

STAFF REPORT

DATE: March 10, 2009
TO: City Council
FROM: Bob Weir, Public Works Director
Sue Gedestad, Assistant Public Works Director
SUBJECT: Proposition 218 Approval

Recommendation

Approve the mailing of the Proposition 218 notice that reflects the following rates:

1. Sanitation: 2.6% increase in sanitation which equates to a \$0.74 per month increase for residential customers effective August 1, 2009;
2. Sewer: No net revenue increase for sewer fund, but customers may see changes to individual rates based on adjusting the rate methodology.
3. Water: 10% water rate increase which equates to an approximate \$3.30 monthly increase for average water usage, effective August 1, 2009.

Actual rate approval will come back to Council at its May 5, 2009 meeting.

Fiscal Impact

These rates would generate sufficient revenue for operations and maintenance and needed replacement projects. Total revenue estimated to be collected by utility rates is \$9 million for sanitation, \$11 million for water and \$12 million for sewer.

Council Goals

Maintain and improve the infrastructure
Achieve long-term financial stability

Background and Analysis

At the March 3, 2009 City Council meeting, Council reviewed rate proposals for the Proposition 218 (Prop 218) noticing and requested additional information regarding the sewer rate methodology. Specifically Council requested the following:

- Presentation of a flat rate comparison chart,
- Consideration of an alternative winter billing period to approximate domestic sewer use , and
- Review of the set point for the cap on water usage in the calculation of winter water usage.

Flat Rate

Converting back to a flat rate, the proposed 9/10 rate would be \$41.10. This rate would be approximately 4% higher than the FY7/8 flat rate and essentially equal to the average FY8/9 rate. A comparison of flat rates is shown below:

% of Avg. Water User	ccf	FY07/08 Charge	FY08/9 Charge			Proposed FY09/10 Charge			% Change from FY08/09	% Change from FY07/08	FY 9/10 Flat Rate	% Change from FY08/09	% Change from FY70/08
		Flat	Flat	Variable	Total	Flat	Variable	Total					
0%	0	79.30	16.68	7.90	16.68	40.66	4.98	40.66	143.80%	-48.70%	82.20	392.81%	3.70%
25%	2.09	79.30	16.68	16.47	33.15	40.66	10.38	51.04	54.00%	-35.60%	82.20	147.96%	3.70%
50%	4.17	79.30	16.68	32.94	49.62	40.66	20.77	61.43	23.80%	-22.50%	82.20	65.66%	3.70%
75%	6.26	79.30	16.68	49.42	66.09	40.66	31.15	71.81	8.60%	-9.40%	82.20	24.38%	3.70%
100%	8.34	79.30	16.68	65.89	82.57	40.66	41.53	82.19	-0.50%	3.60%	82.20	-0.45%	3.70%
125%	10.43	79.30	16.68	82.36	99.04	40.66	51.92	92.58	-6.50%	16.70%	82.20	-17.00%	3.70%
150%	12.51	79.30	16.68	98.83	115.51	40.66	62.30	102.96	-10.90%	29.80%	82.20	-28.84%	3.70%
200%	16.68	79.30	16.68	131.77	148.45	40.66	83.07	123.73	-16.70%	56.00%	82.20	-44.63%	3.70%
225%	18.77	79.30	16.68	148.24	158.60	40.66	93.45	134.11	-15.40%	69.10%	82.20	-48.17%	3.70%
250%	20.85	79.30	16.68	164.72	158.60	40.66	103.83	144.49	-8.90%	82.20%	82.20	-48.17%	3.70%

Winter Water Consumption

Currently winter water consumption is defined as water used from November through February. The intent is to charge only for domestic water usage which is the water usage reaching the waste water treatment plant. Typically these wetter cooler months involve less irrigation. Although this is not a perfect methodology for assessing domestic water usage it is the best one available at this time.

Using four months usage and averaging them provides some measure of assurance of collecting the actual revenue needed for revenue stabilization. For planning purposes this is essential.

