

# The Best Ag Water Rate Proposal

Presented to the Task Force

By Scott Simpson

## My Challenge...

- Is to give you a thorough proposal that resolves not only the high cost of water for Ag customers but to do so in a manner that is lawful , easy to understand, easy to implement and, is not revenue deficient for the Water Dept. or the General Fund. My proposal eliminates 20+ pages of city regulations, convoluted billings, and convoluted accounting of billing receipts! I follow the K.I.S. principle.
- Additionally, I will identify where my proposal is similar to the Evans proposal and I will also note where elements of the Evans proposal is unlawful.
- I will also set “the lowest possible rates to benefit the Community.”

## Critical Definition of “Type of Water Service”.

- Under law, customer class and the rate assigned is solely a function of the differing types of service re; #1 Gage Canal Non-potable Water service, #2 Purple Pipe Reclaimed Water service or #3 RPU’s Potable Water service. Each defines a separate class of customer and requires its own flat water rate due to the differing type of service and differing costs of O&M. **These are the only classes of customers served water by the City.**
- All the lands served today by the city water infrastructure were originally served canal water to make the land productive (water to live, to grow food, for recreation and for commerce or manufacturing).
- RPU blends all of the original Ag water sources into one homogenous potable water system. All customers of this system now receive the same blended Ag water. All lands served by RPU’s potable water system are deemed “Ag Lands” for rate setting purposes and eligible by law to the same rate for water regardless of current zoning or beneficial use of the water. All shall receive the WA-9 series of water rates (1,2 or3).
- **Thus I propose three Ag water rates, one for each service type.**

# Getting There...

- The R&C lands were originally delivered canal water so, how do we treat all R&C customers equally where some today get cheap canal water for irrigation and others get expensive potable water for irrigation? We must adopt the AWSubsidy.
- The AWSubsidy is an annual budgetary declaration of Public Policy to buy down the potable water rate with tax dollars to equal the canal non-potable rate. This is an Ag Water Subsidy for eligible agriculture lands to promote and preserve agriculture in the city. This process is not subject to Prop 218 requirements.

## Monthly Service Charge applicable to all customers

• Meter Size	2018	2019	2020	2021	2022
• ¾"	\$36.91				\$40.49 ?
• 1"	\$46.19				\$49.77
• 1.5"	\$69.19				\$72.77
• 2"	\$96.91				\$100.49
• 3"	\$161.62				\$165.20
• 4"	\$254.06				\$257.64
• 6"	\$531.21				\$534.79
• 8"	\$854.51				\$858.09
• 10"	\$1316.39				\$1319.97
• 12"	\$1870.70				\$1874.28
• Note: figures include known and projected Debt Service averaged over all meters.					

# Riverside Water Rate WA-9-1

## Gage Canal Non-potable Service \$0.34/CCF

### Applicability:

This rate is applicable to all properties/customers electing to receive Gage Canal Non-potable water delivery service. These customers hold shares in the Gage Canal Co. and pay a rate set to recover the O&M costs to operate the infrastructure.

**The monthly service charge (meter fee)** is set to recover the fixed costs of the Gage Canal annual expenses including Debt Service that is not recovered by an annual assessment on the company shares. (this assumes all Gage customers go to metered service)

The City may elect to rent some of its' Gage Canal Co. shares to land owners who desire to receive non-potable canal water. Rental of a share represents the rent of the volume of water a share holds. Rental of shares will only be done for land owners engaged in agriculture. The Share Rental rate shall be \$1.00 per year.

NOTE: All other provisions of the former City water rate schedule WA-8 shall apply with the exception of the General Fund Transfer and seasonal energy cost adjustment. This rate will increase as O&M costs increase due to inflation. Rates shall be recalculated and adjusted annually.

# Riverside Water Rate WA-9-1

## Notes:

The City over many years has abandoned Gage Canal laterals in favor of supplying R&C lands with city Potable Water Service. Allegedly, these customers have “Special Rates” and a “Non-disclosure Agreement” in a contract. These water rates are not publicly disclosed. However, these are unlawful rates if, they are different than the rate charged to another potable water system customer. **That is unlawful rate discrimination and an unequal application of law (Cal. Const. and 14<sup>th</sup> amendment to U.S. Const).** This issue can be resolved and all agricultural lands customers can pay the same effective rate (Water Rate WA-9-1 Gage) by adopting and applying the Ag Water Subsidy (AWS) buying down the higher cost of Potable Water to the WA-9-1 Gage Rate in a lawful manner.

## Riverside Water Rate WA-9-2

### Non-potable Reclaimed Water \$1.39/CCF

#### Applicability:

This rate is applicable to all properties/customers electing to receive metered non-potable reclaimed sewage treatment effluent (a.k.a., Purple Pipe Water System).

