



**AGENCY:** City Council  
**MEETING DATE:** June 9, 2014  
**DEPARTMENT:** Finance  
**PREPARED BY:** R. Cimolino/L. Ruffing  
**PRESENTED BY:** L. Ruffing

## AGENDA ITEM SUMMARY

**TITLE:**

**RECEIVE REPORT AND RECOMMENDATION FROM FINANCE AND ADMINISTRATION COMMITTEE REGARDING AMENDED WATER RATES AND PROVIDE DIRECTION TO STAFF**

**ISSUE:**

Earlier this year, staff discovered that the projected year-end Water Enterprise revenues for fiscal year (FY) 2013/14 are lower than expected. At year-end, rate revenues are expected to be \$124,000 below budgeted projections. Upon investigation, staff determined that the utility rate study that was prepared in 2013 relied on data from the City's utility billing system that was inaccurate and over-estimated the number of commercial and multi-family accounts. Since the cost of service analysis allocates costs based on the number of accounts and the amount of water consumed in each customer class, the rates for commercial and multi-family classes were too low.

On April 28, 2014 and May 28, 2014, the Finance & Administration Committee reviewed alternative rate structures and provided direction to our utility rate study consultant, Greg Clumpner of NBS, who has re-run the model countless times. It should be noted that Mr. Clumpner bears no responsibility for the erroneous data which led to the under-collection of water rate revenue. He has been very generous with his time in helping troubleshoot the problem and evaluate solutions.

A recommended rate schedule is provided for review by the Council. If so directed, staff will proceed with the Proposition 218 noticing process which needs to occur prior to Council adoption of the new rates.

**RECOMMENDED ACTION:**

Receive Report and Recommendation from Finance and Administration Committee Regarding Amended Water Rates and Provide Direction to Staff

**ALTERNATIVE ACTION(S):**

None.

**ANALYSIS:**

The Finance & Administration Committee reviewed several revised rate structures and worked with the rate study consultant to develop a rate model that is accurate and fair: The following modifications were incorporated into the rate model:

1. The number, customer class, and size of accounts were corrected in the model.
2. Water consumption by customer class was adjusted based on current data.
3. FY 2013/14 revenue projections were amended to the original projected annual revenue for FY 2013/14 of \$2,300,655. The projected net revenue deficit for FY 2013/14 is now estimated at \$84,418.
4. FY 2014/15 expenditures were updated based on the draft FY 2014/15 budget.

5. In an effort to maintain adequate coverage for bonded indebtedness and to keep the rate increases in check, the Financial Plan was modified to reduce the projected 2015/16 bond issuance from \$5 million to \$3 million. Based on the City's 5-year Capital Improvement Plan, staff believes this amount will be sufficient to fund necessary capital projects in the Water Enterprise.
6. From FY 2015/16 onward, the revenue requirements assume that rate-funded capital expenses (i.e., pay-as-you-go capital projects) will be limited to \$150,000 per year which is reasonable assuming that bond funding will be available in FY 2015/16.
7. Rates were adjusted to recover the \$84,418 net deficit in FY 2013/14 over a three-year period starting in FY 2015/16.
8. Rate structure includes higher volumetric rates with the understanding that this may increase revenue volatility.
9. Rate structure continues to assume a 5% reduction in water consumption based on possibility that higher rates and drought conditions may result in future conservation efforts.

Attachment 1 shows the new alternative rate structure that was prepared based on the Finance and Administration Committee's May 28<sup>th</sup> instructions. Attachment 2 shows a comparison of the current adopted FY 2014/15 water rates and the Proposed Revised Water Rates. Attachment 3 presents the financial plan in the rate model which establishes the revenue requirements upon which the rates are based. As a point of comparison, Attachment 4 shows the five-year rate structure that was approved on June 10, 2013.

**FISCAL IMPACT:**

The new water rate structure is necessary to address an error in the rate model upon which the current adopted five-year rate plan is based. Without adjustments, the Water Enterprise would continue to collect insufficient revenues to fund operations. This is not sustainable and would have very serious adverse impacts on the City's water system and operations.

**IMPLEMENTATION/TIMEFRAMES:**

If the Council directs staff to proceed with the Proposition 218 process for increasing the water rates, all property owners and customers will be notified in writing of the proposed rate increases at least 45 days prior to a mandatory protest hearing and the Council's action on the rates. Assuming the protest hearing is held in August, the new rates would take effect on September 1, 2014.

