

Drinking Water Fees

State Water Resources Control Board

Stakeholder Workgroup Meeting

November 17, 2015

Why are we here?

- Drinking Water Program was transferred to the State Water Board July 1, 2014
- A fiscal analysis performed by Water Board staff revealed that:
 1. Existing fee structure is not generating sufficient revenue to support the program
 2. Existing fee structure appears to be unreliable, unsustainable, and inequitable

Why are we here? (continued)

- A fiscal analysis performed by Water Board staff revealed that:
 3. Nearly 55% of program costs are being funded by federal funds, which are not guaranteed on an annual basis
 4. Health and Safety Code section 116590 contained a cap that would prevent Water Board staff from making the program whole through a fee increase

SB 83

- Increased the cap on LWS fees to \$15,938,000 for fiscal year 2015-16
- Deems the current fee structure inoperative on July 1, 2016
- Requires Water Board staff to adopt new fee schedule regulations initially through the Office of Administrative Law's regular rulemaking process
- Subsequent fee schedules will be adopted through the emergency regulatory process

Funding Source

Currently the Drinking Water Program receives funding from three main sources:

1. Fees paid by public water systems
2. Public Water System Supervision (PWSS) Grant
3. Federal funds from the State Revolving Fund (SRF) PWSS Set-Aside
 1. Includes approximately \$3 million in unliquidated obligations from prior year grants. These funds are projected to be exhausted by fiscal year 2015-16

Funding Source FY 2014-15

Division of Drinking Water				
Total Program Cost				
FY 2014-15				
<u>FUND</u>	<u>DESCRIPTION</u>	<u>LWS</u>	<u>SWS</u>	<u>Total</u>
0306	SAFE DRINKING WATER ACCOUNT (FEES)	\$11,125,540	\$3,272,416	\$14,397,956
0890	PWSS GRANT	\$1,128,509	\$5,807,055	\$6,935,564
7500	SRF PWSS SETASIDE	\$2,612,149	\$8,580,490	\$11,192,640
		\$14,866,198	\$17,659,961	\$32,526,160 ¹

¹Includes approximately \$3 million in unliquidated obligations from prior year grants. This money is projected to be exhausted by Fiscal Year 2015-16

Funding Source FY 2015-16 (estimate)

Division of Drinking Water				
Total Program Cost				
FY 2015-16 (ESTIMATE)				
<u>FUND</u>	<u>DESCRIPTION</u>	<u>LWS</u>	<u>SWS</u>	<u>Total</u>
0306	SAFE DRINKING WATER ACCOUNT (FEES)	\$12,637,000	\$3,272,416	\$15,909,416
0890	PWSS GRANT	\$1,128,509	\$5,807,055	\$6,935,564
7500	SRF PWSS SETASIDE	\$1,612,149	\$8,580,490	\$10,192,639
		\$15,377,658	\$17,659,961	\$33,037,619 ²

²Includes approximately \$2 million in unliquidated obligations from prior year grants. This money is projected to be exhausted by Fiscal Year 2015-16

Current Large Water Systems (LWS) Fees

- Fee structure for LWS is based on fee-for-service
- Direct hours billed for Permitting, Inspections, Compliance, Monitoring and Enforcement
- Indirect hours for Compliance and Monitoring allocated by fee point system
- LWS are assigned fee points based on: 1) the number of service connections, 2) number of groundwater treatment plants to comply with a primary or secondary drinking water standard, and 3) size of surface water treatment facility

Current Small Water Systems (SWS) Fees

Small Water Systems (SWS), which are defined as public water systems with less than 1,000 service connections, currently pay flat fees based on system type, number of service connections, and population served.

System Type:	Fee/Rates
Small community serving up to 999 service connections subject to variable rate based on service connection (SC)	\$ 6.00 per SC but not less than two hundred fifty dollars (\$250) per water system
Nontransient noncommunity system subject to variable rate based on population served (SP)	\$ 2.00 per person served but not less than four hundred fifty-six dollars (\$456)
Transient noncommunity system subject to flat rate charge (N1)	\$ 800.00 per system

Definitions

- **Public Water System** – a system for the provision of water for human consumption through pipes or other constructed conveyances that has 15 or more service connections or regularly serves at least 25 individuals daily at least 60 days out of the year
- **Community Water System** – means a public water system that serves at least 15 service connections used by yearlong residents or regularly serves at least 25 yearlong residents of the area served by the system
- **Noncommunity Water System** – means a public water system that is not a Community Water System
- **Nontransient Noncommunity Water System** – a public water system that is not a community water system and that regularly serves at least 25 of the same persons over 6 months per year (e.g. rest stops, camp grounds, resorts, etc.)
- **Transient Noncommunity Water System** – a noncommunity water system that does not regularly serve at least 25 of the same persons over 6 months per year (e.g. churches, youth camps, seasonal businesses, etc.)

Problem With Current Fee Structure

- Requires/encourages DW staff to spend disproportionately more time working on LWS rather than targeting the highest priority drinking water issues (such as drought response or emergency activities)
- The variability in invoice totals for Drinking Water Program fees from year to year may create budgeting challenges for LWS
- Current fee structure places a greater burden on SWS to pay for the DW regulatory program based on the amount of fees paid per service connection (SWS pay roughly ten times the amount of fees per service connection as LWS)
- The 10 largest water systems in the state service approximately 25% of the state's public water service connections while paying only 6% of Drinking Water Program fees under the existing fee-for-service structure

Service Connection Fee Breakdown

FY2014-15	Active Service Connections	Total Fees Collected	Fees Collected/ Service Connection	Total Program Expenditures
LWS	9,182,744	\$ 11,021,000	\$ 1.20	\$ 15,395,000
SWS	258,081	\$ 3,079,000	\$ 11.93	\$ 15,851,000
Total	9,440,825	\$ 14,100,000	\$ 1.49	\$ 31,246,000

