MINUTES OF THE
SPECIAL BOARD OF DIRECTORS MEETING OF THE
OTAY WATER DISTRICT
September 18, 2008

1. The meeting was called to order by President Croucher at 3:01 p.m.

2. PLEDGE OF ALLEGIANCE

3. ROLL CALL

Directors Present:	Bonilla, Breitfelder, Croucher, Lopez and Robak (arrived at 3:10 p.m.)
Directors Absent:	None
Staff Present:	General Manager Mark Watton, Asst. GM Administration and Finance German Alvarez, Asst. GM Engineering and Water Operations Manny Magana, General Counsel Yuri Calderon, Chief of Information Technology Geoff Stevens, Chief Financial Officer Joe Beachem, Chief of Engineering Rod Posada, Chief of Operations Pedro Porras, Chief of Administrative Services Rom Sarno, Communications Officer Armando Buelna, District Secretary Susan Cruz and others per attached list.

4. APPROVAL OF AGENDA

A motion was made by Director Breitfelder, seconded by Director Lopez and carried with the following vote:

Ayes:	Directors Bonilla, Breitfelder, Croucher and Lopez
Noes:	None
Abstain:	None
Absent:	Director Robak

to approve the agenda.

5. PUBLIC PARTICIPATION – OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO SPEAK TO THE BOARD ON ANY SUBJECT MATTER WITHIN THE BOARD'S JURISDICTION BUT NOT AN ITEM ON TODAY'S AGENDA

No one wished to be heard.

WORKSHOP

6. ACCEPT THE FINDINGS OF THE RATE STUDY, SUPPORT STAFF'S RECOMMENDATION OF THE PHASE-IN OF ALTERNATIVE 3, AND DIRECT

STAFF TO DRAFT PROPOSITION 218 NOTICES WITH THE PROPOSED ALTERNATIVE 3 WATER, SEWER, AND RECYCLED RATES

Chief Financial Officer Beachem indicated that staff was looking for direction from the board to move forward with the Proposition 218 notices to the District's customers. He indicated that there are three issues requiring the board's direction:

- How to implement the 12.4% rate increase.
- How to implement the results of the cost-of-service study.
- How to implement tiered rates and drought rate structures.

He introduced Ms. Karyn Keese of PBS&J, the District's rate study consultant. He indicated that Ms. Keese is very well respected in the nation, especially in California, for her expertise in rate studies. Ms. Keese indicated that the industry is trending toward what are termed conservation based rate structures as demand gets greater on our scarce water resources. She indicated that such structures are not new and have been utilized in the 1980's and in the early 1990's and they became very popular in Northern California during the drought. She stated the goal of conservation structures is to encourage conservation without the need for water agencies to become "water cops."

She stated that the District's staff was very engaged throughout the full study process which is very different from other agencies she has worked with. She indicated that staff's objective was to understand the model and be involved in the analysis so they would be able to manipulate the model themselves. She explained that Otay had a study completed in November 2003 which started the basic cost-of-service analysis. She indicated that they utilized this model and layered in some changes to the cost-of-service and the actual rate structures to establish tiered water rates for not only single and multi-family customers, but also commercial and agricultural/irrigation meter customers. She stated that the District is one of the first agencies to implement tiered rates for commercial and agricultural/irrigation customers, but this is a trend that will become common in the industry.

She indicated that the only change that was made to cost-of-service is increasing the amount of revenue that come from fixed fees. She indicated that the goal of the study, while subscribing to the best management practices of not having fixed revenue in excess of 30%, is to move from the current 25% to 28% of fixed revenue. She stated that there are fixed costs that are incurred whether a gallon or no water is sold which the District must pay (such as debt service). This change will help protect the District financially.

Accounting Manager Rita Bell indicated that the rate study began in May 2008 when staff requested the board's approval to conduct the rate study. She stated that the goal at the time was to simplify the District's rate structure, to bring equity between customer classes, and also encourage conservation. She stated that in June 2008 staff presented the FY 2009 budget which was approved by the board. She indicated that the approved budget is supported by a 12.4% water rate increase and a 4.6% sewer rate increase. She indicated on August 21, 2008 the General Manager entered into an agreement with PBS&J to assist the District in preparing the rate study. She stated that today, staff is presenting the findings of the rate study and is requesting that the Board select a rate option that will be presented in the Proposition 218 notices to the District's customers.

She presented the rate options for potable water rates which included:

- Straight 12.4% rate increase
- "Phase-in" of cost-of-service rate study
- Full implementation of cost-of-service rate study

She indicated that staff recommends that recycled water rates be continued at 85% of potable landscape customers and for sewer it is recommended that a:

- Straight 4.6% rate increase be implemented
- This is the second year of a three-year phase-in, with a maximum usage fee up to 22 units [this has increased from 18 units]. This increase was already noticed in the 2008 Proposition 218 hearing and was approved by the Board last fiscal year.

