THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: September 1, 2010 REPORT NO: 10-114

ATTENTION: Natural Resources and Culture Committee
Meeting of September 8, 2010

SUBJECT: Proposition 218 Noticing for Proposed Water Rate Increase to Offset the Increase in Rates Charged by the San Diego County Water Authority

REFERENCE: Report to City Council No. 09-155
Report to City Council No. 08-167
Report to City Council No. 07-039

REQUESTED ACTION:

- Forward to City Council and docket for September 21, 2010.
- Authorize Proposition 218 Noticing of proposed water rate increase of $0.47 per equivalent dwelling unit based upon meter size and an increase of 5.86% applied to all customer classes and tiered water consumption rates equally in order to offset the increase in the wholesale cost of water purchased by the City from the San Diego County Water Authority (CWA).
- Set a public hearing date for a City Council vote on the proposed water rate increase for November 15, 2010.

STAFF RECOMMENDATION:

- Forward to City Council and docket for September 21, 2010.
- Approve Proposition 218 Noticing of proposed water rate increase of $0.47 per equivalent dwelling unit based upon meter size and an increase of 5.86% applied to all customer classes and tiered water consumption rates equally in order to offset the increase in the wholesale cost of water purchased by the City from the San Diego County Water Authority (CWA).
- Set a public hearing date for a City Council vote on the proposed water rate increase for November 15, 2009.

SUMMARY:

Noticing and Legal Requirements

On November 5, 1996, the voters of the State of California approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218, effective July 1, 1997, added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local

governments to levy and collect both existing and future taxes, assessments, fees and charges. Article XIIID, section 6(a)(1) imposes noticing procedures for imposing a new or increasing an existing property-related fee or charge. This initiative changed the way the public is notified of proposed property-related fee increases. For purposes of this proposal, it requires that notices be mailed to all affected City water customers at least 45 days in advance of the public hearing where a proposed property related fee increase may be adopted. The Public Utilities Department's proposed noticing process adheres to all legal requirements associated with Proposition 218 and applicable sections of the Government Code.

The Public Utilities Department will mail notices (Attachment 1) on or before September 30, 2010 to all City water customers advising them of the adjustments to the water fees and rates due to the increase in the wholesale cost of water, informing them of the City Council hearing date for public comment, and providing them an opportunity to protest the proposed rate increase through a form which may be submitted via return mail to the City Clerk. The City Council will hold a public hearing on November 15, 2010 to consider adoption of the proposed revisions to existing water base fees and commodity charges. If adopted, the revisions under this proposal will become effective beginning January 1, 2011.

Background

The City has managed and operated the water system since 1901 after purchasing the privately owned San Diego Water and Telephone Company. Since then the system has been expanded to supply approximately 274,000 accounts at the start of FY 2011, delivering approximately 190,000 acre-feet of water per year.

While the City has grown, local water sources have remained static. In general, approximately 10 – 15 percent of the City's water supply is derived from local water sources. The balance of the City's water supply is purchased from the CWA. These purchases from the CWA include treated water that is delivered to the City's water distribution system and raw water that is transported to the City's water treatment plants. The City owns and operates three water treatment plants with a combined current capacity of nearly 295 million gallons per day (MGD). Twenty-nine (29) treated water storage facilities within the water system ensure consistent delivery to the 128 different pressure zones with the aid of 49 water pump stations.

Wholesale Water Rate Pass Through

San Diego mostly relies upon imported water from Northern California and the Colorado River. The City currently purchases approximately 85 - 90 percent of its water from CWA, which in turn purchases water from the Metropolitan Water District of Southern California (MWD). CWA periodically increases the rates it charges the City for water. These increases are based on CWA costs for infrastructure, operations, maintenance, and water purchases from MWD. The increased costs are then passed through by CWA to the agencies that purchase water from CWA. These increased costs are known as "pass-throughs."

On April 13, 2010, the Metropolitan Board of Directors ("MWD Board") adopted rate and charge increases for Calendar Year 2011. The MWD Board's action was to make January 1, 2011 the effective date for the increases to MWD's water supply charges.

On June 24, 2010, CWA staff made a presentation to the CWA Board of Directors ("CWA Board") disclosing the need for a rate increase based on additional infrastructure, operations, maintenance, and MWD water purchase costs. The CWA Board approved those rate increase recommendations (see attached CWA Staff Report and Ordinance, dated June 16, 2010, Attachment 2), including making January 1, 2011 the effective date for CWA to match the effective date of rate increases from MWD.

CWA pass-through rate increases were not part of the City's 4-year, 6.5% annual water rate increase approved by the City Council as part of the Public Utilities Water Branch's 4-year capital improvement plan in February 2007 (Report to the City Council No. 07-039). When the 4-year, 6.5% annual increases were presented to the City Council, the Council was advised that the proposed rate increases did not include any future CWA pass through increases as none were finalized or approved by the CWA Board at the time. As each CWA Board action is independent and future increases in the wholesale rate cannot be known by it's member agencies, the Council is regularly advised that it is the intent of the Public Utilities Department to request authorization to notice any future pass-throughs, and to apply any appropriate rate increases as they became approved by CWA.

As a result, staff is recommending the adoption of the following water rate increases in order to maintain cost/revenue neutrality and to maintain consistency with the City's 4-year water rate plan previously approved. Staff is recommending the water rate increase be effective as of January 1, 2011 in order to maintain consistency with the effective date of CWA increases and to maintain consistency with previous pass-through rate increase effective dates. The anticipated costs associated with these pass-through increases from CWA will be captured in the proposed January 1, 2011 water rate increase.

For calendar year 2011, the CWA pass-through increases are estimated to total approximately $25.2 million. The mathematical accuracy of the Public Utilities' calculations of the projected increases in water purchase costs and the revenues required to offset the purchases for calendar year 2011 have been verified by the Office of the City Auditor (Attachment 3).

The proposed January 1, 2011 rates reflect an adjustment (reduction) to the rate increases that were set in place on January 1, 2010. On January 1, 2010, the City set in place water rates that addressed an increase in the cost of purchase water from CWA. Though it had been the practice of CWA to set an effective date of January 1 for their "pass-thoughs" to their member agencies, last year CWA set several of their volumetric rates to become effective earlier, on September 1, 2009, with the balance of their charges to become effective January 1, 2010. The City addressed these different effective dates from CWA by setting rates to become effective on January 1, 2010 to collect all the anticipated charges from CWA. This requires the City to make an adjustment to the water rates at the end of Calendar Year 2010 in order to prevent an incorrect collection of revenues. This adjustment will partially mitigate the effect of the rate increases proposed for January 1, 2011. No similar adjustment is anticipated at the end of Calendar Year 2011.

In addition, on December 3, 2007, the San Diego City Council voted to initiate an Indirect Potable Reuse Demonstration Project to determine the feasibility of using advanced treated recycled water to augment local drinking water supplies. On January 1, 2009, a temporary water

rate increase of 3.08% was applied to all customer classes and tiered consumption rates equally in order to fund this project. This temporary rate increase has been eliminated effective September 1, 2010, as sufficient revenue has been collected as of that date to fund the demonstration project. The Current Fees as listed in the following tables include the effect of this reduction.

Current and Proposed Rates

City of San Diego water rates are comprised of two components: the Base Fee and the Commodity Rate. The Base Fee is based upon meter size and is used to recover meter related charges associated with the water system. The Commodity Rate recovers all other cost components of the water system based upon water usage. The proposed base fee and commodity rate increases are presented below:

Increase in Base Fee

On June 24, 2010, the CWA Board voted to increase its meter-based Infrastructure Access Charge (IAC) to be effective January 1, 2011. Based on multiplication factors established by CWA, each meter size is converted into a number of household meter equivalents (Equivalent Dwelling Units) and rate increases are applied accordingly. The table below represents the proposed "pass through" monthly increases to the base fee based upon meter size. The base fee for a Single Family Residential customer (typical meter size of less than 1 inch) will increase by $0.47 per month, from $18.86 to $19.33.

PROPOSED CWA PASS THROUGH INCREASES			
MONTHLY BASE FEE (Based on Meter size)			
Meter size	**Current**	**Anticipated Increase**	**Rate as of January 1, 2011**
5/8 Inch	$ 18.86	$ 0.47	**$ 19.33**
3/4 Inch	$ 18.86	$ 0.47	**$ 19.33**
1 Inch	$ 27.66	$ 0.80	**$ 28.46**
1 1/2 Inch	$ 47.79	$ 1.55	**$ 49.34**
2 Inch	$ 72.95	$ 2.49	**$ 75.44**
3 Inch	$ 132.04	$ 4.70	**$ 136.74**
4 Inch	$ 216.30	$ 7.85	**$ 224.15**
6 Inch	$ 425.08	$ 15.65	**$ 440.73**
8 Inch	$ 676.59	$ 25.05	**$ 701.64**
10 Inch	$ 970.89	$ 36.05	**$ 1,006.94**
12 Inch	$ 1,808.47	$ 67.35	**$ 1,875.82**
16 Inch	$ 3,150.36	$ 117.50	**$ 3,267.86**

Increase in Water Commodity Charge

On June 24, 2010, the CWA Board voted to increase the rate and charges for the melded supply charge, melded treatment charge, transportation rate, storage charge, readiness-to-serve charge, capacity charge, and customer service charge effective January 1, 2011. As all of these charges are based on water deliveries or are the City's portionate share of CWA's total cost to deliver water, these charges are recovered through the Public Utilities Department's Water Commodity charge. Definitions for these CWA charges are described in the attached CWA Report, dated

June 16, 2010 (Attachment 2). As a direct result of these increases in commodity related charges from CWA, the Public Utilities Department will need to increase commodity charges for all customer classes and tiered comsumption by 5.86% (see table below).

