



WATER DEPARTMENT

212 Locust Street, Suite B, Santa Cruz, CA 95060 ♦ 831-420-5200



February 1, 2019

Ms. Jeanine Townsend, Clerk to the Board
State Water Resources Control Board
1001 I Street, 24th Floor,
Sacramento, CA 95814

Re: Public comment on Low-Income Water Rate Assistance Draft Report

Dear Ms. Townsend,

As the director of a medium sized public water utility facing the need for very large capital investments to address aging infrastructure, improve supply reliability, and prepare for climate change, I read with interest the recently released Low-Income Water Rate Assistance Draft Report.

Acknowledging the basic problem of the rising cost of water on the ability of low-income and fixed income customers is an important first step in addressing the issues. While recognizing that the legislative direction to the State Board in AB 401 was fairly narrow, I do think that the lack of a more thorough analysis of the factors driving water rate increases resulted in a missed opportunity to think creatively about strategies that might improve the situation for water service customers throughout the State. Focusing only on approaches to creating a safety net type program focused on any one of the options described in the discussion draft inherently brings with it a significant administrative burden, regardless of how the program is structured or delivered.

Before responding to the draft low income water rate assistance program proposal, I want to describe our local efforts to and concerns regarding the affordability of drinking water in our community. Following the development of updated water rates for the Santa Cruz Service area in 2016¹, we worked with David Mitchell of M.Cubed in Oakland to estimate the percent of our population that could find our rates unaffordable by the last year of the five year rate period.

As you are probably aware, there are a number of approaches for establishing what is or isn't affordable. Our study used 2% of median household income (MHI) for our area. For our inside city customers, the percent of households paying more than 2% of MHI started at 7% with rates in place in 2015 and increased to 21% in the 5th year of our proposed rate increase. For our outside city customers who pay a 14% differential, 12% of customers were paying more than 2% of MHI with rates in place in 2015 and that figured increased to 25% in the 5th year of our increase.

¹ See [Rates | City of Santa Cruz](#)

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A more recent review of our residential customer base using the results of the 2017 American Community Survey and 200% of the Federal Poverty Level for Santa Cruz County, which is \$50,200 this year, indicates that perhaps as many as 40% of our single family residential accounts might qualify for participation in a Low-Income Water Rate Assistance Program because their incomes are less than 200% Federal Poverty Level.

Some characteristics of our community, including a large student population associated with the University of California Santa Cruz and some properties being owned as 2nd homes and therefore not reporting income related to those properties, may be influencing this estimate. Lack of student housing on campus has resulted in a significant portion of UCSC's 19,500 students living in Santa Cruz's water service area. It may be the case that, while student residents are not producing income from employment and therefore would appear to qualify for assistance, other sources of funds are available to them that would allow them to pay their water bills without assistance.

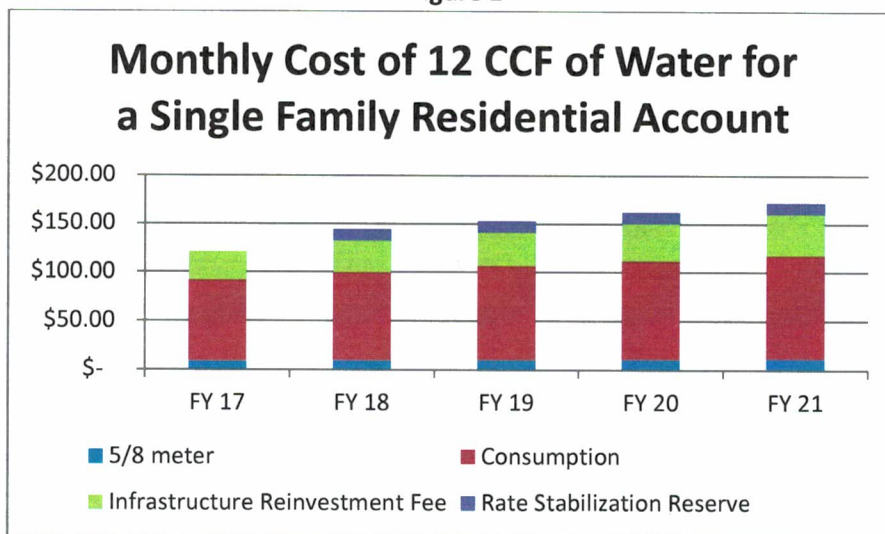
Putting aside the reasons behind the data in the American Community Survey, clearly the fact that we actually asked the question about the impact of proposed water rate increases on our customers demonstrates that we understand or were at least curious about the implications of the water rate increases we were proposing for our customers. Our dilemma, which I suspect would be all too familiar to many other public water utilities in the state, is that we pretty much don't have any choice but to deal with our aging infrastructure, our supply reliability issues and to prepare for climate change. Given the "business model" that public water systems operate in, we have no choice but to raise rates and, unfortunately, with the cost of water infrastructure, those rate increases aren't going to be small. Moreover, even if we wanted to establish and operate a program to assist our customers who may have difficulty paying their water bills, the prohibitions in Proposition 218 against doing so using customer fees make it impossible for us to address a known and potentially significant problem for our customers.

