

MINUTES

Tuesday, August 12, 2014

**East Bay Municipal Utility District
Board of Directors
375 Eleventh Street
Oakland, California**

Special Meeting

Vice-President Katy Foulkes called to order the Special Meeting of the Board of Directors at 9:10 a.m. in the Training Resource Center. The Board met in workshop session to receive a presentation on long-term financial stability focusing on drought financial management and drought rates.

ROLL CALL

Directors John A. Coleman, Doug Linney, Lesa R. McIntosh, Frank Mellon, William B. Patterson, and Vice-President Katy Foulkes were present at roll call. President Andy Katz arrived at 9:29 a.m.

Staff present included General Manager Alexander R. Coate, General Counsel Jylana Collins, Director of Finance Eric L. Sandler, Treasury Manager Sophia D. Skoda, Assistant to the General Manager Rischa S. Cole, and Secretary of the District Lynelle M. Lewis.

DISCUSSION

- Filed with the Board were the following: 1) Presentation entitled "Drought Financial Management *Drought Rates*" dated August 12, 2014, and 2) Document entitled "Written Comments to the EBMUD Board of Directors Regarding Drought Rates" submitted by Kenneth Gibson.

General Manager Alexander R. Coate said that the workshop will focus on the development of a system of drought rates that could be adopted as part of the FY16 and FY17 rate process. Treasury Manager Sophia D. Skoda recapped information presented at Workshop #2 which focused on supply and demand tools (conservation and supplemental supplies) and financial tools (rates stabilization fund and rates). She pointed out that the current rate structure does a good job incentivizing conservation and per capital water use has dropped dramatically; however, EBMUD's financial tools are not sufficient to address a multi-year drought event. To address the financial tools, staff developed drought rate scenarios for Board consideration. Staff proposed a staged system of drought rates as follows:

Stage	0	1	2	3	4
Demand Reduction		Voluntary 0-15%	Voluntary 0-15%	Mandatory 15%	Mandatory ≥15%
Supplemental Supplies			Up to 35 TAF	Up to 65 TAF	Up to 65 TAF
Rates and Charges	Normal rates	Normal rates	Normal rates; and Supplemental supply surcharge	Normal rates; and TBD	Normal rates; and TBD

The staged system of drought rates changes as the severity of drought conditions increase, recovers drought costs with a progressive series of surcharges, and addresses excessive water use through penalty surcharges. Ms. Skoda pointed out that EBMUD is currently in Stage 1 and 2 which includes normal rates, voluntary demand reduction, and supplemental supplies.

Next, Ms. Skoda reviewed the recommended drought rate surcharge options for single family residential customers: Option 1—Fixed Monthly Surcharge (collects all drought costs by meter size); Option 2—Uniform Commodity Surcharge (increases all tiers proportionally—current structure); and Option 3—Inclining Commodity Surcharge (steeper tiers). She noted that staff is not proposing a “water budget” as a drought surcharge option. The Board raised questions and provided comments about the “water budget” approach. Board members suggested providing consideration for large households and those with documented medical needs. General Manager Coate said that EBMUD does not have the technology to perform accurate GIS data collection for water budget allocations and that EBMUD has experienced challenges in doing a water budget allocation based on past consumption. Ms. Skoda highlighted the bill impacts of the three options and provided a summary of neighboring water agencies planned drought responses.

In concluding, Ms. Sophia presented an overview of the proposed schedule for drought rates as follows: (a) Staff to complete a cost of service study by November 2014; (b) Issue Proposition 218 notices in April 2015; and (c) Implement drought rates effective July 2015. Following direction from the Board, staff proposed to develop a system of drought rates that could be implemented concurrent with regular rates in spring 2015.

PUBLIC COMMENT

Addressing the Board was Kenneth Gibson, Oakland resident, who commented that the rate structure should factor in social equity (i.e., number of persons in a household), that water consumption on bills should be expressed in gallons, and employee costs should be supported by rates. Mr. Gibson filed his written comments with the Board.

DISCUSSION

Director Patterson encouraged EBMUD to continue pursuing supplemental supplies, educate ratepayers on our efforts to maintain a strong water supply, and increase work on infrastructure.

Director Mellon commented he favored an accelerated approach for addressing drought rates, urged staff to investigate a rate structure which recovers a greater portion of revenue on the fixed volume charge, and consideration of the Stage 4 drought scenario. He also said he likes the concept of translating water use into gallons rather than units.

Director McIntosh commented that she favored an accelerated approach for addressing drought rates, the uniform surcharge (although she needs additional clarification on the \$2.00 penalty), and consideration of the Stage 4 drought scenario. She expressed concern about the lack of information about water usage provided to multi-family development residents since they do not receive individual water bills; and suggested moving beyond water bills for providing educational messages to these customers. Director Coleman suggested obtaining a legal opinion on the Stage 4 drought scenario (i.e., future supplemental supplies and challenging of environmental impact reports). He favored reviewing rates in January and looking at the 40% or 60% revenue recovery on the fixed charge to collect adequate revenue following a drought. He said that consideration should be given to maintaining good bond ratings and providing adequate resources for infrastructure maintenance.

Director Linney commented that he favored an accelerated approach for addressing drought rates, communicating to customers through the process, and including the Stage 4 drought scenario. Regarding allocation, he said he was leaning towards an inclining-type of commodity charge but needs more information; supports a drought penalty surcharge at higher water use levels; has interest in moving towards an increased fixed charge on regular rates and less on the volume charge for stability; and would like discussion on per capita base pricing (per person charge). He also expressed support for a simpler, more educational bill (i.e., past year's usage/gallons per day).

Director Foulkes commented that she favored an accelerated approach for addressing drought rates, including the Stage 4 drought scenario, increasing fixed charges, increasing the tiers, the \$2.00 penalty surcharge for excess water use, and steeper inclining charges only during droughts. She said that customers should not be penalized for conserving water and that the rates should minimize any penalty on the first tier. She also expressed interest in conducting meetings away from Oakland to obtain customer input.

President Katz said EBMUD would benefit from more public involvement and suggested scheduling at least one evening workshop. He favored a 0-100 uniform charge, inclining blocks so that the upper tiers are charged more, using reserves for rate stabilization, not using a fixed charge for drought rates, and both the Stage 3 and 4 drought rate approaches. He commented that a penalty surcharge should be triggered at a lower consumption level and consideration should be given for large households.

In response to direction received from the Board, General Manager Coate said that staff would provide a calendar at the September 10, 2014 Board meeting outlining a series of staff and Board actions with regards to development and implementation of a staged system of drought rates consistent with the District's existing system of rates and charges. He announced that staff also will be presenting Long Term Financial Stability Workshop #4 on September 23, 2014, which will cover both capital planning and a continuation of the August 12th drought rates workshop. At that time, the Board will discuss the possibility of having evening meetings in areas throughout the District.

ADJOURNMENT

President Katz adjourned the Special Meeting at 11:20 a.m.

SUBMITTED BY:



Lynelle M. Lewis, Secretary of the District

APPROVED: September 10, 2014



Andy Katz, President of the Board