Accounting Manager Bell explained that if the District implemented a 12.4% rate increase across the board it would place Otay as the 9th lowest cost among the 23 agencies for single family customers utilizing 15 units of water. For customers utilizing 10 units, the District would be the 5th lowest cost among the 23 agencies. It was noted that this rate does reward the District's water conserving customers.

She reviewed the items they examined in the rate study which included:

- Equity
    - Cost-of-Service Study
    - Government Rate
- Financial Stability
    - Review how much of revenues come from Fixed vs. Variable charges and shift it closer to 30%
- Conservation
    - Implement tiered rate structures for commercial (non-residential) to promote conservation

She noted that these items were reviewed in the context of the Cost-of-Service study. While reviewing the different options, if one item was changed, staff would check that the targeted total revenue was still being collected.

Ms. Keese indicated that a rate study is not performed annually, but is done once every three to five years depending on the changes that is occurring within the District (for instance, the downturn in the housing market and the impending water shortages). She stated that what they found in rate structures is if you add percentage increases across the board to each rate, over time, they start to diverge from the cost-of-service. She stated that the study focused on bringing everything back to industry standards and cost-of-service to achieve the conservation base. The study revealed that there are some imbalances between customer classes as noted in the table presented on the bottom of slide number 9 (reference the bottom of page 9 of attached copy of staff presentation). To bring rates back to industry standard they added a new dimension to the District's rate structure called "base extra capacity." This means that the more that a customer peaks on the system the greater their demand is on the system, thus, the more they will pay for their water because it is their demand that is the cause for the system to be sized for the higher peaking rates. An example of this is called "max hour" which is a component of "base extra capacity." The single family "max hour" is basically 350% and landscape meters is about 500% (greater peaking by 1.5% than the single family) and, thus, they should have the greater peaking charges incorporated into their rate. This rate study has taken this peaking charge into consideration and is the reason that the percentage increase for agriculture/landscape and construction is 10%. Another area they looked at is a component of the multi-family rate structure that has been in place for a long time, the dwelling unit charge of $3.85. She stated that this rate was not supported by cost-of-service and it is an old style rate structure that is not commonly used and it is recommended that it be eliminated.

The government rate was also reviewed for equity. Currently, all customer classes, with the exception of the government, pay a 1% property tax and availability fee on the tax roll. In the 1960's the District established a government rate to ensure equity between the customer classes and this rate has not been updated since 1999. The 1% property tax has grown over time due to increases in housing prices and the mix of customers has also changed. In reviewing the government rate it was found that the rate is undercharged by $.20 per unit of water. It is recommended that the rate be increased to $.28 per unit from $.08 per unit of water to achieve balance.

Staff also reviewed possibly increasing the District's fixed fees to provide stability to the revenue stream. She noted that the fee should also be balanced with conservation, so you don't have low water consuming customers paying high water bills because of high fixed fees. She stated that BMP 11 recognizes this and sets the maximum fixed to variable revenue ratio at 30%. Currently, the District is at 25% and staff is recommending that the District move to 28%. Staff is recommending 28% because as the weather changes and water consumption/sales change, the District wants to be sure that it does not go over the 30% threshold. The impact to the average residential customer (15 units) is $1.62 per month above the 12.4% rate increase (of $2.01).

Ms. Keese indicated staff reviewed the over-capacity fee which is part of the commercial rate structure. She stated in moving toward a structure based on Cost-of-Service, it is recommended that the over-capacity fee be removed from the rates structure and be placed on similar tiered rate structures for residential single and multi-family to encourage conservation. She stated that moving to a three-tiered commercial structure is highly supported in the industry and by CWA's drought rate consultant, Dr. Chesnutt. This structure is becoming industry standard in areas where there are water shortages. She noted that staff took every meter size in the different user classes and performed a frequency distribution (ie., identified how many customers are using 5 hcf of water at a particular meter size and customer class, etc.). These statistics are graphed and a curve is produced which reveals patterns within the Commercial/Public, Landscape, Agriculture/Construction, and Recycled in the different classes of meters. The Commercial/Public consumers with ¾" to 6" meters had similar distribution of customers at different levels of consumption. These customers were set as one rate class and the 8" and larger were set on a separate rate structure (which will be presented later). She stated the same was done for Landscape/Agriculture/Construction and three rate structures was set for this class based on meter size and four structures were set for Recycled consumers. Staff is recommending that modest tiering be implemented to initially lay the foundation for these customer types. This will prepare the District in the event of a drought to easily overlay a drought rate structure to achieve the District's conservation targets.

