La Cañada Irrigation District

WATER RATES STUDY

Frequently Asked Questions (FAQs)

SEPTEMBER 2023

1. What service does the La Cañada Irrigation District provide?

La Cañada Irrigation District's (District; LCID) primary functions are to produce, control, conserve, store, and distribute potable drinking water for the beneficial use of residents within its designated geographical region. The District serves about 40% of the City of La Cañada Flintridge. A small percentage of the District's customers reside outside of the city limits.

The District's mission is to provide current and future customers with a reliable, quality water supply in the most cost-efficient and environmentally responsible manner, achieved by utilizing the best available technology and Best Management Practices for urban water management.

2. How is the District funded?

The District is funded primarily by the water rates that customers pay. Payment for water service ensures the District's ability to reliably deliver high-quality water in a manner that values our environment and community and sustains the resources entrusted to our care. The District is committed to good governance, fiscal accountability, and transparency, with systems and policies in place to earn the trust of our customers.

The District strives to maintain adequate cash reserves to address unforeseen conditions, such as emergency repairs, drought, or service interruptions of imported water, along with cash requirements to fund average annual capital requirements.

3. What do water rates pay for?

The District is committed to using industry standards and best practices to ensure we thoughtfully plan for the future. Revenues derived from water rates ensure the continuity of operations and reliable delivery of safe drinking water to the community we serve. For instance, water rates pay for:

- The purchasing and pumping of water resources, both imported and local groundwater.
- The hiring and retention of highly skilled, qualified, and licensed LCID staff.
    - District staffing comprises many regulated roles and responsibilities that require significant training, broad expertise, and State certification to remain compliant.
- The maintenance and repair of critical water infrastructure, such as pipelines, pumps, blending stations, groundwater wells, and storage reservoirs.
- Ongoing maintenance of nearly 50 miles of water pipelines, 250 fire hydrants, and 460 distribution valves; including repair or replacement as needed.
- Routine meter reading for customer billing.
- Ongoing maintenance of nearly 3,000 customer water meters, including maintain, repair, and replace as needed.

- The replacement or rehabilitation of aging infrastructure, chemical feed systems, variable frequency drives, groundwater wells, and online analyzers for monitoring water quality.
- Customer Service staff who assist customers with questions, concerns, and troubleshooting.

4. Does the District make a profit?

No. By law, we cannot charge customers more than what it costs to provide the service. Our system is owned by our customers and governed by the LCID Board of Directors; we do not have shareholders or pay dividends.

5. Why is the District conducting a water rate study?

Rate studies are conducted as an industry best practice to ensure that a utility's financial health is maintained and that the District is setting a course toward meeting future financial obligations. The industry standard is to perform comprehensive rate studies every three to five years; our last study was in 2018.

Since the last rate study, the costs of supplies including the water purchased from the Metropolitan Water District (MWD) have increased significantly, as have the costs of our MWD wholesaler, Foothill Municipal Water District. Imported water costs consume 65% of the District's annual Operating & Maintenance (O&M) budget.

Additionally, the water industry is experiencing the same global impacts of inflation. The District is self-funded, so revenues must equal expenditures. Water rates must cover the cost of service and maintain prudent reserves in case of an emergency, such as an earthquake or wildfire, that could damage major critical infrastructure.

With water rate adjustments, the District will be able to increase the annual level of capital reinvestment and improve the pace at which aged-out infrastructure can be rehabilitated or replaced. Over the long term, this translates to providing a more financially and operationally sustainable water service.

6. What is the rate study process?

The District hired Raftelis Inc., a consulting firm with expertise in water rate studies in California and across the country. Their scope of work includes developing long-range financial plans for water service and assisting with the California Proposition 218 process and Public Hearing for rate adoption. The rate study consists of a series of steps involving data evaluation, performing technical analyses, deriving customer rates, and understanding customer impacts of any modifications. Once a rate proposal is determined, the complete study is documented in a Study Report to serve as part of the District's administrative record.

In California, all parcels connected to a utility system must be given notice of any rate changes with the ability to protest the proposed rates. The notice details the proposed rates, the basis for calculating the proposed rates, the reason for the proposed rate increase, details of the public hearing, and ratepayers' or property owners' right to protest. After a protest period of no less than 45 days, the District Board of Directors will conduct a Public Hearing. Absent a majority protest to the rate proposal, the District Board may choose to adopt the rates as noticed.

2023 Rate Study Schedule:

A presentation with available public comment was heard at the Regular Board of Directors meeting on September 12, 2023. The anticipated schedule to complete the rate study and consider new rates in a Public Hearing is November 14, 2023, for proposed implementation on January 1, 2024.

We encourage our customers to stay informed about the water rate study through the District's website at www.LaCanadaID.org. To submit questions or comments, send an email to Info@LCIDWater.com or call our office at (818) 760-6749.