Finally, at the same time I was reviewing the Low-Income Water Rate Assistance Draft Report, I reviewed Cal EPA's "A Framework and Tool for Evaluating California's Progress in Achieving the Human Right to Water." The key elements of the framework are Water Quality, Accessibility, and Affordability. In looking at each of these elements as they apply to the Santa Cruz water system, we're good on water quality, with some improvements planned as part of infrastructure improvements we're planning, we're good on accessibility and, as discussed above, it is highly likely that a significant portion of our customers will be experiencing affordability issues as a result of the infrastructure investments we're facing. Actions to reduce capital spending, which are an obvious way to mitigate those impacts, will inevitably negatively affect both water quality and accessibility, thus creating a worse situation for our customers than would be the case if we were able to effectively deal with the affordability issue.

Specific Comments on the Draft Proposal

I understand the math behind the way using the cost of 12 ccf as the basis for the program proposal. That said, I do want to point out some issues with how this program proposal would work in our areas. The chart in Figure 1 below, shows the monthly cost of 12 CCF of water for our inside city residential customers.

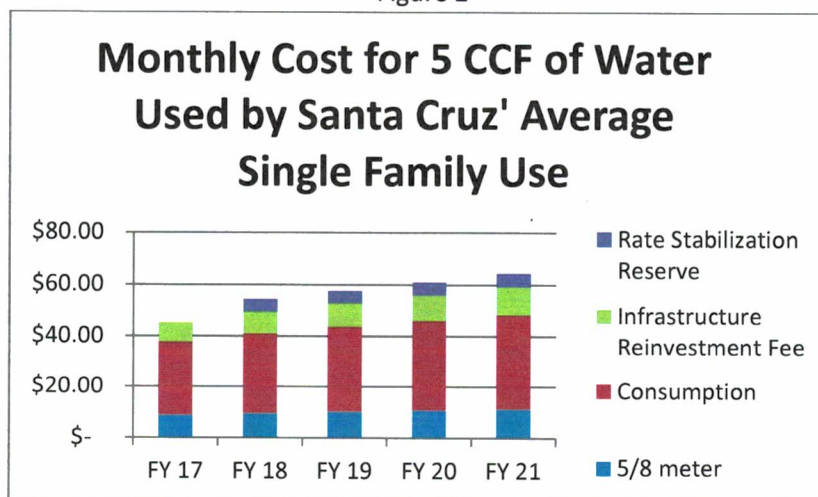
Figure 1



According to the draft program proposal, as the cost of 12 CCF at the department’s current rates is in every case greater than \$120, all customers making less than 200% of the federal poverty level would be eligible for a 50% subsidy. Just using rates in effect this fiscal year and for the next two fiscal years, those subsidies would amount to about \$77, \$81, and \$86 per month respectively.

Santa Cruz has one of the lowest per capita per day consumption in the state with our single family residential gallons per capita per day (gpcd) being 46 for all consumption, including any water used outdoors. Our average single family customer account uses a bit more than 5 CCF per month. Figure 2 shows what the monthly cost of water is for our average single family customer.