In assessing alternatives, key components are revenue stability and fairness. Staff made a cursory investigation of using the lowest of the 2 billing periods instead of averaging the two periods. The initial assessment of using one 2 month period indicated that there would be a substantial fluctuation of revenue resulting in a reduction of revenue. The reduction was significant enough where adjustments would be necessary elsewhere in the methodology. However, the limited response time does not allow further assessment on how to mitigate or compensate for the revenue loss. We continue to review options and will report any findings at the March 10 Council meeting.

Rate Cap

The current FY8/9 rate is capped at 17.9 ccf equating to a \$79.30 monthly rate. This rate cap seems to be appropriate, however time constraints limit assessment opportunities. We will continue to look for refinements in time for the March 10 Council meeting.

Summary:

Staff continues to support the consumption based sewer rates as the rate structure that best addresses many citizens desire for some control over monthly rates and at the same time addresses the fundamental goal of rate equity between users. Consumption based rates recognize that use patterns even between similar sized households on similar sized parcels can vary significantly and where possible, the user rates should reflect this.

While the majority of the state sewer agencies still rely on flat rate based systems the trend toward consumption based structures is increasing.

Research studying municipal water and wastewater agencies conversion from flat or fixed rates to consumption based rates experience the greatest changes and adjustments in the first two years. We believe that the adjustments proposed for the upcoming rate year will be less dramatic than those experienced this rate year. Inclusion of the customized rate calculation for each property owner should improve the next round of rate adjustments.

Attachments:

- 3/3/09 City Council staff report

STAFF REPORT

DATE: March 3, 2009
TO: City Council
FROM: Bob Weir, Public Works Director
Sue Gedestad, Assistant Public Works Director
SUBJECT: Approval of Proposition 218 Notice

Recommendation

Approve the mailing of the Proposition 218 notice, which notifies the public of the upcoming public hearing to set rates for sanitation, water and sewer. The proposed rates will be noticed as follows:

4. Sanitation: 2.6% increase in sanitation which equates to a \$0.74 per month increase for residential customers effective August 1, 2009;
5. Sewer: No net revenue increase for sewer fund, but customers may see changes to individual rates based on adjusting the rate methodology.
6. Water: 10% water rate increase which equates to an approximate \$3.30 monthly increase for average water usage, effective August 1, 2009.

The decision on the actual rates will come back to Council at the May 5, 2009 meeting.

Fiscal Impact

These rates would generate the necessary revenue for operations, maintenance and replacement projects. Total revenue estimated to be collected by utility rates is \$9 million for sanitation, \$11 million for water and \$12 million for sewer. These funds are separate from the General Fund.

Council Goals

Maintain and improve the infrastructure
Achieve long-term financial stability

Background and Analysis

Prop 218

Proposition 218 (Prop 218) was voter approved in 1996 and requires that the City give notification to all property owners of rate increases on most utilities. This notification takes the form of a mailing that includes the proposed rate, reasons for the rate increase, information on the public hearing and instructions for those who wish to protest the rate increase. If the majority of property owners protest the rate increase, then the rate increase could not be implemented.

The public hearing is scheduled for May 5, 2009. At that time, Council would be considering actual adoption of the rates.

Sanitation

The increase in the Sanitation rate reflects the automatic CPI adjustment allowed in the Franchise agreement with Davis Waste Removal. Staff is recommending a 2.6% rate increase which equates to an increased monthly fee of \$0.73 per residential customer, from \$28.36 to \$29.09. Other commercial service would see similar increases.

Sanitary Sewer

There is no net revenue increase in the sewer fund. However, last year there was a significant change in the rate methodology for calculating residential sewer rates which incorporated winter water consumption into the rate calculation. Individual customers experienced a wide range of rate impacts. For the upcoming fiscal year the goal is to fine-tune the methodology to minimize the extreme highs and lows on the rate scale. To accomplish this, the base rate has been increased, thus lowering the consumption rate. This in turn results in a larger proportion of the revenue collected through base rate rather than through the consumption rate.

Assuming no change in water consumption from the previous year the single family residential rate payers would be distributed as follows: (As examples, customers who use average winter water consumption of 8.34 would have a rate of \$41.50 per month. Customers who use 0% to 20% of the average will pay \$22.52 per month, and customers using 180% to 250% more than the average will pay approximately \$61.92 per month.)

