

Agenda Report

January 10, 2022

TO: City Council

THROUGH: Municipal Services Committee (December 14, 2021)

FROM: City Manager

SUBJECT: SET A DATE OF MARCH 14, 2022 TO CONDUCT A PUBLIC HEARING FOR RECOMMENDED WATER RATE ADJUSTMENTS

RECOMMENDATION:

It is recommended that the City Council:

- 1) Find that the proposed action is not a project subject to the California Environmental Quality Act (CEQA) pursuant to Section 21065 of CEQA and Sections 15060(c)(2), 15060(c)(3), and 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and
- 2) Set a date of March 14, 2022 to conduct a public hearing for the recommended water rate adjustments to:
 - a. Increase the Commodity Charge to generate additional annual revenue of approximately \$1.5 to \$2.0 million, and increase the Distribution and Customer Charge ("D&C") to provide additional annual revenue of \$1.0 million, to be effective April 1, 2022 or as soon as practicable thereafter;
 - b. Increase the Commodity Charge to provide additional annual revenue of approximately \$1.8 million, the D&C to provide additional annual revenue of \$1.0 million, and the Capital Improvement Charge ("CIC") to provide additional annual revenue of \$1.0 million, to be effective January 1, 2023 or as soon as practicable thereafter; and
- 3) Amend the description of the CIC in the Water Rate Ordinance to eliminate reference to the "Water Distribution System" and add reference to the CIC rate to be applicable to all Water System capital expenditures.

EXECUTIVE SUMMARY:

The Pasadena Water and Power Department ("PWP") recommends approval of water rate adjustments that will increase the system average rate by 7.1 percent on April 1, 2022 and by an additional 7.2 percent on January 1, 2023, or as soon as practicable

thereafter. Additionally, staff recommends that the CIC be redefined to be applicable to all water capital improvement projects approved by the City Council and not limited to distribution system projects. This is an administrative action that will clarify the definition of the CIC but will not change the formula.

To meet the legal requirements for water rate adjustments as defined by Proposition 218, PWP is proposing that the City Council conduct a public hearing on March 14, 2022 to receive comments regarding recommended changes to the Water Rate Ordinance, Chapter 13.20 of the Pasadena Municipal Code (“PMC”).

The recommended rate increases are necessitated by a number of factors resulting in the need for additional revenues. The primary reasons are higher costs for operations and maintenance (“O&M”) activities, water purchased from the Metropolitan Water District (“MWD”), pumping and treatment of local groundwater; increased level of capital investment on infrastructure projects; and reduced sales due to the City of Pasadena’s (“City”) assertive conservation goals.

The Fiscal Year (“FY”) 2022 operating budget was developed including an anticipated system average rate increase of 3.7 percent to be effective October 1, 2021. Subsequent developments such as the prolonged impacts of the COVID-19 pandemic, increasing intensity of drought conditions leading to elevated conservation goals, overall increases in operating costs due to inflation and supply chain issues and delayed implementation of the rate increases have resulted in the need for higher rate increases.

If the recommended rate adjustments are approved, additional revenue of \$2.5 to \$3.0 million per year is anticipated as a result of the increase effective April 1, 2022, and additional revenue of \$3.8 million per year as a result of the increase effective January 1, 2023. These additional revenues will fund needed investments in infrastructure and partially offset reduced revenues due to lower water sales driven by conservation. Both conservation and robust infrastructure to produce, treat and distribute water are necessary for long term reliability and sustainability of the high quality water supply for the City’s customers. PWP will continue to use its resources efficiently, seek grants and take advantage of other opportunities to mitigate rate impacts for its customers.

Individual customer bill impacts will vary depending on the water meter size and amount of water used. Sample bill impacts for the most common meter sizes for residential and commercial customer are shown in Table 1.

Table 1

Customer Type	Meter Size	Usage (in Billing Units)	Approximate Current Bill	Impact of April 1, 2022 Increase	Impact of January 1, 2023 Increase
Residential	¾ inch	10	\$52.00	\$3.00	\$4.00
Commercial	1 ½ inch	50	\$266.00	\$19.00	\$20.00

Residential and commercial customers have the opportunity to reduce their water bills by using less water through conservation.

