



# City of Sierra Madre Agenda Report

*Joe Mosca, Mayor*  
*John Buchanan, Mayor Pro Tem*  
*MaryAnn MacGillivray, Council Member*  
*Joshua Moran, Council Member*  
*Nancy Walsh, Council Member*

*Nancy Shollenberger, City Clerk*  
*George Enyedi, City Treasurer*

TO: Honorable Mayor Mosca and Members of the City Council

FROM: Elaine I. Aguilar, City Manager

INITIATED BY: Bruce Inman, Director of Public Works  
Karin Schnaider, Director of Administrative Services

DATE: November 23, 2010

**SUBJECT: PUBLIC HEARING AND FIRST READING OF ORDINANCE 1312, AN ORDINANCE OF THE CITY OF SIERRA MADRE, CALIFORNIA AMENDING SECTION 13.04.060 OF THE SIERRA MADRE MUNICIPAL CODE REGARDING WATER RATES AND ADOPTING A WATER RATE SCHEDULE**

---

## **SUMMARY**

On November 9<sup>th</sup>, the City Council directed staff to return to Council with a water rate proposal crafted from the proposal reviewed that evening that provided revenue to meet bond coverage requirements in the second year of the study period. The resulting proposal is presented at this time in the form of Exhibit A to Ordinance 1312. Staff recommends that the City Council hold a public hearing regarding the proposed water rate increase, approve the rates listed therein, read Ordinance 1312 by title only, and direct staff to place the Ordinance on the agenda for second reading December 14<sup>th</sup>.

## **ANALYSIS**

As described in the November 9<sup>th</sup> report, this proposed water rate increase provides two years' of equal increases of 7.54% with the 1.20 bond covenant requirement satisfied in year two. Establishment of the different tiers requires an initial increase of 10.06% from the current rate to reach Tier 2 and an initial increase of 11.73% to reach Tier 3. Once the tiers are established the annual increases are equal across all tiers.

**FOR CITY COUNCIL AGENDA \_\_\_\_\_**

**AGENDA ITEM # \_\_\_\_\_**

The rate increase for the proposed tiers and the most common meter sizes is illustrated in Table A below. The full rate increase including low income discount rates and additional meter sizes is shown on Exhibit A to Ordinance 1312.

This rate increase proposal results in a cumulative four-year increase of 32.40% - 36.87% depending on the customer's consumption tier.

**Table A – Proposed Water Rate Adjustment**

	<b>Current</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
<b>Tier 1</b>	<b>\$1.79</b>	<b>\$1.92</b>	<b>\$2.06</b>	<b>\$2.21</b>	<b>\$2.37</b>
% increase		7.54%	7.54%	7.54%	7.24%
<b>Tier 2</b>	<b>\$1.79</b>	<b>\$1.97</b>	<b>\$2.12</b>	<b>\$2.27</b>	<b>\$2.43</b>
% increase		10.06%	7.54%	7.54%	7.04%
<b>Tier 3</b>	<b>\$1.79</b>	<b>\$2.00</b>	<b>\$2.15</b>	<b>\$2.30</b>	<b>\$2.45</b>
% increase		11.73%	7.54%	6.97%	6.52%
Meter charge 5/8" & 3/4"	<b>\$40.00</b>	<b>\$43.02</b>	<b>\$46.26</b>	<b>\$49.75</b>	<b>\$53.13</b>
		7.54%	7.54%	7.54%	6.79%
Meter charge 1"	<b>\$46.68</b>	<b>\$50.20</b>	<b>\$53.99</b>	<b>\$58.06</b>	<b>\$62.00</b>
		7.54%	7.54%	7.54%	6.79%

Under the tiered rate structure as proposed the commodity component of the bill is calculated as follows. The first 35 units consumed per billing cycle are charged at the Tier 1 rate. Units 36 through 66 (31 units) per billing cycle are charged at the Tier 2 rate, and units 67 and above are charged at the Tier 3 rate. Thus, a customer using 68 units per billing cycle under the proposed rate structure would calculate the commodity portion of the bill in this manner:

