



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: November 7, 2008 REPORT NO: 08-167

ATTENTION: Council President and Members of the City Council,
City Council Meeting of November 17, 2008

SUBJECT: Proposed Water Rate Increase to offset the increase in rates charged
by the San Diego County Water Authority and to fund an Indirect
Potable Reuse Demonstration Project

REFERENCE: Office of the Independent Budget Analyst Report No. 08-92
Report to City Council No. 08-125
Report to City Council No. 08-118
Report to City Council No. 06-100

REQUESTED ACTION:

- Authorize a water rate increase of \$0.20 per equivalent dwelling unit based upon meter size and an increase of 8.50% applied to all customer classes and tiered consumption rates equally in order to offset the increase in the wholesale cost of water purchased by the City from the San Diego County Water Authority (CWA).
- Authorize a water rate increase of 3.08% % applied to all customer classes and tiered consumption rates equally in order to fund an Indirect Potable Reuse Demonstration Project.

STAFF RECOMMENDATION:

- Approve a water rate increase of \$0.20 per equivalent dwelling unit based upon meter size and an increase of 8.50% applied to all customer classes and tiered consumption rates equally in order to offset the increase in the wholesale cost of water purchased by the City from the San Diego County Water Authority (CWA).
- Approve a water rate increase of 3.08% % applied to all customer classes and tiered consumption rates equally in order to fund an Indirect Potable Reuse Demonstration Project.

SUMMARY:

Noticing and Legal Requirements

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. 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.

At the September 8, 2008 City Council meeting, the City Council authorized the Water Department to mail the approved Proposition 218 Notice to property owners of record and City of San Diego water bill customers, advising them of the proposed increases to the water rates and fees, and informing them of the City Council hearing date for public comment. The City Council approved the hearing date of November 17, 2008 to consider adoption of the proposed increases to the existing water base fees and commodity charges. The Proposition 218 Notices were mailed October 1, 2008 and October 2, 2008.

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.

RATE INCREASE FOR CWA PASS-THROUGH:

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). Twenty nine (29) treated water storage facilities within the water system ensure consistent delivery to the 114 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 noticing for the proposed rate increases has adhered to the City's current Proposition 218 Notice procedures enacted by the City Council in 2007 through Resolution R-302245.

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 meter related 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 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.

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 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)			
HCF=Hundred Cubic Feet			
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 HCF per month will increase monthly by \$3.11 [(7 HCF x \$0.213 per HCF) + (7 HCF x \$0.231 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 HCF 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.

RATE INCREASE FOR INDIRECT POTABLE REUSE/RESERVOIR AUGMENTATION DEMONSTRATION PROJECT (Demonstration Project):

Background

In January 2004, the San Diego City Council (City Council) directed the City Manager to conduct a study to evaluate options for increasing the use of recycled water produced at the City's two water reclamation plants (Resolution R-298781). During the hearing, staff was also directed to research and prepare a report on the health effects of reuse options and to involve the public in this effort. The Water Reuse Report, dated March 2006, outlines the process undertaken to develop the six options to maximize reuse, provides details on stakeholder involvement and public outreach activities, and the water quality research undertaken to assess public health concerns [www.sandiego.gov/water/waterreusestudy]. The Water Reuse Study stakeholders identified Reservoir Augmentation at the City's San Vicente Reservoir, also known as the North City -3 strategy, to be the preferred reuse strategy.

At their October 29, 2007 meeting, the City Council voted for the Mayor or his designee to undertake the following tasks: 1) execute a one-year demonstration project to begin on July 1, 2008; 2) conduct a current flow and detention study at San Vicente Reservoir; 3) perform an independent energy and economic analysis for all water supply options in the Long-Range Water Resource Plan; 4) lead a community education and outreach effort to begin in January 2008; and 5) report back in January 2008 on progress made on the community outreach efforts. This City Council action became official on December 3, 2008.

