



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: July 15, 2008 REPORT NO: 08-118

ATTENTION: Council President and Members of the City Council,
City Council Meeting of July 28, 2008

SUBJECT: Proposition 218 Noticing for Proposed Water Rate Increase to Meet
New Rates Charged by the San Diego County Water Authority

REFERENCE:

REQUESTED ACTION:

- Authorize Proposition 218 Noticing of proposed water rate increase of 8.50% on the commodity fee charged per hundred cubic feet (HCF) of water usage for all customer classes and a base fee increase of \$0.20 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).
- Set a public hearing date for a City Council vote on the proposed water rate increase for September 22, 2008.

STAFF RECOMMENDATION:

- Approve Proposition 218 Noticing of proposed water rate increase of 8.50% on the commodity fee charged per hundred cubic feet (HCF) of water usage for all customer classes and a base fee increase of \$0.20 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).
- Set a public hearing date for a City Council vote on the proposed water rate increase for September 22, 2008.

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 XIIC and XIID 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 XIID, 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. For purposes of this proposal, 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.

As of January 1, 2008, the California Legislature clarified the noticing and protest procedures required under Proposition 218 by enacting Government Code Section 53755.

It is the intent of the Water Department to adhere to the City's current Proposition 218 Notice procedures enacted by the City Council in 2007 through Resolution R-302245, which meet all of the legal requirements of Proposition 218 and the applicable sections of the Government Code. The Water Department will mail notices (attached) on or before August 7, 2008 to property owners of record and City of San Diego water bill customers, advising them of the adjustments to the water fees and rates due to the increase in the wholesale cost of water and informing them of the City Council hearing date for public comment. The City Council of San Diego will hold a public hearing on September 22, 2008 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, 2009.

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 2008, delivering approximately 230,000 acre-feet of water per year.

While the City has grown, local water sources have remained static. In general, approximately 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 approximately 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 increased costs are known as “pass-throughs”.

On April 24, 2008, the CWA Board of Directors (“CWA Board”) adopted the 2008 Long Range Financing Plan update, which included updates to CWA’s cost of water, capital improvement program, and other economic assumptions which would affect water purchase rates being charged to their participating agencies. On June 26, 2008, CWA staff made a presentation to the CWA Board disclosing the need for a rate increase based on the additional infrastructure, operations, maintenance, and water purchase costs. At that meeting the CWA Board approved the rate increase recommendation (see attached report and ordinance from CWA). As a result, on January 1, 2009, CWA will be increasing the rates for water purchases to all their participating agencies, including the City of San Diego.

CWA pass-through rate increases were not part of the City’s 4-year, 6.5% annual water rate increase approved by the City Council as part of the Water Department’s 4-year capital improvement plan in February 2007 (Report to the City Council No. 07-039). When the 4-year, 6.5% annual increases were presented to the City Council, the Council was advised that the proposed rate increases did not include any future CWA pass through increases as none were finalized or approved by the CWA Board at the time. The Council was advised that it was the intent of the Water Department to request authorization to notice any future pass-throughs, and to apply any appropriate rate increases as they became approved by CWA.

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:

| PROPOSED CWA PASS THROUGH INCREASES | | | |
|--|----------------|-----------------------------|-----------------------------------|
| BASE FEE (Based on Meter size) | | | |
| Meter size | Current | Anticipated Increase | Rate as of January 1, 2009 |
| 5/8 inch | \$ 16.32 | \$ 0.20 | \$ 16.52 |
| 3/4 inch | \$ 16.32 | \$ 0.20 | \$ 16.52 |
| 1 inch | \$ 23.86 | \$ 0.34 | \$ 24.20 |
| 1 1/2 Inch | \$ 41.10 | \$ 0.66 | \$ 41.76 |
| 2 Inch | \$ 62.66 | \$ 1.06 | \$ 63.72 |
| 3 Inch | \$ 113.29 | \$ 2.00 | \$ 115.29 |
| 4 Inch | \$ 185.49 | \$ 3.34 | \$ 188.83 |
| 6 Inch | \$ 364.36 | \$ 6.66 | \$ 371.02 |
| 8 Inch | \$ 579.86 | \$ 10.66 | \$ 590.52 |
| 10 Inch | \$ 832.01 | \$ 15.34 | \$ 847.35 |
| 12 Inch | \$ 1,549.64 | \$ 28.66 | \$ 1,578.30 |
| 16 Inch | \$ 2,699.37 | \$ 50.00 | \$ 2,749.37 |

The base fee for a Single Family Dwelling customer (typical meter size of less than 1 inch) will increase by \$0.20 per month, from \$16.32 to \$16.52.

