



**BEAUMONT-CHERRY VALLEY WATER DISTRICT
MINUTES OF SPECIAL MEETING
OF THE BOARD OF DIRECTORS
560 Magnolia Avenue, Beaumont, CA 92223
Tuesday, November 5, 2019 at 6:00 p.m.**

Call to Order: *President Covington began the meeting at 6:20 p.m.*

Pledge of Allegiance: *Led by Director Hoffman.*

Roll Call:

Directors present:	Covington, Hoffman, Slawson Director Williams arrived at 6:46 p.m.
Directors absent:	Ramirez
Staff present:	General Manager Dan Jagers, Director of Finance and Administration Yolanda Rodriguez, Senior Engineer Mark Swanson, Assistant Director of Operations James Bean, Senior Finance and Administrative Analyst William Clayton, Administrative Assistant Erica Gonzales, Customer Service Representative III Sandra Delgadillo, Senior Accountant Sylvia Molina, Administrative Assistant Lynda Kerney.

Members of the public who registered attendance: Steve Lehtonen, Dr. Blair Ball.

Public Comment: None.

1. Discussion and Review of Preliminary Water Rater Study Information, Findings, and Recommendations and Direction regarding Rate Structure Options

President Covington introduced the item and pointed to available handouts. General Manager Jagers gave a general overview of the evening's agenda and said staff has had continued discussion with Raftelis Financial Consultants.

The numbers presented previously seemed high, Jagers reminded, and have changed due to the previous exclusion of separated pass-throughs of the San Geronio Pass Water Agency (SGPWA) wholesale water rate and electrical costs. Those have now been pulled out, including the inflationary accelerators. This no longer asks the Board to estimate those rate increases. Increases have declined with those exclusions, and the pass-throughs will just run true to what they are, Jagers continued.

The overall goal tonight, he said, is to get Board direction on the use of a two, three or four-tier rate system. Jagers explained:

- The four-tier system provides an opportunity to tune high-end consumption and try to affect conservation through water savings for the high users.

- The three-tier rate was recommended by Raftelis as a middle-of-the-road solution to “train” the ratepayers on conservation by having higher costs associated with higher use.

Jaggers explained that the handouts detail the impact on rates for various customers. He suggested it may be possible to have a dynamic calculator available on the website. Jaggers also noted the importance of staying on a schedule for the rate action.

Jaggers explained inclusions in the rate for needed items such as emergency equipment and supplies, and planning for the engineering and operations center project, which are recent and therefore not on the Capital Improvement Plan.

Jaggers addressed a question from President Covington about the accomplishments of Tier 3 and Tier 4. In trying to curb excessive water use, Tier 4 includes a very high cost lens which tries to move excessive use down to Tier 3. Covington noted the necessity of the rate study to assure costs from 2020 to 2024 are covered and customers can understand why rates were raised.

President Covington indicated his goals were for the Board to be comfortable with what tier should be used, and to understand where the money is going.

GM Jaggers introduced the rate model and detailed some expenses influencing the rate, including the CIP and a bond issue. He said Raftelis leaned toward the three-tier structure as it creates conservation without moving customers from a fourth tier and potentially having to do another rate study in three years.

Director Hoffman asked about Raftelis’ estimate of fixed vs. variable costs. Mr. Jaggers noted currently 26 percent of costs are recovered in the fixed portion of the rate and 74 percent is carried in the variable portion. The true cost to the District is approximately 50/50, with the expectation that the fixed costs will increase over time. He posited that this is because the water use per house is decreasing.

Senior Finance and Administrative Analyst William Clayton answered a question from Director Hoffman about fixed and variable costs. Hoffman pointed out increasing costs such as medical, labor, electricity and water supply and noted additional fixed costs such as trucks. Even if no water is sold, these costs exist, he said. The greater percentage of fixed costs, the ability to recover costs through sales diminishes regardless of tiers. He noted that collection has lagged due to not performing a rate study in a timely basis, and the District is playing catch up while trying to be fair to everyone.