**ATTACHMENTS:**

1. Proposed Revised FY 2014/15 – FY 2017/18 Water Rates
2. Comparison of FY 2014/15 Proposed Revised Water Rates and Existing Water Rates
3. Financial Plan and Summary of Revenue Requirements
4. FY 2013/14 through FY 2017/18 Water Rate Schedule Adopted in June 2013

**NOTIFICATION:**

1. Greg Clumpner

**City Clerk's Office Use Only**

Agency Action <input type="checkbox"/> Approved <input type="checkbox"/> Denied <input type="checkbox"/> Approved as Amended Resolution No.: _____ Ordinance No.: _____ Moved by: _____      Seconded by: _____ Vote: _____ <input type="checkbox"/> Deferred/Continued to meeting of: _____ <input type="checkbox"/> Referred to: _____
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## Attachment 1 – Proposed Revised FY 2014/15 – FY 2017/18 Water Rates

<b>Current and Revised Water Rates (Recovers Under-Collected 2013/14 Rate Revenue)</b>					
Customer Classes/Meter Sizes	Current Rates (2013/14)	Revised Rates			
		FY 2014/15 <sup>1</sup>	FY 2015/16	FY 2016/17	FY 2017/18
<i>Annual % Increase in Rate Revenue<sup>2</sup></i>		15.0%	7.0%	7.0%	7.0%
<b>Fixed Monthly Charges:</b>					
<i>Single-Family Residential Customers:</i>					
5/8 inch & 3/4 inch	\$27.17	\$29.00	\$31.02	\$33.19	\$35.51
1 inch	\$38.11	\$41.25	\$44.13	\$47.21	\$50.51
1.5 inch	\$45.39	\$49.42	\$52.87	\$56.56	\$60.51
<i>Non-Residential Customers:</i>					
5/8 inch & 3/4 inch	\$54.78	\$59.00	\$63.12	\$67.53	\$72.24
1 inch	\$82.28	\$90.56	\$96.89	\$103.65	\$110.89
1.5 inch	\$100.61	\$111.61	\$119.40	\$127.73	\$136.65
2 inch	\$192.26	\$216.82	\$231.96	\$248.15	\$265.48
3 inch	\$283.92	\$322.03	\$344.52	\$368.57	\$394.30
4 inch	\$375.57	\$427.25	\$457.08	\$488.99	\$523.13
<i>Commercial Low-Usage Customers:</i>					
5/8 inch & 3/4 inch	\$33.97	\$29.00	\$31.02	\$33.19	\$35.51
<b>Volumetric Charges</b>					
<i>Single Family Residential Rates (\$/hcf)<sup>3</sup></i>					
Tier 1: 0-5 HCF	\$2.60	\$2.74	\$2.93	\$3.14	\$3.36
Tier 2: 6-10 HCF	\$3.90	\$4.11	\$4.40	\$4.71	\$5.03
Tier 3: 11+ HCF	\$5.85	\$6.17	\$6.60	\$7.06	\$7.55
<i>Non-Single Family Residential (\$/hcf)</i>					
Rate Per HCF	\$3.10	\$4.73	\$5.06	\$5.41	\$5.79
<b>Projected Annual Rate Revenue</b>					
Financial Plan Projections <sup>4</sup>	\$ 2,300,655	\$ 2,548,673	\$ 2,701,593	\$ 2,863,688	\$ 3,035,510
Revised Projections w/ Adjustments <sup>5</sup>	\$ 2,216,237	\$ 2,548,673	\$ 2,728,109	\$ 2,891,796	\$ 3,065,304
Annual Surplus or (Loss)	\$ (84,418)	\$ -	\$ 26,517	\$ 28,108	\$ 29,794
Cumulative Surplus or (Loss)	\$ (84,418)	\$ (84,418)	\$ (57,901)	\$ (29,794)	\$ 0