She stated that the method for establishing tiered rates is to first look at your single family users as a class and identify the average use within this class during the winter and compare this usage to the summer months. The usage is then averaged for the year. She stated that this will identify the break points for each of the tiers.

During the winter, 47% of the District's customers use an average of 0 to 10 units of water. This forms the first block of the tier. The second tier represents the 36% of District customers who utilize an average of 11 to 26 units of water during the summer months. The last tier represents the 17% of the District's customers who utilize over 26 units. These are the customers whom you wish to send a pricing signal to as they are using more water than the average summer use of the class. This same process is used to set the tier rates for the different classes (commercial, residential, multi-family, etc.). She also noted the rational for setting the pricing blocks. The first tier rewards conservation (rate for conserving customers). The second tier is your base usage tier which is set at a 30% price differential from the first tier. The third tier is the penalty block which is set at 100% differential from tier one to encourage conservation. Ms. Keese indicated that this is how conservation rates are set.

She also presented a chart showing the results of a survey of rate structures of all 23 water agencies in the county (see presentation). She noted that those areas on the chart highlighted in green indicate that the agency has implemented tiers for the various classes listed. Many have implemented conservation tiers for their residential class. There are approximately five agencies who have implemented commercial tiers, six agencies with water metered tiers, three with construction tiers, etc. She indicated that the chart shows, as a result of the Cost-of-Service study, that it is recommended that Otay implement tiered structures for all classes (a tiered rate structure for construction and recycled will be newly implemented). She noted that not all the agencies have recycled water and Otay is very fortunate to have recycled water sources. She stated that recycled water rates will be treated similar to landscape meters to encourage conservation.

She also shared that there was a meeting of the manager's work group on the drought rate issue. She stated that the topic of the meeting was to develop a common theme among the various agencies on how drought rate structures and pricing signals will be handled. She stated that CWA has just provided a model to its member agencies which staff has an interest in implementing at the District.

She indicated that when staff reviewed the Cost-of-Service study they realized that if all proposed changes were implemented, there would be some significant increases to various customer classes. She indicated that staff would like to propose a three-year phase-in of the recommendation from the study so the impact of the increases would not be as significant.

Chief Financial Officer Beachem indicated that 12.4% is the average increase of all the scenarios that will be presented. If the Cost-of-Service is implemented, it will shift some customer classes higher and some classes lower to net at 12.4%. He indicated that tiers do not shift by class, but within each class it spreads out what customers will pay (some customers will pay either higher or lower than 12.4%).

Accounting Manager Bell indicated that she will be presenting the implementation of the phase-in of the proposed rate increases. This is a significant increase, and phasing in the increase would allow time for customers to react to the change and give the District time to educate its customers on how the District's new rate structure works and where it is heading. She indicated if the increase is phased in over three-years:

- Cost-of-Service Study: Some customer classes will be going up and some will go down. Staff recommends that one-third of the imbalance would adjust each year by one-third with full implementation in the third year (33% each year for two years and 34% in the third year for 100% implementation).
- Government Rate Increase: The current Government Rate is $.08/unit and the target rate is $.28/unit in three years. Staff recommends an increase to $.15/unit in the first year of implementation, $.22/unit in the second year and $.28/unit in the third year.
- Fixed to Variable: Currently the District is at 25% and the target is $28%. Staff proposes an increase to 26% in year on of the phase in, 27% in year two and 28% in year three.
- Existing Tiers: The pricing differential between the tiers will be increased 33% in first two years and 34% in the third year. Some customers will move up in cost and some will move down based on their consumption.
- Commercial Tiers: This is new so staff is proposing that the tiers be established (conservation tier, base tier, and high use tier) at the 47%, 36% and 17% per unit sold. It is recommended that the pricing differential be minimally implemented. This will ease this customer class into the new rate structure and provide them time to adjust.

Director Breitfelder inquired what the advantages were to the District in phasing in the increases versus doing the increase all at once. Chief Financial Officer Beachem indicated that with full implementation there would be a number of customers whose bills would be affected much more so than a phase in option. Staff would receive a number of calls from customers and the District would need to do more outreach to the customers to educate them on the new rates. He stated that full implementation would place a big burden on staff than if the rates were phased in. The phase-in would also allow customers time to create a new budget for the next year and would allow both the District and customers to adjust to the new rate structures.

Ms. Keese indicated that this is not unusual in the industry especially where there is change in the structure of the rates. She stated that there will be customers who will be very happy with the change and some very unhappy. Those that will be unhappy will experience a very substantial increase in their bill. By phasing in the increase, it will allow the District to educate the customers on the changes so customers will have time to react/prepare for the change. As long as the District can achieve its revenue needs to keep the District viable financially, phasing in will provide better public relations.

Chief Financial Officer Beachem indicated that staff will be working with some of its customers, even if the phase-in approach is implemented, on their usage to help them implement more conservation practices to minimize the increase in their monthly bill under the new rate structure. He stated with full implementation, there would be much more effort on staffs' part in this area.