Increase in Base Fee

On June 26, 2008, 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” monthly increases to the base fee based upon meter size.

Increase in Water Commodity Charge

On June 26, 2008, the CWA Board voted to increase the rate and charges for the melded supply charge for water, the transportation rate, the storage charge, and customer service charge. As all of these charges are based on water deliveries or are the City’s portionate share of CWA’s total cost to deliver water, these charges are recovered through the Water Department’s Commodity charge. Definitions for these CWA charges are described in the attached CWA Report, dated June 18, 2008. As a direct result of the increases in commodity related charges from CWA, the Water Department will need to generate an additional 8.50% in revenue from the commodity fee portion of the Water bill. A direct application of a 8.50% increase will be applied to all customer classes and tiered consumption rates equally (see table below).

| PROPOSED CWA PASS THROUGH INCREASES COMMODITY FEE (Based on Meter size) | | | |
|--|----------------|-----------------------------|-----------------------------------|
| Customer Classification | Current | Anticipated Increase | Rate as of January 1, 2009 |
| Single Family Dwelling | | | |
| Tier 1 (First 7 HCF used) | \$2.505 | \$0.213 | \$2.718 |
| Tier 2 (Second 7 HCF used) | \$2.717 | \$0.231 | \$2.948 |
| Tier 3 (Usage above 14 HCF) | \$3.051 | \$0.259 | \$3.310 |
| Multi-family Dwelling | \$2.717 | \$0.231 | \$2.948 |
| Commercial | \$2.606 | \$0.222 | \$2.828 |
| Industrial | \$2.606 | \$0.222 | \$2.828 |
| Irrigation | \$2.784 | \$0.237 | \$3.021 |
| Temporary Construction | \$2.784 | \$0.237 | \$3.021 |

The commodity charge for a Single Family Dwelling customer with the usage of 14 HFC per month will increase monthly by \$3.11 [(7 HCF x \$0.207 per HCF) + (7 HCF x \$0.220 per HCF)], from \$36.56 to \$39.67.

The following table outlines the overall monthly 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 RATE INCREASES ON
THE TYPICAL SINGLE FAMILY DWELLING MONTHLY BILL
(14 HCF usage)**

| Single Family Dwelling | Current | January 1, 2009 |
|------------------------|-----------------|-----------------|
| Base Fee | | |
| 3/4 inch meter | \$ 16.32 | \$ 16.52 |
| Commodity Fee* | | |
| Tier 1 (1-7 HCF) | 17.54 | 19.03 |
| Tier 2 (8-14 HCF) | 19.02 | 20.64 |
| Total | \$ 52.88 | \$ 56.19 |

*Assumes 7 HCF used per rate tier.

The new water fees and rates effective January 1, 2009 will raise the monthly bill of a Single Family Dwelling customer using 14 HCF per month by approximately \$3.31, to \$56.19 per month. This represents a 6.26% increase in the current water bill, which is \$52.88 per month.

FISCAL CONSIDERATIONS:

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

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

None.

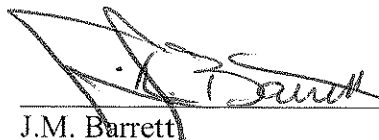
COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

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

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

Property owners of record and City of San Diego water customers will receive a notice of the public hearing to take place on September 22, 2008.

 7/17/08
Alex Ruiz
Assistant Water Department Director

 7/17/08
J.M. Barrett
Director of Public Utilities

Attachments:

1. Proposition 218 Notice
2. San Diego County Water Authority Report, dated June 18, 2008
3. City Auditor Review of the Increase in San Diego Water Rates