additional instructions for online participation will be posted on the District's website. [www.vwd.org/meetings](http://www.vwd.org/meetings)

CALL TO ORDER – PRESIDENT EVANS

ROLL CALL

In the case of an emergency, items may be added to the Agenda by a majority vote of the Board of Directors. An emergency is defined as a work stoppage; a crippling disaster; or other activity which severely imperils public health, safety, or both. Also, items which arise after the posting of the Agenda may be added by a two-thirds vote of the Board of Directors.

ADOPT AGENDA FOR THE WORKSHOP MEETING OF SEPTEMBER 9, 2020

PUBLIC COMMENT

Persons wishing to address a matter not on the Agenda may be heard at this time; however, no action will be taken until the matter is placed on a future agenda in accordance with Board policy. Public comments are limited to three minutes. A Request to Speak form is required to be submitted to the Executive Secretary prior to the start of the meeting, if possible. Alternatively, persons wishing to address the Board at this time may utilize the "Raise Hand" feature of the Zoom videoconferencing platform. Public comment should start by stating name, address and topic. The Board is not permitted during this time to enter into a dialogue with the speaker.

ITEM FOR DISCUSSION

WORKSHOP TO DISCUSS COST OF SERVICE STUDY OBJECTIVES

\*\*\*\*\*END OF DISCUSSION ITEMS\*\*\*\*\*

OTHER BUSINESS

\*\*\*\*\*END OF OTHER BUSINESS\*\*\*\*\*

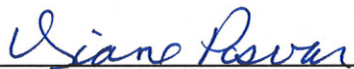
\*\*\*\*\*END OF AGENDA\*\*\*\*\*

If you have any disability which would require accommodation in order to enable you to participate in this meeting, please call the Executive Secretary at 760.744.0460 ext. 264 at least 48 hours prior to the meeting.

Audio and video recordings of all Board meetings are available to the public at the District website [www.vwd.org](http://www.vwd.org)

AFFIDAVIT OF POSTING

I, Diane Posvar, Executive Secretary of the Vallecitos Water District, hereby certify that I caused the posting of this Agenda in the outside display case at the District office, 201 Vallecitos de Oro, San Marcos, California by 5:00 p.m., Friday, September 4, 2020.

  
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Diane Posvar

**DATE: SEPTEMBER 9, 2020**  
**TO: BOARD OF DIRECTORS**  
**SUBJECT: COST OF SERVICE STUDY (COSS) OBJECTIVES**

**BACKGROUND:**

During the development and approval of the District's Fiscal Year 2020/2021 Budget, it was determined that additional revenues would be needed to offset rising costs and continue to fund District operations. The revenue projections in the Budget were based on new water rates that were anticipated to go into effect on February 1, 2021. In order to ensure that increased revenue is collected fairly among District customers, the District is conducting a Cost of Service Study.

**DISCUSSION:**

Proposition 218 requires that a study be conducted in conjunction with any proposed increased water rates. The budget anticipated that water rates would need to increase by an average of approximately 3.5%, effective February 1, 2021. A COSS does not determine how much revenue needs to be collected but does determine how the required revenue requirements are allocated.

The District retained Raftelis, Inc. to prepare the COSS. Staff has met with Raftelis on numerous occasions to develop the overall scope for the project and develop a general timeline. The first critical step in the COSS process is to solicit input from the Board regarding the policy objectives that are important to the Board. The workshop on Wednesday, September 9, 2020, will provide the Board with the opportunity to provide that input.

Once the workshop is complete, the consultant will develop several potential rate alternatives that meet the Board's policy objectives, generate sufficient revenue to fund District operations, and fully comply with California's regulatory requirements. Those potential alternatives will be provided to the Board at a future meeting, at which the Board will be asked to select a preferred methodology. Once that direction is received, the consultant will finalize the analysis and prepare a final study report. That report will be the basis for the rates the Board may propose for the Prop 218 rate setting process.