Accounting Manager Bell indicated that with the phase-in approach, an average District customer utilizing 15 units of water, their monthly bill would be approximately $53.32 per month. This would rank Otay as the 6th lowest cost among the 23 agencies. If the District implemented a straight 12.4% increase, the District would rank as the 9th lowest cost agency. She also stated that for those customers utilizing 10 units of water, the District would rank 3rd lowest and with a straight 12.4% increase, the District would rank 5th lowest. This rate structure rewards the conserving customer, by bringing their rate lower. She noted that in some of the rankings, there is literally a difference of pennies in the monthly bill when implementing phase-in versus a straight 12.4% increase. To move in the rankings from fifth to third, although this is good, it is not highly significant. There are some other changes that are more significant, but this shows how the residential customers will be affected by the rate increase.

She also reviewed how full implementation would affect rates (implementing a full increase across all service classes). She stated that with full implementation, an average District customer utilizing 15 units of water, their monthly bill would be approximately $53.48. The District would rank 7th lowest cost among the 23 agencies. For customers utilizing 10 units of water, the District would rank 6th lowest cost. She indicated that phase-in and full do not have a huge impact on single family residential, but the charts show how the District would rank among the agencies in terms of cost based on a phase-in approach versus full implementation.

She presented slides showing the various service classes and what the rates would be if the District implemented a straight 12.4% increase, a phase-in increase or a full implementation increase (please see attached copy of presentation). Accounting Manager Bell noted that previously the consumption block base tier ended at 35 units for residential customers. The new base tier ends at 26 units which is based on the average consumption of the residential class. The last tier (highest rate), consumption of 27 units or more, will be charged to the 17% of residential class utilizing 27 or more units a month. She noted the difference in the tier rates if the increase was phased in versus fully implemented (please see attached presentation). Ms. Keese noted that the highest tier has been lowered for use of 27 units or more from 36 units or more units. Thus, more customers will be hitting the highest tier rate.

Accounting Manager Bell also reviewed the increases in system fees for the various meter sizes. She stated that most of the District's customers have ¾ inch meters, but the District does have some larger residential meters. She noted the different system fee rates if the District implemented a straight 12.4% increase, a phase-in increase or a full implementation increase (please see attached copy of presentation). She indicated that with regard to the MWD and CWA Fees, the District currently does not charge 100% of the fixed cost that MWD and CWA charges the District. The District has only been passing through the incremental increase each year. She indicated that staff would like to change this practice so that the District is passing along 100% of the fixed cost from MWD and CWA and reduce the Otay system fee for the balance of what is needed in fixed fees. She stated this would better label these costs from MWD and CWA.

Director Bonilla asked staff to clarify what the fixed charges from MWD and CWA are. Accounting Manager Bell indicated that there are five fixed charges that the District pays to MWD and CWA:

- Infrastructure Access
- Readiness to Serve
- Capacity Charge
- Customer Service
- Storage

She stated that every time these fixed charges are increased, for example they increase $1 million dollars from the previous year, staff then raises $1 million more in revenue, but had never implemented a fee to collect the full amount. She stated that the District actually pays $5 million in fixed costs, thus by changing these fees, the District will collect the full amount.

Director Bonilla inquired why the District never collected the full amount. General Manager Watton indicated that originally CWA only had an Emergency Storage Fee, and this is when Otay decided to implement a fixed fee. Over the years, we have added to this fee, but have not trued it up with all fixed fees that are being collected by MWD and CWA. He stated that staff has decided to true these costs up, so that what the District is collecting is what is passed through to MWD and CWA.

Director Bonilla inquired if the previously collected fee was a board decision. General Manager Watton indicated that the board had affirmatively raised that fixed rate, however, the board did not indicate to not collect the full fixed fees from MWD and CWA. The board did not ask that question until today and the fee grew into this over the last four to five years. Ms. Keese indicated that the District does not perform a full cost-of-service study each year. It is done every three to five years. The fee is something that has evolved over the last three years. Accounting Manager Bell indicated that the only fee the District identified was the $1 for infrastructure access. This fee then increased the following year to $1.25, etc. Then three to four years ago CWA decided to convert their customer service and storage charges to fixed charges instead of including these costs in their rates. General Manager Watton indicated that CWA was reacting to changes that MWD was making to their rates and so we had three levels of rate structure changing at the same time. Thus, the rate structure was evolving since about 2000.