PROPOSED CWA PASS THROUGH INCREASES MONTHLY COMMODITY FEE (Based on Water Usage)			
Customer Classification	**Current**	**Anticipated Increase**	**Rate as of January 1, 2011**
Single Family Residential			
Tier 1 (First 7 HCF used)	$3.410	$0.200	**$3.610**
Tier 2 (Second 7 HCF used)	$3.698	$0.217	**$3.915**
Tier 3 (Usage above 14 HCF)	$4.152	$0.243	**$4.395**
Multi-family Dwelling	$3.698	$0.217	**$3.915**
Commercial	$3.547	$0.208	**$3.755**
Industrial	$3.547	$0.208	**$3.755**
Irrigation	$3.790	$0.223	**$4.013**
Temporary Construction	$3.790	$0.223	**$4.013**
HCF=Hundred Cubic Feet			

The commodity charge for a Single Family Residential customer with the usage of 14 HCF per month will increase monthly by $2.92 [(7 HCF x $0.200 per HCF) + (7 HCF x $0.217 per HCF)], from $49.76 to $52.68.

The following table outlines the overall monthly effect of the CWA increases to the base fee and commodity charge for a typical Single Family Residential customer with a meter size of less than one (1) inch and water usage of 14 HCF per month:

EFFECT OF PROPOSED CWA WATER RATE INCREASES ON A TYPICAL SINGLE FAMILY RESIDENTIAL MONTHLY BILL (14 HCF usage)		
Single Family Residential	**Current**	**January 1, 2011**
Base Fee		
3/4 inch meter	$ 18.86	$ 19.33
Commodity Fee*		
Tier 1 (1-7 HCF)	23.87	25.27
Tier 2 (8-14 HCF)	25.89	27.41
Total	**$ 68.62**	**$ 72.01**
*Assumes 7 HCF used per rate tier.		

The new water fees and rates effective January 1, 2011 will raise the monthly bill of a Single Family Residential customer with a meter size of less than one (1) inch and water usage of 14 HFC per month by approximately $3.39, to $72.01 per month. This represents a 4.94% increase in the current water bill, which is $68.62 per month.

FISCAL CONSIDERATIONS:
Cost of noticing City of San Diego water customers will be approximately $100,000. This cost will be assumed by the Water Branch of the Public Utilities Department.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:
Presented to Independent Rates Oversight Committee (IROC) on August 9, 2010. The IROC voted to approve the Proposition 218 notice.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
Proposition 218 notices will be issued upon approval of the full City Council at its September 21, 2010, Council meeting. This will provide 45 days for public review and outreach prior to the November 15, 2010 public hearing.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:
City of San Diego water customers will receive a notice of the public hearing to take place on November 15, 2010 to consider adoption of the proposed increase to the existing water fees and rates. This notice will also inform the customers how to register a protest against these rate increases. If adopted, the adjusted fees and rates would become effective January 1, 2011.

Alex Ruiz
Interim Director of Public Utilities

Attachments:
1. Proposed Proposition 218 Notice
2. San Diego County Water Authority Staff Report, dated June 16, 2010
3. City Auditor Review of the Increase in San Diego Water Rates

EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO

DATE ISSUED:	August 31, 2010
ATTENTION:	Natural Resources and Culture Committee Meeting of September 8, 2010
ORIGINATING DEPT.:	Public Utilities Department
SUBJECT:	Proposition 218 Noticing for Proposed Water Rate Increase to Offset the Increase in Rates Charged by the San Diego County Water Authority
COUNCIL DISTRICTS:	All
STAFF CONTACT:	Jeanne Cole (858) 292-6313 Chris Ojeda (858) 614-5746

REQUESTED ACTION:

Forward to City Council and docket for September 21, 2010.

Authorize Proposition 218 Noticing of proposed water rate increase of $0.47 per equivalent dwelling unit based upon meter size and an increase of 5.86% applied to all customer classes and tiered water consumption rates in order to offset the increase in the wholesale cost of water purchased by the City from the San Diego County Water Authority (CWA).

Set a public hearing date for a City Council vote on the proposed water rate increase for November 15, 2010.

STAFF RECOMMENDATION: Adopt the Resolutions.

EXECUTIVE SUMMARY:

San Diego mostly relies upon imported water from Northern California and the Colorado River. The City currently purchases approximately 85 - 90 percent of its water from CWA, which in turn purchases water from the Metropolitan Water District of Southern California (MWD). CWA periodically increases the rates it charges the City for water. These increases are based on CWA costs for infrastructure, operations, maintenance, and water purchases from MWD. The increased costs are then passed through by CWA to the agencies that purchase water from CWA. These increased costs are known as "pass-throughs."

On April 13, 2010, the Metropolitan Board of Directors ("MWD Board") adopted rate and charge increases for Calendar Year 2011. The MWD Board's action was to make January 1, 2011 the effective date for the increases to their water supply charges.

On June 24, 2010, CWA staff made a presentation to the CWA Board of Directors ("CWA Board") disclosing the need for a rate increase based on additional infrastructure, operations, maintenance, and water purchase costs. The CWA Board approved the rate increase recommendations including making January 1, 2011 the effective date to match the effective date of rate increases from MWD.

CWA pass-through rate increases were not part of the City's 4-year, 6.5% annual water rate increase approved by the City Council as part of the Public Utilities Water Branch's 4-year capital improvement plan in February 2007 (Report to the City Council No. 07-039). When the

4-year, 6.5% annual increases were presented to the City Council, the Council was advised that the proposed rate increases did not include any future CWA pass-through increases as none were finalized or approved by the CWA Board at the time. As each CWA Board action is independent and future increases in the wholesale rate cannot be known by it's member agencies, the Council is regularly advised that it is the intent of the Public Utilities Department to request authorization to notice any future pass-throughs, and to apply any appropriate rate increases as they became approved by CWA.

On January 1, 2011, the City intends to increase the currently effective water system rates and fees across all customer classes in order to pass through the increased wholesale water purchase costs from CWA. The base fee will increase by $0.47 per equivalent dwelling unit based upon meter size and the commodity fee will increase by 5.86% per HCF of water usage for all customer classes. For the typical single family residence customer with a meter size of less than one (1) inch and water usage of 14 HCF per month, the fee increases due to the CWA pass-through costs will add approximately $3.39 to the monthly water bill. This will be a 4.94% increase in the current water bill.

Staff is recommending the adoption of the water rate increases in order to maintain cost/revenue neutrality and to maintain consistency with the City's 4-year water rate plan previously approved. Staff is recommending the water rate increase effective date as January 1, 2011 in order to maintain consistency with previous pass-through rate increases. The rate increases are subject to Proposition 218 noticing.

FISCAL CONSIDERATIONS:
Cost of noticing the City of San Diego water customers will be approximately $100,000. This cost will be assumed by the Water Branch of the Public Utilities Department.

PREVIOUS COUNCIL COMMITTEE ACTION:
Presented to Independent Rates Oversight Committee (IROC) as an action item on August 9, 2010. The IROC voted to approve the Proposition 218 notice.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:
Proposition 218 notice will be issued upon approval of the full City Council at its September 21, 2010, Council meeting. This will provide 45 days for public review and outreach prior to the November 15, 2010 hearing.

KEY STAKEHOLDERS & PROJECTED IMPACTS:
The City of San Diego water customers will receive notice that the City Council will hold a public hearing on November 15, 2010 to consider adoption of the proposed increase to the existing water fees and rates. This notice will also inform the customers how to register a protest against these rate increases. If adopted, the adjusted fees and rates would become effective January 1, 2011.

Alex Ruiz
Interim Director of Public Utilities

You Can Protest the Proposed Rate Adjustment

You can use the form in this notice to register your protest against the proposed water rate adjustment. You can also choose to write a letter to the City, following the requirements below, or appear at the public hearing listed on the front cover of this notice to submit your written protest.

How Can I Participate?

Interested parties can comment on the proposed rates. California law prohibits the City from implementing the new rates if a majority of the affected property owners or tenants file written protests opposing the rates before the end of the public hearing. Only one written protest per affected property will be counted towards the majority protest. Written protests must be received by the City Clerk, Mail Station No. 2P, City Administration Building, 202 C Street, San Diego, CA 92101, before the end of the public hearing which is scheduled for 2:00 p.m., November 15, 2010. Each protest must identify the affected property (by street address or Assessor's Parcel Number) and include the signature of the property owner or utility customer of record. Email protests will not be accepted. Although oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest, the Mayor and City Council welcome input from the community during the public hearing.

DRAFT

USE THIS FORM TO PROTEST THE PROPOSED WATER RATE INCREASE

I _____ protest this proposed increase to water rates.
(Print first and last name)

Property Address or
Assessor's Parcel Number: _____

Signature: _____

If you wish to use this form as your protest, please fill out and mail in a stamped envelope to:
City Clerk, City Administration Building, 202 C Street, MS 2P, San Diego, CA 92101.

Some customers will receive multiple notices In order to ensure that all San Diegans are informed about possible water rate increases, these Notices are being sent to all City of San Diego water customers. If you are responsible for more than one bill, you will receive more than one Notice.

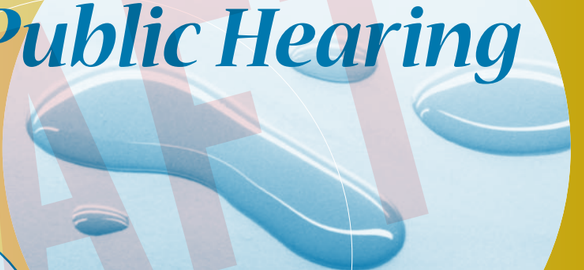
This material is available in alternative formats upon request to accommodate persons with disabilities or non-English speakers. To order information in an alternative format, or to arrange for a sign language or oral interpreter at the **November 15, 2010** hearing, please call the Clerk's office on or before November 5, 2010 at (619) 533-4000 (voice) or (619) 236-7012 (TTY).

THE CITY OF SAN DIEGO

Notice of Public Hearing

The San Diego City Council will hold a public hearing to consider a proposed water rate increase as a result of an increase by the County Water Authority for the wholesale cost of water.

