

# 2010 Proposed Water Rate Increase Fact Sheet June 23, 2010

The Sierra Madre City Council will be conducting a Public Hearing regarding increased water rates at their July 13th Council meeting. As a water customer you should have received a mailed notice regarding the proposed rate increase. This fact sheet was developed to provide information regarding the proposed rate increase. If you have any additional questions, please contact the Public Works Department at (626) 355-7135.

#### When were water rates last increased?

Sierra Madre's water rates were last reviewed in 2005 and increased effective July 2006. At that time, the report recommended annual water rate increases through 2013. The approved increases were designed to keep up with inflation in operating costs and to fund ongoing capital improvements to the water infrastructure, such as Mira Monte Reservoir and new water pumping stations. However, after 2006, the recommended increases were not applied to the water bills (see below). As a result, water customers have not paid an increase in five years.

#### Why were water rates not increased as recommended?

Subsequent to the 2005 rate increase, a State Supreme Court case *Bighorn-Desert View Water Agency v. Beringson (July 2006)* determined that certain public utility rates are subject to the requirements of the Proposition 218, "Right to Vote" process. As such, rate increases, such as the one currently being considered, now require the City to follow the 218 process, which involves considerable time and expense to accomplish. (The full Proposition 218, "Right to Vote" process for public utility rate increases is outlined at the bottom of these FAQs.)

If water rates had increased as recommended in 2007, 2008, 2009, etc. what would today's rate be, and how does that compare to what is currently being recommended?

Had the rate increase program been continued as recommended, the rate for FY 2010-11 would now be \$2.01 per billing unit, very close to the proposed Tier 1 rate of \$2.072 per billing unit.

## What are the consequences of the past rate increases not being implemented?

As a result of the halt to the rate increases, Sierra Madre's water rates have not kept up with operating and capital expenses of the Water Department. Accordingly, customers have been paying less than the actual cost of providing the service and maintaining the infrastructure. In addition, the operating margin for the Water Department is in jeopardy of not meeting the legal requirements attached to the Water Revenue Bonds issued by the City in 1998 and 2003. While the City continues to make its bond payments in a timely manner, the City

must increase its revenues to meet future operating expenditures, as well as the bond commitments, without using capital reserves.

# Why is there such a significant price increase proposed for the first year; why isn't it spread over five years to reduce the impact on ratepayers?

As noted above, the legal requirements of the City's existing Water Revenue Bonds call for a certain level of revenue ("Bond Coverage") over and above all other regular Water Department operating expenses equal to 120% of the amount of principal and interest on the bond due each year. (For example, if \$850,000 in principal and interest is due for FY 2009-10, the net income for the Water Department must be at least \$1,202,000.) The current rate structure does not provide that amount of revenue. The proposed 15.75% increase is the absolute minimum required in order to generate the necessary revenue to provide bond coverage. Had rates increased annually as recommended in 2007, 2008, 2009, etc., bond coverage requirements would have been met over that period, and such a significant increase would not be necessary at this time.

# Why does the water department need funding for infrastructure (i.e. water mains, water wells, pumps, etc.) improvements?

Portions of the City's water system are more than 50-75 years old, and the City's water infrastructure improvement program must continue to address aging infrastructure. Failure to replace aging infrastructure means more water main breaks, and a decrease in reliability.

## Which water projects need funding?

• Projects to deal with declining groundwater levels.

Groundwater levels in the East Raymond Basin, from which Sierra Madre draws 90-95% of its water, have steadily declined over the past several years as a result of drought and overproduction. Upcoming infrastructure projects will focus on improving the City's access to existing groundwater and on sub-regional improvement of groundwater recharge, to halt to the decline of water supply. Declining groundwater levels increase the cost of pumping water and threaten the very source of the City's water. Water levels in the east Raymond Basin recently reached historic lows. This decline in groundwater levels is the result of existing land uses; in other words, the improvements are needed to serve existing water customers.

#### New Wells

Sierra Madre will soon need to construct a new, more efficient, deeper well, at a cost of over \$2 million. The City is seeking Federal funding to assist in the cost of these projects; however, a 40% City match is required. The City will set aside portions of these water rates for the required match.

#### • Improvements to recharge facilities

Sierra Madre plans to work with its East Raymond Basin partners, Los Angeles County Public Works and the City of Arcadia, to make extensive improvements to the existing groundwater recharge facilities in Arcadia and Sierra Madre. This funding will not come entirely from Sierra Madre rate payers. The three agencies will be assisted in the East Raymond Basin program by a \$20 million Federal authorization from the USEPA. These Federal funds must be matched by

similar amounts of local funding, or they cannot be used by local agencies. However, under Sierra Madre's current rate structure, the City cannot provide the match funding for its \$10 million to qualify for the Federal funds.

