

DATE ISSUED: November 24, 2004

REPORT NO. 04-254

ATTENTION: Honorable Mayor and City Council

SUBJECT: Notice of Increase in Currently Effective Water Commodity Rates Due to Higher Wholesale Water Cost

REFERENCES: City Manager's Report 04-120

#### SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE MAYOR AND CITY COUNCIL.

#### BACKGROUND

In November 1996, California voters adopted Proposition 218, the Right to Vote on Taxes Act, which added articles XIII C and XIII D to the California Constitution. Article XIII D of the State Constitution specifies various restrictions and requirements for assessments, fees, and charges that local governments impose on real property or on persons as an incident of property ownership. This initiative changed the way the public is notified of proposed fee increases. Specifically, it requires that notices be mailed to all property owners of record at least 45 days in advance of the date on which a proposed property related fee increase may be adopted.

In order for the City to meet the legal requirements of Proposition 218, the Water Department mailed approximately 345,400 notices to every affected property owner of record in April 2004. On June 22, 2004, the City Council adopted Resolution Number R-299375 authorizing and directing the City Manager to increase, as necessary, water rates due to future increases in the wholesale cost of water.

In addition, Section 67.0508 of the San Diego Municipal Code Section requires that water rates be automatically adjusted as necessary to proportionately compensate for any increase in the wholesale cost of water purchased by the City. Notice of such adjustment must be given

to the Mayor and Council by report and to the public by publication in the City's official newspaper on or before the thirtieth day prior to the effective date of the adjustment.

DISCUSSION

Increase in Currently Effective Water Commodity Charges Due to Higher Wholesale Water Costs

On September 23, 2004, the San Diego County Water Authority (CWA) implemented a new composite, or "melded" untreated municipal and industrial supply rate. The melded supply rate incorporates the cost to CWA of water supplies provided by the Metropolitan Water District (MWD), the Imperial Irrigation District, or other supplies that may become available to CWA.

The CWA melded supply charge incorporates increases in the cost of wholesale water from both CWA and MWD which will continue to be collected as a part of the City's commodity charges. In addition, MWD's and CWA's fixed charges are increasing and are collected as part of the commodity charges since they are calculated each year based on the volume of water sold in prior years. As a result of the increases in the cost of wholesale water and MWD's and CWA's fixed charges, the current weighted average cost of wholesale water will increase from \$493.23 per acre foot (AF) to \$516.78 per AF - an increase of 5.44 per hundred cubic feet (HCF), which equals 748 gallons.

Adjusted Water Rates Effective January 1, 2005

The current average water rate is \$1.737 per HCF. As of January 1, 2005, that rate will rise by 5.44 to \$1.791 per HCF, consistent with the calculation shown below:

Current Average Rate per HCF	\$ 1.737
5.44 Wholesale Water Cost Increase	<u>\$ .054</u>
Average Rate per HCF Effective 1/1/05	\$ 1.791

CONCLUSION

The new water commodity rates effective January 1, 2005 will raise the bill of a single-family domestic customer using 14 HCF per month by about 76¢, to \$37.43 per month. This represents a 2% increase in the current bill, which is \$36.68 per month.

Respectfully submitted,

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Frank Belock  
Water Department Director

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Approved: Richard Mendes  
Deputy City Manager

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