

Agency Report

June 15, 2015

TO: City Council

FROM: Water and Power Department

SUBJECT: PUBLIC HEARING FOR THE PROPOSED CHANGES TO THE PURCHASED WATER ADJUSTMENT CHARGE PURSUANT TO PASADENA MUNICIPAL CODE ("PMC") CHAPTER 13.20.110

RECOMMENDATION:

It is recommended that the City Council open the public hearing and receive public comment on the proposed water rate adjustments, close the public hearing, and in the absence of a majority protest take the following action:

1. Find that the proposed changes to the Purchasing Water Adjustment Charge ("PWAC") are statutorily exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges); and
2. Approve the proposed water rate adjustments to:
 - (a) Increase the PWAC by \$0.05 per billing unit effective October 2015;
 - (b) Increase the PWAC by an additional \$0.02 per billing unit effective October 2016;

BACKGROUND

Purchased Water Adjustment Charge

Pasadena's water rates include an adjustment to reflect changes in the prices paid by PWP to procure water for its customers as well as changes in the quantity of water sold to retail customers. This adjustment is defined by formula in PMC 13.20.110, the Purchased Water Adjustment Charge ("PWAC") in Pasadena's Water Service Rate Ordinance. The PWAC authorizes PWP to set the rate by formula as purchased water costs change.

In April 2014, MWD, which provides approximately 60% of PWP's water, approved two rate increases, a 3% increase, effective January 1, 2015 and an additional 1% effective January 1, 2016. As a result, it is necessary for PWP to adjust its PWAC accordingly to offset increases in the cost of water.

PWP is proposing to increase the PWAC by \$0.05 per billing unit effective October 1, 2015 and by an additional \$0.02 per billing unit effective October 1, 2016. A billing unit is equivalent to 748 gallons of water. If approved, the monthly bill for a residential customer using 12 billing units per month will increase \$0.60 or 1.3% effective October 1, 2015 and by an additional \$0.24 or 0.5% effective October 1, 2016.

The PWAC formula that would provide for automatic pass-through of increased purchased water costs has not been approved within the requirements of Proposition 218. As a result, a properly noticed and conducted public hearing is required for each PWAC adjustment.

Proposition 218 Requirements

In November 1996, Proposition 218 was approved by California voters with the intent to ensure that all taxes and most charges to property owners are subject to voter approval and to further limit the use of assessments and property-related fees to pay for general governmental services rather than property-related services. In July 2006, the California Supreme Court ruled that water rates are property-related fees for Proposition 218 purposes. This ruling requires that water rate increases are subject to specific notification and public hearing requirements.

In 2009 and further amended in 2012, the California Supreme Court ruled, through assembly Bill (AB) 2567, to provide water agencies an alternative procedure to authorize automatic rate adjustments to pass through changes in wholesale charges for water without a further separate hearing process for a period not to exceed five years. Although AB 2567 allows a five year rate adjustment, PWP is opting to file for only a two year period to reflect increased costs that will be imposed on Pasadena by rate increases previously approved by the Board of the Metropolitan Water District of Southern California ("MWD").

Proposition 218 Compliance

On April 27, 2015, the City Council established the date of June 15, 2015 to conduct a public hearing to receive public comment on the proposed changes to the PWAC.

Pursuant to the requirements of Proposition 218, public notices were mailed on April 28, 2015 to all property owners/tenants and ratepayers of record regarding the date and time of the public hearing for the proposed changes to the PWAC. The notice included the process by which written protests to the proposed PWAC changes may be submitted. A copy of the public notice is attached. The Water and Power Department ("PWP") also posted the public notice and related information on the PWP website.

One written protest per parcel, filed by an owner or tenant of the parcel, shall be counted in calculating a majority protest for purposes of Proposition 218. Receipt of written protests by a majority of property owners or ratepayers would prevent the implementation of the proposed changes to the PWAC.

Proposed PWAC Adjustment Not Related to Drought

This proposed increase in the PWAC is not related to the action taken by the City Council on June 1, 2015 to move to Level 2 of the City's Water Supply Shortage Plan. The funds generated from the PWAC increase will not provide support for water conservation programs. The additional funds will only be used to offset the increase in PWP's cost of purchased water.

ENVIRONMENTAL ANALYSIS:

The proposed changes to the Purchased Water Adjustment Charge are statutorily exempt from CEQA. Section 15273 of the State CEQA Guidelines identifies a statutory exemption for "Rates, Tolls, Fares, and Charges" and states (in part) that:

- a. *CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or their charges by public agencies which the public agency finds are for the purpose of:*
 1. *Meeting operating expenses, including employee wage rates and fringe benefits,*
 2. *Purchasing or leasing supplies, equipment, or materials,*
 3. *Meeting financial reserve needs and requirements,*
 4. *Obtaining funds for capital projects, necessary to maintain service within existing service areas, or*
 5. *Obtaining funds necessary to maintain such intra-agency transfers as are authorized by city charter.*

The proposed changes to the PWAC are modifications of charges for the purpose of purchasing water supplies.

FISCAL IMPACT:

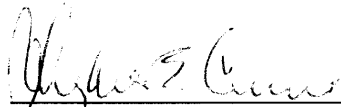
Based on projected billing unit sales, this action is projected to generate additional revenues of about \$442,000 to the Water Operating Fund (402) in fiscal year ("FY") 2016, and additional revenues of \$176,000 in FY 2017. When both increases are fully implemented in FY 2018, the combined revenue impact will be approximately \$906,000 per year.

The following table presents a summary of the fiscal impact year over year:

PWAC Increase	FY 2016	FY 2017	FY 2018
October 2015	\$442,000	\$648,000	\$647,000
October 2016	N/A	\$176,000	\$259,000
Cumulative Impact	\$442,000	\$824,000	\$906,000

The additional revenues will be sufficient to cover the higher costs of purchased water from MWD, estimated at \$0.66 million and \$0.26 million for each of the next two years.

Respectfully submitted,



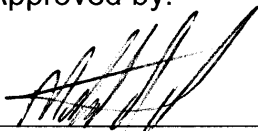
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Approved by:



MICHAEL J. BECK
City Manager

Attachment: Notice of Public Hearing - Proposed Changes to the Purchased Water Adjustment Charge