



June 21, 2016

(6/22/16) Public Hearing  
Drinking Water Fee  
Deadline: 6/22/16 by 5:00pm

Delivered by e-mail to: [DAS-DrinkingWaterFees@waterboards.ca.gov](mailto:DAS-DrinkingWaterFees@waterboards.ca.gov)



The Honorable Felicia Marcus, Chair  
and Members of the State Water Resources Control Board  
c/o Jeanine Townsend, Clerk to the Board  
State Water Resources Control Board  
1001 I Street, 24th Floor  
Sacramento, CA 95814

Subject: SWRCB Draft Drinking Water Fee Regulations

Dear Chair Marcus and Members of the Board:

Thank you for this opportunity to address the drinking water fee structure proposed by the State Water Resources Control Board (State Water Board). We, the undersigned agencies, are greatly impacted by the proposed drinking water fee structure and thereby wish to register our concerns.

The proposed fee structure, if enacted, *would increase annual drinking water fees to our retail water agencies between six and eleven times* over that for which the same State services were invoiced in 2014-15, while the vast majority of water systems will see their fees reduced under this proposal. As such, we have a duty to our ratepayers to question the fairness of the proposed rate structure and to call for more balanced rate structure options that still achieve the State Water Board's overarching goals.

**Do the Draft Drinking Water Fees meet the State Water Board's Goals?**

Over the past year we have participated in and followed the stakeholder meetings hosted by State Water Board staff. Through this process, we understand that the State Water Board's

main goals for the proposed structural changes in the Drinking Water Fees are as follow:

1. State Water Board Revenue Sufficiency and Stability
2. Fee Structure Design Simplicity
3. Fee Relief for Disadvantaged Communities
4. Equitable Distribution of Expenses among all Community Water Systems

Our agencies agree that these goals are important for the State Water Board and we support changes in the fee schedule to accomplish these goals. However, we believe that the proposed fee schedule does not meet the fourth goal of providing an equitable distribution of expenses among all community water systems and as such we call on the State Water Board to seek a more equitable option.

### **Defining “Equitable”**

Currently, the State Water Board’s Drinking Water Program Fee Schedule for Large Water Systems<sup>1</sup> (LWS) has been based on a “fee for services” cost recovery, meaning that each LWS has equitably paid for the oversight rendered by the State Water Board. Under this fee structure, there has been an incentive for LWSs to build into their operations the internal staffing and other resources to be able to provide technically superior reports to the State Water Board. This highly resourceful communication model has allowed the State Water Board to be as efficient as possible in its regulatory role, and those savings are passed down to the LWSs in the form of fewer billable hours.

We believe that a balanced analysis should evaluate the *total* program costs per service connection (State Water Board *and* Public Water System), not just the State Water Program costs per connection, in order to fully account for the integrated financial impacts to the ratepayers.

From the LWS ratepayer’s perspective, the investment in increased utility resources (staff and consultants) is justifiable in order to accomplish reduced regulatory impacts. We consider the fee for service model to be eminently equitable and in alignment with the reasonable cost nexus asserted by Proposition 26.

### **Revenue Sufficiency Cost Shifting**

In addition to the fee structure goals, the State Water Board seeks to establish an initial budget for the Division of Drinking Water sufficiently high to be able to cover all costs plus a 10% reserve to cover unforeseen expenses. The result is an ***80% increase*** in budgeted revenues as compared to just two years ago<sup>2</sup> (from \$11.5 million in 2014-15 to \$20.7 million) that is to be billed to the water agencies. We support approaches that allow the Drinking Water Program to be fully funded, but we ask for recognition that this cost increase is substantial. Our agencies are especially impacted with six to eleven-fold cost increases, all within a backdrop of reduced revenues as a result of the drought. This fee increase will be a hardship for our agencies to pay.

If no changes to the rate structure had been proposed, all LWS agencies would expect to see an increase in the State Water Board’s hourly fee from \$153/hour to approximately \$275/hour

---

<sup>1</sup> Public water systems serving 1,000 or more service connections.

<sup>2</sup> Actual data from FY 2015-16 is not available to us to evaluate.