Interested parties are invited to attend. Read inside to learn more.



November 15, 2010
2:00 p.m.
City Administration Building
202 "C" Street, 12th Floor
Council Chambers

DRAFT

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Notice of Public Hearing Information Inside

PROPOSED WATER SERVICE RATES AND CHARGES

The San Diego City Council will be holding a public hearing to consider proposed adjustments in water rates. The meeting will be held November 15, 2010 at 2:00 p.m. At this hearing the City Council will consider the recommendation to increase water rates to recover the increased cost charged by the San Diego County Water Authority for wholesale water.

PROPOSED NEW WATER RATES BASED ON COUNTY WATER AUTHORITY ACTION

On June 24, 2010 the San Diego County Water Authority (CWA) voted to increase several of the rates it charges for imported water beginning on January 1, 2011. These rate increases apply to all county water agencies, including the City. Because local water supplies are very limited, the City must buy approximately 85-90% of the water it supplies to its customers from the CWA. Because the City is required to recover the costs for water purchases, it must "pass through" these increased charges to its own customers.

The CWA based its increases on the costs for its own infrastructure, operations and maintenance. The CWA increases also reflect the cost it pays to purchase water from the region's largest water wholesaler, the Metropolitan Water District of Southern California. The CWA has approved increases to both its fixed infrastructure access charge and its commodity charges, which are based upon the amount of water purchased. These rate increases do not include any expenditure for City infrastructure, operations or maintenance.

Proposed Fee Increases

There are two parts to water rates charged by the City of San Diego to you as a customer. These are the Base Fee and the Commodity Fee. The Base Fee is levied to recover the fixed charges associated with the operation and maintenance of the water system and includes charges paid by the City to access the CWA water supply infrastructure. The Commodity Fee is levied to recover the variable costs based on the amount of water used by water system customers. The proposed rate increase will affect both the Base Fee and the Commodity Fee.

Proposed Base Fee Rate Adjustments Due to CWA "Pass Through"

The following table illustrates how the proposed water rate increase will affect the Base Fee for water system customers. This fee is applied to each meter equivalent and increases as the meter size increases. The figures included in the table are based on charges per month.

AN IMPORTANT NOTE: More than 90 percent of the Single Family Residential customers have meter sizes less than 1 inch. That means that the vast majority of Single Family Residential customers will see their Base Fee rise by 47 cents per month. If you need assistance to determine your meter size, please call the City's Public Utilities Customer Service Division at (619) 515-3500.

PROPOSED CWA PASS THROUGH INCREASE - MONTHLY BASE FEE (BASED ON METER SIZE)

BASE FEES Meter Size	Current Fees	Anticipated Increase	Rate as of January 1, 2011
5/8 Inch	$18.86	$0.47	$19.33
3/4 Inch	$18.86	$0.47	$19.33
1 Inch	$27.66	$0.80	$28.46
1 1/2 Inch	$47.79	$1.55	$49.34
2 Inch	$72.95	$2.49	$75.44
3 Inch	$132.04	$4.70	$136.74
4 Inch	$216.30	$7.85	$224.15
6 Inch	$425.08	$15.65	$440.73
8 Inch	$676.59	$25.05	$701.64
10 Inch	$970.89	$36.05	$1,006.94
12 Inch	$1,808.47	$67.35	$1,875.82
16 Inch	$3,150.36	$117.50	$3,267.86

WATER RATES REDUCED IN SEPTEMBER : On December 3, 2007, the San Diego City Council voted to initiate an Indirect Potable Reuse Demonstration Project to determine the feasibility of using advanced treated recycled water to augment local drinking water supplies. On January 1, 2009, a temporary water rate increase of 3.08% was applied to all customer classes and tiered consumption rates equally in order to fund this project.

This temporary rate increase has been eliminated effective September 1, 2010. The total project cost is $11,811,000 and the temporary rate increase raised $10,550,477 in revenue. The remaining $1,260,523 in project costs will be reimbursed by California Proposition 50 and U.S. Bureau of Reclamation grants. Current fees shown above include the effect of this reduction.

For more information about the Indirect Potable Reuse Demonstration Project, please visit www.sandiego.gov/water and click on the Water Reuse icon.

PROPOSED COMMODITY FEE ADJUSTMENTS DUE TO CWA "PASS THROUGH"

In addition to an increase in the Base Fee for fixed charges, the CWA "pass through" costs proposed by the City will also raise the Commodity Fee. The City is proposing to raise Commodity Fees by 5.86% for each hundred cubic feet (HCF) of water consumed within the City's tiered water rate system. A hundred cubic feet of water equals approximately 748 gallons.

PROPOSED CWA PASS THROUGH INCREASE - MONTHLY COMMODITY FEE (BASED ON WATER USAGE)

Customer Classification	Current Fees	Anticipated Increase	Rate as of January 1, 2011
Single Family Dwelling			
Tier 1 (First 7 HCF used)	$3.410	$0.200	$3.610
Tier 2 (Second 7 HCF used)	$3.698	$0.217	$3.915
Tier 3 (Usage above 14 HCF)	$4.152	$0.243	$4.395
Multi-Family Dwelling	$3.698	$0.217	$3.915
Commercial	$3.547	$0.208	$3.755
Industrial	$3.547	$0.208	$3.755
Irrigation	$3.790	$0.223	$4.013
Temporary Construction	$3.790	$0.223	$4.013

Example:

When combined with new Base Fees, the increased Commodity Fee will effectively raise total water rates for a typical Single Family Residential customer using 14 HCF by approximately 4.94% ($3.39 per month). The exact amount of increase will vary among customers because of the varying levels of water consumption.

EFFECT OF PROPOSED CWA WATER RATE INCREASES ON A TYPICAL SINGLE FAMILY DWELLING MONTHLY BILL (14 HCF USAGE)

Single-Family Dwelling	Current Fees	Projected as of January 1, 2011
Base Fee		
3/4 inch meter	$18.86	$19.33
Commodity Fee*		
Tier 1 (1-7 HCF)	$23.87	$25.27
Tier 2 (8-14 HCF)	$25.89	$27.41
Total	**$68.62**	**$72.01**

Increase ($)	$3.39
Increase (%)	4.94%

**Assumes 7 HCF used per rate tier.*

NOTE: *To help promote conservation, the City uses a tiered billing structure that increases the costs for water used by residential customers. The first tier rate applies to water usage up to 7 HCF per month. The second, higher tier rate applies to all water used over 7 HCF and up to 14 HCF per month. The third, highest tier rate applies to all water used in excess of 14 HCF per month.*

Please note that the City bills its Single Family Residential customers bi-monthly. This means each water bill these customers receive includes charges for two months of service.

More information about water rates is available at www.sandiego.gov/water or by calling (619) 515-3500.

San Diego County Water Authority

June 16, 2010

Attention: Administrative and Finance Committee

Adopt the Water Authority's rates and charges for calendar year 2011 and continue the annual Standby Availability Charge for fiscal year 2010-2011 as currently imposed (Action).

Purpose
To increase water and service rates and charges and to continue the Standby Availability charge at its current level.

Staff recommendation

a. Adopt Ordinance No. 2010-___ an ordinance of the Board of Directors of the San Diego County Water Authority setting rates and charges for the delivery and supply of water, use of facilities and provision of services.

b. Adopt Resolution 2010-___ a resolution of the Board of Directors of the San Diego County Water Authority continuing the Standby Availability Charge.

Alternative
Modify the proposed rates and charges to obtain full cost recovery in the upcoming year.

Fiscal impact
The proposed water rates and charges, in combination with existing taxes, the System Capacity Charge, the Treatment Capacity Charge, the Infrastructure Access Charge (IAC), investment income and the Standby Availability Charge are expected to raise revenues sufficient to meet the Water Authority's revenue requirement and bond covenants.

Background
Under Government Code section 54984.7, as amended effective January 1, 2008, it is no longer necessary to have a public hearing to keep the standby availability charge at the same level. However, as part of the Water Authority's rate setting process, the Water Authority holds public hearings before establishing or changing any of the rates or charges that it levies to solicit input from stakeholders.

In mid 2006, the Board addressed concerns about increases in construction bids following the award of San Vicente Pipeline and Lake Hodges Pump Station by creating the Comprehensive Reliability and Cost Assessment Ad-Hoc Committee (CRACA). The CRACA committee conducted a thorough evaluation of the cost and reliability impacts of each project included in the Capital Improvement Program (CIP) as well as other important long-term planning assumptions (*i.e.* local

supplies, conservation, etc.). On April 10, 2007, the Board approved the preferred alternative recommended by CRACA, known as the Revised Baseline. The Revised Baseline provided the foundational assumptions upon which the Water Authority's long-term planning was based.

In mid 2008, in response to the extraordinary water supply and economic conditions facing the Water Authority, the CRACA committee reconvened to develop early guidance on future rate and charge levels to support Water Authority and member agency financial planning. Since the 2004 Master Plan was validated during the 2006 CRACA process, the CRACA "Lite" scope was narrowed to focus on supply related issues, re-costing major CIP projects, project scheduling and updating the other foundational assumptions, specifically MWD rates and charges. At the time this process was initiated, there was significant uncertainty regarding the water supply and MWD rates and charges. Therefore, the CRACA committee developed a high and a low rate scenario to bookend the potential outcomes. In February 2009, the Board adopted the Committee's recommendation for using the high rate scenario for the development of the fiscal years 2010 and 2011 Recommended Budget and calendar year 2010 rates and charges.

On April 14, 2009, the Metropolitan Water District (MWD) went to Level 2 water supply allocation effective July 1, 2009. As a result, MWD's water supply allocation to the Water Authority was reduced by approximately 13%. Due to continued water supply shortages, MWD has elected to maintain the Level 2 allocation for fiscal year 2011 and maintain the current water supply allocations.