Director Bonilla indicated that this concerns him as it creates “loose ends.” He stated that such situations are the reason that he is a proponent of the “full implementation” of rate increases. He stated there are more advantages versus disadvantages in doing so. He indicated that he also worried that staff is concerned about the political implications and public relations aspect of the rate increases. He indicated that that was more under the purview of the board and what is important is that the District be fiscally responsible

Chief Financial Officer Beachem indicated that he wished to clarify that the District was collecting the fixed fee cost. The District, however, had not gone back to identify specifically the allocations over the last three to five years. With the true-up of this cost-of-service study, there was an opportunity to review and identify CWA’s and MWD’s fixed fees. It was then found that the District was short in identifying the actual fixed fees from its suppliers. It was reiterated that the District has never under collected, but the District may not have been exactly correct on what the actual fixed fees were from CWA and MWD.

Accounting Manager Bell noted that the actual fixed cost from CWA and MWD, identified by the Cost-of-Service Study, is $7.02. Previously, the fixed cost collected was $3.85. Without the Cost-of-Service Study, the increase in the CWA and MWD fixed cost would have been identified as approximately $4.00 to $5.00.

General Manager Watton indicated he wished to make a comment with regard to the various rate increase recommendations (phase-in, straight 12.4% and full implementation). In the past when staff has done a cost-of-service study for the sewer, the board had an interest in phasing in the rate increase. Staff presented the various scenarios to allow the board to decide their preference for the implementation of the rate increase and it was also felt that staff should provide the board with a recommendation. Director Bonilla indicated that the board is fine with this. However, his concern is the motivation for the recommendation. General Manager Watton indicated that the motivation was past practice. Staff is conscious of affecting the customer, but was more looking at what has been done in the past when implementing rate increases.

Accounting Manager Bell continued with staffs' presentation and indicated that one of the other items she wished to discuss with regard to the fixed fees (this also applies to commercial) is that over time, due to the way the District does rate increases (ie., a straight 12.4% increase), the weighting sometimes gets out of balance by meter size. PBS&J did a Hydraulic Weighting by meter size which allowed the District to adjust the CWA, MWD and system fees. Some system fees for some meter sizes are going up, but some meter sizes are going down or not going up as much because the system fees have been re-weighted based on the Cost-of-Service Study.

Accounting Manager Bell then reviewed the master meter water usage rate. She first explained how master meters are billed. If an apartment building has 24 apartments and utilizes 100 units of water, the 100 units are divided by 24 dwelling units and this number (4.17) is utilized to determine which tier block their rate would fall under (see attached copy of presentation). The proposed blocks are based on water usage:

Tier 1: 0 to 4 units (47% of customers)
Tier 2: 5 to 9 units (36% of customers)
Tier 3: 10+ units (17% of customers)

She reviewed the proposed rate increases for the Master Meter customers if the District implemented a straight 12.4% increase, a phase in increase and a full implementation increase (see attached copy of presentation). She indicated that one of the items that staff is recommending eliminating from the District's rate structure is the "per dwelling unit" fixed fee charge of $3.85. This new proposed rate structure would then reward the District's conserving customers. She noted that in the full implementation, master metered customers would see their rates go down more quickly than in a phase-in implementation due to how the rates are balanced across the service classes. She noted that the District must treat all groups the same to reach its revenue targets. Thus, if revenue collections go down for the master meter class, then more would need to be collected from the other classes, and vice versus, to meet the District's revenue target.

She then reviewed the Commercial and Public Water Usage Rates. She indicated that based on the frequency tables developed in the rate study, it was decided to break the usage blocks into two categories: 1) Less than 8" meters; and 2) 8" meter and over (see attached copy of presentation). She stated the reason for this is that the majority of the District's Commercial and Public Water customers are small water users and there are few large meter customers within the District's service area. The proposed blocks, based on water usage, are:

Customers with meters smaller than 8":
Tier 1: 0 to 101 units (47% of customers)

Tier 2: 102 to 720 units (36% of customers)
Tier 3: 721+ units (17% of customers)

Customers with 8" meters or larger:
Tier 1: 0 to 7,965 units (47% of customers)
Tier 2: 7,966 to 21,761 units (36% of customers)
Tier 3: 21,762+ units (17% of customers)

She reviewed the proposed rate increase for the Commercial and Public Water if the District implemented a straight 12.4% increase, a phase-in increase and a full implementation increase (see presentation). She stated that this is one of the service classes that the District would collect less revenue based on the recommendations of the rate study. Overall, the District would collect the required revenue, but some customers will pay less and some would pay a little more, based on the Cost-of-Service Study.

President Croucher inquired if it is correct that the maximum per unit rate that residential customers would pay is $3.48 and the maximum that commercial users would pay is $2.91. Accounting Manager Bell indicated that that was correct. Ms. Keese indicated the reason for this is due to the "base extra capacity" that was discussed earlier. She stated that this particular user class does not peak and the concept of "base extra capacity" is the more you peak, the more you pay. Commercial customer's use is fairly steady each day, however, residential customers tend to peak in the mornings and evenings.