1. Reflects the updated account & water use data as of 5/9/14.

2. FY 2015/16 through FY 2017/18 reflect additional adjustments necessary to eliminate the FY 2013/14 deficit.

3. Includes Commercial Low Usage customers.

4. The FY 2013/14 projected annual rate revenue is per Finance Committee's 5/28/14 instructions.

5. Assumes the under-collected FY 2013/14 rate revenue will be recovered by the end of FY 2017/18.

**Attachment 2 – FY 2014/15 Comparison between Adopted Water Rates and Proposed Revised Water Rates**

Current FY'13-14 and Adopted/Revised Water Rates in FY 2014/15: <i>(BEFORE Adjustments to Recover the Under-Collected 2013/14 Rate Revenue)</i>				% Change: Adopted to Revised FY'14-15 Rates
Comparison Factor	Current Rates	Adopted FY'14-15 Rates	Revised FY'14-15 Rates	
<b>Fixed Monthly Charges:</b>				
<i>Single-Family Residential Customers:</i>				
5/8 inch & 3/4 inch	\$27.17	\$28.53	\$29.00	2%
1 inch	\$38.11	\$40.02	\$41.25	3%
1.5 inch	\$45.39	\$47.66	\$49.42	4%
<i>Non-Residential Customers:</i>				
5/8 inch & 3/4 inch	\$54.78	\$57.52	\$59.00	3%
1 inch	\$82.28	\$86.39	\$90.56	5%
1.5 inch	\$100.61	\$105.64	\$111.61	6%
2 inch	\$192.26	\$201.87	\$216.82	7%
3 inch	\$283.92	\$298.12	\$322.03	8%
4 inch	\$375.57	\$394.35	\$427.25	8%
<i>Commercial Low-Usage Customers:</i>				
5/8 inch & 3/4 inch	\$33.97	\$35.67	\$29.00	-19%
<b>Volumetric Charges</b>				
<i>Single Family Residential Rates (\$/hcf)<sup>1</sup></i>				
Tier 1: 0-5 HCF	\$2.60	\$2.74	\$2.74	0%
Tier 2: 6-10 HCF	\$3.90	\$4.12	\$4.11	0%
Tier 3: 11+ HCF	\$5.85	\$6.18	\$6.17	0%
<i>Non-Single Family Residential (\$/hcf)</i>				
Rate Per HCF	\$3.10	\$3.27	\$4.73	45%

1. Includes Commercial Low Usage customers.

### Attachment 3 – Financial Plan and Summary of Revenue Requirements

SOURCES & USES OF FUNDS - WATER UTILITY	Projected FYE	Proposed	Projected		
	FY 2013/14 <sup>5</sup>	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
<b>Sources of Water Funds</b>					
Rate Revenue from Current Rates	\$ 2,216,237	\$ 2,216,237	\$ 2,216,237	\$ 2,216,237	\$ 2,216,237
Rate Revenue from Rate Increases	\$ -	\$ 332,436	\$ 510,372	\$ 700,730	\$ 904,379
Interest earned	19,500	15,000	15,000	15,000	15,000
Misc.	12,101	9,000	9,000	9,000	9,000
Transfers in from General Fund	24,600	25,600	25,600	25,600	25,600
<b>Total Sources of Funds</b>	<b>\$ 2,272,438</b>	<b>\$ 2,598,273</b>	<b>\$ 2,776,209</b>	<b>\$ 2,966,567</b>	<b>\$ 3,170,216</b>
<b>Uses of Water Funds</b>					
Operating Expenses <sup>1</sup> :					
Administration	\$ 1,430,608	\$ 1,311,510	\$ 1,350,855	\$ 1,391,381	\$ 1,433,122
Maintenance	257,958	236,565	243,662	250,972	258,501
Treatment	359,422	408,938	421,206	433,842	446,858
Non-Routine Repairs and Maintenance	119,060	65,500	67,465	69,489	71,574
Subtotal: Operating Expenses	\$ 2,167,048	\$ 2,022,513	\$ 2,083,188	\$ 2,145,684	\$ 2,210,055
Other Expenditures:					
Debt Service	\$ 595,975	\$ 601,978	\$ 601,978	\$ 601,238	\$ 473,880
New Debt Service (\$3 mil. Revenue Bonds) <sup>2</sup>	-	-	-	\$199,000	199,000
Rate-Funded Capital Expenses <sup>3</sup>	250,000	400,000	150,000	150,000	150,000
Subtotal: Other Expenditures	\$ 845,975	\$ 1,001,978	\$ 751,978	\$ 950,238	\$ 822,880
<b>Total Uses of Water Funds</b>	<b>\$ 3,013,023</b>	<b>\$ 3,024,491</b>	<b>\$ 2,835,166</b>	<b>\$ 3,095,922</b>	<b>\$ 3,032,935</b>
<b>Annual Surplus/(Deficit)</b>	<b>\$ (740,585)</b>	<b>\$ (426,218)</b>	<b>\$ (58,958)</b>	<b>\$ (129,355)</b>	<b>\$ 137,281</b>
<b>Net Revenue Req. (Total Uses less Non-Rate Revenue)</b>	<b>\$ 2,956,822</b>	<b>\$ 2,974,891</b>	<b>\$ 2,785,566</b>	<b>\$ 3,046,322</b>	<b>\$ 2,983,335</b>
<b>Estimated Year-End Reserves (Total Cash)</b>	<b>\$ 1,900,000</b>	<b>\$ 1,473,782</b>	<b>\$ 1,414,824</b>	<b>\$ 1,285,469</b>	<b>\$ 1,422,750</b>
<b>Projected Annual Rate Increase<sup>4</sup></b>	<b>0.0%</b>	<b>15.0%</b>	<b>7.0%</b>	<b>7.0%</b>	<b>7.0%</b>
<i>Cumulative Increase from Annual Rate Increases</i>	<i>0.0%</i>	<i>15.0%</i>	<i>23.0%</i>	<i>31.6%</i>	<i>40.8%</i>

