

**League of
California Cities**

Municipal Finance Institute

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**Embedded Social Justice:
Are Utility Rates Really
“Fair & Equitable”?**

Presented by:

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Greg Clumpner – *Director, NBS*

Kim Boehler – *Associate Director, NBS*

Overview of the Presentation:

**1. Social Justice Defined in the Context of
Water Rates**

Greg Clumpner/NBS, Director of Utility Rate Practice

**2. Implications for Water Rate Design Under
Prop 218**

*Kim Boehler/NBS, Associate Director of Utility Rate
Practice*

3. Social Justice in Action: Current Status

*Ryan Pham/City of Sacramento, Billing Services
Manager*

1. Social Justice Defined in the Context of Water Rates

1. Social Justice & Water Rates *(cont.)*

A. Social Justice Includes:

- **Ensuring the fair distribution of wealth and equal opportunity.** *(Wikipedia)*
- **The belief in human equality, especially with respect to social, political, and economic affairs.** *(Meriam Webster Dictionary)*

1. Social Justice & Water Rates (cont.)

B. In the Context of Water Rates:

- **California's Policy** – Is to promote the “*human right to safe, clean, affordable, and accessible water to support basic human needs.*”
- **Income Customers** – Often cannot afford basic water services, yet have a right to water.
- **Historical Programs Include:**
 - **Low-income discounts**
 - **Senior discounts**

1. Social Justice & Water Rates (cont.)

C. Implications of Water Rate Design:

- 1) Impacts of Fixed vs. Variable Costs
- 2) Impacts of Tiered Rate Design
- 3) Impacts of Water Budget Based Rates

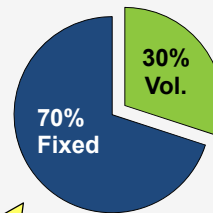
**How do these affect
low-usage (low-
income) customers?**

1. Social Justice & Water Rates (cont.)

1) Impacts of Fixed & Variable Cost on Rates:

Actual Costs

- Fixed costs *should be* collected by fixed charges, and variable costs *should be* collected from volumetric charges.



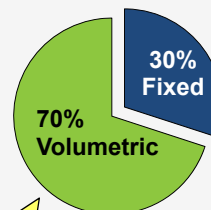
This is fair & equitable but results in higher bills for low-usage (low-income) customers

1. Social Justice & Water Rates (cont.)

1) Impacts of Fixed & Variable Cost (cont.)

Typical Rate Design

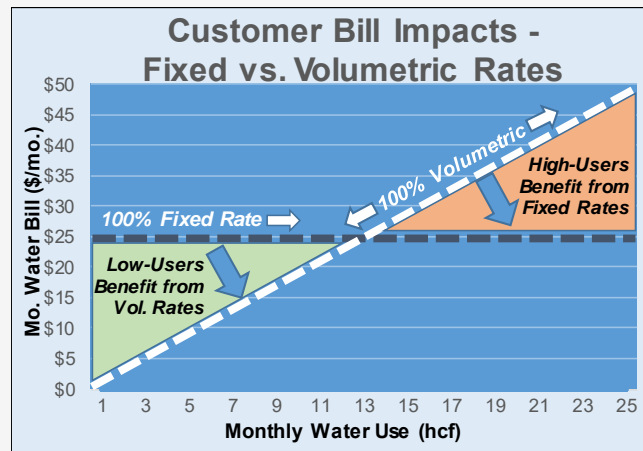
- Conservation objectives often result in collecting revenue mostly from volumetric rates.
- When more revenue is collected through volumetric rates, it favors low-consumption customers.



This typically favors low-income customers

1. Social Justice & Water Rates (cont.)

1) Impacts of Fixed & Variable Cost (cont.)



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1. Social Justice & Water Rates (cont.)

2) Impacts of Tiered Rate Design:

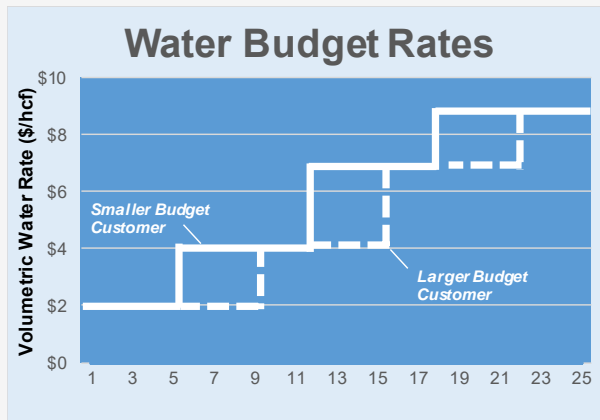
- **Traditional Conservation Strategy is "Steeply Inclining" Tiered Rates...**
 - ...to meet conservation objectives,
 - ...which usually mean low-use customers have lower bills.
- **Low-use customers tend to be lower-income customers.**

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1. Social Justice & Water Rates (cont.)