Director Robak inquired with regard to larger properties, like the Otay Ranch Town Center, whose usage would be on the upper end of the usage scale, if they would they be paying a higher per unit rate though they have water-wise landscaping. He indicated that he felt that that was incongruous to conservation. Accounting Manager Bell indicated that ideally, this customer has at least two meters. They would have meter for landscape and one for their indoor use. She stated that the landscape, if it is conserving, would be priced at the lower end of the tier rates for lower usage.

She reviewed the Landscape, Agriculture and Construction water usage rates and noted that the tiers were developed based on meter size recognizing that they would have different usage. The proposed blocks for the various meter sizes, based on water usage, are:

Customers with ¾" to 1" Meters:
Tier 1: 0 to 47 units (47% of customers)
Tier 2: 48 to 164 units (36% of customers)
Tier 3: 165+ units (17% of customers)

Customers with 1.5" to 2" meters:
Tier 1: 0 to 136 units (47% of customers)
Tier 2: 137 to 415 units (36% of customers)
Tier 3: 416+ units (17% of customers)

Customers with 3”+ meters:
Tier 1: 0 to 651 units (47% of customers)
Tier 2: 652 to 4,064 units (36% of customers)
Tier 3: 4,065+ units (17% of customers)

Director Robak indicated that his concerned is that we are trying to encourage customers to change their landscaping practices, but because of the large nature of their landscape and though they have implemented water-wise practices, the rate structure does not seem to reward these customers for conserving. Chief Financial Officer Beachem indicated that he does understand the concern. However, for a balance between precision and efficiency, the implemented rate structures cannot be too complicated. Ms. Keese indicated that this was a topic discussed at a CWA meeting yesterday, establishing goals for each individual customer. However, this was not the trend that occurred at the meeting because of the complexity of doing so. She stated that what the new proposed structures are trying to accomplish is to place those customers utilizing more than the average customer in the last tier to encourage conservation. The rate structures will never be perfectly equitable, but the attempt is get it as close to equitable as possible without over complicating the structures.

She reviewed the proposed rate increase for the Landscape, Agriculture and Construction Water Usage Rates if the District implemented a straight 12.4% increase, a phase-in increase and a full implementation increase (see presentation).

She presented an updated slide showing the Non-Residential System and MWD/CWA Fees by meter size and the rates if the District implemented a straight 12.4% increase, a phase in increase, and a full implementation increase (see attached copy of new slide). She indicated that, currently, the District’s commercial customers pay a higher system fee than residential customers. She stated that in the Cost-of-Service Study there was no justification for the higher fee. The fee is based on the hydraulic measurement of these meter sizes and they all have the same cost (i.e., read the meter, bill the customer, etc.). Staff is recommending that the District create one set of system fees for all customer classes. She stated that some meter sizes will go up more than others and some are going down as staff has readjusted how much each meter should pay based on the hydraulic measurement (it is all weighted). Ms. Keese indicated that this is not unusual when a straight percentage is applied for meter fee increases on each of the meter sizes. This is the reason a Cost-of-Service Study is prepared. She noted that the last District Cost of Service Study was prepared in 2003.

Director Croucher inquired why the fees for the 8” meter are blank on the slide. Accounting Manager Bell indicated that the District has 8” meters, but they are not meters that the District bills as they are for fire service. There currently is not a system fee associated with the 8” meters, but staff has decided to establish a system fee should a customer request an 8” meter in future. Director Croucher additionally inquired if current 8” meter owners will now pay the fee. Accounting Manager Bell indicated that, currently, fire service customers pay the same amount per month regardless of meter size.

Accounting Manager Bell then presented slides which show the various customer classes and how the different rate increase options (12.4% increase, Phase-in increase and Full Implementation increase) will affect their bills. The graph shows the number of customers who would experience a 10-15% increase, 20-25% increase and 30-35% increase (see presentation). She also noted that currently, Single Family and Attached Residential customers have different billing tiers and Attached Residential customers do not take advantage of the “life line” rate (1-5 units). Staff is proposing that they be grouped into the same class for rate simplification and equity purposes. With regard to Master Metered Residential customers, for those without a separate irrigation meter, staff will need to do outreach to the homeowner association to convert one of their meters to an irrigation meter so they are charged equitably for the different uses. She indicated with regard to the Commercial and Public customers, the District has many large users, and staff will target these customers for outreach to help them conserve water.

