

DATE ISSUED: July 29, 2005

REPORT NO. 05-167

ATTENTION: Natural Resources and Culture Committee
Agenda of August 3, 2005

SUBJECT: WATER DEPARTMENT FEES & CHARGES

SUMMARY

Issue: Should the Water Department's Fees and Charges be adjusted, effective January 1, 2006 to reflect current costs and allow the City Manager to set certain fees based on individual project estimates?

Manager's Recommendation: Approve the updated schedule of existing Water Department cost recoverable fees and charges and allow the City Manager to set certain fees based on individual project estimates.

Other Recommendations: The Public Utilities Advisory Commission on June 20, 2005, approved the process and methodology used in the development of these fees and charges.

Fiscal Impact - The Water Department would realize an estimated \$0.9 million increase to operations and maintenance cost recoverable revenue per year, resulting in total fee and charge revenue going from approximately \$4.5 million to \$5.4 million annually.

BACKGROUND

As part of the FY 2006 budget process and efforts to identify and recover costs associated with providing services consistent with the City's policy on budgetary cost recovery principles, the City Manager has directed staff to conduct a complete evaluation of the costs and revenues associated with providing City services. This effort is in accordance with the California Constitution as well as the State Government Code, which authorize local jurisdictions to impose fees, charges and rates in order to recover costs associated with providing services.

San Diego Municipal Code Sections 67.0203 and 67.0228 provides the Water Department the authority to reevaluate fees and charges to fully reimburse the City for the cost of the performance of the services. A waiver or reduction of fees and charges for a City department is not permitted under these sections. Municipal Code Section 67.0203 authorizes the City Manager to set the amount of Water Department fees and charges paid by the third party applicant with the exception of Water Service Connection charges, which shall be established by the City Council. The amount of the charges shall fully reimburse the Department. Municipal Code Section 67.0228 also authorizes the Water Department to charge customers for various services to fully recover the Department's costs. These services include turning on and off the water service for non-payment, removal and reinstallation of meters.

Also, City Charter Section 53 mandates an independent Water Utility that is wholly dependent upon its revenue sources must preserve its funds for the operation, maintenance, and expansion of its facilities. A waiver or reduction of fees to a level below the standard which compensates the Department for the cost of providing the service is inconsistent with Charter Section 53's requirement that the Department be self-sustaining.

Additionally, in June 1998 and October 2002, the City Council approved the issuance of certificates of undivided interest in the amounts of \$385 million and \$286 million respectively for the Water Department Capital Improvement Program. The Master Installment Purchase Agreement for these securities contains covenants restricting the Water Department from providing services to customers, including public agencies or other City departments at rates insufficient to cover all its obligations.

DISCUSSION

As a result of the Water Department's review of its existing fees and charges, the following addresses the changes necessary to assure full cost recovery. The fees and charges are those that the Water Department charges to customers for services provided. The last increase in the schedule of fees and charges was approved by Council Resolution R-290820 adopted on October 6, 1998 for all fees related to the water distribution system. In addition, the Water Department also increased, per Council Resolution R-293483 adopted on July 18, 2000, the fees charged for services related to water billing and collection as well as fees related to the Fire Hydrant Meter program.

A new schedule of fees and charges accompanies this report which outlines the current and proposed rates for the services provided by the Water Department (Attachment 1).

Existing Fees and Charges Requiring Council Approval

Water Service and Meter Installations – The fees to connect water service from the water main to the customer property and for installing a meter to track consumption for billing purposes. The Water Department currently installs 300 to 400 new water services and

over 2,000 new meters per year to single and multi-family homes as well as to commercial, industrial and agricultural enterprises. Current revenue generated is approximately \$1.8 million. With the approval of the new rates, annual revenue would increase to about \$2.1 million (Attachment 1, Items 1-6).

Backflow Replacement and Maintenance – The monthly fee charged to test, maintain and replace backflow prevention devices. This program is in the process of being phased out for private customers due to the work force levels required for the program. Because the device is located on the customer’s side of the property line, the customer is responsible to provide the service via private contractor. Of the nearly 14,000 devices currently in place, only about 3,000 are still maintained by Water Department staff and the number will continue to drop. Water Department staff will continue to service City owned backflow devices. Although the new fee schedule would raise monthly fees on average 40%, the Department is not projecting increased revenue, due to the decreasing number of customers that will be serviced by Department staff (Attachment 1, Items 7 & 8).

