



**Water Resources  
Economics**

PROMOTING THE VALUE AND PRICE OF  
WATER SERVICE

**ACWA**

# **Balancing Rates with Sustainable Infrastructure Investment**

December 5, 2024



What are customers paying for in their  
Water Bill?

# Significant Water Rate Increases are the Norm

- We are in a perfect storm:
  - › COVID caused delays to rate increases
  - › We just experienced historically high inflation
  - › Repair and replacement programs are ramping up due to aging infrastructure
  - › Increased regulatory demands on both water quality and usage
  - › Record low water use
- All this translates into significant rate increases
- “Rate fatigue” is common (*“when will the big increases stop?”*)

# What Can We Do?

- The normal rate study process is being challenged:
  - › Do the technical analysis quickly
  - › Treat the Prop 218 public hearing process as your public outreach
  - › Pray that no one shows up
- This model is coming to end:
  - › We need to shift our thinking from asking the customer to pay more to
    - “Buying” into our vision
    - We are not selling water, we are selling a “vision”

# What is your Vision for your Community?

- How do you promote this?
- How do you make sure staff, executive management, and elected officials are all on the same page?
- Time is needed

# Best Practices - Preliminary Steps



1

## Build the team

- Internal
- External

2

## Identify needs and goals

3

## Analyze context

- Political appetite for change / Elections
- Customer concerns
- Cost-saving measures

# **Elephant in the Room**

## **What do we want to accomplish?**

- Financial plan – How much revenue is required on an annual basis to fund O&M, CIP, and meet reserve / coverage ratio requirements?
- Cost of Service – Allocation of cost of providing service to each customer class based on their consumption profile?
- Rate Evaluation – Should we examine a different rate structure?

**Rate studies can be completed within 6 months. However, it is recommended to schedule a year from the kickoff meeting to the Public Hearing.**

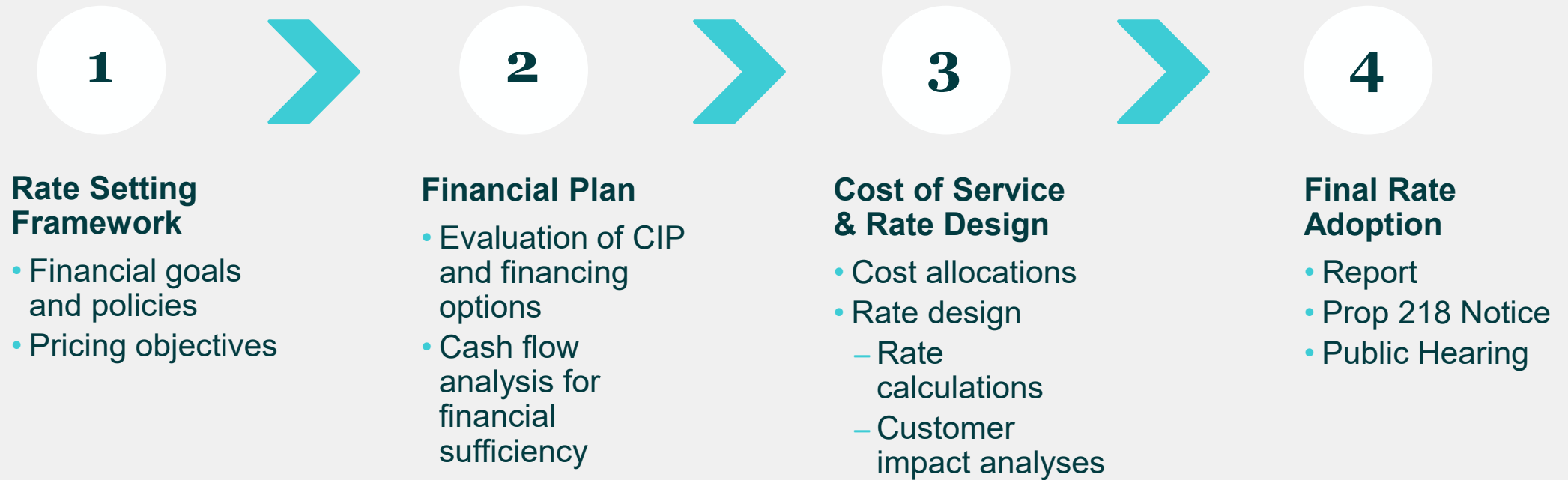
# Schedule and Timing

- Develop a detailed schedule based on when you want the rates to be implemented
- Work backwards
- Items to consider:
  - › When do you expect to have your consultant on board?
  - › When will the annual CIP expenditure be reviewed by the Board?
  - › When will you hold the rate workshop to make sure we are aligned with the Board/Council?
    - Early buy-in is key
  - › When do we want the report to be finalized? Will the Board/Council receive the report prior to the issuance of the Prop 218 notice?
  - › Who should review the report? The report should be lengthy and detailed.
  - › When is the Prop 218 Public Hearing? Does the timing of elections matter?
  - › Are rates being adopted by ordinance or resolution? Do you need a 2<sup>nd</sup> reading?

# Make a Master Schedule

- Develop a Master Schedule of all events associated with the Rate Study
  - › Note that an RFP process adds additional time and delays to this process; this should not compromise the rate study schedule

# Rate Study at a Glance



# Step 1: Rate Setting Framework

- Meet with the elected officials at the start of the study to bring up items to be evaluated
  - › Provides the opportunity for the public to participate
- Items that can be considered:
  - › Should we update our reserve policy?
  - › Should we develop policy objectives to evaluate alternative rate structures?

# Step 2: Financial Plan

- Do we have a good understanding of future O&M cost increases?
  - › Water supply mix?
  - › Prefunding of OPEB?
  - › PFAS?
  - › CIP schedule? Does the Board understand the capital needs of the system?
- Make a presentation that summarizes this information to be presented to the Board and public
  - › What are the challenges the agency will face and how do you plan to solve them?

# Step 3: Cost of Service

- Cost of Service is a zero-sum game
  - › We will have winners and losers
  - › Understand your appetite for change given legal requirements

## **Step 4: Rate Adoption**

- Is the report detailed enough to support your rates if challenged?
- Did the Board receive the report before you sent out the Prop 218 notice?
- Did you meet all the procedural requirements of Prop 218?
- Are elected officials on board with adopting the rates?

# Promoting the Value your Agency Provides

- Customers are tired of endless increases in rates
- The challenge is that additional increases will be needed
- Prop 218 process is a legal requirement and should not be considered your public outreach process
- We need to create a new forum where **honest dialogue** on the challenges your agency faces can be discussed

# Promoting the Value your Agency Provides

- Customers need to “buy in” to the vision of the District
- Customers need to understand the value your agency provides
  - › A shift from how much it costs to the service being provided is needed
- What is your story?
  - › Where did you come from?
  - › What have you accomplished?
  - › What will you accomplish?

# Contact Information

Sanjay Gaur

Founder / President

Water Resources Economics, LLC

[sgaur@water-economics.com](mailto:sgaur@water-economics.com)

213-327-4405

