Dir. King's Remarks at January 16, 2020 SFID Public Hearing on Rate Increases

The following remarks are made to further the long range interests of the District.

Transparency and the Prop. 218 Notice:

SFID's Transparency statement on our website is as follows: "Santa Fe Irrigation District strives for transparency and accountability. SFID is committed to providing our customers and stakeholders publicly accessible, factual information that assists our stakeholders and members of the public in understanding how the District operates".

I want to reiterate and increase emphasis on remarks I made at the November 2019 BOD meeting. Following the direction of President Hogan at our October 2019 Board meeting – that the proposed Prop 218 notice would be deliberately given to the Board members a week prior so that Board members could forward comments and concerns to staff prior to the November Board meeting - I gave staff a thoughtfully considered two page memo of corrections/suggestions/and general comments on the draft Prop. 218 notice. Staff declined to follow any of my comments and suggestions, save for deigning to incorporate the three typos I brought to their attention.

- Staff specifically refused to add current rates to the rate charts, stating "…the proposition 218 notice was a work product of legal counsel. The 218 notice was also developed to be as layperson descriptive, but also include what is necessary from a legal/administrative record perspective. I'm sure you understand / can appreciate counsel's concerns about litigation and need to make sure we have a thorough record."

- Board members have a fiduciary responsibility to our customers. I take my fiduciary responsibility seriously. I did not cede the fiduciary responsibility I have to our customers to the law firm of Best, Best & Krieger.

- In preparing these remarks, I Googled "California Prop. 218 Notice". I read through the Prop. 218 notices of the first ten water purveyors. All ten Prop. 218 notices clearly printed current rates alongside the proposed rate increases. Every. Single. Agency. Only *Your* agency refused to print current rates to assist our customers in comparing proposed rate structures to evaluate whether they might wish to file written protests and/or attend today's hearing.

- The last page of the Prop. 218 notice stated one could go onto the SFID website to "…view dates/times for public workshops to learn more about this proposal and answer any questions." There was ample space on the Prop 218 notice to conveniently print the dates/times/locations of these public workshops. (Those of you with good memories might recall that 2016's Prop. 218 notice clearly stated the dates/times/location of three Workshops.)

SFID sent out a News Flash on December 5, 2019 stating "…will conduct a series of informational public meetings to discuss proposed water rate adjustments." The December 5th email blast – sent only to email subscribers - announced two meetings, 5 and 6 days hence. (I happened to notice the posting of the two meetings, only to discover that the dates and days were incorrect.) One meeting resulted in two customers in attendance; the other had four customers. The website later posted a message that customers should continue to check in on the website for future meetings…as if our customers have nothing better to do than click onto the SFID website in the event staff was sufficiently organized to post future meeting dates. This is an unacceptable way to "strive for transparency and accountability". A fact-sheet and a video were posted last Monday, 37 days after our customers received their 218 notice in the mail.

- SFID must strive to do better. We need to "walk the talk". Future Prop. 218 notices need to provide an easy to understand discussion of current rates and proposed rates, and easy-to-understand rationale for requested rate increases. SFID must not repeat this inadequate communication with our customers under the guise of "counsel's concerns about litigation…"

SFID set in motion the Prop. 218 process because the District's Cost of Service Study states additional revenue is needed to fund District operations for years 2020 through 2022.

Question: what are the odds this rate proposal will actually yield the required additional revenue? The rate formula states there is a 50/50 chance each year the required 2500 AF of rainfall will fully fund the Tier 2 lowered rates. The formula also requires 500AF of pre-treated water when the treatment plant is down for repairs. Last year 57AF, not 500AF of treated water were used. Two years ago, 300AF of treated water were used; not 500AF.

The previous Prop. 218 notice in 2016 stated a revenue requirement of 9%, three years in a row, was needed to build up reserves to fund needed infrastructure improvements. Not only did revenues not rise as the Prop 218 notice said they would, reserve funds did not even stay level. Reserve funds have declined to such a degree since 2016 that *this* Cost of Service study before us states we need 3% revenue increases, three years in a row, to "prevent further significant declines in end of year reserve fund balances." The COSS states "…with 3 percent revenue increases each year, this metric **COULD** begin to stabilize" days of cash on hand. **Could**. **Not Will.**

<u>Rate Equity</u>: To my mind, at the heart of the difficulties this District is and has encountered with rate design is what to do with our rights to Lake Hodges water. This current rate study is based on having 2500AF of Hodges water. The actual value of that water is $2,559,150. (That is the difference of the price to purchase and treat 2500 AF of imported water vs. the cost to treat local water at the Badger treatment plant.) Out of a yearly budget of $43,082,199, this "local water asset" of $2,559,150. – 6% of total budget - is the vexing issue.

