

# Agenda Report

March 14, 2022

**TO:** City Council

**FROM:** Water and Power Department

**SUBJECT: PUBLIC HEARING TO APPROVE RECOMMENDED WATER RATE ADJUSTMENTS**

**RECOMMENDATION:**

It is recommended that the City Council:

- 1) Find that the recommended adjustments 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) Open a Public Hearing to receive public comment on the recommended adjustments to the City of Pasadena ("City") water rates:
  - a. Increase the Commodity Charge to provide 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
  - c. 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.
- 3) Following the close of the Public Hearing, approve the aforementioned recommended water rate adjustments; and
- 4) Direct the City Attorney to prepare an amendment to the Water Rate Ordinance ("Ordinance") implementing the changes to the water rates described herein.

**EXECUTIVE SUMMARY:**

On January 10, 2022, the City Council set the date of March 14, 2022 to conduct a public hearing to receive comments on the recommended water rate adjustments previously presented as an information item to the Municipal Services Committee ("MSC") on November 9, 2021 and then as a public hearing date setting item on December 14, 2021.

PWP staff recommends approval of water rate adjustments to the Commodity and D&C charges that will collectively increase the system average rate by 7.1 percent to become effective on April 1, 2022, or as soon as practicable thereafter, and adjustments to the Commodity, D&C, and CIC charges that will collectively increase the system average rate by an additional 7.2 percent on January 1, 2023, or as soon as practicable thereafter. Staff further 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. The staff recommendation for City Council approval will modify the definition of the CIC but will not change the formula.

To meet the legal requirements for water rate adjustments in accordance with Proposition 218, it is necessary for the City Council to conduct a public hearing 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"), and pumping and treatment of local groundwater; increased capital investment on infrastructure projects; and reduced sales due to the City's assertive conservation goals.

The Fiscal Year ("FY") 2022 operating budget includes an anticipated system average rate increase of 3.7 percent that was 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 than originally anticipated.

If the recommended rate adjustments are approved, additional annual revenues of \$2.5 to \$3.0 million is anticipated as a result of the April 1, 2022 increase, and \$3.8 million for the January 1, 2023 increase. These additional revenues will fund needed investments in infrastructure to ensure long-term reliability and sustainability, and also partially offset conservation-related reductions in water sales. PWP will continue to practice efficient use of resources and seek other opportunities such as grants to mitigate rate impacts for its customers.

Individual customer bill impacts will vary depending on the water meter size and water consumption. Sample bill impacts for the most common meter sizes for residential and commercial customers 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	\$3	\$4
Commercial	1 ½ inch	50	\$266	\$19	\$20

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 and 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 on June 21, 2021 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 determined that system average water rates should be increased 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, referring to a charge per Billing Unit ("BU"). A BU is equal to 748 gallons of water. The rate structure is comprised of three separate components: the Commodity Charge, D&C, and CIC, 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**

<b>Rate Component</b>	<b>Basis</b>	<b>Description of Costs Recovered</b>
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 as a component of the funding plan for the Master Plan and approved by the City Council in November 2002. Based on the recent City Council approval of the Water System and Resources Plan ("WSRP") as a successor to the Master Plan, staff recommends that the CIC be redefined so the revenues from the rate can support all Water System capital improvement projects. The staff recommendation for City Council approval will modify 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 rate components for future years. Additional information for 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 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**

<b>Meter Size</b>	<b>Approximate Number of Customers</b>	<b>Percentage of Total Customers</b>	<b>Average Usage (BU)</b>
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 shown in Attachment D are based on publicly available information for approved water rate increases. For some of the listed agencies, additional rate increases have been proposed but may not yet be fully approved.

### ***Proposition 218 Compliance***

Pursuant to the requirements of Proposition 218, notices were mailed on January 14, 2022 to all property owners/customers of record of the public hearing for the recommended adjustments to the water rates. The notice included information such as the date and time of the public hearing as well as the following link:

[www.PWPweb.com/ProposedWaterRateAdjustments](http://www.PWPweb.com/ProposedWaterRateAdjustments).

The notice also included the process by which written protests to the proposed implementation of the water rate adjustments may be submitted. A copy of the public notice is included as Attachment E.

Proposition 218 stipulates that one written protest per parcel, filed by an owner or tenant of the parcel, shall be counted in calculating a majority protest. Receipt of written protests by a majority of property owners or ratepayers would prevent the proposed implementation of the water rate adjustments.

***Recommended Rate Adjustments are Compliant with Proposition 218***

Outside specialty legal counsel, which was engaged through the Pasadena City Attorney's Office to review the cost-of-service documentation and analysis, 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 F.

***Implementation Timeline***

The timeline and implementation schedule for the recommended rate adjustments is shown in Table 4.

**Table 4**

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

***Customer Outreach and Education***

In addition to the notice of public hearing that was mailed to all water customers, PWP deployed a wide range of outreach options to provide information and education to the community about the recommended water rate adjustments. The notice of public hearing was also published in the Pasadena Journal and the Pasadena Press. Detailed information about the recommended water rate adjustments was made available on PWP's website and shared through PWP's social media channels, such as Facebook and Twitter. PWP staff also hosted public meetings, both virtual and in-person to provide information to interested members of the community. The schedule of public meetings and locations is shown in Table 5.

**Table 5**

<b>Date</b>	<b>Location</b>
<b>January 13, 2022</b>	District Liaison Meeting
<b>February 16, 2022</b>	Community Meeting – Virtual
<b>February 23, 2022</b>	Key Account Representatives Meeting
<b>March 1, 2022</b>	Community Meeting – Victory Park Community Center
<b>March 9, 2022</b>	Community Meeting – Robinson Recreation Center



**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 proposed adjustments to the D&C Charge, to the Commodity Charge, and to the CIC 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 aforementioned items are applicable to the rate actions as detailed in the agenda report.

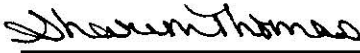
**FISCAL IMPACT:**

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 costs, provide funding for capital improvements to the water system and mitigate the impacts of a decrease in sales due to assertive conservation measures. There is no fiscal impact for the recommended action to amend the description of the CIC in the Water Rate Ordinance.


Respectfully submitted,

  
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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: Public Hearing Notice  
Attachment F: Revenue Requirements for Legal Review