



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: April 25, 2007

REPORT NO. 07-071

ATTENTION: Honorable Mayor and City Council
Docket of April 30, 2007

SUBJECT: Water, Sewer Monthly Billing Report

SUMMARY

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

BACKGROUND

On April 30, 2002, as part of the approval of water rate increases proposed by the City Manager, the Mayor and City Council directed the Water Department to begin billing all water and sewer customers on a monthly basis. All single-family domestic customers, small commercial customers, and most small multi-living-unit (MLU) customers had been billed on a bi-monthly basis. Large commercial/ MLU/ governmental/ institutional customers were already being billed on a monthly basis.

The conversion to full monthly billing was directed in an effort to minimize the difficulties customers would have in paying larger utility bills. It was believed that paying smaller bills on a monthly basis would be easier for customers than paying larger bi-monthly bills. It was thought it would also lead to a decrease in account delinquencies. The Department was instructed to convert to monthly billing no later than December 2003 and to do so without adding staff.

After factoring in the capabilities of the City's current billing system, a number of alternatives were considered. The alternative that best met the criteria – easiest for customers to understand, no additional staff needed, lowest cost – was to provide an estimate of water consumption for every other bill.

DISCUSSION

Monthly billing began on September 2, 2003. The Water Fund and Sewer Fund had one-time conversion costs of \$1.3 million. At that time annual operating costs increased by \$570,000 due to additional postage, bill printing and envelope expenditures. No additional revenue has been generated as a result of the conversion. These on-going costs have risen to approximately \$622,000 annually.

Under the monthly billing system, a customer receives a bill based upon actual consumption, followed by an estimated bill the next month. The estimated bill is calculated upon historic monthly use at the property. The following month, each customer's meter is again read and the consumption is verified.

The integrity of the billing system is assured because the Water Department continues to read meters on a bi-monthly basis making needed adjustments for previous estimated bills. Furthermore, the department has continued to review and adjust all single-family dwelling accounts every six months since March 2005 in order to off set any additional charges that may have resulted from the shift from bi-monthly to monthly billing (this is called the tier-rate adjustment). For the latest six month adjustment completed March 2006, the average adjustment for each account was \$2.03. Approximately 68 percent of single-family dwellings received an adjustment. For FY 2006 the total tier-rate adjustments equalled \$501,416. The Department's total water sales for that period was approximately \$254 million. Thus the tier-rate adjustment accounted for 2/10 of one percent of total water sales.

During the first two years of implementation, the department did not experience the expected decrease in accounts being shut off due to delinquency. In Fiscal Year 2004, the year of conversion, shut offs increased by 897 over the previous year. The number of accounts shut off in Fiscal Year 2005 was 24,459, an increase of 2,770 over the previous year. However, in Fiscal Year 2006, the total was 21,230, a decrease of 3,229. Currently, the total number of accounts to be shut off in Fiscal Year 2007 is projected to decrease about 1,105 from Fiscal Year 2006.

The department continues to review monthly billing practices on a regular basis to ensure the accuracy of its estimated bills and to further ensure efficient utilization of existing resources. We are currently reviewing the estimate formula to determine if the bill adjustments can be lowered. We have also received information from SDDPC concerning the costs to adjust all accounts every two months rather than six months as described above. We have also received information from SDDPC concerning the costs to revert back to billing on a bi-monthly basis.

As such, the following information is available to the City Council.

- Option 1 No change to the existing process.
- Option 2 Revert back to billing on a bi-monthly basis. This would eliminate the need to move the frequency of the tier-rate adjustment from every six months to every two months.

The cost estimate for Option 2 ranges from \$111,800 to \$167,700. This would be a one-time expense paid to SDDPC. This option would reduce annual expenses by approximately \$622,000. This savings would be shared equally by the Water and Wastewater Funds. This cost reduction is due to the decrease in the number of invoices issued and received for water/wastewater bills.

Under this option single-family dwellings would no longer receive an estimated bill every other month. Their meters would be read every other month and they would be billed every other month. As a consequence, single-family dwellings would receive six bills annually, each of

which would be roughly twice as large as one of 12 monthly bills they are currently receiving. A typical monthly bill for water and sewer currently is \$76.13. A shift to bi-monthly billing would result in a bill of \$152.26 every two months for water and sewer service. We estimate that this option could be implemented in the March/April 2008 time frame. This timing is dependent upon the final outcome of the Shames lawsuit. The final proposed Shames settlement requires billing credits to the sewer portion of the bills. This will require changes in the billing structure which have to be completed by the court order date. As a result, the Shames rebate and credits have to be implemented before Option 2 occurs. Consideration must also be made to the possible implementation of the new Enterprise Resource Planning system and its effect on the current billing system and practices.

Option 3 Do not revert back to bi-monthly billing. Shift the frequency of the tier-rate adjustment from every 6 months to every two months.

There are two methods of increasing the frequency of the tier-rate adjustments. The less complex and easier to understand method is recommended. Under this method single-family dwellings would receive their tier-rate adjustment, if any, two months after every actual read of their meter. The one-time cost estimate for implementing this method ranges from \$28,620 to \$38,637. This would be a one-time expense paid to SDDPC. Estimated additional annual costs range from \$4,420 to \$5,724.

Under this option there would be no reduction in the annual expenses to the Water and Wastewater Funds. All single-family dwellings would continue to receive 12 bills annually; half of which would be estimated bills. We estimate that this option could be implemented in November 2007. This timing is dependent upon the final outcome of the Shames lawsuit. As set forth above, a portion of the proposed settlement will be implemented in the sewer portion of the bills. This will require changes in the billing structure. Due to the court order, this will have to be completed before we implement Option 3.

Respectfully submitted,



J.M. Barrett
Water Department Director



Approved: R.F. Haas
Deputy Chief of Public Works

BARRETT/MB