3) Impacts of Water Budget Based Rates:



Customers in the same class are treated differently

1. Social Justice & Water Rates (cont.)

3) Water Budget Based Rates:

- Do not favor lower-income customers because:
 - They provide less water in lower-tiers to customers with smaller water budgets.
 - These are typically low-income customers.
- There's no apparent cost difference to explain why customers in the same class with the same water use have different monthly bills.
- This is a Prop 218 concern.

2. Implications for Water Rate Design Under Prop. 218

2. Implications for Water Rate Design

1. Side Note: The Role of the Rate Consultant

- **We Don't Advocate Policy**
- **We Don't Sell an "Agenda"**

2. Prop 218 Requirements

- **Rates Must Demonstrate a Cost-Basis**
- **One Class Cannot Subsidize Another**
- **Emphasis on Tiered Rates – Water Supply and Consumption Data are Important**

2. Implications for Water Rate Design *(cont.)*

3. Examples of Rate Impacts on Social Justice:

- **Shifting to Higher Fixed Charges/Lower Volumetric Charges** (*Tends to impact Low-Income Customers more than High-Income*)
- **Shifting to Tiered/Conservation Rates vs. Uniform Volumetric Rates** (*Tiered Rates Tend to Favor Low-Income Customers more than High-Income*)

2. Implications for Water Rate Design *(cont.)*

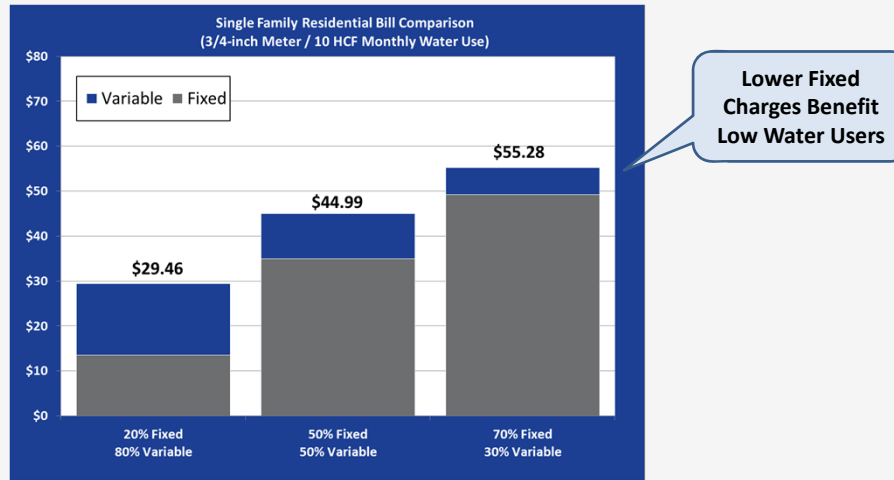
4. Uniform Volumetric Rates

Rate Alternative Example

Single Family Residential Rates	20% Fixed 80% Variable	50% Fixed 50% Variable	70% Fixed 30% Variable
Fixed Charge (\$/meter)	\$13.56	\$34.99	\$49.28
Volume Charge (\$/hcf)	\$1.59	\$1.00	\$0.60

2. Implications for Water Rate Design (cont.)

4. Uniform Volumetric Rates



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2. Implications for Water Rate Design (cont.)

5. Tiered Volumetric Rates

Rate Alternative Example

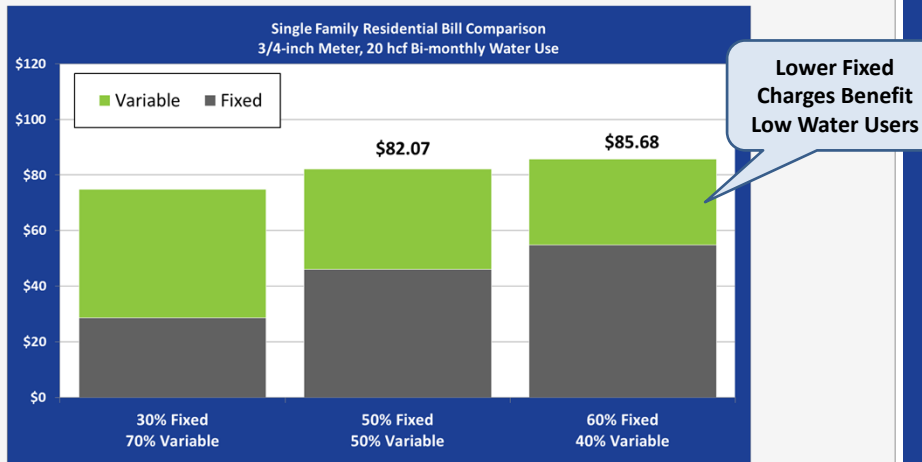
SFR Water Rates	30% Fixed 70% Variable	50% Fixed 50% Variable	60% Fixed 40% Variable
Fixed Charge (\$/meter)	\$28.52	\$46.09	\$54.88
Volume Charges (\$/hcf):			
Tier 1 (0-14 hcf)	\$0.92	\$0.92	\$0.92
Tier 2 (15-35 hcf)	\$2.39	\$1.65	\$1.28
Tier 3 (36+ hcf)	\$3.59	\$2.24	\$1.57

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2. Implications for Water Rate Design (cont.)