- 1) Units 1-35 x Tier 1 rate = 35 x \$1.92 = \$67.20
  - 2) Units 36-66 x Tier 2 rate = 31 x \$1.97= \$61.07
  - 3) Units 67 - 68 x Tier 3 rate = 2 x \$2.00 = \$4.00
- \$132.27

Table B, attached as Exhibit A illustrates the effect of the proposed water rate increase on the average customer's bill. The commodity charges are based on the findings of the Consultant in a review of the citywide consumption records for 2006 and 2007. Actual billing amounts will vary depending on the amount of water consumed (Commodity Charge.) The Consultant found consumption to vary to vary per meter size as follows:

For 5/8" meter, average consumption was 38 units per billing cycle

For 3/4" meter, average consumption was 50 units per billing cycle

For 1" meter, average consumption was 68 units per billing cycle

### **Provisions of Ordinance 1312**

Ordinance 1312 amends Section 13.04.060 of the Sierra Madre Municipal Code regarding water rates and adopting a water rate schedule. Additionally, the Ordinance provides for the following:

#### **Annual Rate Review**

The City Council will review the water rates annually for each of the proposed increases and determine whether current funding levels allow a reduction in the amount of the increase shown on Exhibit A to the Ordinance. The listed increases are intended as caps on the amount of the increase each year.

#### **The Utility Users Tax**

The Council has previously discussed their desire to adjust the Utility Users Tax rate on water utility bills, so that the City's UUT revenues collected from the water utility remain at current year levels. This is so that an increase in water customer rates, does not result in an increase in the City UUT revenues from the water utility. Assuming the currently proposed increase in water rates is implemented, the UUT rate would be 9%, instead of 10% on water only. The draft Ordinance that is attached permits the Council to annually review not only the annual water rate increase, but also the UUT rate on the water utility.

#### **Low Income Discount**

The Water System Program Plan (both the May 2010 Plan and the revised November 2010 Plan), discusses a Low Income discount on water meter charges. The City currently has a Low-Income UUT exemption process and it is recommended that the same application process and annual review process be used for both the UUT exemption and the discount on water meter charges. However, it should be noted that unlike the annual UUT exemption process, recipients of the water meter discount have not previously been required to annually certify that they continue to meet the requirements for the discount. For example, to meet the Low-Income requirement, the guidelines are established by the U.S. Department of Housing and Urban Development's annual survey of income limits for the Public Housing and Section 8 Programs. It should be noted that while technically there is no change in providing a Low-Income discount, in practice, it is possible that some seniors currently receiving a discount, may not qualify as "Low Income" and may cease receiving a discount.

Upon the effective date of the water rate increase Ordinance, the same application and annual review process will be used for the Low Income Discount on water meter charges, as the current Low Income Utility Users Tax exemption. (In fact, Staff has already begun processing both applications simultaneously.) The draft Ordinance that is attached permits the continuance of the Low Income discount on water meter charges

and specifies that the discount will be processed in the same manner as the Low Income Utility Users Tax Exemption. This will make both review processes consistent and ensure that eligible households receive both the UUT exemption and the reduced meter charge.

**May 11, 2010 Rate Increase Proposal**

The following is the May 11<sup>th</sup> proposal which provided for a rate increase of 15.75% in the first year in order to achieve the 1.20 bond covenant requirement in year one, then annual increases of approximately 3.5% for the remainder of the 5-year study period.

The May 11<sup>th</sup> proposal results in a cumulative five-year increase of 32.95% - 37.42% depending on the customer's consumption tier.