Core Principles

- Equity to all fee payers based on per connection cost
- Simplicity and understandability
- Consistent with existing law
- Ease of implementation and administration
- Flexibility and adaptability
- Stability

Proposed Solution

- Water systems will all be charged a flat per service connection fee (exceptions: wholesale, transient and nontransient noncommunity water systems)
- Wholesale water systems will have a separate fee schedule based on production
- Transient and nontransient noncommunity systems will be billed a flat fee per water system
- SWS serving fewer than 50 service connections and/or water systems certified as severely disadvantaged will pay a flat annual fee of \$100

Option 1 – Diminishing Tiers

Example provided by California Municipal Utilities Association (CMUA) in conjunction with the Association of California Water Agencies (ACWA) :

Proposed Tiers - Water Community	
# of Service Connections	Proposed Fee
Under 100	\$250 Flat Fee
100-1,000	\$4.00 Per Connection
1,001-3,000	\$2.75 Per Connection
3,001-10,000	\$2.00 Per Connection
10,001-50,000	\$1.50 Per Connection
>50,000	\$0.50 Per Connection

e.g. if a system has 3,000 service connections, they would be billed \$9,500.00
(1,000 x \$4.00) + (2,000 x \$2.75)

Option 2 – Diminishing Tiers

Waterboard Example:

Alternative Tiers	
# of Service Connections	Proposed Fee
Under 50	\$100 Flat Fee
First 10,000	\$2.50 Per Connection
10,001 and above	\$1.25 Per Connection

e.g. if a system has 11,000 service connections, they would be billed \$26,250.00
(10,000 x \$2.50) + (1,000 x \$1.25)

Option 3 – Base Fee + Service Connection Charge

Example:

- Community Water Systems < 50 Connections: \$100
- Community Systems > 50 Connections: \$100+\$1.75/connection

Option 4 - Base Fee + Service Connection Charge with Cap

Example:

- Community Water Systems < 50 Connections: \$100
- Community Systems > 50 Connections:
\$100+\$1.85/connection
- \$500,000 maximum annual fee

Disadvantaged Water Systems

- Public Water Systems certified as being disadvantaged will pay a flat annual fee of \$100
- Federal grant funds will be applied to cover Drinking Water Program costs not fully covered by reduced annual fee

Impact on 10 Largest Systems

Fee Option Impacts to 10 Largest Water Systems						
Name	# of Service Connections	Status Quo	Option 1	Option 2	Option 3	Option 4
COACHELLA VWD: COVE COMMUNITY	99,272	\$53,373	\$103,209	\$136,590	\$172,833	\$183,753
IRVINE RANCH WATER DISTRICT	100,556	\$82,683	\$103,722	\$138,195	\$175,067	\$186,129
CITY OF FRESNO	128,928	\$73,361	\$115,071	\$173,660	\$224,435	\$238,617
CITY OF SACRAMENTO MAIN	136,737	\$88,875	\$118,195	\$183,421	\$238,022	\$253,063
EASTERN MUNICIPAL WD	137,037	\$53,537	\$118,315	\$183,796	\$238,544	\$253,618
SFPUC CITY DISTRIBUTION DIVISION	168,512	\$70,177	\$130,905	\$223,140	\$293,311	\$311,847
SAN JOSE WATER COMPANY	219,571	\$84,519	\$151,328	\$286,964	\$382,154	\$406,306
SAN DIEGO, CITY OF	276,525	\$64,262	\$174,110	\$358,156	\$481,254	\$500,000
EAST BAY MUD	379,693	\$185,373	\$215,377	\$487,116	\$660,766	\$500,000
LOS ANGELES-CITY, DEPT. OF WATER & POWER	697,501	\$258,440	\$342,500	\$884,376	\$1,213,752	\$500,000

Average Impact by System Size

Fee Option Impacts					
# of Service Connections	Status Quo - Average Fee	Option 1 - Average Fee	Option 2 - Average Fee	Option 3 - Average Fee	Option 4 - Average Fee
0-50	\$249	\$250	\$100	\$100	\$100
51-1,000	\$1,701	\$1,121	\$685	\$592	\$623
4,500-5,500	\$16,362	\$13,459	\$12,496	\$8,764	\$9,312
9,500-10,500	\$22,467	\$23,394	\$24,795	\$17,458	\$18,556
14,000-16,000	\$33,220	\$30,788	\$30,073	\$25,954	\$27,481
48,000-52,000	\$42,820	\$82,981	\$75,150	\$87,309	\$92,822
75,000-100,000	\$65,665	\$98,023	\$125,229	\$161,531	\$171,736
>100,000	\$106,803	\$163,280	\$324,314	\$434,145	\$349,953

Wholesale Water Systems

Example:

PWS_ID	Number of Service Connections	Calculated Million Gallons (MG)	Status Quo- Current Fee Structure -Invoice Total @\$153/hr	\$1.49 Per MG With Min \$6000 and No Cap	\$2.15 Per MG With Min \$6000 Max \$225,000 Cap
TOTAL:	2,040	696,097	\$ 1,007,060	\$ 1,301,185	\$ 1,303,763
Averages:	46	15,820	\$ 22,888	\$ 29,572	\$ 29,631

Stakeholder Outreach

- Completed four workgroup meetings
- Fee Options Roadshow first week of December
- Draft Regulations submitted end of January 2016
- Proposed Regulations Roadshow Mid-February
- Submit Regulation package to Office of Administrative Law by March 1, 2016

Water Community Presentation

- Association of California Water Agencies (ACWA)
- California Municipal Utilities Association (CMUA)