



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: June 13, 2007

REPORT NO: 07-111

ATTENTION: Council President and City Council
Docket of June 18, 2007

SUBJECT: Water, Sewer Monthly Billing Report

REQUESTED ACTION: Return to bi-monthly billing for those accounts previously read on a bi-monthly basis. The return to bi-monthly billing should occur by March or April 2008. Increase the frequency of the tier rate adjustment process from every six months to every two months. This should be completed by November 2007. Once the return to bi-monthly billing is complete, the tier rate adjustment process will no longer be needed.

STAFF RECOMMENDATION: Authorize the requested actions.

SUMMARY: 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.

Monthly billing began on September 2, 2003. The Water Fund and Wastewater 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 2007, the average adjustment for each account was \$2.03. Approximately 68% of single-family dwellings received an adjustment.

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 increased by 2,770 over the previous year. However, in Fiscal Year 2006, the total accounts shut-off decreased 3,229. In Fiscal Year 2007, the total accounts shut-off to date are 14,490 with a year end projection of 20,125, a projected decrease of 1,105 shut-offs over 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 have 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.

The cost estimate to revert back to billing on a bi-monthly basis is 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 reversion 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 twice as large as one of 12 monthly bills they are currently receiving. 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 Council may also require more frequent tier rate adjustments. Under this method single-family dwellings would receive their tier rate adjustment, if any, two months after every actual read of their meter. The cost estimate for 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.

FISCAL CONSIDERATIONS:

- 1) The estimated one-time cost to revert to bi-monthly billing is \$111,800 to \$167,700. There would be a reduction in costs of approximately \$662,000 annually. The initial cost and annual savings would be equally divided between the Water and Wastewater funds.
- 2) The estimated one-time cost to increase the frequency of the tier rate adjustment is \$28,620 to \$38,637. Estimated additional annual costs of \$4,420 to \$5,724. The additional costs would be equally divided by the Water and Wastewater Funds.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: On April 30, 2002, the Mayor and City Council directed the Water Department to implement monthly billing. On November 15, 2006, the Natural Resources and Culture Committee heard this item and requested that it be forwarded to the full City Council for discussion. At the April 30, 2007 meeting of the City Council, the Council directed the Mayor's staff to return this item to Council as an action item. Council directed the return to bi-monthly billing by March/April 2008 and increase the frequency of the tier rate adjustment by November 2007 from six months to every two months.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: All customers that currently receive an estimated bill every other month.



J.M. Barrett
Water Department Director



R.F. Haas
Deputy Chief of Public Works