

**EL DORADO IRRIGATION DISTRICT****SUBJECT:**

Select a cost recovery allocation methodology for the water fund, consider the El Dorado County Office of Education proposal to support the Recreational Turf rate by a direct assignment of property tax allocation, accept the Cost of Services Study results and direct staff to prepare the Prop. 218 notice to implement the study results.

**Previous Board Action:**

February 4, 2010 – The Board adopted Resolution 2010-003, to approve increases to water, wastewater, and recycled water service charges; authorize implementation of increases only in 2010, 2011, and 2012 only; make findings; and direct the General Manager regarding additional District cost-cutting, a Cost of Services Study, reconciliation of capital expenditures and funding sources, and other matters.

September 1, 2010 – The Board adopted policies to guide rate-setting, as recommended by the 2010 Cost of Services Study committee.

October 12, November 8, December 13, 2010 – The Board was provided with an update on the progress of the Cost of Services Study.

January 24, March 14, April 25, May 23, 2011 – The Board was provided with an update on the progress of the Cost of Services Study.

June 13, 2011 – Cost of Services Study workshop

August 23, 2011 – Cost of Services Study workshop

September 26, 2011 – The Board was provided with an update on the progress of the Cost of Services Study.

October 11, 2011 – The Board provided direction on the cost allocation methodology, Domestic Irrigation Rate, and Recreational Turf Rate.

**Board Policies and Administrative Regulations:**

BP 12020 states that the Board's role is to provide oversight and direct the implementation of the District's mission. The Board will do so by deciding and monitoring policy and fiscal matters.

**Summary of Issue(s):**

Staff as directed by the Board in February 2010, has completed a Cost of Services Study (COS Study) to ensure the District's cost allocations and rate schedule are fair and equitable among the water, wastewater, and recycled commodities and compliant with Proposition 218. The District initiated the COS Study in June 2010 with a 10-member committee consisting of five volunteers from the community (Kimberly Beal, Albert Hazbun, Tom Heflin, Doug Leisz, and Greg Prada) and five District staff members.

During the COS Study process, the Board was provided with updates during public meetings on September 1, October 12, November 8, December 13, 2010, and January 24, March 14, April 25, and May 23, 2011. The final draft was presented to the Board on June 13, 2011. The Board requested a second public workshop to further discuss the committee's recommendations.

The second public workshop was held on August 23, 2011. During the August 23 workshop, the Board directed staff to provide an alternative to the COS Study water fund methodology. The two alternatives being considered are cost recovery based on collecting 50% of revenue from fixed charges and 50% of revenue from variable commodity charges (Canadian Method) and cost recovery based on collecting 30% of revenue from fixed charges and 70% of revenue from variable commodity charges, which is currently used in the District. During the September 26 Board meeting, the Board reviewed this information and directed staff to prepare a comparative summary of these two alternatives for Board consideration.

The Board was briefed on Domestic Irrigation rate issues on May 23 and June 13, 2011, and on Recreational Turf rate issues on June 13, 2011.

On October 11, 2011, the Board voted 4-1 in favor of the preferred 50-50 cost allocation methodology, and directed staff to hold community meetings to brief the community on the COS Study and alternative cost allocation methodologies. The Board also voted to eliminate the Domestic Irrigation rate effective January 1, 2013. The Domestic Irrigation rate will remain in effect until that time. The Board directed staff to provide public outreach to the Domestic Irrigation customers and provide guidance on the different agricultural classes they might qualify for. Finally, the Board discussed the El Dorado County Office of Education (EDCOE) proposal to redirect property tax allocation to support the Recreational Turf rates for public schools, but took no action.

**Staff Analysis/Evaluation:**

Staff held two public outreach meetings on October 24 and October 26, 2011, to brief the community on the COS Study and alternative cost allocation methodologies. Feedback from the October 11 Board meeting, and the October 24 and 26 public outreach meetings was mixed. Predictably, low water users prefer the 30% fixed and 70% variable alternative, while higher water users prefer the 50% fixed and 50% variable alternative. The decision on which alternative will be adopted is clearly a policy issue for the Board. The COS committee unanimously voted to use the 50-50 cost allocation methodology.