Single-Family Sewer Rates Based on Average Winter Water Use						
		Monthly Sewer Bill				
% of Avg. Water Usage	Mid-Point	ccf	Flat Charge	Consumption	Total	# of Customers
0-20%	10%	0.88	\$20.33	\$2.19	\$22.52	265
20-40%	30%	2.64	\$20.33	\$6.57	\$26.90	660
40-60%	50%	4.40	\$20.33	\$10.94	\$31.28	1,632
60-80%	70%	6.16	\$20.33	\$15.32	\$35.65	1,743
80-100%	90%	7.92	\$20.33	\$19.70	\$40.03	2,240
Winter Avg.	100%	8.34	\$20.33	\$21.89	\$41.50	1,458
100-120%	110%	9.68	\$20.33	\$24.08	\$44.41	1,134
120-140%	130%	11.44	\$20.33	\$28.45	\$48.79	828
140-160%	150%	13.20	\$20.33	\$32.83	\$53.16	773
160-180%	170%	14.96	\$20.33	\$37.21	\$57.54	388
180-250%	190%	16.72	\$20.33	\$41.58	\$61.92	891
Capped	250%	--	--	--	\$79.30	433
Total						12,445

Also assuming the same consumption as the prior year, the chart below shows how the proposed methodology change is affecting the single family accounts. The accounts estimated to see the largest increase are those that experienced the largest decrease in the FY08/09 rate, however their rates will still be at or below the FY07/08 flat rate. Over 51% of the households are projected to have the same or decreased rates, assuming similar usage patterns.

Impacts of Projected Single Family Residential Rate Changes

Rate Increase or Decrease	09/10 number of accounts
50% or greater decrease	0
40 to 50% decrease	51
30 to 39% decrease	249
20 to 29% decrease	924
10 to 19% decrease	2,090
1 to 9% decrease	2,591
Remains the same	537
1% to 9% increase	2,271
10 to 19% increase	2,098
20 to 29% increase	1,012
30 to 39% increase	354
40 to 49% increase	166
50 to 59% increase	102
Continue to be Capped	432
Total SFR	12,445

For informational purposes only, the chart below shows estimated residential sewer rates for the next 4 years. These rates are estimates only and continue to project a major plant upgrade. Potentially less expensive alternatives are being pursued that could lower the future years projections. Rates are adopted annually and adjustments will be proposed to rates in future years as necessary.

	Current Adopted Flat Rates 08/09	Proposed 09/10	Estimated Typical Monthly Bill		
			10/11	11/12	12/13
Single Family	\$41.50	\$41.50	\$44.13	\$47.66	\$52.91

Water

Staff recommends a 10% increase for water rates. This increase will generate an additional \$1,000,000 and assumes a 3% CPI in operational costs of approximately \$200,000 with the remaining \$800,000 allocated for replacement projects. Several significant projects are in design and will be under construction in FY 09/10. The following chart shows the significant water Capital Improvement Projects (CIP) assumptions in the upcoming years. More refined project costs and more detailed phasing of the Davis Woodland water project will affect future rate projections. Staff is seeking other alternative financing such as Stimulus money and other state grants and loans where possible.

Projected CIP Expenditures

	FY 09/10	FY 10/11	FY 11/12	FY 12/13	FY 13/14
West Area Main Over Sizing			\$2,500,000		
East Area Main Over Sizing			0		\$2,500,000
Well 32	\$900,000		0		
Well 35	\$1,200,000		0		
Mace Tank	\$9,000,000		0		
Water Master Plan		\$250,000	\$250,000		
EM Valve Replacement	\$200,000	\$60,000	\$60,000		
Water Main Replacement	\$500,000		\$500,000		\$500,000
Surface Water Supply	\$1,500,000	\$1,500,000	\$3,200,000	\$6,400,000	\$41,700,000
Corrosion Control	\$300,000		0		
Water Meter Radio	\$56,000	\$30,000	0		
SCADA	\$245,388	\$65,000	\$65,000	\$65,000	\$65,000
UCD Inter-tie	\$100,000				
Total	\$14,001,388	\$1,905,000	\$6,575,000	\$6,465,000	\$44,765,000

The chart below shows estimated water rates for the next 4 years. This rate is based on current assumptions because of the major unknowns associated with the surface water project. The rates below assume that design for the surface water project begins in FY 11/12 and construction begins in 2014. Total City share of project cost is currently estimated to be \$145 million. These figures are estimates only at this time and will continue to be refined as the project and timelines become better defined.