It is anticipated that it will take approximately two months for the consultant to develop the potential rate alternatives. It will take approximately one month for the consultant to finalize the study based on input received from the Board. Proposition 218 requires that a majority protest public hearing be held before any rate increases can be adopted. The law also requires that the District provide at least 45 days of notice for the public hearing.

No specific rate alternatives will be discussed at the workshop on September 9. The purpose of the workshop is solely to receive pricing and policy objectives feedback from the Board.

**FISCAL IMPACT:**

There is no fiscal impact associated with the workshop. The cost of the consultant was included in the FY 2020/2021 budget.

**RECOMMENDATIONS:**

Provide policy objectives to staff and Raftelis.

**ATTACHMENTS:**

Pricing and Policy Objectives Exercise Worksheet.



# Pricing and Policy Objectives Exercise Worksheet

## 1. OVERVIEW

The most effective water rate structures are designed to collect the appropriate amount of revenue, address the unique needs of the utility and its customers, and fully comply with California regulatory requirements. Pricing and policy objectives define the specific areas that utility governing bodies wish to emphasize in order to achieve broad, overarching objectives such as promoting customer water-use efficiency and cost of service rate equity. They serve as a starting point for the discussion and ultimate definition of potential alternative water structures. The purpose of today's exercise is to identify and better understand the pricing and policy objectives that the Board of the Vallecitos Water District (VWD) considers to be of primary importance. Raftelis will use the guidance provided by the Board to craft up to two potential alternative water rate structures for your future consideration.

## 2. PRICING AND POLICY OBJECTIVES IDENTIFIED BY THE VWD STAFF

At the request of Raftelis, the VWD staff developed a list of eight specific pricing and policy objectives they consider to be of critical importance when considering the design of potential alternative water rate structures. Raftelis asked the VWD staff to develop these pricing and policy objectives to provide structure to the Board's discussion.

Objective	Ranking
Enhancing Revenue Stability	1
Affordability - Affordable Water for Essential Uses	2
Affordability - Maintaining Low Average Customer Bills	3
Cost of Service Equity - Equitable Allocation of Water Supply Costs	4
Customer Understanding of the Water Rate Structure	5
Rate Stability - Minimizing Customer Impacts	6
Cost of Service Equity - Equitable Allocation of Capital Costs	7
Providing a Drought Management Tool	8



### 3. DISCUSSION OF VWD STAFF PRICING AND POLICY OBJECTIVES

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#### Objective: Enhancing Revenue Stability

**Policy Statement:** There are advantages to a utility increasing revenue certainty. It is important to establish rates that generate adequate revenues from year to year, regardless of climate cycles or variation in water use. These policies are achieved by selecting specific funding mechanisms or selecting specific rate structures.

**Discussion:** This principle highlights the importance of ensuring adequate revenue generation for maintaining a self-sustaining utility. Revenues must be adequate to fund technical, personnel, and other operational costs. Revenue generation should be predictable.

**Advantages of the Policy Objective:** The practice of ensuring revenue sufficiency and stability generates additional gains in financial health and generally reduces volatility in future rates.

**Disadvantages of the Policy Objective:** While pursuing a rate structure that promotes revenue stability is advantageous, setting user charges in a fashion that fixes a user's bill may be perceived as unfair and inequitable. The public may perceive the need as unnecessary and that a utility has little incentive to be judicious with operating and management costs.

#### Sub-Objectives:

- **Generate Adequate Revenues** – The ability of the rate structure to generate stable and predictable revenues on an annual basis. Specific types of rate structures are more effective at maintaining revenue stability than others. Adequate revenues ensure, for example, that technical studies can be conducted, qualified personnel can be retained, and that operational costs of a utility are covered.
- **Generate Stable Cash Flow** – The ability of the rate structure to generate stable and predictable revenues in each billing cycle. Specific types of rate structures are more effective at maintaining revenue stability than others. Adequate revenues ensure, for example, that technical studies can be conducted, qualified personnel can be retained, and that operational costs of the utility are covered.