7. How are rates set?

Proposed rates are determined following evaluation and analysis of cost escalations related to operation and maintenance, water treatment, capital projects' costs, general inflation, and material cost increases. California's Proposition 218 requires local utilities, special districts, and municipalities to follow certain procedures when proposing a rate adjustment to services such as water. A property owner has an opportunity to protest the proposed rate increases if they feel they are unwarranted.

Under Proposition 218, ratepayers will receive a public notice detailing the proposed rate adjustment, petition process, and the time, date, and location of the Board of Directors Public Hearing. Customers have 45 days to petition rate adjustments through a written process. In the Public Hearing, the District Board will review customer petitions and consider approving or denying rate adjustments. Should the District receive a majority (50% +1) protest from water customers, rate adjustments will not be implemented at this time.

8. Who approves rate changes?

Establishing new rates is a collaborative effort with input from District staff, financial experts, community members, and the District Board of Directors.

9. Does the District inflate forecasted expenses when setting rates?

The District's water rate study does include inflationary assumptions for material and construction costs over the next five-year period. However, imported water and SoCal Edison power costs have been projected utilizing those agencies' adopted budgets as opposed to solely relying on modeled forecasts.

If there is additional revenue or expenses the fund will either be slightly positive or slightly negative, with the objective of a healthy Fund to balance revenues with expenses over multiple years. The purpose of a five-year rate study is to ensure sufficient revenues are available to fund District operating and capital expenses and financial sustainability.

10. What can be done to lower water rates?

Water utility costs typically do not decrease, especially in an environment of high inflation and drought. Therefore, water rates are not likely to decrease unless the utility brings on significantly more customers (who would generate more revenue) while staying within supply, treatment, and resource limits.

The costs of water supply and reliable distribution have greatly increased since the 2018 water rate study, which took place prior to the COVID-19, economic downturn, supply chain shortages, and the limited water supply and sales brought about by historic drought conditions. Each of these factors played a role in steeply driving up the cost and workload of supplying water and maintaining the infrastructure.

These conditions have adequately altered the logistics of supplying water and maintaining the water infrastructure and redefined the new normal influencing the process of forecasting future costs. The District's largest cost - imported water (MWD & Foothill MWD) - has increased by 34% since 2018 and is currently planned to increase by nearly 6% annually, which compounded over the next five years is 34%.

11. How has the District improved water operations and water delivery for ratepayers?

The District is continuously making necessary investments in water utility capital improvements to meet current and future system needs, including the renewal, replacement, improvement, and expansion of capital facilities and infrastructure. Operational practices are being improved so that power and treatment costs can be reduced without impacting quality or reliability. This includes enhanced monitoring, communications, and control of the distribution system and more broadly trained field crew.

Business practices are evolving at an accelerated pace with a new website and modern customer billing software soon to be deployed, immediately enhancing the customer experience and introducing online account access and electronic bill payment options for District customers. Networked computers and industry-standard workstations have been installed over the last year, allowing staff to transition remaining analog practices to specialized and flexible software programs with extensive file storage and record retention. Existing staff receive more frequent training and new staff members bring the technological expertise necessary to provide practical and results-based implementation.

Pipeline replacement averaged nearly 1,000 linear feet (0.5% system total) in each of the last five years and multiple pump stations received extensive rehabilitation and fire protection measures. The District is planning to retire the existing reservoir and construct a new earthquake-resistant reservoir.

12. What is the District doing to ensure adequate water supplies in the face of a drought?

Climate change continues to impact our environment, specifically by causing erratic drought cycles that cause water supply shortages and revenue shortfalls. In addition, rising costs of electricity and imported water are straining the financial security of the water fund. Securing a reliable water supply requires short- and long-term project planning with continuous management for drought resiliency and a financially secure operating budget to face these challenges.

The District takes these conditions very seriously and has put concerted effort into effective and balanced conservation measures that reduce dependence on imported water, yet sustain the healthy and resilient landscape that has complemented our community for so long. With the earnest response of our customers, the District has effectively lowered consumer demand by 20% in recent years and has met every reduction goal set by the State or MWD supplier.

In order to ensure future success, we must further involve and inform our customers as we identify infrastructure objectives and navigate through supply and demand challenges. Embedded within the District's O&M budget is the continued funding to study, advocate for, and contribute towards region-wide initiatives focused on water supply resilience such as preserving a healthy groundwater basin, increasing local stormwater capture of rainfall and runoff, production well rehabilitation, and the development of long term alternative water supply sources.

13. What will the District do with funding from this potential increase in water rates?

Water rates are calculated to generate revenue needed to meet the financial requirements of operating the water system including water supplies, distribution system, facilities, and administration and staffing over the 5-year rate period. Without a rate increase, the District won't have sustainable revenues to keep pace with ever-increasing costs of imported water and power, $4 million of known O&M and capital needs for our aging infrastructure, and to recruit and retain highly-skilled staff.