On April 13, 2010, MWD's Board of Directors adopted rate and charge increases for calendar years 2011 and 2012. The adopted rate and charge schedule results in a 7.5% annual increase in revenues in each year. Based upon MWD's adopted rate and charge schedule, the cost of treated and untreated water will increase by 8.9% and 6.1%, respectively, in calendar year 2011. In addition, the cost of transporting water through MWD's system will increase by 18.5% in calendar year 2011. This increase disproportionally impacts the Water Authority by increasing the MWD cost associated with transporting QSA water to our service area by 18.5%. Based upon calendar year 2011 planned water purchases, the Water Authority's MWD water costs are expected to increase by approximately 12.2%.

Previous Board Action: On May 27, 2010 the Board adopted Resolution 2010-03 setting the time and place for the public hearing on June 24, 2010 to receive comments on the proposed rates and charges.

Discussion

MWD's recent water supply and rate and charge actions result in a water supply and rate and charge environment that is very similar to that anticipated when the CRACA "Lite" and budget projections were developed. As such, the rates and charges being recommended for calendar year 2011 are consistent with the CRACA "Lite" low and below the Budget rate and charge forecast. These rates and charges have been presented to the Water Authority's Board, Member Agency general managers and finance officers on numerous occasions over the past year. Detailed information regarding the CY 2011 recommended rates and charges was provided to Member Agency Staff

(general managers and finance officers) in mid April, 2010 to aid in developing their FY 2011 budgets.

In response to the water supply and economic challenges facing the region, the Water Authority has taken the following actions to mitigate rate and charge increases.

- Mid-year budget reduction – cut FY 2010 and 2011 multi-year operating budget by $2.4 million.
- Reduced spot water purchases – the Water Authority is currently well under its MWD allocation, allowing the Water Authority to meet all demands without purchasing the more expensive spot water.
- Rate Stabilization Fund draw – the Water Authority plans to draw up to $10.7 million from the fund to mitigate the financial impacts of reduced water sales in CY 2011. A draw of this size would decrease the RSF ending balance to approximately 33 million, which is about 60 percent of the Board's policy.
- Other actions – these include letting the debt service coverage level fall below the Water Authority Board's policy target and capitalizing additional interest on debt.

On June 10, 2010, the Board initiated a legal challenge of MWD's rate and charge structure and cost allocation methodologies. The board also directed the General Manager to initiate a cost of service evaluation of the Water Authority's conservation and local supply incentive programs. In response to this action, staff is recommending a detailed review of the Water Authority's rate and charge structure and Cost of Service (COS) allocation methodologies for all rate categories. Staff expects to issue a request for proposals this summer and that the project will be completed by the end of this calendar year. Any modifications made to the rate and charge structure or the COS methodology will be incorporated into the recommended calendar year 2012 rates and charges.

Setting Rates and Charges:
As part of the rate setting process, a revenue requirement is calculated for each of the rate and charge categories by allocating the Water Authority's anticipated expenditures, which includes O&M, water purchases, debt service, *etc.*, between the rate and charge categories. The rate and charge categories are Supply, Treatment, Customer Service, Storage, and Transportation. Debt service payments are allocated to rate and charge categories based upon the CIP projects that were funded by the debt and a pro rata share of the annual debt service expenditure is allocated to the corresponding rate and charge category. The Operating Budget is allocated to the rate and charge categories by functionalizing the expenditures into rate and charge categories. For example, the Water Authority's Twin Oaks Water Treatment Plant costs are allocated to the Treatment rate category. Revenues from taxes, Water Standby Availability Charges, Infrastructure Access Charges, System and Treatment Capacity Charges, investment income and other miscellaneous income (collectively Non-Commodity Revenues) offset expenditures and are credited to the revenue requirement of each rate and charge category. Rates and charges are then set to recover the net revenue requirement calculated.

Description of Rates and Charges:
Table 1 summarizes the Water Authority's recommended calendar year 2011 rates and charges. A description of the Water Authority's rates and charges is provided in subsequent sections. In addition to the Water Authority's rates and charges shown in Table 1, certain MWD rates and charges are passed through to the member agencies. Table 2, below, summarizes MWD's rates and charges that the Water Authority passes through to its member agencies.

Table 1 – Summary of Water Authority Rates and Charges

Water Authority Rates and Charges	CY 2009 Previous	CY 2010 Current	CY 2011 Recommended
Melded M&I Supply Rate ($/AF)	$463	$532	$597
Melded M&I Treatment Rate ($/AF)	$168	$215	$215
Transportation Rate ($/AF)	$64	$67	$75
Untreated Special Agricultural Water Rate ($/AF)	$412	$484	$527
Treated Special Agricultural Water Rate ($/AF)	$580	$699	$742
Infrastructure Access Charge	$1.90/ME[2]	$2.02/ME[2]	$2.49/ME[2]
Customer Service Charge	$16,000,000	$18,000,000	$23,200,000
Storage Charge	$23,000,000	$34,000,000	$44,300,000
Standby Availability Charge per parcel or acre, whichever is greater[1]	$10	$10	$10

[1] Fiscal Year Charge.
[2] ME means meter equivalent as defined in the resolution establishing the Infrastructure Access Charge.

Table 2 – Summary of Water Authority Pass Through Rates and Charges

MWD Rates and Charges	CY 2009 Previous	CY 2010 Current	CY 2011 Adopted
Untreated Tier 2 Supply Rate $/AF[1]	$528	$594	$652
Interim Agricultural Water Program Untreated ($/AF)	$322	$416	$482
Interim Agricultural Water Program Treated ($/AF)	$465	$615	$687
Replenishment Water Rate Untreated ($/AF)	$294	$366	$409
Replenishment Water Rate Treated ($/AF)	$436	$558	$601
MWD Capacity Charge	$8,812,800	$9,331,200	$9,204,480
Readiness-to-Serve Charge[2]	$10,865,652	$17,481,664	$18,596,489

[1] Agencies exceeding their Tier 1 allocation pay the MWD bundled Tier 2 Supply Rate (System Access Rate, System Power Rate and Water Stewardship Rate) instead of the M&I Melded Supply Rate.
[2] Fiscal Year Charge.

The following proposed charge is effective July 1, 2010:

Standby Availability Charge. The County Water Authority Act limits the maximum annual Standby Availability Charge to $10 per acre or parcel, whichever is greater. Beginning before November 6, 1996, the Water Authority has determined that the maximum annual standby availability charge should be levied on property within the Water Authority's service area. To provide necessary funding for the CIP, the General Manager recommends that the charge continue at the $10 maximum for fiscal year 2010-2011. The Standby Availability Charge rate is effective July 1, 2010. The amount of this charge has not changed since the adoption of Proposition 218 in 1996. The justification for imposition of this charge is the same as for when the charge was initially levied and as it was imposed before November 6, 1996.

The following rates and charges are being proposed effective on January 1, 2010:

Melded Untreated M&I Supply Rate. The Melded Untreated Municipal and Industrial Supply Rate will be set to recover the costs of purchasing Tier 1 water from MWD, water purchases from IID, and may include other costs specifically associated with the acquisition of the IID supply source, cost recovery for supply costs previously incurred but not charged, etc. For CY 2011, the Melded M&I Supply Rate will increase from its current level of $532/AF to $597/AF.

Table 3 – Melded Untreated M&I Supply Rate Calculation

	CY 2011
Acre-Foot Sales (A/F) (000's)	
MWD Tier I	309.2
IID	80.0
Canal Water Delivery Costs	80.2
Supplemental Supply Purchases – CY 2011	0
TOTAL A/F SALES	**469.4**
Water Purchase Cost (in Millions)	
MWD Tier 1 Water Purchases & Exchange Fees	$222.6
IID Water Purchases	35.6
Canal Water Purchases	0.9
Supplemental Supply – Purchases CY 2011	0
Subtotal Water Purchases	**$259.1**
Additional Costs (in Millions)	
Canal Cost Differential and Operating Budget Costs	$12.1
IID Socioeconomic	3.1
QSA Environmental	5.3
Groundwater Storage	0.4
Subtotal Other Costs	**$20.9**
TOTAL SUPPLY COST	**$280.0**
A/F RATE (Total Supply Cost /Total A/F Sales)	**$597**

Melded M&I Treatment Rate. The Melded Municipal and Industrial Treatment Rate will be set to recover the costs of treating water for the Water Authority and may include costs of purchasing treated water from MWD, and the Levy and Olivenhain treatment plants and may recover certain other costs associated with the delivery of treated water. For CY 2011, the Melded M&I Treatment Rate will remain at its current level of $215/AF.

Table 4 – Melded M&I Treatment Rate Calculation

	CY 2011
Acre-Foot Sales (A/F) (000's)*	
MWD	75.4
Water Authority	87.4
Helix	25.0
Olivenhain	6.0
TOTAL A/F SALES	**193.8**
Cost (in Millions)	
MWD	$17.8
Water Authority	18.8
Helix	3.4
Olivenhain	1.8
TOTAL TREATMENT COSTS	**$41.6**
A/F RATE (Total Treatment Costs/Total A/F Sales)	**$215**

* Includes SAWR treated water deliveries.

Transportation Rate. The Transportation Rate is a uniform rate set to recover capital, operating and maintenance costs of the Authority's aqueduct system including all facilities used to physically transport the water to member agency meters. The Transportation Rate is charged to each acre-foot of water delivered by the Authority as it occurs. All users, member agencies and third-party wheelers will pay the Transportation Rate. For CY 2011, the Transportation Rate will increase from its current level of $67/AF to $75/AF.

Water Authority's Transitional Special Agricultural Water Program Rates. For CY 2011, the untreated agricultural water rate will increase from its current level of $484/AF to $527/AF. The treated agricultural water rate will increase from $699/AF in CY 2010 to $742/AF in CY 2011.

MWD's Interim Agricultural Water Program Rates. For CY 2011, the untreated agricultural water rate will increase from its current level of $416/AF to $482/AF. The treated agricultural water rate will increase from $615/AF in CY 2010 to $687/AF in CY 2011.