Director Breitfelder inquired with regard to the Single Family and Attached Residential how many customers would have bills that increase between 20-25% and 25-30%. Accounting Manager Bell indicated that for the Phase-in approach, four customers (representing less than .1% of these customers) whose bill would go up 20-25%. She stated under full implementation, 761 customers (representing 1.7% of these customers) whose bill would go up 25-30%. Director Breitfelder further inquired, how much dollar-wise would the increase represent. Accounting Manager Bell indicated that one such customer’s bill would go up approximately $4,000 in one year or $350 per month. They currently pay approximately $23,000 per year. This would represent an 18.4% increase. If a 12.4% increase were implemented, this customer’s bill would increase 12.4%. Chief Financial Officer Beachem noted that the rate increase is not only full implementation of rates, but the tiers (encouraging conservation) as well, which dramatically affect some customers’ bills.

Director Robak inquired if the District’s construction water rate was consistent with other agencies. Ms. Keese indicated that the District’s construction water rates are consistent and are based on Cost-of-Service. She stated that other agencies sometimes subsidize the rates and they may do this to encourage building within their service area. Accounting Manager Bell also shared that construction pays twice the water rate as they do not pay system fees, capacity charges, etc. It was reiterated that the District’s construction rate is fair and consistent.

Accounting Manager Bell then explained recycle water rates and noted that recycled water is used for irrigation purposes and historically has been set at 85% of the average potable irrigation rate. She stated that it is to the District’s benefit to set its rate at no less than 85% of the potable irrigation rate as the contract with CWA and MWD allows them to eliminate the District’s financial incentives if the rates are less than 85%. She stated that the discount does recognize the cost to install recycled water and to dual plumb the systems and staff is recommending that there be no change to this practice. She noted that recycled customers do not pay the MWD/CWA fixed fee because recycled is locally supplied water so there is no fixed cost related to recycled water from MWD or CWA.

She stated that recycled customers had the most meter sizes. Staff broke down the various sizes into four consumption blocks: ¾" to 1" meters, 1.5" to 2" Meters, 3" to 4" meters and 6" to 10" meters. The reason for the many blocks is that usage from the various sizes was so different and it was felt that four different blocks was necessary to make it more equitable. She stated that the first tier in all blocks represents 47% of customers, the next tier represent 36% of customers and the last tier represents 17% of customers (see details of consumption block breakdowns on attached presentation). She indicated that the current rate is $1.68 per unit. With a straight increase of 12.4% the rate would be $1.90 per unit. With the Phase-in of rates, the first tier cost is $2.04 per unit, second tier is $2.08 per unit and the third tier cost per unit is $2.13. If the full implementation of rates is selected, the cost for the first tier per unit is $1.68, the second tier cost is $2.13 per unit and the third tier cost is $3.36 per unit.

She indicated that as recycled does not pay CWA/MWD system fees, their system fees would go down for this group of customers. She stated that this will not be a significant change as this group of customers pay most on their usage.

She stated that energy charges and fire service charges will also included in the Proposition 218 notices as required. She indicated that Energy Charges will increase by 10.91% as adopted in the 2009 Budget due to the increase in the cost of pumping. The Fire Service Fee will increase 12.4% and not change to the rate structure for Energy or Fires Service at this time.

Accounting Manager Bell indicated with regard to sewer, the District established winter based sewer charges last year and the approved 2009 Budget is supported by a 4.6% sewer rate increase. Staff is recommending a straight across-the-board increase to fixed and variable charges be implemented. She stated that these rates were just established last year and staff feels that it is reasonable to increase the rate at this time. Staff is suggesting one change for the maximum usage fee increase from 18 to 22 units as part of the Phase-in that was approved in the 2008 Proposition 218 hearing. She noted that the ¾" meter sewer system fee will increase from $9.75 to $10.20 and the 1" meter sewer system fee will increase from $14.25 to $14.90. The usage charge would increase from $1.41 to $1.47. She indicated as the maximum goes up from 18 to 22 units, the new maximum sewer bill for a ¾" meter is $42.54. She also indicated that one of the items that staff would like to include in the Proposition 218 notice is the $54 per ASU for the sewer debt. She stated that there is no change to this charge, but since the Proposition 218 law has been implemented, staff feels that the District needs to notify its ratepayers of this charge. The debt will be paid off in 2012.

Director Robak inquired how the District's sewer rates compare to other agencies. Ms. Keese indicated that many of the agencies average sewer cost is in the $30 to $35. The District's average customer uses 15 units at a cost of

$32.25 which puts the District in at the average of the metro system customers except with those agencies that are subsidizing sewer costs. Accounting Manager Bell indicated that the District ranks in the lower one-third of the local agencies.

Accounting Manager Bell indicated that staff has provided copies of the Proposition 218 notices to the members of the board. Staff is requesting the board's feedback and decision on the option (Straight 12.4% increase, Phase-in increase, or Full Implementation increase) to be implemented for potable water rates. If needed, the Proposition 218 notices can be presented to the board at the October 9, 2008 meeting for final approval. She stated that December 15, 2008 has been proposed for the Public Hearing and the public notices must be sent to customers no later than October 31, 2008 to provide the legally required 45-days notice. She indicated that staff requires four weeks to prepare and print the notices with any requested changes. She stated the implementation date of the rates is January 1, 2009.