Jaggers provided additional information on costs. He noted the balance between fixed costs and creating state-required conservation through tiered rates. To encourage conservation, there should be more in the variable rate right now, he said, which may change over time. The State will fine the District if conservation goals are not achieved, he reminded. To get to those goals, the three-tier rate is recommended now without having the effect of losing the top-end revenue generators, Jaggers explained.

Jaggers pointed to the Oct. 17 presentation by Raftelis which included annual rate increases of 11 percent in years 1, 2 and 3, then 9.5 percent in years 4 and 5. Jaggers explained that those numbers included the pass-through for the electrical and the wholesale water rate which had an inflation accelerator estimated.

6:46 p.m. – Director Williams arrived.

The pass-through rates have been removed from the model, Jagers explained. As more water is used, he said, the pass-through for SGPWA incrementally grows based on water use. The Proposition 218 process allows that to be adjusted without trying to estimate it, Jagers continued. This presentation shows the standalone rates, Jagers said, now with a 12 percent increase in 2020 in order to pick up the cost of the wholesale water which was raised by \$82 per acre-foot (AF). Following years are increased at 5.9 percent in year 2, then 6.2 percent in years 3 and 4, Jagers stated.

Pass-through revenues for SGPWA and Southern California Edison (SCE) are projected at the current rates and will need to be adjusted, Jagers explained. Jagers presented different rate structures for different meter sizes. Tier 1 is the lowest cost rate, he said, and as usage moves up the tiers the cost is higher. Currently, Tier 1 is up to 44 units of sale (4,400 cubic feet) at 96 cents per unit; Tier 2 is 45 units and more at a rate of \$1.05 per unit. In the proposed tiers, the Tier 1 usage goes down in consideration of indoor use, Jagers noted. He presented the suggested tier levels and pricing and detailed concerns with the 4-tier model.

Currently, the pass-through cost is 46 cents for the SGPWA, and analysis shows it should be 72 cents, he explained. The model shows the power charge should be at 37 cents and the current charge is 33 cents. Jagers explained the increase in SCE bills with the new rate structures and said until this year, the pass-through was satisfying the electric bills.

President Covington asked about California's conservation goal of 55 gallons per person per day and pointed out that considering a household of 3.5 persons at 1,500 gallons per day the numbers are not very robust. Mr. Swanson explained that the legislation states goals, but the State still must present a formal plan by 2022 as to how to move forward. The goal is 55 gallons per capita daily (gpcd) by 2025, then reduces to 50 gpcd. It will need to be determined how many people are in a household, Swanson continued, and the District will end up doing budget-based rates at some point in the future. Ultimately, it is the District that will be fined if the goals are not met, Swanson explained, and it must be determined how to pay the fine and how the water wasters will be charged accordingly. Covington acknowledged it will not impact this rate study but will factor in the future. GM Jagers said that budget-based rates will be the future, however the District's business model today is not sophisticated enough. He explained details of water budgeting.

Mr. Jagers reminded the Board that the District's billing is mostly bi-monthly and said a calculation average of 199 gallons per day of usage was used. Covington stressed capturing costs. Jagers assured that the best estimate has been made, but if the District ends up upside down, the rates will be back in front of the Board reassessing in three years rather than five. President Covington pointed out that electric rates will be increasing and Jagers noted it is a true pass-through and will be adjusted, estimating a 2 to 4 percent increase over time. Covington noted it would be preferable to over-collect the SCE pass-through; if it is under collected, there is no way to recoup the funds.

In response to Vice President Slawson, Mr. Jagers explained the total aggregate rate including the pass-throughs. Director Hoffman pointed out the SCE fixed charges to start up a well and stressed the importance of operational planning. He

agreed with President Covington that sufficient SCE costs must be built in to have flexibility to cover the expenses. Mr. Jagers indicated the goal would be to reduce exposure to SCE fixed costs. He detailed efforts to manage costs and anticipated effects on power use such as recycled water coming online.

Jagers presented examples of billing under the different tiered systems and introduced the rate model built by Raftelis Financial Consultants.

Jagers showed the input sheet and again pointed to two projects included in the model that are not currently in the CIP – the disaster preparedness equipment and the Engineering and Operations Center. Senior Finance and Administrative Analyst William Clayton gave the Board a tour of the rate model and answered questions from the Board regarding inputs. Mr. Clayton explained the balance between the minimum reserve amount and recommended reserve amount. If reserves are depleted, Jagers cautioned, the District runs out of cash flow.