Replenishment Rate. For CY 2011, the untreated replenishment water rate will increase from its current level of $366/AF to $409/AF. The treated replenishment water rate will increase from its current level of $558/AF in CY 2010 to $601/AF in CY 2011.

Infrastructure Access Charge. The Infrastructure Access Charge (IAC) was adopted in June 1998 as an additional source of fixed revenue to improve coverage of the Authority's projected fixed expenditures. The IAC is levied on all retail water meters within the

Authority's service area. For CY 2011, the IAC will increase from its current level of $2.02/ME to $2.49/ME.

Customer Service Charge. The Customer Service Charge is set to recover costs that are necessary to support the functioning of the Authority, to develop policies and implement programs that benefit the region as a whole. The Customer Service Charge will be allocated among the member agencies on the basis of each agency's three-year rolling average of all deliveries (including all users, member agencies and third-party wheeling throughput). For CY 2011, the Customer Service Charge will increase from its current level of $18M to $23.2M.

Storage Charge. The Storage Charge is set to recover costs associated with the Emergency Storage Program. The Storage Charge is based on all non-agricultural water deliveries and will be allocated among the member agencies using a pro rata share of each agency's three-year rolling average deliveries (including all users, member agencies and third-party wheeling throughput). For CY 2011, the Storage Charge will increase from its current level of $34M to $44.3M.

The following MWD rates and charges are passed on directly or allocated to the member agencies as follows;

MWD Capacity Charge. For CY 2011, the Capacity Charge is $7,200 per cubic foot second (cfs) of maximum daily flow requested by a MWD member agency. The Capacity Charge is a fixed charge levied on an agency's maximum daily flows over the three previous fiscal years. It recovers the cost of providing peak capacity within the distribution system, and is designed to encourage member agencies to shift demands and avoid placing large daily peaks on the MWD system during the summer months. Daily flow measured between May 1 and September 30 for purposes of billing the Capacity Charge will include deliveries (except long-term seasonal storage deliveries) made by MWD to a member agency or member agency customer including water transfers, exchanges and agricultural deliveries. As part of a separate surface storage operating agreement to manage seasonal peaking, the Authority is expected to reserve its full available capacity. The Capacity Charge will be set at $9,204,480. The Authority's Board has directed that the Capacity Charge will be recovered proportionally based on a five-year rolling average of member agency flows during coincident peak weeks.

Table 5 - Calendar Year 2011 MWD Capacity Charge Allocation (Capacity Charge)

Member Agency	Coincident Peak Week Deliveries (AF)[1]					5-year average share[3]	CY2011 Charge
	7/19/2005	7/18/2006	8/14/2007	7/15/2008	8/25/2009		
Carlsbad M.W.D.	499.8	539.3	565.8	527.3	429.3	3.4743%	319,790
Del Mar, City of	36.2	42.9	36.1	28.0	34.1	0.2405%	22,135
Escondido, City of	686.9	663.9	823.5	454.5	668.7	4.4726%	411,676
Fallbrook P.U.D.	508.8	545.5	562.9	333.9	450.8	3.2578%	299,864
Helix W.D.	463.3	536.0	558.8	789.6	861.7	4.3531%	400,677
Lakeside W.D.[2]	115.4	146.3	95.5	66.3	96.1	0.7048%	64,869
Oceanside, City of	798.4	879.6	915.4	780.1	648.1	5.4547%	502,076
Olivenhain M.W.D.	678.4	699.7	700.6	606.5	553.1	4.3923%	404,285
Otay W.D.	1,093.6	1,184.1	1,082.8	1,016.7	871.0	7.1184%	655,210
Padre Dam M.W.D.[2]	411.4	458.2	472.9	499.8	545.8	3.2391%	298,141
Pendleton M.R.	1.0	2.2	2.3	2.7	1.4	0.0130%	1,198
Poway, City of	365.4	336.8	378.6	365.5	220.3	2.2605%	208,066
Rainbow M.W.D.	939.8	970.9	839.1	616.3	865.7	5.7398%	528,318
Ramona M.W.D.	205.7	215.8	353.2	254.5	156.9	1.6088%	148,078
Rincon Del Diablo M.W.D.	235.1	251.0	231.0	204.1	204.1	1.5263%	140,488
San Diego, City of	4,293.5	4,181.8	5,176.0	5,523.8	4,932.0	32.6976%	3,009,646
San Dieguito W.D.	142.4	206.2	122.5	136.2	67.6	0.9154%	84,258
Santa Fe I.D.	280.3	401.8	296.9	335.3	187.9	2.0375%	187,542
Sweetwater Authority	-		-	-	443.3	0.6013%	55,344
Vallecitos W.D.	549.3	631.1	566.4	526.4	520.3	3.7890%	348,754
Valley Center M.W.D.	1,438.1	1,592.3	1,426.1	941.7	1,130.4	8.8551%	815,062
Vista I.D.	297.7	271.3	646.5	273.7	300.2	2.4271%	223,397
Yuima M.W.D.	136.4	164.8	193.7	81.2	29.5	0.8214%	75,606
Totals[1]	14,176.9	14,921.5	16,046.6	14,364.1	14,218.3	100.0000%	$ 9,204,480

[1] Charge is allocated based on a five-year rolling average of member agency deliveries during regional peak weeks. Annual charges and totals may not foot due to rounding.

[2] Lakeside Water District's proportional share of annual peak week deliveries is based on actual meter delivery records provided by Padre Dam M.W.D.

[3] Percentages shown are rounded. Totals may not foot.

Readiness-to-Serve Charge. MWD's Readiness-to-Serve Charge differs from the other MWD charges in that it is set on a Fiscal Year basis. The total Readiness-to-Serve Charge will increase from its current level of $114 million to $125 million in Fiscal Year 2010-2011. The Authority's share is set at $31,291,362. After credits from the MWD Standby Charge, and administrative costs, the net Authority share is $18,596,487. MWD's Readiness-to-Serve Charge will recover costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge will be allocated among MWD member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity). This allocation will be revised each year. Revenues equal to the amount of MWD Standby Charges will continue to be credited against the member agency's Readiness-to-Serve Charge obligation unless a change is requested by the member agency. The Board has directed that the Authority's Readiness-to-Serve Charge will be passed through proportionally to member agencies on the basis of each agency's ten-year rolling average of firm demands (including water transfers and exchanges conveyed through system capacity).

Table 6 - Readiness-to-Serve Charge Allocation

Member Agency	10-Year Average Deliveries (AF)[1]	FY11 RTS Charge[2]	Net Stand-By Charge Credits[3]	FY11 RTS Net Charge	Monthly Charge
Carlsbad M.W.D.	19,635	$ 1,183,095	$ (392,426)	790,669	$ 65,889
Del Mar, City of	1,357	81,765	(24,722)	57,043	4,754
Escondido, City of	21,549	1,298,422	(224,248)	1,074,174	89,515
Fallbrook P.U.D.	9,278	559,040	(283,011)	276,029	23,002
Helix W.D.	37,379	2,252,248	(791,588)	1,460,660	121,722
Lakeside W.D.[4]	4,563	274,941	(168,950)	105,991	8,833
Oceanside, City of	29,194	1,759,066	(657,702)	1,101,364	91,780
Olivenhain M.W.D.	21,144	1,274,018	(420,270)	853,748	71,146
Otay W.D.	36,299	2,187,174	(958,810)	1,228,364	102,364
Padre Dam M.W.D.[4]	14,881	896,645	(538,468)	358,177	29,848
Pendleton Military Reservation	78	4,700	(34)	4,666	389
Poway, City of	14,161	853,262	(284,349)	568,913	47,409
Rainbow M.W.D.	10,017	603,568	(542,890)	60,678	5,057
Ramona M.W.D.	7,600	457,933	(403,112)	54,821	4,568
Rincon Del Diablo M.W.D.	7,536	454,077	(309,887)	144,190	12,016
San Diego, City of	212,950	12,831,169	(4,350,303)	8,480,866	706,737
San Dieguito W.D.	5,149	310,250	(162,495)	147,755	12,313
Santa Fe I.D.	9,297	560,185	(150,580)	409,605	34,134
Sweetwater Authority	11,388	686,177	(424,161)	262,016	21,835
Vallecitos W.D.	16,219	977,266	(430,481)	546,785	45,565
Valley Center M.W.D.	10,549	635,623	(683,996)	(48,373)	(4,031)
Vista I.D.	18,328	1,104,342	(407,615)	696,727	58,061
Yuima M.W.D.	11	663	(84,851)	(84,188)	(7,016)
Contract Water	759	45,733	74	45,807	3,817
Totals	519,321	$ 31,291,362	$ (12,694,875)	$ 18,596,487	$ 1,549,707

[1]10-year rolling average of firm MWD deliveries based on FY00-FY09 period and rounded to nearest acre-foot. Annual and monthly charges are rounded to nearest dollar.

[2]Effective date is July 1, 2010.

[3]Net of $12,745,381 in standby-charge credits and $50,505 in MWD administrative fees.

[4]Lakeside W.D. is allocated 23.83% of Padre Dam M.W.D's deliveries prior to January 2008. Lakeside W.D's deliveries after January 2008 are being metered seperately from Padre Dam M.W.D's deliveries.

After consideration of public comments at the Public Hearing on June 24, 2010, the staff recommends that the Board adopt ordinances setting the water rates and charges for the next calendar year and continuing the existing Standby Availability Charge.