BACKGROUND:

The City operates the Water System as a self-supporting enterprise. To ensure financial stability, PWP prepares a five-year financial plan that is updated annually which includes revenue requirements to meet all operation and maintenance expenses, debt service requirements, annual system improvements, replacements of capital infrastructure, and other costs. The five-year plan is a critical component of preparing the annual operating and capital budgets for the Water System.

The five-year financial plan prepared for FY2022 through FY2026 determined that revenues from projected sales and existing rates are insufficient to recover projected expenses. The FY2022 Water System operating budget approved by the City Council was based on the expectation that system average rates would be increased by about 3.7 percent during the fiscal year, although the specific recommended increases had not been fully determined at that time. Staff subsequently prepared an updated cost-of-service analysis and revenue requirements study that resulted in recommendations to increase system average water rates by 7.1 percent in FY2022 and 7.2 percent in FY2023 to offset increased costs and projected reductions in water sales volumes.

Water Rate Structure

PWP's water rate structure is approximately 60 percent volumetric, or based on a charge per Billing Unit ("BU"). A BU is equal to 748 gallons of water. The rate structure is comprised of three separate components and revenues generated from each component are committed to recovering specific costs. The water rate structures and related costs recovered from each component are described in Table 2.

Table 2

Rate Component	Basis	Description of Costs Recovered
Commodity Charge (includes Purchased Water Adjustment Charge)	Volumetric	Funding for imported water purchased from MWD, and the production, testing and treatment costs for local groundwater
Distribution & Customer Charge ("D&C")	Fixed	Funding for operations and maintenance of Water System infrastructure, customer service functions, including the call center, meter reading, billing and collections, support for capital improvement projects
Capital Improvement Charge ("CIC")	Volumetric, formula-based	Funding for Water System capital improvement projects, portion of the debt service on Water System bonds

Additionally, staff is recommending revision of the description of the CIC rate component as it is currently defined in the PMC. The CIC was first formulated and approved as a component of the funding plan for the Master Plan, approved by the City Council in November 2002. Based on the recent City Council approval of the Water System and Resources Plan (“WSRP”) to succeed the Master Plan, staff recommends that the CIC be redefined to be applicable to all water capital improvement projects in order to support the entire Water System. This is an administrative action that will clarify the definition of the CIC but will not change the formula.

If approved, the recommended rate increases would be implemented on April 1, 2022 and January 1, 2023, or as soon as practicable thereafter. The partial year increases are projected to generate \$1.0 million and \$1.9 million, for each respective fiscal year. However, changes in water sales will affect actual revenues from the increases to the volumetric components of the rate structure for future years. Additional information of the specific adjustments to each rate component are shown in Attachment A.

When applied to a full year, the recommended rate increases for FY2022 are expected to generate approximately \$2.5 to \$3.0 million annually based on sales volume projections. The full year impacts for the rate increases in FY2023 are expected to generate approximately \$3.8 million annually based on sales volume projections.

Pasadena Water Customers

PWP’s Water System delivers safe, reliable water to approximately 171,000 customers via 38,000 meter connections. More than 80 percent of the City’s customers are within the City limits, with the remaining customers located in the surrounding communities of Altadena and Los Angeles County. Approximately 85 percent of the City’s water customers are residential, comprised of both single family and multi-family services. The average residential customer uses approximately 10 BU of water per month.

Most of the City’s residential customers have a ¾-inch meter connection size. Approximately 95 percent of the City’s residential and commercial water customers are served with meter sizes of ¾ to 1½ inches as shown in Table 3.

Table 3

Meter Size	Approximate Number of Customers	Percentage of Total Customers	Average Usage (BU)
5/8" & 3/4"	21,900	57.8%	10
1"	11,900	31.3%	20
1 1/2 "	2,200	5.8%	40

Detailed information documenting the calculation of the System Average Rate for FY2022 and FY2023 are shown in Attachment B.

Examples of the customer bill impact of the recommended rate increases are provided in Attachment C.

Attachment D provides water bill comparisons at various usage levels with neighboring agencies. It is important to note that rate structures and rate components differ between water agencies based on the source of water supplies, operating costs, the level of infrastructure investment and other factors. The comparisons are based on research of publicly available information on approved water rate increases for the agencies shown.