(+\$122/hour) in order to meet the increased budget. Yet, 244 of the 680 LWSs (36%) will see their annual fees decrease by a total of \$1.63 million as compared to FY 2014/15 fees under the current proposal. Essentially, the remaining 436 LWSs will be paying for all of the Drinking Water Program's budget increases plus pick up \$1.63 million of the fees that 244 of the LWS used to pay. We do not believe this is equitable either.

### **Small Water Systems Should Pay Fair Share**

We share the State Water Board's goal of providing financial assistance to severely disadvantaged communities (SDAC) and support the proposed \$100 flat fee (up to 100 connections) or \$2/connection (between 101 and 1,000 connections) within communities with a median household income of 60% or lower. However, there is no justification for significantly decreasing annual fees for all Small Water Systems<sup>3</sup> (SWS), as is proposed. With the costs of the Drinking Water Program increasing by 80%, it is not reasonable to reduce fees on small water systems that cannot demonstrate a financial hardship per the SDAC exemption.

### **Conclusions**

We, the undersigned agencies, wish to partner with the State Water Board to find a way in which the State Water Board's goals can be met. We are willing to consider a "fee-per-connection" fee structure in order to provide the State Water Board with the revenue sufficiency and stability it needs. However, we cannot support the rate structure proposed to us based on the inequities noted above.

Fundamentally, we believe:

- Severely Disadvantaged Communities should be allowed discounted fee schedules. Since it is unknown how many water systems will qualify for this discount, we ask that a report be provided within a year's time detailing how many systems have been able to demonstrate need for this discount.
- Fees for Small Water Systems should not decrease over the status quo. At the status quo, Small Water Systems essentially *are already receiving a discounted rate* by virtue of not seeing their fees increased commensurate to the 80% budget increase.
- The fee structure for Large Water Systems should allow for a greater number of tiers and include deescalating fee amounts per tier such that a better balance in fee impacts across all Large Water Systems is achieved. We believe that adding tiers still supports the State Water Board's goal of achieving fee structure design simplicity.
- Sufficient data analysis will be required to be able to determine if the State Water Board's goals were met to its satisfaction and what the impacts to water systems statewide has been. As such, we believe the Drinking Water Program staff should continue to record "billable" hours and other performance metrics in order to evaluate what, if any, changes transpire as a result of this fee structure change. Further, we believe the State Water Board should invite a diverse group of water agencies to partner with Drinking Water Program staff in the evaluation of this data one year hence.

---

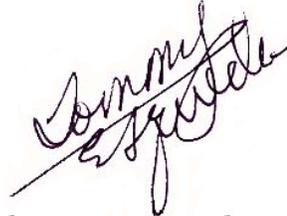
<sup>3</sup> Public water systems and non-community water systems with fewer than 1,000 service connections.

Thank you for your time and attention to our concerns. We welcome your questions and continued dialogue on this important matter.

Sincerely,



Mr. Allen Carlisle, CEO/General Manager  
Padre Dam Municipal Water District



Mr. Thomas C. Esqueda, Director  
City of Fresno Department of Public Utilities



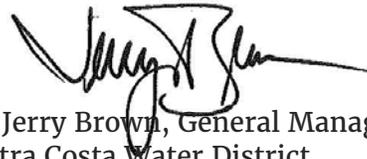
Ms. Halla Razak, P.E., Director  
City of San Diego Public Utilities Department



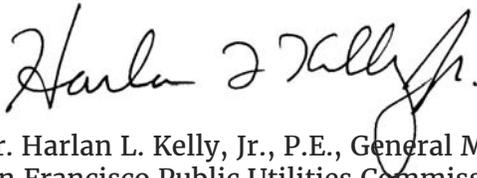
Mr. Chris DeGabriele, General Manager  
North Marin Water District



Ms. Stacey R. Aldstadt, General Manager  
City of San Bernardino Municipal Water District



Mr. Jerry Brown, General Manager  
Contra Costa Water District



Mr. Harlan L. Kelly, Jr., P.E., General Manager  
San Francisco Public Utilities Commission



Ms. Linda Reed, Interim Director  
Santa Rosa Water



Mr. Paul D. Jones II, P.E., General Manager  
Eastern Municipal Water District



Mr. Andrew R. Gere, P.E., President and  
Chief Operating Officer  
San Jose Water Company



Mr. Albert Gastelum, Director of Water Quality  
Los Angeles Department of Water and Power



Mr. Christopher J. Garner, General Manager  
Long Beach Water Department