On December 4, 2007, the City Council requested the Water Department add the Demonstration Project to the Integrated Regional Water Management Plan (IRWMP) document being submitted to the California Department of Water Resources (DWR) for consideration of Proposition 50 funding. In December 2007, the Water Department worked with the County Water Authority and the County of San Diego to do a last minute modification to the Integrated Water Management Plan to include the IPR Demonstration Project as part of the region's Integrated Water Management Plan (IRWMP) grant application. In June the City received notification that the IRWMP grant submitted to DWR for Prop 50 funding would receive a full award of \$25 million, of which the Demonstration Project award is for \$1,072,835.

Indirect Potable Reuse and Reservoir Augmentation Demonstration Project (Demonstration Project)

The primary purpose of the Demonstration Project will be to explore the feasibility of the project's treatment technology to produce water that can be sent to a reservoir and later be distributed as drinking water. It is proposed that the Demonstration Project be operational for two years. During this time, the advanced treated water will be frequently tested to determine the effectiveness of the treatment equipment in removing contaminants; the equipment will be monitored for flow and overall performance; operating data will be gathered and analyzed to refine operation and maintenance estimates for a full scale system; and tours can be conducted as part of the public outreach effort. Securing the regulatory approval of the California Department of Public Health (DPH) is also a paramount consideration. DPH is the state agency that would

grant the permit for this advanced treated water to reside in the San Vicente Reservoir, and be sent to water treatment plants for additional treatment and distribution as potable drinking water.

Water Department staff has had detailed meetings and exchanges with DPH to understand both the regulatory requirements and the project approval process, as well as determine the project criteria and permit conditions. Because this process is new, as DPH has not issued a permit for Indirect Potable Reuse through Reservoir Augmentation in the State of the California, the process has been necessarily longer and more detailed.

The first meeting with DPH staff from the San Diego office took place in December 2007. The Water Department also hired RMC Water and Environment (RMC), an engineering consultant firm, to prepare a project work plan to present to DPH for their review and comment. On March 5, 2008, Water Department staff and RMC met with DPH staff in their Sacramento offices. The proposed scope of the Demonstration Project was presented to them; and on April 4, 2008, the City received DPH comments to further refine the design and operating parameters, research to monitor, outreach elements including an Independent Advisory Panel for the project, and regulatory guidelines. The Water Department also talked to Orange County to learn about their regulatory process, their project and outreach program.

Given the highly technical and detailed plan needed to effectively address DPH comments and concerns, the Water Department and RMC have moved forward prudently to effectively address DPH comments and concern, update plans, develop the proposed scope of work, and fine tune the cost and budget for the Demonstration Project which is estimated at \$11,811,000.

The Demonstration Project to be funded by the proposed rate increase would provide the technical, environmental, public outreach and stakeholder involvement, regulatory and funding requirements necessary to implement a full-scale project. The Demonstration Project would:

- Design, construct and operate a demonstration-scale advanced water treatment (AWT) plant at the North City Water Reclamation Plant; the size of the plant is proposed to be 700 gallons per minute or one million gallons a day (MGD);
- Conduct a study of San Vicente Reservoir to establish residence time and water quality parameters and conditions of AWT water in the reservoir;
- Define the state's regulatory requirements for a full-scale (16 MGD) project;
- Perform a pipeline alignment study;
- Conduct a public outreach and education program.

If the Demonstration Project meets regulatory requirements and provides evidence of the viability of the Indirect Potable Reuse/Reservoir Augmentation process (IPR/RA), the City would then explore the feasibility of constructing full scale IPR/RA plant to send advanced treated water to San Vicente Reservoir via a 23-mile pipeline, where, after months of blending and additional treatment, would be redistributed as potable water. A separate rate increase and additional Council action would be required to initiate a full scale IPR/RA project.

