

David Switzer Proposed Plan for WLAB Action on Water Rates in FY23:

Goal: Develop a series of metrics that can be presented graphically over time to show the impact of different rate structures on the financial health of the utility, the affordability of rates, and intraclass equity. Ensure that council has full information when making decisions. Use metrics to adjust water rate structure for FY24. Develop a model that can be used annually during the ratemaking process.

Deliverables:

1. Report containing the following:
 - Metrics of water affordability for use in FY24 and future rate adjustments
 - Metrics of intraclass equity to be considered in COS study
 - Reemphasis of important financial metrics to be considered in rate adjustments
 - Affordability metrics will be easily transferable to other utilities
2. Memo with explanation of cost-of-service principles
3. Memo with the following:
 - Explanation of tailored rates
 - Benefits and issues with tailored rates
 - Problems with current rate structure (tier 2 specifically)
 - Possible alternatives to current approach
4. COS Study evaluating different options for meeting revenue requirements with:
 - Estimates of impact on affordability over study period
 - Estimates of impact on equity (inter and intraclass) over study period
5. Recommendation to Council on rate structure changes
6. A model that produces graphs to compare the baseline (current) plan, our recommended plan, and any custom plan over time across the various developed metrics. Will allow any changes that are recommended by council to be fully evaluated in the moment. The model will be made public.

Steps in Process:

1. Introduce Plan

Timeline: -**October Meeting:** Discuss, amend, and vote on plan to move forward. Send/present plan to CEC, FAAC, and Council

2. Develop Affordability Metrics

-Hours at Minimum Wage (simple)

- Affordability Ratio (more complex- may seek data from other departments)
- Other metrics? Spatial considerations?

Timeline:

- November Meeting:** Introduce metrics, discuss what questions need to be answered to develop them further and how to get necessary data
 - Level of water usage we want to include as essential
 - Household income estimates at various percentiles
 - Estimates of essential costs (excluding water services)
 - Estimates for other utility costs
 - Estimates for housing costs
 - Estimates for tax costs
 - Estimates for medical costs
 - Estimates of food costs
 - Can we use citizen survey, matched to customers, to identify certain elements? For expediency may pursue simple measures now. Metrics can be adjusted over time.
- In between November and December meetings:** Present plan, present measures and solicit feedback on questions from CEC, FAAC, and Council.
- December Meeting:** Discussion on answers to measurement questions from November meeting. Discuss preparation of a draft proposal for council consideration. Vote on what to include in draft proposal.
- In between December and January meetings:** Presentation of information to CEC, FAAC, and Public. Solicit feedback. Prepare draft proposal.
- January Meeting:** Discuss draft proposal, make changes, vote on proposal. Send/present amended proposal to CEC, FAAC, and Council.

3. Develop Intra-class Equity Metrics (Simpler than Affordability)

- Unit Price Ratio (simple)?
- Intra-class Equity (complex- requires COS study)
 - Rate Equity Index
 - Progressivity

Timeline:

- November Meeting:** Introduce and discuss measures.
- In between November and December meetings:** present to CEC, FAAC, and Council to solicit feedback.
- December Meeting: Vote on metrics.** Include in same proposal as affordability metrics. Draft proposal.

-In between December and January meetings: Presentation of information to CEC, FAAC, and Public. Solicit feedback. Prepare draft proposal.

-January Meeting: Discuss proposal, make changes, vote. Send/present amended proposal to CEC, FAAC, and Council.

4. Reemphasize Existing Financial Metrics and Consider Alternative Presentations (Comparative graphs of metrics over time instead of tables)

-Cash target
-Days cash on hand
-Debt Ratio (with and without PILOT)
-Way of evaluating financial risk of weather variability and its impact on rates? How that influences cash reserve targets?

Timeline: **-November Meeting:** Discussion of metrics and how to better present them to council

-In between November and December meetings: present to CEC, FAAC, and Council as part of presentation.

-December Meeting: Vote on inclusion of metrics. Include in draft proposal.

-In between December and January meetings: Presentation of information to CEC, FAAC, and Public. Solicit feedback. Prepare draft proposal.

-January Meeting: Discuss proposal, make changes, vote. Send/present amended proposal to CEC, FAAC, and Council.

5. Discussion and creation of a document explaining cost of service principles, emphasizing the difference between intraclass subsidies and interclass subsidies.

Timeline: **-Draft for February. Amend and vote in March**

6. Discussion and creation of a document explaining the benefits and issues of a tailored rate system. Discuss why tier 2 is problematic. Explain the benefits and problems with available alternative rate structures.

Timeline: **-Draft for February. Amend and vote in March**

7. Explore impact of different rate structure adjustments on our developed metrics through COS study

- Revenues requirements, and therefore targets, should remain the same across all types of structures, only difference is how they are recovered from customers
- Evaluation of different options with interclass equity metrics
- Evaluation of different options with intraclass equity metrics
- Evaluation of different options with affordability metrics
- Graphs with comparative statistics of various plans over time and their impact on our metrics
- Different potential rate structure options to consider?
 - Continue on current path
 - Inclusion of minimum rates to replace base rate
 - Various levels, phased in over years?
 - Adjustment to tier system (fix problems in tiers 2/3)
 - Other options?

Timeline: **-Planning ASAP**
-Execute after metrics are established in January so they can be included in the COS study

8. Work with staff to develop a model that can be used with COS results to evaluate the impact of various rate structures on metrics. Allow for real time evaluation of rate changes to avoid surprises.

Timeline: **-Work on model simultaneous with COS study.**
-Vote on approval of model.
-Integrate COS results into model.
-Use model to evaluate different rate structure options.

9. With results of COS study and model, make revenue and rate structure recommendations

-Use comparative graphics to show how different structures impact our metrics over time.

Timeline: **-Supplemental WLAB meeting when COS study is completed**
-Present most important points to CEC, FAAC, and Public
-Work with staff, finance, CEC, and FAAC to develop different options based on COS study and recommend favored option to Council
-Present at pre-Council work session
-Push for inclusion in FY24 budget

Overall Timeline:

October: Plan for water rates introduction, discussion, amendment, and vote

November: Introduction and discussion of affordability, intraclass equity, and financial metrics. Begin to figure out measurement questions.

Between November and December: Present plan, present measures and solicit feedback on questions from CEC, FAAC, and Council

December: Further discussion on measurement of metrics. Plan for draft proposal.

Between December and January: Present information to CEC, FAAC, and Public.

January: Discuss proposal, make changes, vote. Send proposal to CEC, FAAC, and Council.

Between October and January: Plan for COS study

After January: Begin execution of the COS study

February: Draft and discuss COS principles document. Draft and discuss Tailored Rates document.

March: Make adjustments to COS document and Tailored Rates document. Vote on approval.

Concurrent with COS Study: Work with staff to develop model for evaluating impact of various rate structures on affordability, equity, and financial metrics.

After COS Study: Supplemental WLAB Meeting

After Supplemental WLAB Meeting: Present and solicit feedback from CEC, FAAC, and Public.

Before FY24 Budget: Develop different options for council and present recommendations at council work session.

FY24 Budget Period: Make recommendations on water rate changes for FY24.

(Note: this is an ambitious timeline. Council typically likes to perform rate adjustments in January and that may allow more time to produce the deliverables)