## Objective: Affordability

- **Affordable Water for Essential Uses**
- **Maintaining Low Average Customer Bills**

**Policy Statement:** Utility bills should be affordable to customers, and the rates and charges should be developed to deliver the most considerable degree of affordability. Significant and/or unexpected rate changes may impose financial hardships on certain types of customers.

**Discussion:** Affordable rates require a balance between generating stable and sufficient revenue for operations and providing flexibility to customer bills. Alternative rate structures may result in improvement or deterioration of charges perceived to be affordable.

**Advantages of the Policy Objective:** Flexibility in bills allows users a degree of choice and control over their charges. Moreover, lower-income, fixed income, and/or those facing financial hardship are more likely to stay current on their charges with charges deemed affordable by the community.

**Disadvantages of the Policy Objective:** Affordability is relative to each customer and can be challenging to define. What may be affordable for one user is unaffordable to another. Additionally, affordability efforts generally present a tradeoff with revenue stability.

### **Sub-Objectives:**

- **Affordability for Essential Use** – This sub-objective addresses the importance of maintaining the price of essential water use - i.e., that which is used for health and sanitation – at the lowest cost possible while considering the needs of the utility and regulatory conditions. This ensures that affordable outcomes are maximized for the lowest volume water users and those most financially vulnerable.
- **Affordability for Average Use** – Aims to make charges for water service affordable for the average user within a class of users, irrespective of absolute use or economic conditions.

## Objective: Cost of Service Equity

- **Equitable Allocation of Water Supply Costs**
- **Equitable Allocation of Capital Costs**

**Policy Statement:** In compliance with Article XIII D of the State Constitution (commonly referred to as Proposition 218), governing statutes of State Law, and industry best practices, rates and charges should be cost-based, fairly apportioned among classes of customers, and account for the substantive provisions of the law through a sound, technically defensible methodology. Water supply costs and capital costs are among the largest costs that must be recovered through rates in a fair and equitable manner.

**Discussion:** This principle highlights the importance of ratepayers' perception of fairness and equity, while recognizing that absolute equity among all users and user classes may not be achieved. Rates should generally be perceived as fair, reasonable, and equitable for all.

**Advantages of the Policy Objective:** This principle reinforces the priority of treating all customer classes fairly. Also, it acknowledges the practical obstacles that prevent perfect equity, such as excessive administrative costs or technical costs incurred solely to achieve marginal gains in equity.

**Disadvantages of the Policy Objective:** "Fairness" and "Equity" can be subjective and requires advisory committees and policymakers to apply discretion and judgment. More, equity can be interpreted at the system, customer class, or intra-class level.

### **Sub-Objectives:**

- **Equity Among Customer Classes** – Rate structures achieve equity by allocating costs fairly and proportionally within user groups (customer classes). For example, tiered water rates attempt to increase equity within a class of customers.
- **Equity Between Customer Classes** - Rate structures achieve equity by allocating costs fairly and proportionally across distinct user groups or systems. For example, equity between residential users, commercial users, and agricultural users.
- **Inter-generational equity** – Rate structures achieve equity by matching the costs of impacts to those who have caused the impacts. This objective aims to protect current and future users from disproportionately bearing costs due to past activities. Inter-generational equity also relates to the future costs of infrastructure investment and re-investment and who should pay.

## Objective: Customer Understanding of the Water Rate Structure

**Policy Statement:** Recognizes the advantages of implementing rate structures that are easily understood by ratepayers

**Discussion:** This objective highlights the importance of keeping rate structures, and changes to rate structures, simple. Customer communications and clarity of bills should be considered as part of this principle.

**Advantages of the Policy Objective:** Creating structures that are easy for ratepayers to understand will minimize user-related administrative burdens. If customers understand the basis of their bills, they will have the ability to quickly calculate charges and conclude that they are fair.

**Disadvantage of the Policy Objective:** Simplifying the rate structure generally reduces the degree of fairness and equity across user groups and may also limit conservation and affordable outcomes.

