

DATE ISSUED: November 22, 2005 REPORT NO. 05-230

ATTENTION: Honorable Mayor and City Council

SUBJECT: Notice of Increase in Currently Effective Water Base Fees and
Commodity Rates Due to Higher Wholesale Water Costs

REFERENCE: 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, within specified limits, water rates and charges 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 Base Fee Due to Higher Infrastructure Access Charge

At its June 23, 2005 meeting, the Board of Directors of the San Diego County Water Authority (CWA) voted to increase its meter-based Infrastructure Access Charge. The rate per meter equivalent increased by \$.33, which is greater than the not-to-exceed figure of \$.25 approved by the City Council on June 22, 2004. As a result, the compensating adjustment is less than what is necessary to fully offset the increase. It is anticipated that an additional adjustment will be made in a future year to recover the shortfall. The increase to each San Diego water customer's monthly costs will be as follows: under 1-inch: \$.25; 1-inch: \$.40; 1.5-inch: \$.75; 2-inch: \$1.30; 3-inch: \$2.40; 4-inch: \$4.10; 6-inch: \$7.50; 8-inch: \$13.00; 10-inch: \$19.50; 12-inch: \$33.00; 16-inch: \$71.50. These amounts are consistent with the not to exceed figures that the City Council approved on June 22, 2004.

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

At its June 23, 2005 meeting, the Board of Directors of the CWA voted to raise the melded supply charge for water beginning January 1, 2006. The melded supply charge 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 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 \$516.78 per acre foot (AF) to \$537.33 per AF - an increase of 4.74 per hundred cubic feet (HCF), which equals 748 gallons.

The current average water rate is \$1.870 per HCF. As of January 1, 2006, that rate will rise by 4.74 to \$1.917 per HCF, consistent with the calculation shown below:

Current Average Rate per HCF	\$ 1.870
4.74 Wholesale Water Cost Increase	<u>\$.047</u>
Average Rate per HCF Effective 1/1/06	\$ 1.917

CONCLUSION

The new water commodity rates effective January 1, 2006 will raise the bill of a single-family domestic customer using 14 HCF per month by about 914, to \$40.64 per month. This represents a 2% increase in the current bill, which is \$39.73 per month.

Respectfully submitted,

Frank Belock
Water Department Director

Approved: Larry Gardner
Deputy City Manager

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