



OFFICE OF THE CITY MANAGER

July 24, 2000

To the Honorable City Council
of the City of Pasadena

Mayor and Councilmembers:

Recommendations from the Deregulation Committee regarding Water Rate Adjustment to Fund the Water Fund Capital Improvement Plan and to Revise the Purchased Water Adjustment Charge Formula

Deregulation Committee Recommendations

On June 21, 2000, the Deregulation Committee reviewed that attached agenda report and recommended the following recommendation be presented to the Council in addition to those in the staff report:

Recommendation

- (1) ***change the formula for Purchased Water Adjustment Charge (PWAC) to allow for the pass-through of all related purchased water cost adjustments; and,***
- (2) ***increase water commodity rates across the board in the following years to fund the actual costs of a revised maintenance program for public improvements intended to provide for the storage, supply, treatment, and distribution of water:***
- (3) ***In addition, it is recommended that the City Council approve a journal voucher appropriating \$379,352 from the Water Fund fund balance to the Water Fund Operating Budget to reinstate the six-person mainline crew that is currently scheduled for elimination September 30, 2000 and create a new Equipment Mechanic III position to the Water Fund Operating Budget.***

Background

The committee also recommended that the following information be presented:

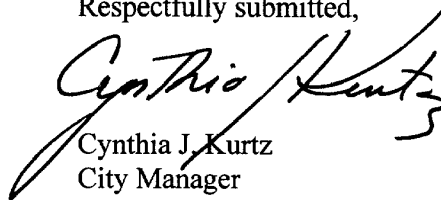
Concerning the Table on Page 4, "Current Average Monthly Water Bill", it should be noted that:

"The cities of Anaheim and Burbank apply significant connection charges and development fees prior to establishment of water service."

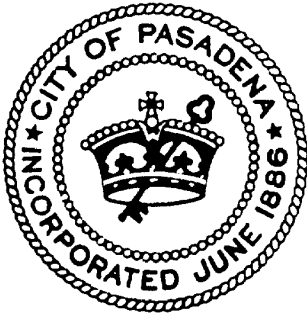
Concerning the Fiscal Impact section, it should also be noted that:

“The rate increase revenues will be used primarily to support the public improvements intended to provide for the storage, supply, treatment, and distribution of water. In addition, the inclusion of RTS assessments, and other related purchased water costs in the PWAC formula will allow PWP to pass through to customers any additional costs incurred in purchasing water from MWD, thereby mitigating potential adverse impacts on the Water Fund.”

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Cynthia J. Kurtz', written in a cursive style. The signature is positioned above the printed name and title.

Cynthia J. Kurtz
City Manager



Agenda Report

Revised

July 24, 2000

TO: City Council
THROUGH: Deregulation Committee

FROM: City Manager

SUBJECT: Water Rate Adjustment to Fund the Water Fund Capital Improvement Plan and to Revise the Purchased Water Adjustment Charge Formula

RECOMMENDATION:

It is recommended that City Council direct the City Attorney to prepare an amendment to the Water Rate Ordinance, Chapter 13.20 of the Pasadena Municipal Code to increase water commodity rates across the board to:

- (1) allow the pass-through of purchased water rate adjustments; and,
- (2) increase rates in the following years to fund the actual costs of a revised deferred maintenance program for public improvements intended to provide for the storage, supply, treatment, and distribution of water:
 - Year 1 commencing on October 1, 2000 (6%)
 - Year 2 commencing on October 1, 2001 (6%)
 - Year 3 commencing on October 1, 2002 (6%)
 - Year 4 commencing on October 1, 2003 (6%)

BACKGROUND:

Staff recommends that Pasadena Water and Power (PWP) increase water rates by 6% for each of the next four years with the first increase occurring October 1, 2000 and subsequent increases on October 1, 2001, 2002 and 2003 respectively. The increases are needed to offset the Purchased Water Adjustment Charge (PWAC) and to support the planned ten-year capital improvement program for water infrastructure.

Purchased Water Rate Adjustment

The City is a member agency of the Metropolitan Water District (MWD) where approximately 60% of the City's water is purchased. MWD delivers water imported from Northern California and the Colorado River to its member agencies on a wholesale basis. To meet continuing reliability and water quality needs of existing

water users, fund its capital improvements and recover the principal and interest on non-tax supported debt service, MWD assesses all its member agencies a Readiness-to-Serve (RTS) charge.

In 1995, the City adopted a resolution allowing MWD to impose a standby charge upon land within the City of Pasadena's water service area as a means of collecting its RTS charge. The resolution stated that the water standby charge shall be collected on tax rolls, together with ad valorem property taxes that are levied by MWD for the payment of pre-1978 voter approved indebtedness, and that the City shall pay any portion of its RTS obligation not collected through the net standby collections to MWD within a stipulated time frame.