(1) Assumes 3% annual inflation.

5/30/14

(2) Assumes \$3 million in new revenue bonds are issued in FY 2015/16 (5% interest rates, 2% issuance costs, 30 year term).

(3) Assumes only critical CIP projects in 2014/15 are funded due to the 2013/14 deficit. Also assumes the projected capital project funding will be limited to \$150,000/year for non-major CIP projects.

(4) This includes adjustments to recover under-collected 2013/14 rate revenue (i.e., deficit of \$84,418).

(5) Based on City's 5/9/14 update of 2013/14 FYE budget estimates (see email from Rosana Cimolino, Finance Director/City Treasurer).

**Attachment 4 – Water Rate Schedule as Adopted in June 2013**

<b>Current Rate Structure</b>					
Customer Classes/Meter Sizes	Current Rates (2013/14)	Rates for next 4 years			
		FY 2014/15 <sup>1</sup>	FY 2015/16	FY 2016/17	FY 2017/18
<i>Annual % Increase in Rate Revenue</i>		<i>5.00%</i>	<i>10.00%</i>	<i>10.00%</i>	<i>10.00%</i>
<i>Fixed Charges For Residential Customers:</i>					
5/8 inch	\$27.17	\$28.53	\$31.38	\$34.52	\$37.97
3/4 inch	\$27.17	\$28.53	\$31.38	\$34.52	\$37.97
1 inch	\$38.11	\$38.11	\$44.02	\$48.42	\$53.26
1.5 inch	\$45.39	\$47.66	\$52.43	\$57.67	\$63.43
2 inch	\$81.83	\$85.92	\$94.51	\$103.96	\$114.36
3 inch	\$118.26	\$124.17	\$136.59	\$150.25	\$165.27
4 inch	\$154.70	\$162.44	\$178.68	\$196.55	\$216.20
6 inch	\$373.31	\$391.98	\$431.18	\$474.30	\$521.72
<i>Fixed Charges For Non-Residential Customers:</i>					
5/8 inch	\$54.78	\$57.52	\$63.27	\$69.60	\$76.56
5/8 inch (Low-Usage Customers)	\$33.97	\$35.66	\$39.23	\$43.15	\$47.46
3/4 inch	\$54.78	\$57.52	\$63.27	\$69.60	\$76.56
1 inch	\$82.28	\$86.39	\$95.03	\$104.53	\$114.99
1.5 inch	\$100.61	\$105.64	\$116.20	\$127.83	\$140.61
2 inch	\$192.26	\$201.87	\$222.06	\$244.26	\$268.69
3 inch	\$283.92	\$298.12	\$327.93	\$360.72	\$396.79
4 inch	\$375.57	\$394.35	\$433.79	\$477.16	\$524.88
6 inch	\$925.48	\$971.75	\$1,068.93	\$1,175.82	\$1,293.40
<i>Variable Charges</i>					
Single Family Residential Rates per HCF					
Tier 1: 0-5 HCF	\$2.60	\$2.74	\$3.02	\$3.32	\$3.65
Tier 2: 6-10 HCF	\$3.90	\$4.12	\$4.53	\$4.98	\$5.48
Tier 3: 11+ HCF	\$5.85	\$6.18	\$6.79	\$7.47	\$8.22
Non-Single Family Residential					
Rate Per HCF	\$3.10	\$3.26	\$3.58	\$3.94	\$4.33
<b>Projected Annual Rate Revenue</b>					
Original Projections	\$ 2,300,655	\$ 2,415,688	\$ 2,657,257	\$ 2,922,982	\$ 3,215,280