**The monthly service charge (meter Fee)** shall be set to recover the annual fixed costs of the Recycled Water delivery infrastructure proportional to the meter size. The annual fixed cost shall include debt service expense which is specific to this water delivery infrastructure. This may change should the owners of properties receiving this service vote to approve a tax-deductible property assessment instead of a monthly meter fee (which is not tax deductible). Those gov't agency customers that are tax exempt must sign contracts agreeing to pay the equivalent of the property assessment as a fee per the 1988 San Marcos Legislation.

NOTE: All other provisions of the former City water rate schedule WA-10 shall apply with the exception of the General Fund Transfer and the seasonal Energy Cost Adjustment. This rate is to be recalculated annually and reset.



# Riverside Water Rate WA-9-3

## Potable Water Service \$0.61/CCF

### Applicability:

This rate is applicable to all properties/customers receiving Potable Water Service via the Customer owned and City operated potable water delivery infrastructure including those properties/customers located outside of the city limits.

**The monthly service charge (meter fee)** shall be set to recover the annual fixed costs of the Potable Water delivery infrastructure proportional to the meter size. The annual fixed cost(s) shall include debt service expense specific to this water delivery infrastructure. This may change should the owners of properties receiving this water service vote to approve a tax-deductible property assessment in lieu of a monthly meter fee (which is not tax deductible). Those customers that are tax exempt gov't agencies must sign contracts agreeing to pay the equivalent of the property assessment as a fee per the 1988 San Marcos Legislation.

NOTE: All other provisions of the former City water rate schedule WA-1 shall apply with the exception of the 50% surcharge on parcels outside the city limits, the General Fund Transfer and the seasonal Energy Cost Adjustment. This rate is to be recalculated annually from the variable expenses of this water delivery system. The revised rates need not go thru the expensive Prop 218 process until inflation drives this rate above the current CC approved ceiling of \$1.14/CCF.

## Potable Water Service Rate WA-9-3 Continued

- All the lands served by the city water infrastructure were originally served Ag canal water to make the land productive. RPU has reconstructed the potable water delivery infrastructure and blends all water sources before delivery. All customers receive the same blended water. All are entitled to the same RPU rate for water service regardless of how the water is used. Historically, the law on setting water rates has been consistent up to today, “All are entitled to water at the same price for the same service. If any one is receiving water cheaper, all are entitled to the same deal.” (Price, Bighorn, Prop 218 and 14<sup>th</sup> amendment U.S. Const.) Therefore, all lands served by RPU’s potable water system shall be deemed “Ag Lands” for rate setting purposes and eligible by law to the same rate for water regardless of current zoning or beneficial use of the water.

# Must Do Items!

- Adopt the AWSubsidy. This item balances the cost difference of water service rates for customers in the R&C lands by subsidizing the (expensive) City potable rate down to the (cheaper) Non-potable Gage rate. This would be a subsidy of approx. \$0.27/CCF for lands holding or renting Gage shares cultivation. **We have leveled the playing field in the R&C lands for the cost of water and instituted a mechanism that allows the CC to easily modify the desired level of agriculture subsidy in the annual budget process. Not the expensive Prop 218 process.**
- All Gage customers shall be converted to metered service rather than gravity fed canal water. This allows easy conversion to more efficient irrigation systems like drip and resultant water savings. The meter installation could be funded with Conservation Fee revenue. **(agreement with Evans proposal)**
- Bill all customers (of each system) proportionally via the monthly meter fees to recover all the fixed costs of each water delivery system including debt service until, the property owners approve a tax-deductible assessment to replace the meter fees charged.
- Delete the GFT. I recommend the city council delete Measure A from the charter and declare the charter language allowing for an 11.5% GFT be only applicable only to the Electric utility revenues (Price, 1880 and Prop 218).
- Place on the ballot a measure for a 1% increase in the UUTax to recover the GFT \$\$ loss and fund the AWSubsidy. A small increase on the bill because preservation of agriculture in the City benefits everyone.
- Place on the ballot a property assessment for customers of each system, a property assessment to recover the fixed costs (of each separate water system) for the Water Dept. including debt service. **This allows property owners a tax deduction for these costs.**

# Everyone's water bill would look like this.

- A flat rate charge for water at \$0.34/CCF (WA-9-1 Non-potable Gage), \$1.39/CCF (WA-9-2 Non-potable Reclaimed) and \$0.61/CCF (WA-9-3 City Potable) regardless of the amount used or what your zoning is. This recovers the variable expenses of O&M and is calculated annually to recover the prior years O&M expenses. **This would be a huge decrease in your monthly bill.**
- A meter or service monthly fee based upon the size of your water meter. This is to recover the fixed costs of the Water Dept. including debt service. It will be higher than the current meter fees because debt expense has always been included in the water rate. **This could be a temporary effect until all fixed costs can be approved as a tax-deductible property assessment for every customer.**
- The UUTax is shown at the bottom of your bill in the City Services Section. Under this proposal and voter approval of a UUTax rate increase, this amount would increase a small amount. The UUT applies to electric, water, trash and sewer charges. A one percent increase would bring an additional \$6-7 million replacing the \$5.5 million water GFT loss to the general fund and provide a little extra \$\$ for the AWSubsidy for ag lands which is expected to be small \$\$.
- The familiar Water Conservation Fee remains as conservation is voluntary and needs to be incentivized.

