



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: July 25, 2007 REPORT NO: 07-125
ATTENTION: Council President and Members of the City Council,
Docket of July 30, 2007
SUBJECT: Proposition 218 Noticing of Proposed Water Rate Adjustments
REFERENCE: Report to City Council No. 07-039

REQUESTED ACTION:

- Authorize Proposition 218 Noticing of proposed water rate increase of \$0.09 per hundred cubic feet (HCF) of water usage for all customer classes and \$0.14 per equivalent dwelling unit based upon meter size as related to the increase in the wholesale cost of water purchased by the City from the San Diego County Water Authority (CWA).

STAFF RECOMMENDATION:

- Approve Proposition 218 Noticing of proposed water rate increase of \$0.09 per hundred cubic feet (HCF) of water usage for all customer classes and \$0.14 per equivalent dwelling unit based upon meter size as related to the increase in the wholesale cost of water purchased by the City from the San Diego County Water Authority (CWA).

SUMMARY:

Proposition 218

On November 5, 1996, the voters of the State of California approved Proposition 218, the "Right to Vote on Taxes Act." Proposition 218, effective July 1, 1997, added Articles XIII C and XIII D to the State Constitution, which contain a number of provisions affecting the ability of local governments to levy and collect both existing and future taxes, assessments, fees and charges. Article XIII D, section 6(a)(1) imposes noticing procedures for imposing a new or increasing an existing property-related fee or charge. 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.

Pursuant to the legal requirements of Proposition 218, it is the intent of the Water Department to mail notices (attached), on or before August 25, 2007 to property owners of record and City of San Diego water bill customers, advising them of the adjustments to the water fee and rate adjustments due to the increase in the wholesale cost of water and advise of the City Council hearing date for public comment. The City Council of San Diego will hold a public hearing on

October 8, 2007 to consider adoption of the proposed revisions to existing water base fees and commodity charges. If adopted, the revisions under this proposal will become effective beginning January 1, 2008.

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

Background

The City has managed and operated the water system since 1901 after purchasing the privately owned San Diego Water and Telephone Company. Since then the system has been expanded to supply approximately 270,000 accounts at the start of FY 2007, delivering approximately 240,000 acre-feet of water per year.

While the City has grown, local water sources have remained static. In general, between 6 percent and 10 percent of the City’s water supply is derived from local water sources. The balance of the City’s water supply is purchased from the CWA. These purchases from the CWA include treated water that is delivered to the City’s water distribution system and raw water that is transported to the City’s water treatment plants. The City owns and operates three water treatment plants with a combined current capacity of nearly 330 million gallons per day (MGD). Thirty (30) treated water storage facilities within the water system ensure consistent delivery to the 90 different pressure zones with the aid of 49 water pump stations.

Wholesale Water Rate Pass Through

San Diego mostly relies upon imported water from Northern California and the Colorado River. The City currently purchases 90 percent of its water from CWA, which in turn purchases water from Metropolitan Water District of Southern California (Metropolitan). CWA periodically increases the rates it charges the City for water. These increases are based on CWA costs for infrastructure, operations, maintenance, and water purchases from Metropolitan. The increased costs are then passed through by CWA to the agencies that purchase water from CWA. These increase costs are known as “pass throughs”.

In the beginning of Calendar Year 2007, CWA finalized a periodic review of the current water purchase rates being charged to their participating agencies and on June 28, 2007, made a presentation to the CWA Board of Directors (“CWA Board”) disclosing the need for a rate increase based on the additional infrastructure, operations, maintenance, and water purchase costs. The CWA Board approved the rate increase recommendation (see attached report and ordinance from CWA). As a result, on January 1, 2008, CWA will be increasing the rates to all their participating agencies, including the City of San Diego, for water purchases.

The CWA rate increases were not part of the recent 4 year, 6.5% annual water rate increase approved by the City Council (Report to the City Council No. 07-039), as the proposed CWA pass through rate increases were not finalized or approved by the CWA Board at the time. Staff is recommending the adoption of the following water rate increases in order to maintain cost/revenue neutrality and to maintain consistency with the City's 4-year water rate plan previously approved. This recommendation is consistent with Municipal Code Section 67.0508. The rate increases are subject to Proposition 218 noticing.

Current and Proposed Rates

Water rates are comprised of two components: the Base Fee and the Commodity Rate. The Base Fee is based upon meter size and is used to recover the fixed charges associated with the water system. The Commodity Rate recovers variable cost components of the water system based upon water usage. The proposed base fee and commodity rate increases are presented below:

Increase in Base Fee

On June 28, 2007, the CWA Board voted to increase its meter-based Infrastructure Access Charge (IAC). Based on multiplication factors established by CWA, each meter size is converted into a number of household meter equivalents (Equivalent dwelling units) and rate increases are applied accordingly. The table below represents the proposed "pass through" increases to the base fee based upon meter size.