Taps into Water Main – The fee charged when the developer has provided the water service line and Water Department staff connects the service to, or “taps” into the water main. Under the current schedule, a discount was given for installing same size taps on the same job site. This discount was based on the Department achieving an economy of scale for doing multiple taps on one trip. History has shown these expected economies have not occurred. The Department is requesting to eliminate the discount for additional taps and treat each tap as a separate charge (Attachment 1, Items 9 & 10). Approximately \$101,000 in revenue is generated per year under the current standard rates. The number would increase by roughly \$20,000 or 22% with the new rates.

Connections to Water Main – The fee charged when a new development with a water main extension is connected to an existing water main. This service currently is producing slightly over \$300,000 per year and would increase 46% to approximately \$440,000 per year under the new rate schedule (Attachment 1, Items 11 – 13).

Cross Connection Tests – The fee charged to test to insure there are no cross connections between potable and recycled water lines, where both lines service the same property. Currently these tests produce about \$10,000 to \$15,000 per year (Attachment 1, Item 14).

Water Billing and Collection Fees

- a. Shut off meter due to non-payment
- b. Restore service
- c. Remove meter due to an illegal reconnect
- d. Reinstall meter after an illegal reconnect

Water billing and collection fees were last updated in 2000 and currently generate approximately \$900,000 per year. With the new proposed rates that figure would increase to about \$1.2 million (Attachment 1, Item 15).

Special Estimate Services - Some of the services require special estimates. The reasons can vary due to the complexity of the job as well as charging a premium for overtime when work must be performed during non-standard work hours.

The Department is requesting certain fees currently set under the Council's authority be transferred to the Manager's authority and classified as special estimate fees. The rationale behind the request is that the costs associated with the fees in question can vary significantly from job to job, e.g. location of the main, traffic control, amount of overtime needed, etc. The specific fees and charges in question would be Backflow Assembly Installations (Attachment 1, Item 7) and Large Main connections (Attachment 1, Items 11 - 13). Whenever a special estimate is required, current costs, e.g. labor, equipment and materials are used in the calculation. Currently, other "special estimate" jobs generate approximately \$1.15 million per year. This amount will increase by 3%, or \$34,000 due to the 3% salary increase that went into effect in June, 2005.

The following fees and charges are within the authority of the City Manager to review and will also become effective as of January 1, 2006:

Meter Credit Allowance - Credit offered for existing meter when upgraded to a larger meter. **The increased fee is for the cost of the meter only. No additional charges are incurred with installation of the meter** (Attachment 1, Item 16).

Lost or Stolen Meter – The fee charged to replace a lost or stolen meter is the same price as meter installation and replacement of a new meter (Attachment 1, Item 17).

Fire Hydrant Meter with Deposit – Fee and deposit amount charged for temporary meters installed on fire hydrants, most commonly at construction sites. Deposit amounts will not change under the new schedule (Attachment 1, Items 18 & 19).

Cut and Plug Water Mains – The fee charged to "kill" a service by disconnecting it from the main. As was brought up earlier in this report under "Taps into Water Main" the Department is requesting the elimination of the discount for additional kill services of the same size. The same reason applies, there have been no economies realized and therefore the discount does not fully compensate the Department for the service provided. Under the current fee schedule this service produces roughly \$300,000 per year. The proposed fee scheduled would increase the cost for this service by 20%, yielding an additional \$60,000 per year. (Attachment 1, Items 20 – 22).

Bacterial Water Sampling – The fee charged to test for bacteria when new water main extensions of sixty feet or more are completed. Currently this service is performed approximately fifteen to twenty times per year at a rate of \$200 each. The proposed rate would increase to \$426 each (Attachment 1, Item 23).

Water Meter Testing – The fee charged for customer requests to test the accuracy of a water meter. Less than \$2,000 per year is generated from this service and no change in the fee is proposed (Attachment 1, Item 24).

Factors Impacting Fees and Charges

There have been several factors that have affected the cost of providing the services listed above from the last time they were updated in 1998 and 2000. Those factors include: labor issues consisting of salary and wage increases, crew restructuring and fringe benefits; overhead rates; storm water pollution prevention regulations; and equipment and material costs.