I have stated at several Board meetings I fully support a low, "local water asset value" price for Tier 1 for Single Family Residence customers to cover their indoor usage. (The 2010 census data states persons/household in Solana Beach is 2.39; in Rancho Santa Fe, 2.61; and in Fairbanks Ranch, 2.86. The current proposed Tier 1 consumption value of 0 – 10 hcf is lower than the AB1668 requirement of 55 g/p/d. Solana Beach census data would indicate 0 – 11hcf is appropriate, with Rancho Santa Fe at 0-12hcf and Fairbanks Ranch at 0 -13hcf. The proposed Tier 1 "local water asset value" is $830,008. The issue then is how to equitably distribute the remaining "local water asset value" of $1,729,142.

I offer the following comments and concerns about rate design and rate equity:

I do not agree with how Tier 2 is priced and designed. As Tier 2 is currently designed, easily a third of all single family residences have both their indoor AND all of their outdoor irrigation needs met by our local water asset. Those customers pay a significantly smaller percentage of District overhead costs because their properties are regular sized city lots. I do not agree that customers with regular sized city lots should pay a significantly smaller percentage of District overhead simply because the properties in the rural, hotter, Eastern service area are larger. This gets to the heart of what is "reasonable" water use. Just because a western division lot is generally smaller, therefore requiring less outdoor irrigation, that customer's outdoor irrigation needs are no more "reasonable" than a customer in the eastern division who has a higher evapotranspiration rate and larger property size. The issue is whether both property owners are using water efficiently.

Best, Best & Krieger's 37 page "Memo" to this rate hearing makes frequent reference that tiered rates provide price signals that result in conservation of water. My review of the last decade of water sales does not reveal any clear nexus between decreased water sales and increased tiered water rates. One <u>*can*</u> see a nexus between high rainfall years and decreased sales – a clear indication our customers have embraced water conservation by shutting off outdoor irrigation during high rainfall winters. Even during the most recent drought, with 2016 yielding only 811 AF of local water, MET and SDCWA provided District customers with all requested supply. The District is not in search of ever more expensive sources of water to fill customer demand. The District's proposed water rates give the most modest of nods to conservation program spend. A careful review of the District's budget can only draw the conclusion that if the customers this five-tier rate system is purportedly designed to discourage from using water, were to actually substantially reduce their water usage…who, then, would pay for the overhead? The city-sized lots in the western service area?

This District's customer profile; property size profile; and meter size inventory is unusual…it is not the average meter size inventory that I understand the American Water Works Association M1 manual was based upon. Olivenhain Water District's customer profile has 80% of their entire meter inventory in meters ¾" or smaller. San Dieguito Water District's customer profile has 80% of their entire meter inventory in meters 5/8" or ¾". Santa Fe Irrigation's customer profile has only 49% of our entire meter inventory in meters ¾" or smaller. **49%, not 80%.**

I am concerned about the proposed rates' peaking factors being the American Water Works Association M1 manual fallback ratios of 1 times average day; 2 times maximum day; and 3 times maximum hour . The rate study references the 2016 Dexter Wilson Peaking Factors Memo #2. That memo makes numerous references to “estimated” flow; ”assumed delivery rate” from Larrick Reservoir. It references the 202 Zone peak hour factor of 3.38. Zone 202 covers all District customers west of Hwy.101 and an area of customers behind the Del Mar Fairgrounds. How is it equitable for customers with city-sized lots west of Hwy.101 to have all their water needs met with the cheapest local water when those customers’ peak hour factor is 3.38? The Dexter memo had a most interesting sentence: “Assumed deliveries from Larrick Reservoir were added to the peak hour demand to estimate true deliveries to customers during the peak hour.” Estimate true deliveries? LOTS of assumptions and estimates.