**Table C - Proposed Water Rate Adjustment, May 11, 2010**

	<b>FY 2009-10</b>	<b>FY 2010-11</b>	<b>FY 2011-12</b>	<b>FY 2012-13</b>	<b>FY 2013-14</b>	<b>FY 2014-15</b>
<b>Tier 1</b>	<b>\$1.79</b>	<b>\$2.07</b>	<b>\$2.14</b>	<b>\$2.22</b>	<b>\$2.30</b>	<b>\$2.38</b>
% increase		15.75%	3.28%	3.74%	3.60%	3.48%
<b>Tier 2</b>	<b>\$1.79</b>	<b>\$2.13</b>	<b>\$2.20</b>	<b>\$2.28</b>	<b>\$2.36</b>	<b>\$2.44</b>
% increase		18.77%	3.48%	3.64%	3.51%	3.39%
<b>Tier 3</b>	<b>\$1.79</b>	<b>\$2.15</b>	<b>\$2.22</b>	<b>\$2.30</b>	<b>\$2.38</b>	<b>\$2.46</b>
% increase		20.00%	3.35%	3.60%	3.48%	3.36%
Meter charge 5/8" & 3/4"	<b>\$40.00</b>	<b>\$46.30</b>	<b>\$47.92</b>	<b>\$49.60</b>	<b>\$51.33</b>	<b>\$53.13</b>
		15.75%	3.50%	3.51%	3.49%	3.51%
Meter Charge 1"	<b>\$46.68</b>	<b>\$54.03</b>	<b>\$55.92</b>	<b>\$57.88</b>	<b>\$59.91</b>	<b>\$62.00</b>
		15.75%	3.50%	3.50%	3.51%	3.49%

Table D, attached as Exhibit B illustrates the average bi-monthly bill utilizing the May 11, 2010 rate increase proposal and the same consumption factors used in generating Table B. This table is provided for comparison purposes.

**FINANCIAL REVIEW**

The Revenue and Expense calculation for this option is illustrated on Appendix C-1 of the revised Bucknam report. The current unaudited Water Fund Balance of approximately \$2,500,000 would increase over the four year study period to \$2,997,082 for a net gain of \$497,082. In Year 1, this Option would dip into reserves by \$139,069. By Year 2, revenue would exceed expenses by slightly less than one percent and net revenue before debt service (Line w) would exceed debt payment (Line x) by the

required factor of 1.2 (Line y). Fund balance would be decreased Year 1 and Year 2, increasing beyond the current level during Year 3.

### **ALTERNATIVES**

- 1.) Adopt Ordinance 1312 as proposed, to be effective July 1, 2011
- 2.) Adopt Ordinance 1312 as proposed, to be effective February 1, 2011. Although the effect of this alternative has not been calculated, it is estimated that earlier implementation of the rate increase would slightly decrease the estimated impacts on the water fund and would add slightly to the amount of water fund reserves at the end of the study period.
- 3.) Adopt Ordinance 1312, utilizing the rates from the May 11, 2010 study that were reviewed at the July 13, 2010 Public Hearing.
- 4.) Give staff further direction for modification to the current rate proposal.
- 5.) Take no action.

### **PUBLIC NOTICE PROCESS**

This item has been noticed through the regular agenda notification process. Copies of this report are available at the City Hall public counter and the Sierra Madre Public Library.

### **STAFF RECOMMENDATION**

Staff recommends that the City Council hold a public hearing regarding the proposed water rate increase, approve the rates listed therein, read Ordinance 1312 by title only, and direct staff to place the Ordinance on the agenda for second reading December 14<sup>th</sup>.

Attachments:	Exhibit A	Table B – Effect on Average Customer’s Bill Current Proposal
	Exhibit B	Table D – Effect on Average Customer’s Bill May 11, 2010 proposal
	Exhibit C	Water Rates, FY’s 2011-2015
	Exhibit D	Revised Bucknam Report, <u>Water System Program Plan</u>
		Ordinance 1312