Initially, RTS obligations were more than covered by the property taxes collected on parcels of land within Pasadena's jurisdiction and the City received credit for the excess collections. However, in the past two years the City's RTS obligation has surpassed property tax collections and the Water Fund has had to cover the difference with working capital. Staff estimates that the net RTS obligation for FY 2001 will exceed the amount collected from property taxes by approximately \$500,000, and that this deficit will continue to increase based on projected obligations as determined by MWD. Without a mechanism in place to pass this additional cost through to its customers, the Water Fund will be forced to cover this obligation with its working capital. With the current capital expenditure program and without the proposed rate increase, the water utility's working capital will be overdrawn in approximately 18 months.

Pass through of the PWAC formula is the mechanism used to cover these costs by other private and municipal water providers. The PWAC formula in its present form only takes into account the incremental cost of purchased water cost in dollars per acre foot for full service and seasonal water, and does not permit for the pass-through of incremental standby charges and associated purchased water costs. To recover total purchased water cost and institute a mechanism to pass through to consumers all pertinent purchased water costs, PWP must amend its PWAC formula. The recommended amendment is consistent with City's resolution on payment for its RTS obligation.

Ten-Year Capital Improvement Program

Pasadena Water and Power provides water to virtually all customers within the limits of the City of Pasadena and to some customers outside the city limits. The City depends on its water infrastructure system to deliver to its customers the highest quality water possible at low, competitive rates. Continued dependence on these facilities means the City must continue to reinvest in its aging water system.

To maintain integrity of the water system, PWP has developed a capital improvement program, which calls for capital expenditures of an average of approximately \$6.1 million annually for the next ten years. The proposed water rate increases has been set in an amount determined by a study as necessary to fund part or all of the unfunded portion of the deferred maintenance program.

Among other projects, the proposed capital plan would allow for the replacement and rehabilitation of about 6.2 miles of old occluded water pipelines per year and reduce the average age of PWP's 500+ miles of aging water mains. These capital projects would also provide additional capacity to the water system, increase staff's ability to manage local water supplies, which cost about a fourth of purchased water, reduce unaccounted for water, enhance system-wide fire protection capability and augment system reliability.

Due to the water utility's current high debt ratio of approximately 40%, and the adverse impact on future interest costs if this ratio rises above 50%, staff is not proposing utilizing debt financing for capital projects at this time. Hence, the need to raise rates and finance planned capital expenditures with internally generated capital.

This proposal will require the continued staffing of a six-person main line crew that is currently scheduled for elimination on September 30, 2000. Also, the capital program requires the addition of an Equipment Mechanic III to the Water Division's budget for water facilities rehabilitation and preventative maintenance. Staff has requested funding in the FY2001 budget for the crew for the first 90 days while this issue is under review. If the deferred maintenance program is approved, funding for the remaining nine months of FY2001 will be requested as an add package.

PROPOSED RATE INCREASES:

Under the proposed water rate increase, approximate first year impacts on average bills will be as follows:

Monthly Bill Impact

Customer Group	Meter Size	Current Average Bill	Increase	Average Bill with Increase
Small Residential	5/8"	\$17.11	\$1.03	\$18.14
Med Residential	1"	\$37.66	\$2.26	\$39.92
Large Residential	1½"	\$93.66	\$5.62	\$99.28
Med Commercial	2"	\$228.64	\$13.72	\$242.36
Large Commercial	4"	\$892.03	\$53.52	\$945.55
Large Industrial	6"	\$2,437.14	\$146.23	\$2,583.37

Pasadena water rates have not been increased since January 1996 and are currently among the lowest in California. With the proposed increase, the City's rates

are expected to remain competitive. A comparison of current monthly residential bills with nearby cities for various customers is shown in the following table.

Current Average Monthly Water Bill

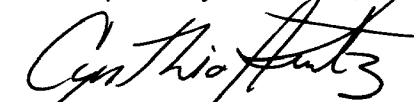
Customer Group	Meter Size	Pasadena	Glendale	Burbank	Long Beach
Small Residential	5/8"	\$17.11	\$38	\$28	\$34
Med Residential	1"	\$37.66	\$58	\$41	\$57
Large Residential	1½"	\$93.66	\$119	\$78	\$115
Med Commercial	2"	\$228.64	\$263	\$168	\$238
Large Commercial	4"	\$892.03	\$963	\$607	\$868
Large Industrial	6"	\$2,437.14	\$2,866	\$1,838	\$2,515

FISCAL IMPACT:

The proposed annual water rate increases of 6% per year for four years will generate an estimated \$1.6 million for the first year, another \$1.6 million for the second year, another \$1.7 million for the third year, and another \$2.0 million for the fourth year. The water rate increase will take effect by October 2000 and generate additional revenues for the Water Fund of approximately \$1.2 million pro rata in FY 2001. The combined total increases will sufficiently fund current expected CIP levels for the first five years of the ten-year plan.


After this five-year time span, the rates and capital needs will require reevaluation to ensure adequate resource availability.

Respectfully submitted,



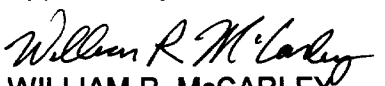
CYNTHIA J. KURTZ
City Manager

Prepared by:

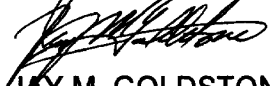
for 
JAY PANZICA

Director - Finance and Administration
Pasadena Water and Power

Approved by:


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