Prepared by: David G. Shank, Financial Planning Manager
Reviewed by: Eric Sandler, Director of Finance/Treasurer
Approved by: Sandra L. Kerl, Deputy General Manager

Attachment: Ordinance 2010-__ (Rate Ordinance)
Resolution 2010-__ (Standby Availability Charge Resolution)

ORDINANCE NO. 2010-

AN ORDINANCE OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY SETTING RATES AND CHARGES FOR THE DELIVERY AND SUPPLY OF WATER, USE OF FACILITIES AND PROVISION OF SERVICES

WHEREAS, Subdivision (11) of Section 5 of the County Water Authority Act provides, in part that, the Authority's Board of Directors, "as far as practicable, shall provide each of its member agencies with adequate supplies of water to meet their expanding and increasing needs;" and

WHEREAS, Subdivision (13) of Section 5 of the County Water Authority Act provides that the Authority may: "Fix, revise, and collect rates or other charges for the delivery of water, use of any facilities or property, or provision of services. In fixing rates, the Board may establish reasonable classifications among different classes and conditions of service, but rates shall be the same for similar classes and conditions of service." and

WHEREAS, subdivision (j) of Section 7 of the County Water Authority Act provides in part, that the Authority's Board of Directors, "as far as practicable, shall fix such rate or rates for water as will result in revenues which will pay the operating expenses of the Authority, provide for required maintenance, and provide for the payment of the interest and principal of the bonded debt;" and

WHEREAS, the Long-Range Financing Plan adopted by the Board of Directors contemplates the establishment of sufficient rates and charges, when considered along with taxes and other revenues of the Authority, to provide revenues for accomplishment of the Authority's purposes and programs as determined by the Board of Directors; and

WHEREAS, pursuant to the County Water Authority Act, the Board of Directors has adopted ordinances and resolutions levying and fixing property taxes, water standby availability charges and other rates and charges for delivery and supply of water, use of facilities and provision of other services by the Authority, including, without limitation, a system capacity charge, water treatment capacity charge, an infrastructure access charge, a readiness-to-serve charge and a water rates and charges; and

WHEREAS, the Board of Directors, upon recommendation of the Rate Study Subcommittee and the Fiscal Policy Committee, enacted Ordinance 2002-03, "An Ordinance of the Board of Directors of the San Diego County Water Authority Setting Rates and Charges for the Delivery and Supply of Water, Use of Facilities and Provision of Services", which established a new structure for water rates and charges; and

WHEREAS, on May 26, 2005, the Board of Directors adopted Ordinance No. 2005-03 increasing the System Capacity Charge and establishing the Water Treatment Capacity Charge; and

WHEREAS, on May 21, 2002, the Authority filed a Notice of Exemption pursuant to the California Environmental Quality Act (CEQA) for the project described as "Establishment of water supply and delivery rates and charges including: Customer Service Charge, Emergency Storage Program Charge, Transportation Rate, Supply Service Charge, Capacity Reservation

Charge and Readiness-to-Serve Charge, and maintaining the Infrastructure Access Charge and Standby Availability Charge" stating the project is exempt from the requirements of CEQA pursuant to the statutory exemption of Public Resources Code Section 21080(b)(8) and stating as the reason therefore: "Project involves establishment of water rates, tolls, fares, or other charges for the purpose of meeting operating expenses, including employee wages and benefits; purchasing and leasing supplies, equipment, or materials; meeting financial reserve needs and requirements; or obtaining funds for capital projects within existing service areas."; and

WHEREAS, the adoption of this ordinance is exempt from CEQA for the same reason; and

WHEREAS, the Authority has adopted a policy of diversifying its supplies and in furtherance of that policy is evaluating several potential Authority programs to augment and enhance supplies from the Metropolitan Water District, including: local ocean water desalination, regional water treatment, and water transfers in addition to the transfer from the Imperial Irrigation District; and

WHEREAS, these potential new supply programs are incurring capital costs for research, development and planning, the costs of which are appropriately recovered through the Customer Service Charge subject to reimbursement from future revenues collected through the Supply Charge if and when a new supply is approved and implemented; and

WHEREAS, the Director of Finance has presented a report dated May 27, 2010 to the Administrative and Finance Committee describing the proposed rates and charges to be collected from the member agencies (the "Report"); and

WHEREAS, the Administrative and Finance Committee recommended that the proposed rates and charges set forth in the Report be considered by the Board along with public input; and

WHEREAS, the Clerk of the Board caused a notice to be published pursuant to Section 6066 of the Government Code in newspapers of general circulation printed and published within the Water Authority which fixed Thursday, June 24, 2010 at 9:00 a.m. or as soon thereafter as may practicably be heard, during the Administrative and Finance Committee meeting, in the Board room of the Water Authority, 4677 Overland Avenue, San Diego, California as the time and place for a public hearing to consider objections and protests to the schedule of charges as proposed by Resolution 2010-03; and

WHEREAS, the Board of Directors has considered the information contained in the Report, the testimony and other evidence presented during the public hearing, the recommendations of the Administrative and Finance Committee; and

WHEREAS, the Board of Directors hereby makes the following legislative findings and determinations:

1. The foregoing recitals are true and correct;
2. The rates and charges as proposed and recommended in the Report are exempt from the requirements of the California Environmental Quality Act pursuant to Public Resources Code Section 21080(b)(8);

3. Any and all protests to the rates and charges as proposed and recommended in the Report are overruled;
4. The Report is approved;
5. The rates and charges as proposed and recommended in the Report are reasonable, fair, proper and necessary to meet the Authority's revenue requirements and fund its capital, operations, maintenance and other costs.

NOW, THEREFORE, the Board of Directors of the San Diego County Water Authority does ordain as follows:

1. The Authority's revenues from taxes, water rates and charges consists of: ad valorem property taxes, including payments of member agencies in lieu of taxes; a standby availability charge levied pursuant to Section 5.2 of the County Water Authority Act, including payments of such charges pursuant to Section 5.3 of the County Water Authority Act; an infrastructure access charge levied pursuant to Section 5.00.050 (c) of the Administrative Code; a capacity charge levied pursuant to Section 5.9 of the County Water Authority Act according to Ordinance No. 2005-3; and water rates and charges having the following components as described in this ordinance: customer service, storage, transportation, treatment and supply.

2. Ad valorem taxes, the standby availability charge and the system and water treatment capacity charges are not affected by this ordinance. All other water rates and charges shall continue to be paid pursuant to existing authority until increased or adjusted as provided in this ordinance.

3. Commencing January 1, 2011, the amount of the Infrastructure Access Charge to be paid monthly by each member agency of the Authority, shall be $2.49 per equivalent meter within the territory of the member agency and determined according to Table 1 attached hereto and made a part hereof.

4. Effective January 1, 2011, the Customer Service Charge is fixed at $23,200,000. Commencing January 1, 2011 the amount of the monthly Customer Service Charge to be paid by each member agency shall be determined according to Table 2 attached hereto and made a part hereof.

5. Effective January 1, 2011, the Storage Charge is fixed at $44,300,000. Commencing January 1, 2011 the amount of the monthly Storage Charge to be paid by each member agency to the Authority for Storage as set forth in Table 3 attached hereto and made a part hereof.

6. Effective January 1, 2011, the Transportation Rate is fixed at $75 per acre-foot of water delivered by the Authority through Authority facilities. Member agencies shall pay the Transportation Rate in accordance with the procedures and processes of the Administrative Code relating to billing and payment of the Municipal and Industrial Water Rate.

7. Effective January 1, 2011, the Melded Municipal and Industrial Treatment Rate is fixed at $215 per acre-foot.

8. (a) Each member agency shall reimburse the Authority on a per-acre foot of water delivered basis, except as otherwise provided in subdivisions (b) and (c), for rates, fees and charges of the Metropolitan Water District of Southern California, the Imperial Irrigation District, or other sources of supply that may become available to the Authority. It is the intent of the Authority to charge the melded rate for supply representing the cost of water to the Authority for the appropriate class of service. Effective January 1, 2011, the Melded Untreated Municipal and Industrial Supply Rate is $597 per acre-foot to reflect the cost of the supply of untreated municipal and industrial water to the Water Authority.

(b) Effective January 1, 2011 as part of the Supply Charge, each member agency shall pay to the Authority a MWD Capacity Charge determined according to the method as set forth in the to Table 4 attached hereto and made a part hereof.

(c) Effective July 1, 2010 as part of the Supply Charge, each member agency shall pay a MWD Readiness-to-Serve Charge determined according to Table 5 attached hereto and made a part hereof.

(d) This section shall be administered in accordance with the Report approved by this ordinance.

9. For the purposes of this ordinance, including the tables, the City of National City and the South Bay Irrigation District are collectively referred to as Sweetwater Authority. Any reference in this ordinance to Sweetwater Authority as a member agency shall be construed as a reference to the City of National City and the South Bay Irrigation District.

10. This ordinance shall be effective upon adoption. In lieu of publication of the text of this ordinance, the Clerk of the Board may publish a summary prepared by the General Counsel.

11. The provisions of this ordinance shall prevail over any provisions of the Administrative Code relating to rates and charges to the extent of any conflict. All existing rates and charges shall continue in effect until adjusted as provided in this ordinance.

12. To the greatest extent possible the provisions of this ordinance shall be construed to be compatible with the provisions of Section 8.2 (e) of the Agreement Between the San Diego County Water Authority and the City of San Diego for the Emergency Storage Project (Joint Use of Lake Hodges Dam and Reservoir and of Section 8.2 (e) of the Agreement Between the San Diego County Water Authority and the City of San Diego for the Emergency Storage Project (Expansion of San Vicente Reservoir; however, the contract provisions shall control in the event of a conflict).

13. For the purposes of Section 6 of this ordinance, water delivered by the Authority through the following turnouts is deemed not to be "water delivered by the Authority through Authority facilities" – DeLuz 1, Fallbrook 3, Fallbrook 6, Rainbow 1, Rainbow 8, Rainbow 9 and Rainbow 10.

PASSED, APPROVED AND ADOPTED, this 24th day of June, 2010

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

_____
Bud Lewis, Chair

ATTEST:

_____
Thomas V. Wornham, Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Ordinance 2010- _____was duly adopted at the meeting of the Board of Directors on the date stated above.