Demonstration Project Budget		
TASKS AND BUDGETS *		
1	Project Management and Administration	\$1,688,000
2	Independent Advisory Panel; coordination, meetings, and reports	\$250,000
3	Advanced Water Treatment [AWT] Demonstration Plant AWT Demo Plant design & engineering services AWT Demo Plant construction management AWT Demo Plant equipment procurement, fabrication & installation; and site prep AWT Demo Plant operations; labor, expendables, and energy Laboratory sampling and analyses; data management and archiving; reporting	\$7,400,000
4	Reservoir Detention Study / Limnology Study Develop and calibrate hydrodynamic model of reservoir	\$385,000
5	Conveyance Pipeline; conceptual design from AWT plant to San Vicente Reservoir	\$50,000
6	Public Education Outreach Community meetings, presentations, tours Printed materials Web site Stakeholder Involvement	\$1,700,000
7	Contingency	\$338,000
TOTAL PROJECT BUDGET		\$11,811,000
* Assumes a 1.0 MGD [700 gpm] AWT Demo Plant operated for 24 months		

Should the rate increase be approved, it is estimated that the Demonstration Project would begin in early 2009 and be completed by 2013.

Proposed Temporary Rate Increase for the Demonstration Project

\$1.1 million in project costs will be reimbursed through a grant provided by Proposition 50 funding. In order to raise the \$10,711,000 of additional revenue required to pay for the Demonstration Project, commodity rates are proposed to be increased for a period of approximately 18 months starting January 1, 2009. The increase in rates would stay in effect until such time as the amount of revenue generated by this rate increase totaled \$10,711,000. At that time, the rate increase would be reversed. It is estimated that this rate increase could be eliminated by July 1, 2010, assuming current levels of water sales are maintained.

The rate increase is proposed to apply only to the commodity charge and not to the base fee. The Proposition 218 notice for this rate increase reflects two alternative rates depending on whether the CWA related rate increase is approved or not approved. If the CWA related rate increase is approved, the proposed increase to the commodity charge needed to raise the \$10,711,000 of additional revenue is 3.08% applied equally to all customer classes and tiers. The impact of these rate increases is displayed in the table below:

PROPOSED COMMODITY FEE (Based on Water Usage) IF BOTH CWA PASS-THROUGH AND IPR RELATED RATE INCREASES ARE APPROVED				
Customer Classification	Current	CWA Pass-Thru Increase	IPR Related Increase	Rate as of January 1, 2009
Single Family Dwelling				
Tier 1 (First 7 HCF)	\$2.505	\$0.213	\$0.077	\$2.795
Tier 2 (Second 7 HCF)	\$2.717	\$0.231	\$0.084	\$3.032
Tier 3 (above 14 HCF)	\$3.051	\$0.259	\$0.094	\$3.404
Multi-family Dwelling	\$2.717	\$0.231	\$0.084	\$3.032
Commercial	\$2.606	\$0.222	\$0.080	\$2.908
Industrial	\$2.606	\$0.222	\$0.080	\$2.908
Irrigation	\$2.784	\$0.237	\$0.086	\$3.107
Temporary Construction	\$2.784	\$0.237	\$0.086	\$3.107

If these rate changes go into effect, the combined bill impact on a typical Single Family Dwelling using 14 HCF per month would be \$4.43 per month or an increase of 8.4% per month. The table below shows the bill impact to a typical customer.

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		19.57
Tier 2 (8-14 HCF)	19.02		21.22
Total	\$ 52.88	\$	57.31

*Assumes 7 HCF used per rate Tier. Assumes increases from both CWA and IPR.