The Board discussed, but took no action on the EDCOE proposal to redirect property tax allocation to support the Recreational Turf rates for public schools. Currently, the Recreational Turf rates are not adequate to cover the actual cost of providing service. Existing Recreational Turf rates are approximately 50% lower than Single Family Residential rates for similar water service. If the Board adopts the proposed rates, Recreational Turf rates will become more comparable to proposed Single Family Residential rates. The District has met with various customers within the Recreational Turf rate class, primarily schools, to discuss proposed changes. The District has provided water efficiency audits and grant-funded water efficiency devices to assist these customers with water conservation.

Staff met with EDCOE on several occasions to discuss the impact of the cost-based rate changes. They responded in a letter dated August 26, 2011, requesting that property tax monies be redirected to offset the increase.

The EDCOE proposal to directly assign property taxes to help offset the proposed rate increases for schools in the Recreational Turf customer class deserves discussion. Schools, community

services districts, sports fields and public parks are clearly a benefit to the public. Directly allocating non-rate revenue to schools and other public agencies that provide a public good is permissible under Proposition 218 and other governing law.

The COS model assigns 60% of property tax revenues to the water enterprise fund, uniformly across all customer classes. If schools and public agencies received a larger direct assignment of these revenues, it would reduce the rate increase they would otherwise experience as Recreational Turf customers, but that reassignment of revenue would slightly increase all other water customers' bills.

The Recreational Turf rate class includes a diverse group of customers. There are a total of 112 metered services; 51 services associated with public education, 27 services with community service districts, 11 services with private golf courses, 4 services with churches, 8 services with homeowner associations, 5 with state parks, 1 with county fairgrounds and 5 miscellaneous.

A policy decision to provide non-rate revenue direct support to schools and public agencies would raise other legal and policy questions. Should the support extend to all Recreational Turf customers, which also include private schools, golf courses, and homeowners' associations? If not, is it permissible to treat members of the same rate class differently? How should the District treat schools that are not Recreational Turf but Commercial customers? Should the same support be provided to non-profit or public benefit corporations, and if so, under what criteria?

Attempting to financially support and assist needy causes, such as, public education and local community service districts during these tough economic times, poses numerous questions regarding fairness and equality within customer classes.

Staff has provided water efficiency audits and grant funded water efficiency devices to assist many Recreation Turf customers with water conservation. Additionally, staff has set aside \$100,000 in grant funds to provide schools, community service districts, and other Recreational Turf customers with water conservation devices. Over the past five months, staff has audited 30 out of 50 schools to help them improve their water use efficiency.

At the October 11 Board meeting, the Board generally favored the phase-in proposals which allow all Recreational Turf customers a reasonable transition period to adapt to the proposed new Recreational Turf rate. Staff has developed a proposal similar to the Board's direction on the Domestic Irrigation customer rate class transition. Staff now recommends treating all Recreational Turf customers in the same manner as Domestic Irrigation customers. The recommendation is to keep all Recreational Turf customers at the previously adopted rates until January 1, 2013 to allow them a reasonable transition period to adapt to the new Recreational Turf rates. The new rate adjustments proposed in the COS Study would become effective January 1, 2013. This would provide time for the Recreational Turf customers to conduct water efficiency audits and implement new conservation measures before the new rates become effective.

The Cost of Service model developed revenue requirements based on wastewater flow and strength for the District's existing six wastewater commercial classifications. Biological oxygen demand (BOD) and total suspended solids (TSS) are the accepted measures to determine wastewater strength. The classifications currently include: Laundromat, Repair Shops/Service Stations, Light Industrial, Market, Restaurant, and Other. The concern with the existing classifications is that one classification can cover a broad range of commercial businesses. For example, a market with a bakery, butcher and food grinder will have a much higher wastewater

strength (higher concentrations of BOD and TSS) than a market with no bakery, butcher or food grinder. With the current classifications, the District charges the same commodity rate to all markets regardless of the market type. Restaurants are another good example of possible variation of low to high wastewater strength based on the type of restaurant.