_____
Doria F. Lore
Clerk of the Board

RESOLUTION NO. 2010-

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SAN DIEGO COUNTY WATER AUTHORITY CONTINUING THE WATER STANDBY AVAILABILITY CHARGE

The Board of Directors of the San Diego County Water Authority resolves as follows:

Pursuant to Government Code Section 54984.7 the Water Standby Availability Charge last imposed by Ordinance No. 2008-04 shall continue to be levied, imposed and administered as provided in that ordinance during fiscal year 2010-2011.

PASSED, APPROVED AND ADOPTED, this 24th day of June, 2010

AYES: Unless noted below all Directors voted aye.

NOES:

ABSTAIN:

ABSENT:

Bud Lewis, Chair

ATTEST:

Thomas V. Wornham, Secretary

I, Doria F. Lore, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2010- _____was duly adopted at the meeting of the Board of Directors on the date stated above.

Doria F. Lore
Clerk of the Board

Table 1 - Infrastructure Access Charge Allocation

Member Agency	IAC Equivalent Meters (ME) as of 12/31/09[1]	Monthly Rate ($/ME)	CY11 Annual Charge	Monthly Charge
Carlsbad M.W.D.	34,973	2.49	$ 1,044,996	$ 87,083
Del Mar, City of	2,505	2.49	74,844	6,237
Escondido, City of	34,668	2.49	1,035,876	86,323
Fallbrook P.U.D.	11,727	2.49	350,400	29,200
Helix W.D.	64,500	2.49	1,927,260	160,605
Lakeside W.D.	7,953	2.49	237,636	19,803
Oceanside, City of	55,690	2.49	1,664,016	138,668
Olivenhain M.W.D.	27,693	2.49	827,472	68,956
Otay W.D.	57,455	2.49	1,716,756	143,063
Padre Dam M.W.D.	25,971	2.49	776,016	64,668
Pendleton Military Reservation	-	2.49	-	-
Poway, City of	17,285	2.49	516,480	43,040
Rainbow M.W.D.	13,070	2.49	390,528	32,544
Ramona M.W.D.	10,587	2.49	316,344	26,362
Rincon Del Diablo M.W.D.	9,525	2.49	284,604	23,717
San Diego, City of	388,214	2.49	11,599,836	966,653
San Dieguito W.D.	14,798	2.49	442,164	36,847
Santa Fe I.D.	10,376	2.49	310,032	25,836
Sweetwater Authority	42,870	2.49	1,280,952	106,746
Vallecitos W.D.	25,404	2.49	759,072	63,256
Valley Center M.W.D.	15,003	2.49	448,284	37,357
Vista I.D.	34,925	2.49	1,043,556	86,963
Yuima M.W.D.	485	2.49	14,496	1,208
Totals	905,677		$ 27,061,620	$ 2,255,135

[1]Equivalent meters rounded to nearest whole meter; annual and monthly charges rounded to nearest dollar.

Table 2 - Customer Service Charge Allocation

Member Agency	3-Year Average Deliveries (AF)[1]	CY11 Annual Charge	Monthly Charge
Carlsbad M.W.D.	21,051	795,064	66,255
Del Mar, City of	1,292	48,797	4,066
Escondido, City of	25,838	975,862	81,322
Fallbrook P.U.D.	18,104	683,760	56,980
Helix W.D.	39,170	1,479,391	123,283
Lakeside W.D.[2]	4,318	163,084	13,590
Oceanside, City of	32,417	1,224,340	102,028
Olivenhain M.W.D.	24,578	928,273	77,356
Otay W.D.	38,321	1,447,326	120,611
Padre Dam M.W.D.[2]	15,771	595,647	49,637
Pendleton Military Reservation	77	2,908	242
Poway, City of	15,104	570,455	47,538
Rainbow M.W.D.	29,700	1,121,724	93,477
Ramona M.W.D.	11,012	415,906	34,659
Rincon Del Diablo M.W.D.	8,067	304,678	25,390
San Diego, City of	217,059	8,197,986	683,166
San Dieguito W.D.	4,656	175,850	14,654
Santa Fe I.D.	9,642	364,164	30,347
Sweetwater Authority	11,857	447,821	37,318
Vallecitos W.D.	20,566	776,746	64,729
Valley Center M.W.D.	43,037	1,625,442	135,454
Vista I.D.	18,641	704,042	58,670
Yuima M.W.D.	3,218	121,539	10,128
Contract Water	773	29,195	2,433
Totals	614,269	$ 23,200,000	$ 1,933,333

[1]Three-year rolling average of firm and agricultural MWD deliveries based on FY07-FY09 period. Rounded to nearest acre-foot. Annual and monthly charges are rounded to nearest dollar.

[2]Lakeside W.D. is allocated 22.82% of Padre Dam M.W.D's deliveries prior to January 2008. Lakeside W.D's deliveries after January 2008 are being metered seperately from Padre Dam M.W.D's deliveries.

Table 3 - Emergency Storage Charge Allocation

Member Agency	3-Year Average Deliveries (AF)[1]	CY11 Annual Charge	Monthly Charge
Carlsbad M.W.D.	20,307	$ 1,682,952	$ 140,246
Del Mar, City of	1,292	107,075	8,923
Escondido, City of	21,449	1,777,596	148,133
Fallbrook P.U.D.	9,768	809,527	67,461
Helix W.D.	39,170	3,246,232	270,519
Lakeside W.D.[2]	4,286	355,204	29,600
Oceanside, City of	30,153	2,498,944	208,245
Olivenhain M.W.D.	23,677	1,962,242	163,520
Otay W.D.	38,240	3,169,158	264,097
Padre Dam M.W.D.[2]	14,670	1,215,783	101,315
Pendleton Military Reservation	77	6,381	532
Poway, City of	14,617	1,211,391	100,949
Rainbow M.W.D.	11,666	966,825	80,569
Ramona M.W.D.	7,601	629,936	52,495
Rincon Del Diablo M.W.D.	7,518	623,058	51,922
San Diego, City of	216,575	17,948,754	1,495,730
San Dieguito W.D.	4,656	385,868	32,156
Santa Fe I.D.	9,432	781,681	65,140
Sweetwater Authority	11,857	982,654	81,888
Vallecitos W.D.	18,480	1,531,539	127,628
Valley Center M.W.D.	10,976	909,641	75,803
Vista I.D.	18,079	1,498,305	124,859
Yuima M.W.D.	(9)	(746)	(62)
Totals	534,537	$ 44,300,000	$ 3,691,668

[1]Three-year rolling average of firm, non-agricultural MWD deliveries based on FY07-FY09 period. Rounded to the nearest acre-foot. Annual and monthly charges are rounded to nearest dollar.

[2]Lakeside W.D. is allocated 23.94% of Padre Dam M.W.D's deliveries prior to January 2008. Lakeside W.D's deliveries after January 2008 are being metered seperately from Padre Dam M.W.D's deliveries.

Table 4 - Calendar Year 2011 MWD Capacity Charge Allocation

(Capacity Charge)

Member Agency	Coincident Peak Week Deliveries (AF)[1]					5-year average share[3]	CY2011 Charge
	7/19/2005	7/18/2006	8/14/2007	7/15/2008	8/25/2009		
Carlsbad M.W.D.	499.8	539.3	565.8	527.3	429.3	3.4743%	319,790
Del Mar, City of	36.2	42.9	36.1	28.0	34.1	0.2405%	22,135
Escondido, City of	686.9	663.9	823.5	454.5	668.7	4.4726%	411,676
Fallbrook P.U.D.	508.8	545.5	562.9	333.9	450.8	3.2578%	299,864
Helix W.D.	463.3	536.0	558.8	789.6	861.7	4.3531%	400,677
Lakeside W.D.[2]	115.4	146.3	95.5	66.3	96.1	0.7048%	64,869
Oceanside, City of	798.4	879.6	915.4	780.1	648.1	5.4547%	502,076
Olivenhain M.W.D.	678.4	699.7	700.6	606.5	553.1	4.3923%	404,285
Otay W.D.	1,093.6	1,184.1	1,082.8	1,016.7	871.0	7.1184%	655,210
Padre Dam M.W.D.[2]	411.4	458.2	472.9	499.8	545.8	3.2391%	298,141
Pendleton M.R.	1.0	2.2	2.3	2.7	1.4	0.0130%	1,198
Poway, City of	365.4	336.8	378.6	365.5	220.3	2.2605%	208,066
Rainbow M.W.D.	939.8	970.9	839.1	616.3	865.7	5.7398%	528,318
Ramona M.W.D.	205.7	215.8	353.2	254.5	156.9	1.6088%	148,078
Rincon Del Diablo M.W.D.	235.1	251.0	231.0	204.1	204.1	1.5263%	140,488
San Diego, City of	4,293.5	4,181.8	5,176.0	5,523.8	4,932.0	32.6976%	3,009,646
San Dieguito W.D.	142.4	206.2	122.5	136.2	67.6	0.9154%	84,258
Santa Fe I.D.	280.3	401.8	296.9	335.3	187.9	2.0375%	187,542
Sweetwater Authority	-	-	-	-	443.3	0.6013%	55,344
Vallecitos W.D.	549.3	631.1	566.4	526.4	520.3	3.7890%	348,754
Valley Center M.W.D.	1,438.1	1,592.3	1,426.1	941.7	1,130.4	8.8551%	815,062
Vista I.D.	297.7	271.3	646.5	273.7	300.2	2.4271%	223,397
Yuima M.W.D.	136.4	164.8	193.7	81.2	29.5	0.8214%	75,606
Totals[1]	14,176.9	14,921.5	16,046.6	14,364.1	14,218.3	100.0000%	$ 9,204,480

[1] Charge is allocated based on a five-year rolling average of member agency deliveries during regional peak weeks. Annual charges and totals may not foot due to rounding.

[2] Lakeside Water District's proportional share of annual peak week deliveries is based on actual meter delivery records provided by Padre Dam M.W.D.

[3] Percentages shown are rounded. Totals may not foot.