Salary and wages for City employees will have increased by 29.25% for the period from fiscal year 1999 through fiscal year 2007. The percentage of cost related to fringe benefits and labor load has increased from 30% in fiscal 1999 to 43% in fiscal 2006 due mainly to higher contribution rates for retirement and workers compensation related expenses.

The other component affecting labor cost was the restructuring of the work crews utilizing a new classification of employees titled Water System Technician (WST). The WST class series was developed through the combined efforts and partnerships of various stakeholders including Water Department employees and subject matter experts, the Personnel Department, Labor Relations, American Federation of State, County and Municipal Employees (Local 127), and the San Diego Municipal Employees' Association (MEA). It was accepted and endorsed by the Mayor's Blue Ribbon Committee in 1999. In 2000, the Civil Service Commission approved the new employee classification and the Council approved the salary rate increases. The goal of the restructuring was to cross-train crews to respond to more tasks resulting in better efficiencies. This has been reflected in some services, such as water service installations utilizing fewer hours to complete the job thereby mitigating the amount of the overall price increase. However, other services, such as large main connections still require the same amount of time and due to the complexity the associated expenses are over and above the standard wage increase.

In order to comply with State regulations related to storm water pollution prevention, the Water Department has incurred additional expenses not included when the fees and charges were last approved in 1998. One of those expenses includes equipment and supplies used to de-chlorinate water that is discharged down the storm drains during main connections. Another new expense is additional crew time added to related jobs for set-up and dismantling of barriers at storm drains to prevent debris from being washed down the drains when mains are being installed.

Lastly, material charges since 1998 have increased over and above the inflation rate due mainly to the addition of disposal fees that can range between \$93 and \$620 per job.

Following is a summary of the fees and charges contained within this report and the projected revenues they would generate.

Service	Projected Annual Revenue Current Schedule	Projected Annual Revenue Prop. Schedule	Change	% Change
Developer Fees				
New Water Services	\$ 1,380,299	\$ 1,830,735	\$ 450,436	33%
Meter Services	\$ 407,888	\$ 289,559	\$ (118,329)	-29%
Water Main Connections	\$ 409,556	\$ 569,017	\$ 159,461	39%
Cut & Plug and Kill Services	\$ 299,256	\$ 360,519	\$ 61,263	20%
Cross Connection Tests	\$ 13,303	\$ 29,044	\$ 15,741	118%
Special Estimate Services	\$ 1,155,324	\$ 1,189,983	\$ 34,659	3%
Subtotal	\$ 3,665,626	\$ 4,268,857	\$ 603,231	16%
Customer Billing & Collection Fees				
Water Shut Off/Restoration	\$ 868,330	\$ 1,174,187	\$ 305,857	35%
Total	\$ 4,533,956	\$ 5,443,044	\$ 909,088	20%

The figures in the table above include approximately \$86,000 in additional projected revenues charged to other City Departments as follows:

Department	Estimated Increase in Fees Paid
Park & Recreation	\$ 52,000
City Library	\$ 4,000
MWWD	\$ 12,000
Police	\$ 1,500
Fire	\$ 9,000
Water Department	\$ 4,500
Others Departments	\$ 3,000
Total	\$ 86,000

REVIEW AND IMPLEMENTATION

The proposed fee changes were presented to the Public Utilities Advisory Commission (PUAC) on June 20, 2005. The PUAC approved the process and methodology utilized to establish the new fees and charges. Council Policy 100-05 requires that sufficient notification of the proposed changes listed above be sent out to all stakeholders. A notice and the proposed fee increases were sent out on June 24, 2005 to a list of industry groups which include the Building Industry Association of San Diego, the Engineering & General Contractors Association, the San Diego Tax Payers Association and others as listed in Attachment 2. In order to allow sufficient time for other Departments and industry contacts to review and budget for these service increases, it is recommended that they be implemented as of January 1, 2006.

CONCLUSION

Should the City Council adopt the recommendations made in this City Manager's Report, the anticipated net increased cost recovery to the Water Utility Fund is estimated at \$909,088. This is approximately 20% above Fiscal Year 2005.

ALTERNATIVE

Do not approve the Water Department Schedule of Fees & Charges. The consequence would be that insufficient revenue would be generated to cover all costs associated with the services provided.

Respectfully submitted,

Frank Belock Jr.
Water Department Director

Approved: Richard Mendes
Deputy City Manager

Attachments: [1. Schedule of Fees and Charges](#)
 [2. List of industry groups noticed of proposed changes.](#)