To establish the strength-based classifications, staff and HDR utilized the State Water Resources Control Board (SWRCB) document, Revenue Program Guidelines, March 1998 Edition. This document provides a list of commercial wastewater strengths. The data listed in the document was derived from data made available to the SWRCB by East Bay Municipal Utility District, City of San Jose, Los Angeles County Sanitation Districts, and the Sacramento Regional Sanitation District. The Revenue Program Guidelines document indicates that the SWRCB believes that the data on strength is representative of most cities in California and that the values will be accepted by SWRCB staff for loan and grant applications. The SWRCB states that if strength values for commercial users other than those provided on their list are utilized, supporting data should be submitted to verify values used. As recommended by the SWRCB, District staff are utilizing current strength data from the same utilities that the Revenue Program Guidelines document references: notably, East Bay Municipal Utility District, City of San Jose, and the Sacramento Regional Sanitation District.

District will revise the wastewater commercial classifications such that the classifications will be strength-based rather than listed as a commercial type. The 5 classifications will range from a low-strength to high-strength. Staff is reviewing each of the existing commercial accounts to determine the appropriate new classification. Once this reclassification is complete, staff can determine the associated commodity rates. If the proposed strength base rates are significantly different from the COS Study results, staff will report the results to the Board in December.

**Summary:**

Staff recommends proceeding with the carefully considered COS committee recommendation to adopt the 50-50 cost recovery alternative. Staff also recommends implementing the new COS rates for Recreational Turf customers on January 1, 2013, continuing the current rates until that time. Staff will work with Recreational Turf customers to conduct water efficiency audits and assist with water efficiency implementation.

Once these two issues are decided and the 2012 budget is adopted, staff will finalize the COS report and prepare the Proposition 218 notices to implement the COS study results in the first quarter of 2012, as directed by the Board.

**A. Cost Recovery Allocation Methodology and Implementation of the Cost of Services results Board Decisions/Options:**

**Option 1:** Adopt the cost recovery methodology of collecting 50% of revenue from fixed charges and 50% of revenue from variable commodity charges for water, accept the COS Study results and direct staff to prepare the Prop. 218 notices to implement the COS Study results.

**Option 2:** Adopt the cost recovery methodology of collecting 30% of revenue from fixed charges and 70% of revenue from variable commodity charges for water, accept the COS Study results and direct staff to prepare the Prop. 218 notices to implement the COS Study results.

**Option 3:** Take other action as directed by the Board.

**Option 4:** Take no action.

**B. Recreational Turf Rate Class Board Decisions/Options:**

**Option 1:** Adopt the COS Study recommendations, but delay the effective date for all Recreational Turf customers until January 1, 2013 to allow for a transition period in which customers can implement water conservation measures.

**Option 2:** Take other action as directed by the Board.

**Option 3:** Take no action.

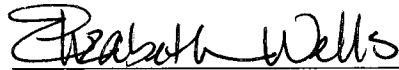
**Staff / General Manager's Recommendation:**

A. Cost Recovery Allocation Method – Option 1

B. Recreational Turf Rate Class – Option 1

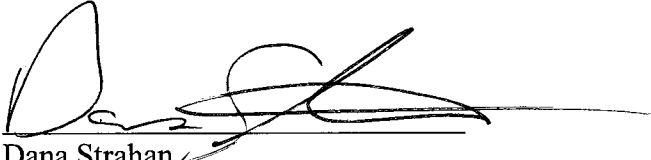
**Supporting Documents Attached:**

None



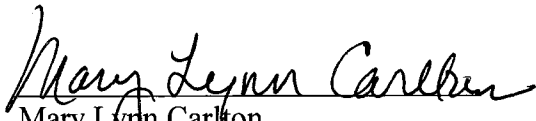
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Elizabeth Wells  
Engineering Manager



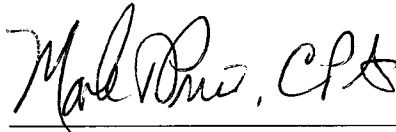
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Dana Strahan  
Drinking Water Manager



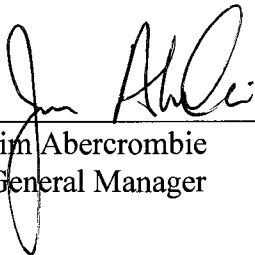
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Mary Lynn Carlton  
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