Recommended Rate Adjustments are Compliant with Proposition 218

Outside specialty legal counsel was engaged through the City Attorney’s Office to review the cost-of-service documentation and analysis and has provided an opinion on the adequacy of the methodology confirming compliance with the legal requirements of Proposition 218. The information prepared by staff and reviewed by the outside legal counsel is provided as Attachment E.

Implementation Timeline

PWP is recommending that a Public Hearing be set for March 14, 2022, to receive comments on the recommended adjustments to the water rates. Following the City Council’s action to set a date for the public hearing, a notice will be mailed to all Water System customers that includes the recommended rate adjustments and provides information regarding the public hearing in compliance with the requirements of Proposition 218. A draft Public Hearing notice is shown in Attachment F. The actual format for the Public Hearing Notice that is mailed to Water System customers may differ from the version shown in the attachment. Table 4 outlines the approximate timeline and implementation schedule for the proposed rate actions.

Table 4

Date	Action Item
January 2022	Mail 45-day Public Hearing Notice
January-February 2022	Customer Outreach and Education
March 14, 2022	Water Rates Public Hearing
March 14, 2022	First Reading of Updated Water Rate Ordinance
March 21, 2022	Second Reading of Updated Water Rate Ordinance
April 1, 2022 or as soon as practicable thereafter	Effective Date of First Rate Action
January 1, 2023 or as soon as practicable thereafter	Effective Date of Second Rate Action

COUNCIL POLICY CONSIDERATION:

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

ENVIRONMENTAL ANALYSIS:

The establishment of a date to conduct a public hearing for the consideration of water rate adjustments is an administrative action that would not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. Therefore, the proposed action is not a "project" subject to CEQA, as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines. Since the action is not a project subject to CEQA, no environmental document is required. Furthermore, the recommended water rate adjustments themselves would be 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:

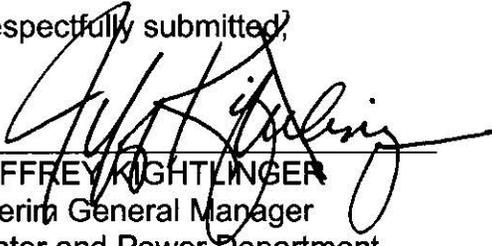
1. Meeting operating expenses, including employee wage rates and fringe benefits,
2. Purchasing or leasing supplies, equipment, or materials,
3. Meeting financial reserve needs and requirements,
4. Obtaining funds for capital projects, necessary to maintain service within existing service areas, or
5. Obtaining funds necessary to maintain such intra-agency transfers as are authorized by city charter.

FISCAL IMPACT:

The estimated cost to mail notices to all City of Pasadena water customers and property owners as mandated by Proposition 218 is approximately \$30,000. Funds are available in the Water Division operating budget in Account #49007920-8144.

The recommended D&C and Commodity rate increases to be effective on April 1, 2022 are expected to generate approximately \$2.5 - \$3.0 million annually, and the recommended D&C, Commodity, and CIC rate increases to be effective on January 1, 2023 are expected to generate approximately \$3.8 million annually, based on projected annual unit sales. The incremental revenues will be used to offset increased O&M and capital costs of the water system and mitigate the impacts of a decrease in sales due to assertive conservation measures. There is no fiscal impact for the action to amend the description of the CIC in the Water Rate Ordinance.

Respectfully submitted,



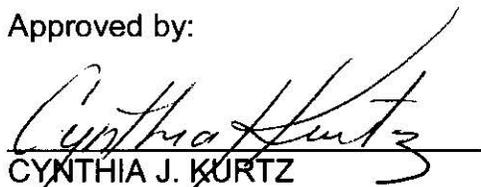
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CYNTHIA J. KURTZ
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- Attachment A: Current and Recommended Water Rate Adjustments
- Attachment B: System Average Rate Calculation
- Attachment C: Customer Bill Impact Examples
- Attachment D: Estimated Bill Comparison with Other Utilities
- Attachment E: Revenue Requirements for Legal Review
- Attachment F: Draft Public Hearing Notice