5. Tiered Volumetric Rates



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2. Implications for Water Rate Design (cont.)

4. Water Budget-Based Rates (WBBR)

- **The Rarely Discussed Social Justice Impacts:**
 - **Larger Lots/Higher Water Users Pay Less**
 - **Low-Income Users Tend to be Low-Consumption Customers**
 - **Exception: Single-Family Homes with More than One Family**

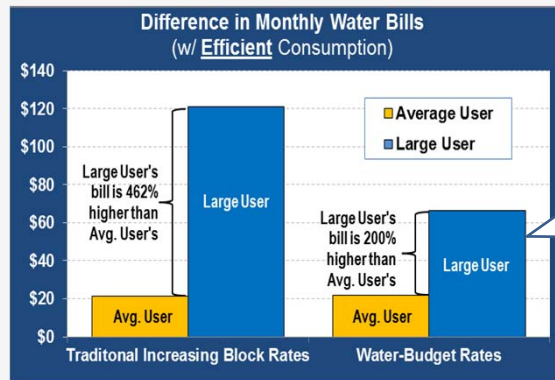
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2. Implications for Water Rate Design (cont.)

4. Water Budget-Based Rates (cont.)

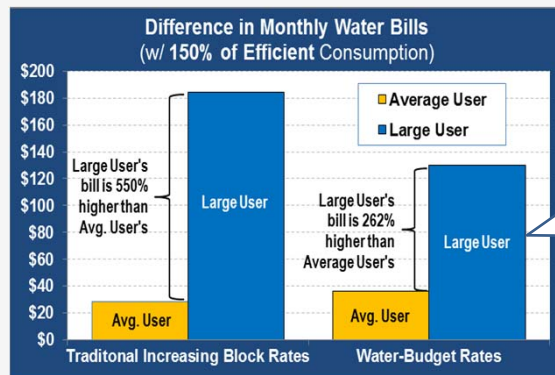
- Illustrations of Impacts (for “Efficient” Users)



2. Implications for Water Rate Design (cont.)

4. Water Budget-Based Rates (cont.)

- Illustrations of Impacts (for “Inefficient” Users)



Sample Low Income Programs

Desert Water Agency Partnership with United Way

- Funded with Tax-Deductible Contributions from Employees, Vendors, Others
- Helps Low Income Customers Avoid Service Shut-off
- Maximum \$50 in a 12-month Period

Cucamonga Valley Water District

- Low Income Discount of \$15 bi-monthly
- Must Qualify for Southern CA Edison or Southern CA Gas Company Low Income Program

3. Social Justice in Action – Current Status

3. Social Justice in Action – Overview

- 1. Sacramento Utility Rate Assistance Program (SURA)**
 - History
 - Program Funding
 - Participation
- 2. AB 401 – Low-Income Water Rates Program (LIRA)**
 - Provisions
 - Proposed Plan Elements
 - Current Status and Timeline

3. Social Justice in Action – SURA

- 1. Developed and Implemented in 2014**
- 2. Recommendation made as part of rate proposal**
 - Adjustments to water rates result in increased amounts transferred to the General Fund
- 3. General Fund Transfer Tax**
 - City voters approved Measure I in 1998
 - Provides for a general tax on the City's utility enterprises of 11% of gross utility user fees and charges

3. Social Justice in Action – SURA (cont.)

1. Program Participation

- Low participation 2014-2016
- Growing pains for program development
- Desire to keep administrative costs low

2. Partnered with SMUD to leverage their EAPR program

- Cross-walked SMUD's customer database to ours
- Auto-enrolled eligible customers

3. Current participation around 8,800 customers

3. Social Justice in Action – AB 401

1. AB 401 – Low Income Water Rate Assistance Act

- Directs SWRCB to prepare a plan that covers funding and implementation of a Low Income Water Rate Assistance Program
- Plan due to Legislature by January 1, 2018
- Report on feasibility, financial stability and program structure due by February 1, 2018

3. Social Justice in Action – AB 401 (cont.)

1. Some elements of the plan:

- **Description of method for collecting moneys to support and implement the program**
- **Description of mechanism for providing funding assistance under the program**
- **Description of method to be used to calculate revenue requirements**

2. Public hearings and request for comment throughout 2016 and 2017

3. Social Justice in Action – AB 401 (cont.)

1. Topics under discussion

- **Funding Sources**
- **Benefit Distribution**
- **Program Scenarios**

2. Current Status and Next Steps

Questions



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