A reasonable person must question the new Tier 5 rate, adding an additional $1.10 to the overhead large property customers pay in tiers 3 and 4, ostensibly because that money is needed to maintain pipe diameter and pump size for their demand placed on the system. Badger was sized decades ago when District sales were upwards of 14,000 AF. Would prudent engineers design Badger and all our pumps and pipelines today to the same size given our 30% drop in demand?

I am particularly concerned with the newly proposed Tier 5, which only affects Single Family Residences, and is projected to apply to 30% of every SFR hcf sold: 18% of 5/8” & ¾” meter hcf; 31% of every 1” meter hcf; 36% of every 1 1/2” meter hcf and 51% of every 2” and larger meter hcf. 61.6% of the extra-capacity allocation falls on those Tier 5 bills. By comparison, Olivenhain Municipal Water District, which adopted a new COSS last fall, designed their SFR Tier 4, their highest tier, to capture the top 10% of high volume customer bills.

Finally, I continue to be troubled by the proposed Agriculture/Irrigation rate, an increase of 16% over the current rate, and I am particularly troubled comparing SFID’s proposed Irrigation rate to many local agencies’ irrigation rates. The RSFA golf course is our District’s top customer. Lomas Santa Fe Golf Course is our second highest use customer. The Lomas Executive Course is our third highest use customer. RSFA golf course has reduced its water use by 30% in the past 11 years; Lomas County Club reduced its water use by 27% in the last 11 years. The Executive course water usage has remained stable. These two largest golf clubs are clearly doing exactly what this District asks…investing in water efficient controllers and sprinklers. I am unaware if Lomas has removed turf, but anyone driving by the RSFA golf course clearly can see how the Association has reduced turf and changed its landscape design.

Our two largest customers have clearly invested additional dollars to significantly reduce their water usage, yet this District proposes to increase their rates 16% this year. Our sister agency, San Dieguito Water District’s, landscaping rate is the same rate as their Tier 3 domestic customers’ rate. (Those accounts have four tiers.) Neighboring Olivenhain Water District has a two tier irrigation rate, 5.20/hcf for base and 5.57 if over base. Olivenhain establishes a Winter and Summer Allotment, based on meter size. For example, a 4” irrigation meter is expected to use a Winter Tier allotment of 600 hcf/month for December – May, while their Summer allotment for months June – November, is 3500 hcf/month. Helix Water District creates a water budget for their irrigation customers…no other customers have water budgets. Helix’s irrigation rate acknowledges that Irrigation customers’ water needs vary greatly between winter and summer. Olivenhain and Helix are examples of Districts who appreciate, understand, and work cooperatively with their irrigation customers. The more I study SFID’s proposed Ag./irrigation rate, the more I am unable to get the word, “punitive”, off my mind.

I began these lengthy remarks by stating they are made to **further the long range interests of the District**. I believe correcting the deficiencies of this year’s Prop. 218 notice process can easily be achieved. The Board must exercise its fiduciary responsibility and direct staff to produce the next Prop. 218 notice in a manner that is comprehensive but easy to understand with current and proposed rates. It is a relatively simple exercise to review numerous Prop. 218 notices to determine where SFID’s current notice fell short. I suggest checking out Long Beach Water’s website. Long Beach Water’s motto is: Exceptional Water; Exceptional Service. Long Beach Water really walks the talk and then some. They’re fabulous!

So I’ve circled back to the question of how to equitably distribute the “local water asset value”. As previously stated, local water amounts to 6% of this year’s budget; excluding the proposed allotment to Tier 1 SFR rates, how to distribute the remaining 4% of this year’s budget. This 6% or 4%, depending on your point of view, has resulted in our largest customers filing suit against this District. This District has had rights to Lake Hodges water for many decades. This District has had a uniform water rate, a two tier water rate, a three-tier water rate, but it was not until the 2016 rate proposal was being devised and eventually adopted were strong concerns clearly stated, over and over and over again, followed eventually by litigation. As I have stated before, I could easily support a two tier rate structure for domestic customers: Tier 1 0-12 at lowest local water cost rate for all domestic accounts, with the remaining local water asset value evenly distributed amongst all hcfs sold across all customer classes in the District.