Estimated Single Family Residential Rates

	Current Adopted Rates 08/09	Proposed 09/10	Estimated		
			10/11	11/12	12/13
Single Family	\$33.45	\$36.74	\$40.76	\$45.26	\$50.24

Conclusion

Below is a comparison and summary of current monthly city utility rates and proposed rates.

Rate Comparison

	Current	Proposed	Difference
Sanitary Sewer ⁽¹⁾	\$41.50	\$41.50	\$0.00
Sanitation	28.36	29.09	\$0.73
Storm Sewer = 2 components below			
Drainage ⁽²⁾	3.12	3.21	\$0.09
Water Quality	1.74	1.74	\$0.00
Water ⁽³⁾	33.45	36.75	\$3.30
Totals	\$108.17	\$112.29	\$4.12

⁽¹⁾ Based on city average winter water consumption of 8.34 ccf.

⁽²⁾ Rates are calculated on an average lot size of 7500 S.F.

⁽³⁾ Rates based on city average water consumption of 18 ccf.

Attachments:

- Proposed Sewer Rates
- Proposed Water Rates

ATTACHMENT

Proposed Sewer Rates

Residential Sewer Rates						
<i>Current Rates & Rates Based on Winter Water Use (FY 09/10)</i>						
Residential Classes	<i>Currently Adopted (FY 08/09)</i>			<i>Proposed FY 09/10</i>		
	Fixed & Variable Rates			Fixed & Variable Rates		
	Fixed Charges		Variable	Fixed Charges		Variable
	<i>(\$/mo./acct.)</i>	<i>(\$/mo./unit)</i>	<i>(\$/hcf)</i>	<i>(\$/mo./acct.)</i>	<i>(\$/mo./unit)</i>	<i>(\$/hcf)</i>
Single Family	\$2.57	\$5.77	\$3.95	\$2.57	\$17.76	\$2.49
Single-Family Condo	\$2.57	\$4.39	\$3.95	\$2.57	\$13.52	\$2.49
M2 Duplex	\$2.57	\$4.39	\$3.95	\$2.57	\$13.52	\$2.49
M3 Triplex	\$2.57	\$4.72	\$3.95	\$2.57	\$14.55	\$2.49
M4 Quadplex	\$2.57	\$4.82	\$3.95	\$2.57	\$14.86	\$2.49
M5 5 + units	\$2.57	\$3.27	\$3.95	\$2.57	\$10.07	\$2.49
MH Mobile Homes	\$2.57	\$3.41	\$3.95	\$2.57	\$10.51	\$2.49

Proposed Water Rates

Base Rate by Meter Size	Current	Proposed 09/10
5/8" or 3/4"	10.00	10.10
1"	14.10	14.10
1 1/2"	24.30	24.30
2"	36.50	36.50
3"	69.10	69.10
4"	105.70	105.70
6"	207.60	207.60
8"	329.80	329.80

Consumption Rates

User Classification	Use Tiers	Current	09/10 Proposed
		Unit Charge	Unit Charge
Single Family Residential (use per dwelling unit)	Tier 1: 0-36 ccf	\$ 1.30	\$ 1.48
	Tier 2: >36 ccf	\$ 1.69	\$ 1.87
Multifamily Residential (use per dwelling unit)	Tier 1: 0-14 ccf	\$ 1.15	\$ 1.40
	Tier 2: >14 ccf	\$ 1.69	\$ 1.87
Small Commercial/Industrial (use per account)	Tier 1: 0-115 ccf	\$ 1.18	\$ 1.39
	Tier 2: >115 ccf	\$ 1.69	\$ 1.87
Large Commercial/Industrial (use per account)	Tier 1: 0-619 ccf	\$ 1.26	\$ 1.49
	Tier 2: >619 ccf	\$ 1.69	\$ 1.87
Irrigation (use per acre)	Tier 1: 0-363 ccf	\$ 1.53	\$ 1.39
	Tier 2: >363 ccf	\$ 1.69	\$ 1.87