Director Bonilla indicated that the "no nonsense" approach would be to move forward with full implementation. He stated that this approach would be fiscally responsible and it will provide a sense of relief to the staff and, eventually, the ratepayers.

Director Robak indicated that he has been debating both options Full Implementation and Phase-in as was done with the sewer increase last fiscal year. He stated that the economy is worse off today then it was a year ago and with either option, the District would still be whole. He stated that his inclination would be to Phase-in the increase. He also indicated that if any customer class has a water efficient property, that he would like them to be recognized for their efforts to conserve, rather than be penalized for their size. He inquired if there was a way in which a customer could request a water audit to determine how efficient they are and thus, qualify for a more beneficial rate. Chief Financial Officer Beachem indicated that it is not necessarily an all or nothing approach to Full or Phase-In. There is the cost of service aspect, which is about equity, and points the District in a direction whether the District does a Phase-in or not. He stated that Director Robak's comment is more of an equity issue. He indicated that he believed his concern is more about the "tiering" and how such customers are affected by the tiering. He stated that "tiering" is not an equity issue. He stated that there is many features to the rate modifications and complete equity does not require the District to do full tiering. Ms. Keese further indicated that Director Robak's main concern is on the landscape meter. She stated the District could adopt the tiering and then come up with a conservation program that rewarded customers who implemented water-wise landscapes with an exemption. She stated that it does occur in some districts, but does create more work for staff. General Manager Watton indicated that staff reviewed how to set a rate for conservation that will be equitable to large landscape users and is at price points that encourage conservation. He stated that staff is trying to avoid having appeal/review boards which can be very complicated. The philosophy is that larger users have the luxury of a bigger lot and are using more resources and, thus, must pay more.

Director Breitfelder indicated that with the larger rate increase, he felt that there were areas in the Proposition 218 notices that can better address the issue and wished the notices to be forwarded to committee for review. President Croucher indicated that Director Breitfelder's request was duly noted.

A motion was made by Director Bonilla, seconded by Director Breitfelder and carried with the following vote:

Ayes:	Director Bonilla, Breitfelder, Croucher and Lopez
Noes:	None
Abstain:	None
Absent:	Director Robak

to accept staff recommendation based on the Full Implementation increase and that the option be reflected in the Proposition 218 notices.

7. PRESENTATION OF THE DROUGHT RATE MODEL RESULTS AND REQUEST TO INCLUDE THE PROPOSED DROUGHT STAGE PRICING IN THE PROPOSITION 218 NOTICES FOR ALL POTABLE AND RECYCLED WATER CUSTOMERS

General Manager Watton indicated that this item is with regard to a drought pricing overlay. Chief Financial Officer Beachem indicated that staff utilized the CWA model that is being presented to the County. He stated that the tiered rates are increases over what the board has just acted upon. He indicated that staff is proposing a revenue neutral position when the board declares a Drought Level II Stage. He indicated that all tier level one rates for all customer classes will not be affected, tier level two would increase 5%, tier level three would increase 30%. He stated that when the board declares a Drought Level III Stage, tier level one rates will not be affected, tier level two would increase 10%, tier level three would increase 60%. He noted that the increase are "up to" 60%, as the actual increase will be based on how much customers conserve during each of the drought conditions, how much the penalties will be from CWA/MWD, etc. General Manager Watton noted that staff is not proposing drought rate increases today, but are recommending that the board approve the drought pricing schedule for the Proposition 218 notices and hearing. At the time that drought pricing is required, staff will present the rates that are proposed for the drought pricing. This action would allow the board the flexibility to implement drought pricing should they be required.

A motion was made by Director Breitfelder, seconded by Director Lopez and carried with the following vote:

Ayes:	Director Bonilla, Breitfelder, Croucher, Lopez and Robak
Noes:	None
Abstain:	None
Absent:	None

to approve staffs' recommendation.

ACTION ITEMS

8. CONSIDERATION TO CAST THE DISTRICT'S VOTES TO ELECT REPRESENTATIVES TO THE LOCAL AREA FORMATION COMMISSION SPECIAL DISTRICTS 2008 ELECTIONS

A motion was made by Director Bonilla, seconded by Director Breitfelder and carried with the following vote:

Ayes:	Director Bonilla, Breitfelder, Croucher, Lopez and Robak
Noes:	None
Abstain:	None
Absent:	None

to cast the District's vote for the candidates recommended by the nominating committee.

9. ADJOURNMENT

With no further business to come before the Board, President Croucher adjourned the meeting at 5:02 p.m.

President

ATTEST:

District Secretary