City of Sierra Madre Agenda Report

Joe Mosca, Mayor
John Buchanan, Mayor Pro Tem
MaryAnn MacGillivray, Council Member
Josh 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 Development Services

DATE: May 11, 2010

SUBJECT: INITIATION OF PROPOSITION 218 WATER RATE INCREASE PROCESS

SUMMARY

Rates being charged by the City for provision of potable water have not kept pace with the costs of providing those services in recent years and water rates have not been increased since 2005. In order to continue the existing level of service in water, it is necessary to raise water rates. Staff recommends that the City Council direct staff to initiate the process of increasing water rates as required under California Proposition 218, and adopt "Guidelines for the Submission and Tabulation of Protests" as attached to this report as Exhibit D.

ANALYSIS

Water rates were last increased in June of 2005 under Council Resolution 05-31 adopting the City Budget for FY's 2005-06 and 2006-07. The rate went into effect July 1, 2006. That rate increase was implemented without undergoing the Proposition 218 "Right to Vote" process. Subsequent to the 2005 rate increase, a State Supreme Court case *Bighorn-Desert View Water Agency v. Beringson (July 2006)* determined that utility rates are subject to the requirements of Proposition 218. Water rate increases planned for subsequent fiscal years were not pursued, out of concerns that those increases would not be accepted by the voters. As a result, Water Fund reserves have been eroded to a level that does not provide adequate coverage for the City's existing Water Bonds or funds to meet the local match requirements for the Federal grants the City has received and is due to receive. Thus it is necessary to raise water rates, and to commit to a long term rate program that will allow for continued water system improvements and participation in Federal grant programs.

A water rate study has been prepared by Bucknam and Associates. That study, entitled "City of Sierra Madre Water System Program Plan," (WSPP) builds upon similar documents done for City by that firm in 2003 and 2005. The document recommends adjustments to both the (static) meter charge for each customer based on the size of their water meter, and an increase in the (variable) unit cost, based on the amount of water used during each billing period.

The WSPP also recommends a tiered water rate as recommended by the California Water Plan 2009 and the "20 x 2020 Water Conservation Plan" released in February by the Department of Water Resources. Tiered rates have been found to be very effective in reducing water waste, particularly when there is a significant difference between tiers.

The tiering structure being proposed at this time does not incorporate significant differences between the tiers. Rather, the proposed structure introduces the tiered rate concept to Sierra Madre water customers. As the City reviews its rates each year going forward, attention should be paid to whether or not the City's water conservation goals are being met. For example, if the significant initial increase in rates that is proposed for FY 2010/11 does not result in lasting conservation efforts, then it may be necessary to increase the difference between tiers two and three or add additional tiers. If additional tiers are added, or the incremental difference between tiers is increased beyond that which is currently proposed, a separate Proposition 218 process will be necessary.

For more information on tiered water rates, please see Exhibit A, "A Primer on Water Pricing in the San Diego Region."

Under the proposed rate adjustment, tiered rates effect only the commodity component of the water rate, the meter charge remains constant regardless of the amount of water consumed. Table A illustrates the rate increase proposed for Fiscal Year 2010-11, as well as increases for the following five years. The Prop 218 process that the staff is recommending will provide for the annual increases through FY 2013-14.

Table A Proposed Water Rate Adjustment

	Current	**FY 2010-11**	**FY 2011-12**	**FY 2012-13**	**FY 2013-14**	**FY 2014-15**
2010 WSPP Tier 1	$1.79	$2.072	$2.140	$2.220	$2.300	$2.380
% increase		15.75%	3.28%	3.74%	3.60%	3.48%
2010 WSPP Tier 2	$1.79*	$2.126	$2.200	$2.280	$2.360	$2.440
% increase		18.77%	3.48%	3.64%	3.51%	3.39%
2010 WSPP Tier 3	$1.79*	$2.148	$2.220	$2.300	$2.380	$2.460
% increase		20.00%	3.35%	3.60%	3.48%	3.36%
Meter charge 5/8" & ¾", 2010 WSPP	**$40.00**	**$46.30**	**$47.92**	**$49.60**	**$51.33**	**$53.13**
		15.75%	3.50%	3.51%	3.49%	3.51%

*Rate reflects current single-rate structure.
Table B illustrates what the proposed rate increases would look like on an average bi-monthly bill. Note that this table is based on average use data from actual water billing records in 2006 and 2007. Actual billing amounts will vary depending on the amount of water consumed (Commodity Charge.) Averages were found to vary per meter size:

For 5/8"meter, average consumption was 19 units per month
For ¾" meter, average consumption was 25 units per month
For 1" meter, average consumption was 34 units per month

Table B						
Average Bimonthly Bill per Meter for Single Family Residential Units with Meters of 1" or Less						
Meter Size	Bi- Monthly Meter Charge		Commodity Charge		Combined (Total Bill)	
	Current	Proposed	Current	Proposed	Current	Proposed
5/8"	$40.00	$46.30	$68.02	$78.94	$108.02	$125.24
3/4"	$40.00	$46.30	$89.50	$104.46	$129.50	$150.76
1"	$46.68	$54.03	$121.72	$142.78	$168.40	$196.81

Under the proposed tiered rate structure the commodity component of the bill is calculated as follows. The first 17 units consumed per month are charged at the Tier 1 rate. Units 18 through 33 (16 units) per month are charged at the Tier 2 rate, and units 34 and above are charged at the Tier 3 rate. Thus, a customer using 34 units per month would calculate the commodity portion of the bill in this manner:

1) Units 1-17 x Tier 1 rate = 17 x $2.072 = $35.22
2) Units 18-33 x Tier 2 rate = 16 x $2.126 = $34.02
3) Unit 34x Tier 3 rate = 1 x $2.148 = $2.15

2 months x $71.39 = $142.78

Table C below provides a comparison between the proposed rates for Sierra Madre and the existing rates of other nearby cities. The table differs from Appendix B-1 of the Bucknam Report in that this table uses a bi-monthly consumption quantity of 38 units to compare directly with the average 5/8" meter use illustrated elsewhere in this report.

Table C – Rate Comparison of Bi-monthly bills

City	Meter Charge	Units Used	Commodity Rate	Commodity Cost	Total Bill
Sierra Madre Proposed Rate 5/8" Meter	$46.03	38	Tier 1 @ $2.072 Tier 2 @ $2.126 Tier 3 @ $2.148	$79.98	$126.28
Sierra Madre Proposed Rate	$54.03	78	Tier 1 @ $2.072 Tier 2 @ $2.126	$165.90	$219.93

1" meter			Tier 3 @ $2.148		
Pasadena	$11.07	38	Block 1 @ $0.910 Block 2 @ $2.540 Block 3 @ $3.004 Block 4 @ $5.007 Block 5 @ $7.510	$97.98	$109.05
Arcadia	$12.16	38	$1.31	$49.78	$61.94
Monrovia	$7.88	38	$1.45	$55.10	$62.98
Duarte (Cal American Water Co.)	$8.07	38	Tier 1 @ $1.29 Tier 2 @ $1.42 Tier 3 @ $1.55	$52.54	$60.61
South Pasadena	$44.34	38	$0.92	$34.96	$79.30
Alhambra	$15.94	38	Tier 1 @ $1.86 Tier 2 @ $1.97 Tier 3 @ $2.02	$74.46	$92.40
Azusa	$14.74	38	Tier 1 @ $0.87 Tier 2 @ $1.69	$38.13	$52.87
Monterey Park (+ 30% Treatment Surcharge)	$12.63	38	Tier 1 @ $1.38 (1st 6 hcf free) Tier 2 @ $1.81	$67.47	$80.10
San Marino (Cal American Water Co.)	$8.07	38	Tier 1 @ $1.55 Tier 2 @ $1.71 Tier 3 @ $1.87	$61.03	$69.10
Glendora	$56.73	38	Tier 1, Zone 1 @ $1.50 Tier 2, Zone 1 @ $1.95 Tier 1, Zone 2 @ $1.61 Tier 2, Zone 2 @ $2.06 Tier 1, Zone 3 @ $1.73 Tier 2, Zone 3 @ $2.18 Tier 1, Zone 4 @ $2.39 Tier 2, Zone 4 @ $2.84	$57.00 $61.18 $65.74 $90.82	$113.73 $117.91 $122.47 $147.55
Covina	$22.95	38	$1.65	$67.70	$85.65
La Verne	$28.60	28.42	Zone 1 @$2.69/133cf Zone 2 @$2.79/133cf Zone 3 @$2.98/133cf Zone 4 @$3.19/133cf Zone 5 @$3.30/133cf Zone 6 @$3.54/133cf	$76.45 $79.29 $84.69 $90.66 $93.78 $100.61	$105.05 $107.89 $113.29 $119.26 $122.39 $129.21
West Covina (Suburban Water Co.)	$13.92	38	Tariff Area 1 @ $1.5390 Tariff Area 2 @ $1.6030 Tariff Area 3 @ $1.6700	$58.48 $60.91 $63.46	$72.40 $74.83 $77.38
Rosemead	$30.06	38	$1.5655	$59.48	$89.55

Table D lists the adjustments proposed for all of the City's current meter classifications. The increase is set at 15.75% for all meter classes, including low income UUT exempt.