### **Sub-Objectives:**

- **Ease of Understanding** – The ability for the rate structures to be explained in a manner that can be understood by the layperson and other stakeholders. This creates a positive effect on the acceptance of charges for service.
- **Straightforward Bills** – Implementing a new or modified rate structure merits careful consideration as wholesale changes can require upfront investments in outreach, communications, and interim investments in customer service staffing and other resources.
- **Discernable Changes to Rates** – Producing a rate structure where the layperson can explain the changes and calculate changes to charges with just the bill reduces confusion, reduces the burden on administration, and generally leads to acceptance of the rates as fair.



## **Objective: Rate Stability - Minimizing Customer Impacts**

**Policy Statement:** There are advantages to a utility in generating stable rates for customers. These policies are achieved by selecting specific funding mechanisms for long-term finances and/or incorporating specific cost components into rate structures.

**Discussion:** This principle highlights the importance of predictable rates to customers year-over-year while minimizing the effects of rate structure changes.

**Advantages of the Policy Objective:** The practice of ensuring rate stability generates gains in customer understanding and financial health through less revenue volatility.

**Disadvantages of the Policy Objective:** While pursuing a rate structure that promotes rate stability is advantageous, setting user charges to maximize this objective may reduce equity and may be perceived as unfair and inequitable. In addition, it may reduce the conservation signaling of rates.

### **Sub-Objectives:**

- **Avoid Rate Volatility** – To reasonably ensure that rates and charges are predictable across billing cycles and without sharp fluctuations in magnitude or structure year-over-year. Certain structures are more effective at guarding against rate spikes and highly fluctuating user bills.
- **Minimize Customer Impacts** – This sub-objective aims to minimize the financial impact of rate structure changes to customers to the greatest degree possible.

## Objective: Providing a Drought Management Tool

**Policy Statement:** Recognizes the advantage of implementing rate structures that can easily be modified to limit customer water consumption and recover adequate revenue during periods of drought restrictions.

**Discussion:** To the extent feasible, utilities should implement rate structures that are effective during periods of normal climatic conditions and, with minimal modifications, during periods of drought restrictions.

**Advantages of the Policy Objective:** Utilities must have the ability to easily modify their existing rate structure in response to droughts. Rate structures used when drought restrictions are imposed must have the ability to limit customer water consumption in a manner that provides for an adequate level of essential indoor water usage, while at the same time, discouraging non-essential outdoor irrigation usage. In addition to limiting water usage in a manner that is rational, equitable, and understandable to customers, drought rates must also recover an adequate amount of revenue to successfully sustain utility operations.

**Disadvantage of the Policy Objective:** Some rate structures cannot be easily modified to accommodate drought restrictions. When designing and implementing rate structures, utilities should consider the specific quantitative basis for reducing water consumption and the rates charged within each TIER during periods of drought. If not implemented in a thoughtful manner, drought rates can make essential water usage less affordable, especially for large families, and have a negative impact on utility revenue stability and sufficiency.

### **Sub-Objectives:**

- **Easily Implemented Usage Restrictions** – The ability for the consumption TIERs used in the rate structure to be easily and equitably modified when drought restrictions are implemented.
- **Equitable Drought Rates** – The ability of the rates charged in each consumption TIER to equitably distribute costs between and among customer classes when drought restrictions are implemented.
- **Utility Revenue Stability and Sufficiency** – The ability of rates to generate adequate and stable revenues while drought restrictions are implanted.

## Vallecitos Water District Pricing and Policy Objectives Exercise

Please Prioritize Each of the Sub-Objectives Sequentially from 1 to 8  
with 1 being the Highest Priority and 8 being the Lowest Priority

Objective	Priority
Enhancing Revenue Stability	
Affordability - Affordable Water for Essential Uses	
Affordability - Maintaining Low Average Customer Bills	
Cost of Service Equity - Equitable Allocation of Water Supply Costs	
Customer Understanding of the Water Rate Structure	
Rate Stability - Minimizing Customer Impacts	
Cost of Service Equity - Equitable Allocation of Capital Costs	
Providing a Drought Management Tool	

Participant's Name

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