# Implementation

- The RPU will re-assign all water service customers the appropriate (new) rate for the service they receive (for billing purposes).
- The Non-potable Reclaimed water rate WA-9-2 is the RPU's current rate less the GFT. The RPU needs to develop an appropriate monthly meter fee schedule for this water delivery infrastructure based upon the fixed expenses of this system.
- NOTE: The above billing re-set will result in a net rate revenue loss for the Water Dept. So the following must be done to recover the lost revenue before the RPU runs out of Operating Reserves.
  1. The Fixed costs (mainly debt service) are not included in the proposed rate structure. These must be recovered in order for the Water Dept. to pay the annual budgeted expenses (less GFT). Fixed costs may be recovered thru the Monthly Meter Fee until the property owners served by the three systems approve a tax-deductible property assessment. At the earliest opportunity the City should place upon the ballot a property assessment to replace the meter fee and debt service costs.
  2. The City Council should adopt the AWSubsidy proposed to resolve Ag water rate disparity for their water service charges. This allows all lands in Ag production to get rate parity needed for agricultural irrigation and end the existing rate discrimination. This would also end the "Special Contract Rates".

## My Proposal Explained.

- The proposed Potable Ag rate WA-9-3 is the lowest rate I have identified in City/RPU documents. It is a flat rate derived from a water sales contract (circa 2016) to WMWD stating it as “the cost to produce and deliver city water to the piped connection with WMWD” in Orange Crest. The cost quoted is \$0.69/CCF. This rate includes the GFT but not debt service. \$0.08 is the GFT component. Extracting the GFT = \$0.61/CCF. **The Evans proposal sets a flat rate for Ag water of \$1.16 while retaining tiered rates for the farm residence. This is unlawful.**

## There are some constraints.

- A Lawful water rate may only recover the cost of transporting the water to your property. This is a proportional share of the O&M annual expense of the water infrastructure. It cannot include any other cost factor such as the GFT, Capital Expense or Debt Expense. **Note: The Evans proposal is a flat rate of \$1.16 /CCF and incorporates existing tiered rates, all contain the GFT and Debt Expense charges. Thus the Evans proposal is unlawful.**
- A lawful water rate is not required to recover all of the “cost of delivery” (Veji v. Bighorn Desert Valley View). My proposal employs this fact. **Note: This is a significant deviation from RPU rates and the Evans proposal as they are unlawful.**
- The Fixed Costs of the water utility must be recovered using a different mechanism (not the consumption rate). **Note: This is a primary reason RPU water rates are unlawful as those rates combine fixed and variable costs into one . The Evans proposal builds upon and adds to the RPU rate system and is thus unlawful as well. Mr. Evans was a former Director of RPU 1999-2004.**

## The Constraints continue...

- A lawful water rate applies to all customers receiving the same service. The service is the “delivery of water to the land” via a metered connection to the infrastructure.
- The 12 different water rates for different customers receiving water from the same infrastructure are discriminatory and unlawful. All customers are entitled to the lowest rate charged to any other customer for the same service. This is the non-discriminatory rate rule (Price, 1880; Prop 218, 1996 and Bighorn, 2010). **The RPU rates and the Evans proposal do not conform to this legal requirement and are unlawful.**
- My AG Rate proposal eliminates tiered rates. **RPU has chosen not to set water budgets per AB2882 for its’ customers thus rendering all its’ tiered rates unlawful. In addition, all the tiered rates listed in the Evans proposal are also unlawful due to Price, 1880 and Prop 218.**
- The Potable Water rate WA-9-3 will be set at a flat rate of \$0.61/CCF. This is almost ½ the rate proposed by Evans. **My proposal is similar yet, different and better than the Evans proposal. Everyone will receive water at the same lawful rate for the same service and the rates will be lower than the Evans proposal. This rate would remain stable as only O&M expense increases would increase the rate in the future (perhaps \$0.02/year inflation). The expensive Prop 218 rate setting “Cost of Service” process would not need to be repeated until inflation drives O&M expenses above \$1.14/CCF.**