Table 5 - Readiness-to-Serve Charge Allocation

Member Agency	10-Year Average Deliveries (AF)[1]	FY11 RTS Charge[2]	Net Stand-By Charge Credits[3]	FY11 RTS Net Charge	Monthly Charge
Carlsbad M.W.D.	19,635	$ 1,183,095	$ (392,426)	790,669	$ 65,889
Del Mar, City of	1,357	81,765	(24,722)	57,043	4,754
Escondido, City of	21,549	1,298,422	(224,248)	1,074,174	89,515
Fallbrook P.U.D.	9,278	559,040	(283,011)	276,029	23,002
Helix W.D.	37,379	2,252,248	(791,588)	1,460,660	121,722
Lakeside W.D.[4]	4,563	274,941	(168,950)	105,991	8,833
Oceanside, City of	29,194	1,759,066	(657,702)	1,101,364	91,780
Olivenhain M.W.D.	21,144	1,274,018	(420,270)	853,748	71,146
Otay W.D.	36,299	2,187,174	(958,810)	1,228,364	102,364
Padre Dam M.W.D.[4]	14,881	896,645	(538,468)	358,177	29,848
Pendleton Military Reservation	78	4,700	(34)	4,666	389
Poway, City of	14,161	853,262	(284,349)	568,913	47,409
Rainbow M.W.D.	10,017	603,568	(542,890)	60,678	5,057
Ramona M.W.D.	7,600	457,933	(403,112)	54,821	4,568
Rincon Del Diablo M.W.D.	7,536	454,077	(309,887)	144,190	12,016
San Diego, City of	212,950	12,831,169	(4,350,303)	8,480,866	706,737
San Dieguito W.D.	5,149	310,250	(162,495)	147,755	12,313
Santa Fe I.D.	9,297	560,185	(150,580)	409,605	34,134
Sweetwater Authority	11,388	686,177	(424,161)	262,016	21,835
Vallecitos W.D.	16,219	977,266	(430,481)	546,785	45,565
Valley Center M.W.D.	10,549	635,623	(683,996)	(48,373)	(4,031)
Vista I.D.	18,328	1,104,342	(407,615)	696,727	58,061
Yuima M.W.D.	11	663	(84,851)	(84,188)	(7,016)
Contract Water	759	45,733	74	45,807	3,817
Totals	519,321	$ 31,291,362	$ (12,694,875)	$ 18,596,487	$ 1,549,707

[1]10-year rolling average of firm MWD deliveries based on FY00-FY09 period and rounded to nearest acre-foot. Annual and monthly charges are rounded to nearest dollar.

[2]Effective date is July 1, 2010.

[3]Net of $12,745,381 in standby-charge credits and $50,505 in MWD administrative fees

[4]Lakeside W.D. is allocated 23.83% of Padre Dam M.W.D's deliveries prior to January 2008. Lakeside W.D's deliveries after January 2008 are being metered seperately from Padre Dam M.W.D's deliveries.

THE CITY OF SAN DIEGO

August 26, 2010

Alex Ruiz
Interim Director of Public Utilities
City of San Diego

Subject: **Agreed-Upon Procedures Review of the Public Utilities Department's Increase in City of San Diego Water Rates**

We performed the agreed-upon procedures review requested by the Public Utilities Department related to the proposed increase in water rates for City of San Diego rate payers, pursuant to San Diego County Water Authority rate increases effective January 1, 2011, except for the Readiness-to-Serve Charge which is effective July1, 2010. In summary, we agreed to perform a review of the mathematical accuracy of the Public Utilities Department's calculations of projected increases in water purchase costs and the revenues required to offset the purchases for calendar year 2011.

We conducted our work in accordance with Generally Accepted Government Auditing Standards. These standards provide guidance on performing and reporting on the results of agreed-upon procedures. By specifying the procedures we agreed to perform, the Public Utilities Department is responsible for ensuring that the procedures are sufficient to meet their purposes, and we make no representation in that respect. Our review is intended solely for the information and use of the management of the City and is not intended to be and should not be used by anyone other than these specified parties.

We were not requested to, and did not conduct an audit verifying the reasonableness of the assumptions related to estimates and projections which would have required additional procedures. Such additional procedures may have identified other matters, if they existed, that would have been reported to you. We initiated our agreed-upon procedures on August 5, 2010, and completed our work on August 25, 2010.

OFFICE OF THE CITY AUDITOR
1010 SECOND AVENUE, SUITE 1400 • SAN DIEGO, CA 92101
PHONE 619 533-3165, FAX 619 533-3036

DIVERSITY BRINGS US ALL TOGETHER

The agreed-upon procedures and the results of our work in the report attached were provided in draft to the Public Utilities Department for review and comments and they concurred with its contents. The audit staff responsible for this audit report is Judy Zellers, Kyle Elser, and Chris Constantin. Please contact me if you have any questions.

Sincerely,

Eduardo Luna
City Auditor

cc: Honorable Mayor Jerry Sanders
Honorable City Council Members
Honorable Audit Committee Members
Jay M. Goldstone, Chief Operating Officer
Jeanne Cole, Interim Program Manager, Public Utilities Department
Chris Ojeda, Supervising Economist, Public Utilities Department
Mary Lewis, Chief Financial Officer
Jan Goldsmith, City Attorney
Ken Whitfield, City Comptroller
Andrea Tevlin, Independent Budget Analyst

Public Utilities Department Agreed-Upon Procedures Review Report
CY2011 Pass-Through Charges

Background

The City of San Diego purchases water from the San Diego County Water Authority (SDCWA). As a result of increases in the Metropolitan Water District's (MWD) water supply rates, the SDCWA Board of Directors authorized an increase in the cost of water purchased from the Water Authority, effective January 1, 2011, except for the Readiness-to-Serve Charge which is effective July 1, 2010. The City of San Diego Public Utilities Department has proposed a January 1, 2011 increase to the rates paid by City of San Diego customers to offset these increasing costs. The Public Utilities Department asked the Office of the City Auditor to perform an agreed-upon procedures review to verify the accuracy of those calculations.

Public Utilities Department calculations included the following:

- Increase in base rates per meter, based on water meter sizes
- Increase in costs to purchase water from SDCWA, based on SDCWA rate changes and estimated water purchases
- Increased revenue from San Diego ratepayers necessary to offset the purchase costs based on estimated water sales
- Allocation of the increased revenues to customers, based on water usage

While a Proposition 218 public notice is required prior to increasing rates, a draft of this notice was not provided and was therefore not part of this review. Additionally, we did not trace the City's water purchase costs to the invoices issued by SDCWA, and we make no statement as to the accuracy of the purchase costs provided by the Public Utilities Department.

In summary, we found that the Public Utilities Department calculations were mathematically accurate.

The following table provides the results of our agreed-upon procedures review.

Agreed-Upon Procedure	Result	Review Procedures
1) Trace the January 1, 2011 water purchase costs to the SDCWA ordinance.	The rates established by the SDCWA agreed to the rates used in the Public Utilities Department's calculations. The rates are effective January 1, 2011 except for the Readiness-to-Serve Charge which is increased on a fiscal year basis at July 1. The Readiness-to-Serve Charges are incurred by the City on a fiscal year (FY) basis; however, the offsetting revenues are collected on a calendar year (CY) basis. Approximately $700,000 of costs incurred in FY 2010 will be collected from ratepayers in FY 2011. We notified Public Utilities of the timing difference in cost recovery pertaining to the Readiness-to-Serve Charge and discussed this with the City's independent auditor who concluded this is immaterial to the fund.	Traced rates effective as of January 1, 2011 from the SDCWA ordinance to the rates used by the Water Division in their calculations. Payments to the SDCWA for in-lieu taxes are based on budgeted estimates and are the responsibility of the Public Utilities Department; we did not confirm the calculation of these estimates.
2) Verify the prior year purchase costs used to calculate the change in costs between calendar year 2010 and calendar year 2011 rates.	The prior year SDCWA rates agreed to the rates used in the Public Utilities Department's calculations.	We verified the SDCWA rates, effective January 1, 2010 based on the prior year SDCWA ordinance. Payments to the SDCWA for in-lieu taxes were traced to the prior year estimate.
3) Verify the mathematical accuracy of the Public Utilities Department's calculations of projected increases in water purchase costs and the revenues required to offset the purchases for calendar year 2011.	Projected increases in water purchase costs and the revenues required to offset the purchases for calendar year 2011 were mathematically accurate.	The projected total increases in water purchase costs and the revenues required to offset the purchases for calendar year 2011 are based on estimates of acre feet of water purchased and sold, which may vary

Agreed-Upon Procedure	Result	Review Procedures
	SDCWA has maintained FY 2010 target allocations through June 2011.	depending on usage. We used the following procedures to verify mathematical accuracy: • Traced FY2010 water sales figures to Customer Information System Report U0-400-30. • Verified the projected water sales for CY 2011 do not exceed CWA Target Allocation for FY2010. • Verified mathematical accuracy of revenue estimates for FY2011 and FY2012. • Verified additional revenue required based on projected water sales.
4) Verify the allocation of rate increases to rate payers.	The allocation of rate increases to rate payers is mathematically accurate.	• Recalculated July 1, 2010 rates based on 6.5% annual increase approved by Council Res. 302380 for FY2008-2011. • Recalculated projected January 1, 2011 rates prior to the SDCWA increases and verified rate reversals in calendar year 2010. Two rate reversals will occur in CY 2010. On September 1, 2010, the temporary charge to fund the Indirect Potable Reuse Project (IPR) will be reversed. Also, a partial reversal of the City's

Agreed-Upon Procedure	Result	Review Procedures
		January 1, 2010 pass-through rate increase will be reversed. There was a four month timing difference in the prior year between the date the SDCWA increased costs to the City and the date the City passed these increased costs to the rate payers. The CY 2010 rate was calculated to recover sixteen months of costs over a twelve month period. The portion of the rate pertaining to the timing difference will be reversed prior to the January 1, 2011 pass-through increase. • Verified the percentage increase in commodity charges based on additional revenue required to offset costs.