## What happens if the proposed rate increase is not approved?

Should a rate increase not be adopted at this time, improvements to the water infrastructure to serve existing customers will halt. A few of the possible serious outcomes are:

- Deterioration of the water system due to age and use will continue Without proper maintenance, replacement and repair of the City's water system there is a high likelihood that water service and supply would be jeopardized.
- Reduction in staffing and other cost-saving measures will result in reduced customer service. Revenues must keep pace with costs of materials and supplies, as well as staffing needs, in order for the water system not to operate in a deficit each year.
- Without proper reserves or revenue streams, Sierra Madre will not have the funding for the local match required to maintain Federal funding and the ability to participate with Arcadia and LA County in joint water projects, such as groundwater recharge projects. Missed opportunities to obtain grant funding and participate in joint projects now will impose greater burdens on Sierra Madre ratepayers in the future.
- Without proper revenue to cover operating expenses, the City's Water Fund credit and bond rating will deteriorate, closing the door for financing options to pay for infrastructure replacement, such as the financing capital used for Mira Monte Reservoir replacement.
- Although unlikely, if extreme financial distress were to result, the Water Department might have to be sold. If sold to a private water company, ratepayers would have no voice in any of the water purveyor's operations, including level of service or the amount of the rates charged.

## Why is it important for Sierra Madre to have its "match" for the Federal funds?

Most of the Federal funds received by Sierra Madre have matching fund requirements. For every Federal dollar spent on a project the City must provide an equal amount of funding from other non-federal sources. In some instances, the Federal share of a project will be 60% with a 40% City match, but in general the split is 50-50. Without a local match, the Federal funds may not be used.

# Will any of the increased water rates be used to construct a connection to the Metropolitan Water District (MWD) waterline that runs through the northern end of town?

No. The San Gabriel Valley Municipal Water District is funding the construction of the connection to the MWD waterline. The City will have the benefit of the emergency-use pipeline without the City's water customers paying the expense.

# Is it true that the rate increase will help fund the development of private properties, like One Carter and Stonehouse Developments?

No. The City of Sierra Madre Water Department does not and will not fund the construction of water infrastructure for private development. For example, the

owner of the One Carter property paid the full cost of the design and construction, per City Standards, of the One Carter water system and water services to the individual lots. The City incurred no costs for that extension of the City's water system.

# I have a single family home, with a 5/8 inch meter, how much do you estimate my bill will increase?

The typical residential/single family customer with a 5/8" water meter will have a bi-monthly bill of \$125.24, an increase of \$17.22 over the current rate. (An increase of \$8.61 per month.) The rates are comprised of a fixed-rate meter charge based on the size of the water meter, and a variable rate, based on the amount of the water used.

#### How do I know what size my meter is?

The easiest way to find out what size your meter is would be to contact the City at (626) 355-7135 and ask for Ricky, James, or Bruce. They can look up the billing records and tell you the size of your meter. Or, you may look for yourself, by removing the lid from your water meter box and examining the top of the casting near where the service pipeline is attached to the meter. The meter size is cast into the meter body on most meters.

### What are tiered rates and why are they being proposed?

Tiered rates are designed to encourage water conservation. The rates are set to make each 'unit' of water used more expensive. A unit of water (1CCF) is equal to 100 cubic feet or 748 gallons. By setting rates that increase as the water is consumed, water customers can actively reduce both water consumption and the water bill costs by reducing the water used in a billing period. Tiered rates are encouraged by the State and have been implemented by many cities statewide as part of successful water conservation efforts.

The City is proposing three tiers:

	Curren	FY 2010-	FY 2011-	FY 2012-	FY 2013-	FY 2014-
	t	11	12	13	14	15
Commodity Charges (per ccf)						
Tier 1 (<18ccf) % increase	\$1.79	\$2.072	\$2.140	\$2.220	\$2.300	\$2.380
		15.75%	3.28%	3.74%	3.60%	3.48%
Tier 2 (18-33 ccf) % increase	\$1.79	\$2.126	\$2.200	\$2.280	\$2.360	\$2.440
		18.77%	3.48%	3.64%	3.51%	3.39%
Tier 3 (>33 ccf) % increase	\$1.79	\$2.148	\$2.220	\$2.300	\$2.380	\$2.460
		20.00%	3.35%	3.60%	3.48%	3.36%

## Are there discounts for very-low-income households?

There are discounts on the meter rates available for households meeting very-low income or extremely-low incomes as set by the US Department of Housing

and Urban Development. In addition, the City already has a Utility User Tax exemption in place for very-low income households. You will be able to qualify for both using one annual application. If you think you may qualify for the discount, contact Veenita Munoz at City Hall, 626.355.7135.

#### How can I be heard?

You are invited to present oral or written testimony to the City Council at the public hearing. You may also present the city with a written protest against the proposed charges. Protests may be mailed to:

City Clerk, City of Sierra Madre 232 West Sierra Madre Blvd., CA 91024

Any formal written protest must be received prior to the close of the public testimony portion of the hearing. If written protests against the proposed charges are presented by a majority of water customers or owners of parcels subject to the rates, then the City Council will not impose the proposed rates. A complete copy of the City's guidelines for the tabulation of protests can be found on line at: http://cityofsierramadre.com