BASE FEE INCREASES FOR 2008 CWA FIXED CHARGE INCREASE			
FY08 Pass Through Adjustment			
Base Fee Increase = \$.14 per equivalent dwelling unit			
Meter Size	Current	January 1 2008 (with CWA Pass Through)	Increase
Less than 1 inch	\$ 15.18	\$ 15.32	\$ 0.14
1 Inch	\$ 22.17	\$ 22.41	\$ 0.24
1 1/2 Inch	\$ 38.13	\$ 38.59	\$ 0.46
2 Inch	\$ 58.09	\$ 58.83	\$ 0.74
3 Inch	\$ 104.98	\$ 106.38	\$ 1.40
4 Inch	\$ 171.83	\$ 174.17	\$ 2.34
6 Inch	\$ 337.46	\$ 342.12	\$ 4.66
8 Inch	\$ 537.01	\$ 544.47	\$ 7.46
10 Inch	\$ 770.49	\$ 781.23	\$ 10.74
12 Inch	\$ 1,435.00	\$1,455.06	\$ 20.06
16 Inch	\$ 2,499.62	\$2,534.62	\$ 35.00

The base fee for a Single Family Dwelling customer (typical meter size of less than 1 inch) will increase by \$0.14, from \$15.18 to \$15.32.

Increase in Water Commodity Charge

On June 28, 2007, the CWA Board voted to raise the melded supply charge for water. The melded supply charge incorporates the cost to CWA of water purchases approved by the Metropolitan, the Imperial Irrigation District, or other supplies that may become available to CWA. The CWA melded supply charge will continue to be collected as part of the City's commodity charges. As a result, the current weighted average cost of wholesale water will increase from \$ 545.87 per acre foot (AF) to \$ 584.92 per AF – an increase of \$0.09 per hundred cubic feet (HCF), which equals 748 gallons. This rate increase will be applied to all customer classes and tiered consumption rates equally (see table below).

WATER RATE INCREASES FOR 2008 CWA COMMODITY CHARGE INCREASE			
Commodity Charge Increase = \$.09 per HCF			
COMMODITY CHARGES BY CUSTOMER CLASS/TIER per HCF			
	Current	January 1 2008 (with CWA Pass Through)	Increase
Single Family Dwelling			
1-7 HCF (tier 1)	\$ 2.262	\$ 2.352	\$ 0.09
8-14 HCF (tier 2)	\$ 2.461	\$ 2.551	\$ 0.09
15 + HCF (tier 3)	\$ 2.775	\$ 2.865	\$ 0.09
Other Domestic	\$ 2.461	\$ 2.551	\$ 0.09
Commercial	\$ 2.357	\$ 2.447	\$ 0.09
Industrial	\$ 2.357	\$ 2.447	\$ 0.09
Temporary Construction	\$ 2.524	\$ 2.614	\$ 0.09
Irrigation	\$ 2.524	\$ 2.614	\$ 0.09

The commodity charge for a Single Family Dwelling customer with the usage of 14 HFC per month will increase \$1.26 (14 HCF x \$0.09 per HCF), from \$33.06 to \$34.32.

The following table outlines the overall effect of the CWA increases to the base fee and commodity charge for a typical Single Family Dwelling customer with the usage of 14 HFC per month:

EFFECT OF WATER FEE AND RATE INCREASES ON THE TYPICAL SINGLE FAMILY DWELLING MONTHLY BILL (14 HCF usage)				
Single Family Dwelling	Current	Jan. 1, 2008	Amount of Increase	
Base Fee				
3/4 inch meter	\$ 15.18	\$ 15.32	\$	0.14
Commodity Fee*				
1-7 HCF (tier 1)	15.83	16.46	\$	0.63
8-14 HCF (tier 2)	17.23	17.86	\$	0.63
Total	\$ 48.24	\$ 49.64	\$	1.40

*Assumes 7 HCF used per rate tier.

The new water fees and rates effective January 1, 2008 will raise the bill of a Single Family Dwelling customer using 14 HFC per month by approximately \$1.40, to \$49.64 per month. This represents a 2.9% increase in the current water bill, which is \$48.24 per month.

FISCAL CONSIDERATIONS:

Cost of noticing property-owners and customer base is approximately \$230,000. This cost will be shared equally by the Water Department and Metropolitan Wastewater Department.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:


None.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

Proposition 218 notices will be issued upon approval of this action.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

City of San Diego water users will receive a notice of the public hearing to take place on October 8, 2007.



 J.M. Barrett
 Water Department Director



 R.F. Haas
 Deputy Chief of Public Works

Attachments:

1. Proposition 218 Notice
2. San Diego County Water Authority Report, dated June 20, 2007