August 14, 2007

The Honorable Judge Nancy Wieben Stock
Orange County Superior Court
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701


Dear Honorable Judge Stock:

The City of Tustin is in receipt of the Orange County Grand Jury’s letter dated May 14, 2008 concerning its findings in the report titled “Water Budgets, Not Water Rationing.” In accordance with the report, the City has prepared the following responses to Findings F-1 and F-2, and Recommendations R-1, R-2a, R-2b, and R-2c:

Grand Jury Findings

F-1: Opportunities for further water conservation exist especially with regard to landscape watering.

Response: The City agrees with the finding.

F-2: Conservation pricing, or tiered pricing, with a fair and reasonable base allotment, followed by tiers of higher rates, can be an effective tool to motivate further conservation.

Response: The City agrees with the finding.

Grand Jury Recommendations

R-1: Continue to emphasize methods and availability of tools that assist customers in understanding weather-based irrigation practices by:

- Providing a hotline for assisting the public with landscape irrigation information.
- Providing a countywide soil texture map on the MWDOC website.
- Developing an Orange County specific water calculator on the MWDOC website.
Response: The City notes that these recommendations have not yet been implemented by the Municipal Water District of Orange County (MWDOC). The City understands that MWDOC has committed to implementation of the Grand Jury’s recommendations regarding weather-based irrigation practices by November 20, 2008 on behalf of itself and its retail member agencies in Orange County.

R-2a: Develop monthly water allocations for each customer class based on both of the following:

- A per person indoor water allotment that satisfies basic needs.
- An outdoor water allotment that applies the weather-based method over the customer’s landscape area.

Response: The recommendation requires further analysis. The City will review examples of water agency budget based allocation programs (e.g., IRWD, City of San Juan Capistrano, etc.) to clarify program details. Based on its review of other water agency programs, the City will work with a consultant to identify and evaluate allocation factors unique to the City’s service area in developing customer class water budgets (e.g., lot size, house size, number of days in billing period, percentage of lot size devoted to landscaping, CIMIS data, etc.), and conduct a customer class applicability review.

R-2b: Develop a tiered pricing structure with the first tier based on individual customer water allocation priced at a commodity rate, and subsequent tiers priced significantly higher to encourage conservation. The pricing shall be structured in a manner that will preclude the necessity of price increases as a result of reduced water use.

Response: The recommendation requires further analysis. Given the complexity and specialized expertise required to address tiered pricing structures, the City will retain a rate consultant to prepare a cost-of-service analysis, and test various tiered rate structure options applicable to the City’s service area. The City Attorney will also need to review the proposed rate structure options to ensure City compliance with Proposition 218 requirements. Public outreach will also be needed to explain rate structure changes to City customers.

R-2c: Modify water bills to clearly explain customer monthly allotment and monthly water usage.

Response: The recommendation requires further analysis. The City has determined that it will need to evaluate the implementation costs required to enhance or replace its customer billing system, determine the hardware/software expenses to accommodate billing system changes, and ascertain the extra costs of responding to customer inquiries, variance requests and appeals resulting from a new rate structure. Additionally, the potential water savings among the City’s customer classes due to implementation of such a rate structure will need to be evaluated in light of published water industry savings estimates.
The scope of work for Recommendations R-2a, R-2b, and R-2c will require a budget allocation to complete all technical/fiscal analyses, consultant studies and legal review. The City's adopted FY 2008-09 Operating Budget did not anticipate funding such work. Furthermore, the Orange County Grand Jury's timeframe to complete the work is not reasonable. A number of key steps must be completed when contemplating a new rate structure including, but not limited to, internal staff analyses in preparation for technical evaluations, allocation and rate consultant studies, legal review, public noticing and hearing requirements, etc. To accommodate the City's budgeting and rate setting process, a more realistic timeframe would be June 30, 2010. The City's FY 2009-10 Operating Budget which commences July 1, 2009 shall include funding to initiate and complete the scope of work presented for R-2a, R-2b, and R-2c.

In the interim, the City plans to participate in a MWDOD-sponsored competitive grant proposal through the California Department of Water Resources (DWR) Prop., 50 Grant Program for Urban Drought Assistance. Briefly, MWDOD's proposal is seeking partial funding to help interested water agencies to further investigate tiered budget based allocation rate structures. DWR is expected to make a final determination regarding MWDOD's proposal in early September, 2008.

The City is committed to encouraging landscape practices which maximize the efficient use of water. We trust that the submittal of this response demonstrates our intent to work in full cooperation with the Orange County Grand Jury to expand efforts to educate and encourage residential customers to use water wisely. Please call me at 714.573.3381 should you have questions, or require additional information.

Very truly yours,

[Signature]
Fred J. Adarian
Water Services Manager

c: Honorable Mayor and City Council
    William A. Huson, City Manager
    Douglas Holland, City Attorney
    Tim Serlet, Director of Public Works/City Engineer
    Doug Stack, Assistant Director of Public Works
    Ron Nault, Director of Finance
    Orange County Grand Jury (copy plus CD)