However, if the CWA related rate increase is not approved, the increase to the commodity charge necessary to raise the same amount of revenue would be 3.26% applied equally to all customer classes and tiers. The impact of this rate increase on commodity charges is displayed in the table below:

PROPOSED COMMODITY FEE (Based on Water Usage) IF IPR RELATED RATE INCREASE IS APPROVED BUT CWA PASS-THROUGH IS NOT APPROVED				
Customer Classification	Current	CWA Pass Thru Increase	IPR Related Increase	Rate as of January 1, 2009
Single Family Dwelling				
Tier 1 (First 7 HCF)	\$2.505	\$0.000	\$0.082	\$2.587
Tier 2 (Second 7 HCF)	\$2.717	\$0.000	\$0.089	\$2.806
Tier 3 (above 14 HCF)	\$3.051	\$0.000	\$0.099	\$3.150
Multi-family Dwelling	\$2.717	\$0.000	\$0.089	\$2.806
Commercial	\$2.606	\$0.000	\$0.085	\$2.691
Industrial	\$2.606	\$0.000	\$0.085	\$2.691
Irrigation	\$2.784	\$0.000	\$0.091	\$2.875
Temporary Construction	\$2.784	\$0.000	\$0.091	\$2.875

If these rate changes go into effect, the bill impact on a typical Single Family Dwelling using 14 HCF per month would be \$1.19 per month or an increase of 2.3% per month. The table below shows the bill impact to a typical customer.

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	\$ 16.32
Commodity Fee*			
	Tier 1 (1-7 HCF)	17.54	18.11
	Tier 2 (8-14 HCF)	19.02	19.64
	Total	\$ 52.88	\$ 54.07

*Assumes 7 HCF used per rate tier. Assumes increases from IPR only.

Proposition 218 Notices

The Proposition 218 Notice (Attachment 2), which was mailed October 1, 2008 and October 2, 2008, illustrates the proposed rate increases for the CWA related increase and the Demonstration Project related increase showing the effect of approving the CWA increase alone, approving both the CWA and Demonstration Project increases, or approving the Demonstration Project increase alone. Recipients of the notice are given the option of protesting to either the CWA increase and/or the Demonstration Project increase.

FISCAL CONSIDERATIONS:

The increased revenue from the approval of these actions will offset the increase in the cost of purchased water from CWA and fund the IPR Demonstration Project.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

CWA rate increase: At the July 28, 2008, City Council meeting, the Water Department presented information on the Proposition 218 Notice requirements for the CWA water rate increase. On September 8, 2008, staff presented a combined Proposition 218 notice to include the CWA rates and rates for the IPR/RA Demonstration Project.

Demonstration Project: The Water Reuse Study report was presented to the NR&C on July 26, 2006. An evening public workshop, sponsored by NR&C, was held on October 27, 2006. A presentation on the Water Reuse Study and Recycled Water Master Plan was made to the City Council on October 29, 2007. At this meeting, the Council voted to receive the Water Reuse Study Final Draft report and directed staff to develop a plan to implement the Reuse Study's NC-3 strategy. The Mayor vetoed this action, and the City Council's vote on this was reaffirmed on December 3, 2007.

Water staff has made two presentations on the Demonstration Project to members of the Independent Rates Oversight Committee (IROC), and has provided periodic updates to the Natural Resources and Culture Committee (NR&C).

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

The Independent Rates Oversight Committee (IROC) held a publicly noticed Special Meeting on August 21, 2008, to discuss the proposed noticing for rate increases associated with the CWA Pass-Through and the Demonstration Project. The IROC voted unanimously (6-0) in favor of supporting the noticing of both rate increases as presented in Attachment 2 of this report.


Proposition 218 notices were mailed on October 1, 2008 and October 2, 2008.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

The Water Department's customer base and property owners were mailed notice that the City Council will hold a public hearing on November 17, 2008 to consider adoption of the proposed increase to the existing water fees and rates. This notice also informed the customers how to register a protest against these rate increases. If adopted, the adjusted fees and rates would become effective January 1, 2009.

 11/6/08

Alex Ruiz
Assistant Water Department Director

 11.6.08

J.M. Barrett
Director of Public Utilities

- Attachment:
1. San Diego County Water Authority Report, dated June 18, 2008
 2. Proposition 218 Notice of Proposed Water Rates Increases
 3. City Auditor Review of the CWA Pass Through Increase in San Diego Water Rates
 4. City Auditor Review of the IPR rate increase