Table D Meter - Classifications and Base Rate Adjustments

Meter Class	Meter Size	No. Active Meters	Existing Bi-monthly Rate	Proposed Bi-monthly rate
Regular	5/8"	1,435	$40.00	$46.30
Low Income/UUT exempt.	5/8"	146	$26.00	$30.10
Regular	¾"	1273	$40.00	$46.30
Low Income/UUT exempt	¾"	231	$26.00	$30.10
Regular	1"	528	$46.68	$54.03
Low Income/UUT exempt	1"	59	$32.68	$37.83
Regular	1-1/2"	108	$60.00	$69.45
Regular	2"	47	$86.68	$100.33
Regular	3"	6	$160.00	$185.20
Regular	4"	6	$233.34	$270.09

<u>The Proposition 218 rate adjustment process</u>

The process for adopting water rate adjustments under Proposition 218 is relatively straightforward.

1. The first step is providing staff the direction to initiate the process. An affirmative vote on this agenda item tonight does not raise the water rates; it simply directs staff to proceed with the process.
2. <u>Mail notices at least 45 days before public hearing.</u> The second step in the process of adjusting rates is to mail notices to all water customers within the City's service area. A standard letter will be sent out describing the amount of the rate adjustment, stating the effective date of the adjustment if approved, advising the customer of the protest procedure, and stating the date of the Public Hearing. The notices for water fees do not include ballots. Instead, those wish to protest must submit a written protest (usually in the form of a letter). Guidelines for the submission and tabulation of protests are attached to this report as Exhibit D, and if the City Council acts to approve the initiation of the 218 process, approval the Guidelines is included in that action.
3. <u>Hold Public Hearing.</u> On the appointed date, the City Council will hold a public hearing and receive testimony on the matter of the proposed rate adjustment. If directed to proceed with the 218 process this evening, the Public Hearing will be held July 13th.
4. <u>First reading of ordinance at same meeting as hearing.</u> Following the Public Hearing, if a majority protest has not occurred and the City Council approves of the rate increase, the City Council will receive first reading of an ordinance setting the adjusted rates.
5. <u>Second reading at following meeting.</u> Second reading and adoption of the rate adjustment takes place two weeks later. This is typically a consent calendar item.

FINANCIAL REVIEW

The intent of splitting the overall rate system into base (meter) and variable (commodity) is to establish a stable revenue stream to cover capital and debt service coverage in the form of the base rate. Operational costs are then covered by the variable commodity rate.

Table E below recalls the annual commodity rate increases that the 2005 WSPP recommended. It illustrates a series of minimal increases which cumulatively approach the Tier 1 rate of $2.072 proposed for FY 2010-11. The table helps to illustrate the need to make a larger incremental increase at this time in order to keep up with earlier projections, as well as to highlight the fact that in terms of the commodity rate and operational costs, the city is very near the projections from five years ago.

Table E – 2005 WSPP Recommended Rate Increases

	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
2005 WSPP % increase	$1.79	$1.84	$1.90	$1.95	$2.01	$2.07	$2.13	$2.20
		2.78%	3.26%	2.63%	3.08%	2.99%	2.90%	3.29%

It is estimated that the failure to incorporate the rate increases recommended in the 2005 has resulted in a loss of approximately $410,600 in water revenue.

The City's general fund incurs certain unreimbursed administrative and overhead costs associated with the water enterprise. These costs constitute an in-kind subsidy by the general fund to the enterprise. The City anticipates that the amount of this in-kind subsidy each year will exceed the value of the discounts given to low income customers, and will fund that discount.

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.

The Proposition 218 Public Hearing will be held July 13th, following the requisite 45 day noticing period. Notices will be sent by US mail to all water account holders.

STAFF RECOMMENDATION

Staff recommends that the City Council direct staff to initiate the process of increasing water rates as required under California Proposition 218, and adopt "Guidelines for the Submission and Tabulation of Protests" as attached to this report as Exhibit D.

Attachments: Exhibit A - "A Primer on Water Pricing in the San Diego Region"
- Equinox Center

Exhibit B - May 2010 Water System Program Plan
- Bucknam & Associates
Exhibit C – Sample Rate Increase Notification Letter
Exhibit D – Guidelines for the Submission and Tabulation of Protests