Figure 2



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Given what the average single family customer is actually paying for water, the proposed subsidy shown above is what would be provided by the draft program proposal would not just cover 50% of the cost of water it would cover all of it with money left over.

Perhaps this outcome is an acceptable trade-off given what I'm sure must be very diverse conditions and usage patterns across the state. But I wonder about whether those contributing the resources to fund this program wouldn't have legitimate issues concerns about the degree to which program funding has to be larger than it otherwise would be if a more nuanced and local condition adapted program approach was used.

Considering the Causes of Increasing Water Rates Rather Than Responding to the Symptoms

Given the potential scale of any kind of low-income water rate assistance program and the very real administrative burden created by operating such a program, I do think a greater focus on understanding and potentially mitigating the causes is not only warranted but may result in achieving the desired outcome and doing so with greater efficiency. In the mini case study of the situation for the Santa Cruz Water Department described below, I will provide the back story to what is driving Santa Cruz to increase its water rates and describe opportunities and constraints we've considered to assist those least able to pay their water bills maintain their water service.

Santa Cruz Situation Analysis:

As a public water system that is an agency of the City of Santa Cruz, from a financial perspective we set rates and operate under the legal and regulatory framework established by Proposition 218. We are funded entirely through customer rates and charges with an enterprise fund that is separate from the City's General Fund. We receive only modest revenue from connection fees or system development charges in part because the water service area is about 95% built out and in part because of state and local regulatory and policy direction that is limiting the applicability of such fees to structures such as accessory dwelling units, as a means of increasing the availability of housing.

Apart from the generally increasing costs of operations and rapidly rising costs associated with employee benefits, particularly CalPERS costs, the major driver of water rates for Santa Cruz over the next 30 years is going to be servicing debt being issued to support implementation of our Capital Investment Program. As mentioned earlier, the focuses of this program are addressing aging infrastructure, improving supply reliability, and preparing for climate change. Annual debt service over the last couple of decades has been slightly less than \$1 million per year.

In 2016 the Department prepared a Long Range Financial Plan, which the Santa Cruz City Council unanimously approved in June of that year. This financial plan recommended that the City undertake a \$300 + million water system Capital Investment Program. This investment would be financed through a combination of long term debt (75%) and pay-as-you-go (25%). According

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to our projections, when the CIP is fully implemented Santa Cruz water customers will need to fund approximately \$25 million annually of debt service payments during the subsequent 30 years.

In an attempt to make be more transparent with our water rates, when we increased rates in 2016 we separated out the cost of pay-as-you-go capital and debt service into a separate fee called the Infrastructure Reinvestment Fee. A typical single family rate payer in Santa Cruz is currently paying about \$9 per month for this fee. With increasing debt service in the future this portion of customer bills is going to increase dramatically in the years to come. If our current debt service is \$2.5 million annually and projected debt service is \$25 million annually, typical residential water bills would be expected to rise to \$90 per month just for the Infrastructure Reinvestment Fee. This increase would result in changing the water bill for a typical single family customer using 5 CCF from its current level of about \$60 to \$150.

This significant impact to the affordability of drinking water could be avoided entirely if, for example, roughly half of one year's projected \$600 million cost of operating the draft proposed low income water rate assistance program was made available to the City of Santa Cruz to pay for the necessary infrastructure improvements to its water system.

In closing, I want to again acknowledge the staff's effort to be responsive to the Legislature's direction to prepare a proposal for a Low-Income Water Rate Assistance Program. I recognize the effort that went into preparing this proposal and I appreciate the challenges that would be involved in operating such a program at the state level. How to effectively address the issue of the affordability of water for all of our customers is a serious question that is occupying a great deal of my time and attention and I believe that the draft program proposal does a good job of helping to increase the discussion of this issue and thus move the issue forward. If I can be of any assistance in furthering this effort, please don't hesitate to contact me.

Sincerely,

Rosemary
Menard

Rosemary Menard
Water Director

Digitally signed by Rosemary Menard
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Cruz Water Department, ou=Director,
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