**Exhibit A**

<b>Table B</b>							
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less (FY's 2010-2011 & 2011-12)							
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)		Incr.
	Current	Proposed	Current	Proposed	Current	Proposed	
5/8"	\$40.00	\$43.02	\$68.02	\$73.11	\$108.02	\$116.13	\$8.11
3/4"	\$40.00	\$43.02	\$89.50	\$96.75	\$129.50	\$139.77	\$10.27
1"	\$46.68	\$50.20	\$121.72	\$132.27	\$168.40	\$182.47	\$14.07
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less (FY's 2012-2013)							
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)		Incr.
	Current	Proposed	Current	Proposed	Current	Proposed	
5/8"	\$43.02	\$46.26	\$73.11	\$78.46	\$116.13	\$124.72	\$8.59
3/4"	\$43.02	\$46.26	\$96.75	\$103.90	\$139.77	\$150.16	\$10.39
1"	\$50.20	\$53.99	\$132.27	\$142.12	\$182.47	\$196.11	\$13.64
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less (FY's 2013-2014)							
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)		Incr.
	Current	Proposed	Current	Proposed	Current	Proposed	
5/8"	\$46.26	\$49.75	\$78.46	\$84.16	\$124.72	\$133.91	\$9.19
3/4"	\$46.26	\$49.75	\$103.90	\$111.40	\$150.16	\$161.15	\$10.99
1"	\$53.99	\$58.06	\$142.12	\$152.32	\$196.11	\$210.38	\$14.27
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less (FY's 2014-2015)							
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)		Incr.
	Current	Proposed	Current	Proposed	Current	Proposed	
5/8"	\$49.75	\$53.13	\$84.16	\$90.24	\$133.91	\$143.37	\$9.46
3/4"	\$49.75	\$53.13	\$111.40	\$119.40	\$161.15	\$172.53	\$11.38
1"	\$58.06	\$62.00	\$152.32	\$163.18	\$210.38	\$225.18	\$14.80

For 5/8" meter, average consumption was 38 units per billing cycle

For 3/4" meter, average consumption was 50 units per billing cycle

For 1" meter, average consumption was 68 units per billing cycle

**Exhibit B**

<b>Table D</b>							
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less (FY 2010-2011)							
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)		Incr.
	Current	Proposed	Current	Proposed	Current	Proposed	
5/8"	\$40.00	\$46.30	\$68.02	\$78.90	\$108.02	\$125.20	\$17.18
3/4"	\$40.00	\$46.30	\$89.50	\$104.41	\$129.50	\$150.71	\$21.21
1"	\$46.68	\$54.03	\$121.72	\$142.73	\$168.40	\$196.76	\$28.36
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less (FY 2011-2012)							
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)		Incr.
	Current	Proposed	Current	Proposed	Current	Proposed	
5/8"	\$46.30	\$47.92	\$78.90	\$81.50	\$125.20	\$129.42	\$4.22
3/4"	\$46.30	\$47.92	\$104.41	\$107.90	\$150.71	\$155.82	\$5.11
1"	\$54.03	\$55.92	\$142.73	\$147.54	\$196.76	\$203.46	\$6.70
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less (FY 2012-2013)							
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)		Incr.
	Current	Proposed	Current	Proposed	Current	Proposed	
5/8"	\$47.92	\$49.60	\$81.50	\$84.54	\$129.42	\$134.14	\$4.72
3/4"	\$47.92	\$49.60	\$107.90	\$111.90	\$155.82	\$161.50	\$5.68
1"	\$55.92	\$57.88	\$147.54	\$152.98	\$203.46	\$210.86	\$7.40
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less (FY 2013-2014)							
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)		Incr.
	Current	Proposed	Current	Proposed	Current	Proposed	
5/8"	\$49.60	\$51.33	\$84.54	\$87.58	\$134.14	\$138.91	\$4.77
3/4"	\$49.60	\$51.33	\$111.90	\$115.90	\$161.50	\$167.23	\$5.73
1"	\$57.88	\$59.91	\$152.98	\$158.42	\$210.86	\$218.33	\$7.47
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less (FY 2014-2015)							
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)		Incr.
	Current	Proposed	Current	Proposed	Current	Proposed	
5/8"	\$51.33	\$53.13	\$87.58	\$90.62	\$138.91	\$143.75	\$4.84
3/4"	\$51.33	\$53.13	\$115.90	\$119.90	\$167.23	\$173.03	\$5.80
1"	\$59.91	\$62.00	\$158.42	\$166.32	\$218.33	\$228.32	\$9.99