



Agenda Report

July 24, 2017

TO: Honorable Mayor and City Council

FROM: Water and Power Department

SUBJECT: SET A PUBLIC HEARING FOR THE PROPOSED CHANGES TO THE WATER RATE STRUCTURE AND ADJUSTMENTS TO THE WATER RATES

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the Public Hearing for Proposed Changes to the Water Rates are exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges);
2. Establish a date of September 25, 2017 to conduct a public hearing on the Proposed Changes to the Water Rate Structure and Water Rates as described herein.

BACKGROUND:

PWP is requesting a public hearing on September 25, 2017 regarding proposed changes to the water rate structure and water rates.

Water Rate Structure

Changes to the water rate structure are recommended to account for environmental, operational and financial sustainability needs based on current water consumption patterns and the expectation that water conservation practices will continue to develop. The objectives of the proposed new rate design are to ensure Proposition 218 compliance, reduce reliance on meter connection sizes to allocate water and set commodity prices, reduce the reliance on variable rate revenues for fixed costs, and be consistent with the capabilities of the existing billing system. Table 1 compares the current rate structure to the proposed changes.

Table 1: Comparison of Current and Proposed Rate Structures

Rate Element	Current Rate Structure	Proposed Rate Structure
Distribution and Customer Charge ("D&C")	Fixed monthly charge based on meter size	No structural changes. Cost of service adjustment from Commodity to Distribution section
Commodity Pricing	4 rate tiers priced based on single source of supply (e.g. groundwater, MWD Tier 1, MWD Tier 2)	4 rate tiers priced based on blended supply sources including water efficiency
Commodity Allocation	Monthly allocation based on meter size	Monthly allocations based on customer class and factors such as property size, number of dwelling units, and historic usage.
Purchased Water Adjustent Charge ("PWAC")	Formula rate, currently \$0.4850/BU	No change to formula, current Charge will combine with Commodity rate and PWAC will reset to \$0.0/BU
Capital Improvement Charge ("CIC")	Formula based 100% volumetric	Phased-in fixed charge component plus formula based volumetric rate component.

Water Rate Adjustments

PWP is also recommending rate changes for each of the next two years. The FY2018 Operating Budget includes operating and purchased water cost increases of \$4.9 million. The increase is attributable to higher operating costs of \$1.8 million and \$3.1 million in support and service cost realignment between the Power and Water operating and capital funds. The realignment provides a more accurate accounting of staff support and service costs for the Water utility. Table 2 shows the proposed changes to the existing water rates and the annual revenue impact of each.

Table 2: Proposed Water Rate Adjustments

Rate Component Affected	Projected Annual Impact	% Change	Effective Date
Distribution and Customer Charge	Increase revenues by \$3.0 million	5.2%	11/01/2017
Distribution and Customer Charge	Increase revenues by \$1.9 million	3.0%	10/01/2018
Purchased Water Adjustment Charge	Increase revenues by \$165,000	0.3%*	11/01/2017
Purchased Water Adjustment Charge	Increase revenues by \$300,000	0.5%	10/01/2018
Capital Improvement Charge	Decrease revenues by \$300,000	-0.6%	11/01/2017

*FY2018 PWAC increase is proposed to be built into the FY 2018 Commodity Charge as part of the rate restructuring

If approved, the proposed changes to the water rate structure and the FY2018 rate action shall be effective November 1, 2017 or as soon as practical thereafter; the effective date for the FY2019 rate increase will be on October 1, 2018. Following public outreach, the final recommended rate structure and pricing may be different from the proposals contained in this report.

COUNCIL POLICY CONSIDERATION:

The proposed recommendations are consistent with the City Council's goals to maintaining fiscal responsibility and stability, improve, maintain, and enhance public facilities and infrastructure, and increase conservation and sustainability.

ENVIRONMENTAL ANALYSIS:

The proposed amendments to the Water Rate Ordinance have been determined to be exempt from CEQA per Section 15273 (Rates, Tolls, Fares, and Charges). Under Section 15273, CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other 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 services areas, or
5. Obtaining funds necessary to maintain such intra-city transfers as are authorized by city charter.

FISCAL IMPACT:

Based on projected water sales for FY2018 and FY2019, the proposed rate changes are projected to increase operating revenues by \$1.9 million in FY2018 (rate adjustments would be effective for 8 months of the fiscal year), a 3.4% increase over FY2017, and increase operating revenues by \$1.650 million in FY2019 (rate adjustments would be effective for 9 months of the fiscal year), a 2.7% increase over FY2018.

In FY2019 the cumulative fiscal impact of the rate adjustments shown below is projected to support the increased operating costs in the FY2018 budget.

Charge	FY 2018	FY 2019
Water Commodity	(\$450,000)	\$300,000
Distribution and Customer	\$3,000,000	\$1,900,000
Capital Improvement Charge	(\$300,000)	\$0
Net Increase	\$2,250,000	\$2,200,000
Cumulative rate revenue increases		\$4,450,000

Respectfully submitted,



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