Mr. Clayton demonstrated the tier structure using the model. President Covington indicated this answered several of his concerns. The model allows accounting staff to make adjustments each year to show a true tracking of costs, validating that the District is on target, Jagers added. If there are problems, it offers an approach to solve them. President Covington asked about adjustment to the 12 percent first year increase. Mr. Jagers advised that the majority of the increase was due to SCE costs, so the model would not show an adjustment.

Mr. Jagers explained the drivers of the increases such as debt. He said he considers everything was represented very accurately and expressed confidence in the model's reflection of the District's needs. In response to Director Hoffman's question about a drop in anticipated expenses, Mr. Jagers explained first-year project costs to build two wells and complete pipeline replacements. Public improvements in the CIP will continue, Jagers noted. Director Hoffman noted anticipated growth of 400 to 500 dwelling units per year which will increase demand on existing wells and asked whether conservation would make up for that demand. Mr. Jagers advised that new wells will be needed and would be paid for by facilities fees. He noted that the model is conservative with growth and includes fewer than 500 houses based on the City of Beaumont projections. If growth is overstated, the District could run out of money as there would not be enough sales; much of that is accounted for in the variable rate of the model. Mr. Clayton added that staff is projecting into 2028, which is beyond the scope of the rate study.

GM Jagers pointed out that BCVWD's rates are lower than most in the area and will still be on the lower end for the region. He showed a comparison of rate collection against expenses over the past five years.

President Covington commented on the information shown in the dashboard and said he was not comfortable with revenue recovery of four tiers. A 3-tier structure seems to capture both low end and high-end usage and is more equitable and fairer across new and existing homes, he said. Covington acknowledged the constant fixed costs and said for all customers he is comfortable with the proposed 3-tier structure.

Mr. Jagers reminded the Board about funding for the Sites Reservoir and the District's anticipated contribution of \$2.8 million in four years. He said he expects it to be funded through facilities fees so it is not included in this rate model, but there is still some uncertainty and if necessary, there will be an update to the rate study. A facilities fee study is in progress, he said.

Director Williams indicated that she is more comfortable after absorbing the more detailed information and indicated support for the 3-tier structure. Director Hoffman said he is leaning toward the 3-tier structure. Director Slawson said he had initially supported 4 tiers, but after hearing the specifics he is now convinced it doesn't matter that much and supports the 3-tier structure as it is recommended by the consultant and staff.

GM Jagers advised that drought rates will be included in the rate action. During times of conservation, sales are lost, and the cost of water must increase. The model has a rate recovery component based on usage reduction and declaration of drought to keep the District revenue-whole.

Ms. Rodriguez said she was pleased with the Board's support for the 3-tier structure. She noted it is a middle ground and not a shock for the customers. She assured close examination of the pass-throughs to make sure the District recovers the funds to cover operations costs.

President Covington noted that even into 2024, these are inexpensive rates. GM Jagers acknowledged all staff who had contributed to preparing the information for the model and doing a thorough job of aggregating all District costs including recycled water in 2021. Director Hoffman asked about costs of building the booster pump. Mr. Jagers noted it will be funded through facilities fees; the operation of the system is included in the rate study.

2. Identify and Confirm dates for Rate Study Workshops and Town Hall Meetings

President Covington pointed to the timeline handout. Mr. Jagers noted a late rate study workshop to be scheduled for the week of December 9, if needed. Ms. Rodriguez indicated that with the Board's direction to staff supporting the 3-tier rate structure at this meeting, the timeline will be revised.

President Covington noted that the expected final wrap-up will occur at the end of February, 2020.

No dates were set for the Town Hall meetings.

3. Action List for Future Meetings:

None.


4. Adjournment

President Covington adjourned the meeting at 8:00 p.m.



Director John Covington, President
to the Board of Directors of the
Beaumont-Cherry Valley Water District

ATTEST:



Director Andy Ramirez, Secretary
to the Board of Directors of the
Beaumont-Cherry Valley Water District