

## STAFF REPORT

**DATE:** March 2, 2010  
**TO:** City Council  
**FROM:** Robert Clarke, Interim Public Works Director  
Sue Gedestad, Assistant Public Works Director  
**SUBJECT:** Proposition 218 Approval

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### **Recommendation**

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

1. Water: 5% water rate increase which for average water use would equate to an approximate \$1.73 monthly increase. The new rates would be effective for water used beginning September 1, 2010.
2. Sewer: 6% rate increase equating to a \$2.45 monthly increase for customers with average winter water consumption. As with the water rate, actual rates vary customer to customer based on actual water usage.

Support staff's recommendation to continue with the current flat rate structure for residential sanitation charges.

Actual rate approval will come back to Council at its May 4, 2010 meeting.

### **Fiscal Impact**

These rates would generate revenue for operations and maintenance and needed replacement projects. Water rates would generate \$10.9 million in revenue. This 5% rate increase assumes \$3 million for 10/11 expenditures for the surface water project but does not collect funding for the project in the out years. Staff considered a more significant rate increase, however, acknowledging that there are ongoing discussions regarding the status of the Surface Water Project, staff concluded that a 5% increase was sufficient to cover Fiscal Year 10/11 expenditures. Of note is that the trade off will mean more significant rate increases in the coming years.

The Sewer rate will generate \$12.8 million in revenue and continues the assumption of a \$145 million project with construction completed by 2017.

### **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 4, 2010. At that time, Council would be considering actual adoption of the rates.

**Sanitary Sewer**

Depending on the ultimate wastewater alternative approved scope, the FY10/11 rate increase could range from 3 to 6 percent. However, because the actual upgrade project has not been fully defined, staff is suggesting the conservative approach and recommending a 6% rate increase. For residential customers with average winter water consumption, the rate increases from \$41.10 to \$43.55 per month, or \$2.45 per month. Actual changes in rates will vary among customers.

The recommended rate assumes a 1.5% increase in operations and maintenance, the same level for repair and replacement and \$5.1 million for the wastewater treatment plant project.

**Water**

Staff is recommending a 5% rate increase. For residential customers with average water usage, this equates to an increase from \$34.52 to \$36.25 per month or \$1.73 per month.

This rate provides funding as follows:

- Operations and Maintenance 9/10 base expenditures with and added \$350,000 for UCD water purchase and \$110,000 in increased well maintenance;
- \$600,000 for various replacement and repair projects;
- Surface Water Project – \$3,000,000 which is the total estimated expenditures for FY10/11.

Reflected on the water rate schedule is the Municipal Water Use rate. The purpose of a second tier on water rates generally is to bill the peak water usage to help minimize peak water demand. The municipal rate is a one tier rate, since the City has direct control of the timing when the watering occurs thus avoiding peak water usage.

Staff continues to assess both the surface water and wastewater projects to find the most feasible solution and find financing at the most economical means. In the search for the most appropriate projects, outside engineering professionals have reviewed options. Also, financing options are reviewed by the City's financial advisors. Both of these processes involve an ongoing and dynamic effort.

Sanitation

Staff is not recommending any rate increase for sanitation this year and also recommending that the rate methodology remain as a flat rate. Last year during the rate setting process, the issue of a variable can rate was raised. At that time Council asked that staff review and come back with a recommendation during the next rate cycle.

The interest for a variable cart rate has been proposed as an opportunity to save on garbage disposal costs and serve as an opportunity for environmental benefit. In December 2009 a statistical analysis was done comparing the amount of waste in the 35, 65 and 95 gallon carts. The results show that the amount of trash in both the 35 and 65 is fundamentally the same. Per the study, 95 gallon carts contained about 10 more pounds than the 35 gallon cart. The difference in the disposal cost between a 35 gallon cart and 95 gallon cart is 83 cents. To administer a variable can rate, there would be city costs associated with tracking all 14,000 residential accounts. This cost would reduce, if not negate the saving in trash disposal.

Also, the rate study shows that Davis' current 95 gallon flat rate is 30% below the average of other communities and 36% below the rate average of cities with variable can rates. A 2008 comparison of pounds landfilled per person per day shows Davis' 3.3 lbs. per person per day is 30% below the average of other communities and 32% below cities with variable rates. The statewide average is 5.1 lbs per person per day.

Based on the weight of material received at the Yolo County Central Landfill, the true cost difference between disposal of garbage from a 35 gallon cart and a 65 gallon cart are at an estimated 83 cents and 76 cents respectively than that of a 95 gallon cart. Implementing a variable cart rate that requires additional administration of the 14,000 plus accounts will increase costs for the entire program and eclipse or eliminate the 83 cents and 76 cents price differential.

The Natural Resources Commission concurred with Staff's recommendation.

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

**Rate Comparison**

	Current	Proposed	Difference
Sanitary Sewer <sup>(1)</sup>	\$41.10	43.55	\$2.45
Water <sup>(2)</sup>	34.52	36.25	\$1.73
<b>Totals</b>	<b>\$109.66</b>	<b>\$113.93</b>	<b>\$4.27</b>

<sup>(1)</sup> Based on city average winter water consumption of 8.34 ccf.

<sup>(2)</sup> Rates based on city average water consumption of 18 ccf.

Attachments

- Proposed Water Rates
- Proposed Sewer Rates

**City of Davis  
Proposed Water Rates  
Beginning August 1, 2010**

SCHEDULE OF BASE RATE CHARGES. Effective August 1, 2010, the monthly base rate for all accounts, with the exception of Condominium Common area customer accounts, independent of water consumption shall be as follows:

<b>Base Rate by Meter Size</b>	<b>Current</b>	<b>Proposed 10/11</b>
5/8" or 3/4"	\$10.10	\$11.50
1"	\$14.10	\$16.20
1 1/2"	\$24.30	\$27.90
2"	\$36.50	\$42.00
3"	\$69.10	\$80.00
4"	\$105.70	\$122.00
6"	\$207.60	\$238.00
8"	\$329.80	\$379.00

SCHEDULE OF METERED RATE CHARGES. For water usage beginning September 1, 2010, the bi-monthly water consumption charge for all metered rate customers shall be as follows:

<b>Consumption Rates</b>		<b>Current</b>	<b>10/11 Proposed</b>
<b>User Classification</b>	<b>Use Tiers</b>	<b>Unit Charge</b>	<b>Unit Charge</b>
Single Family Residential (use per dwelling unit)	Tier 1: 0-36 hcf	\$ 1.48	\$ 1.50
	Tier 2: >36 hcf	\$ 1.87	\$ 1.90
Multifamily Residential (use per dwelling unit)	Tier 1: 0-14 hcf	\$ 1.40	\$ 1.42
	Tier 2: >14 hcf	\$ 1.87	\$ 1.90
Small Commercial/Industrial (use per account)	Tier 1: 0-115 hcf	\$ 1.39	\$ 1.41
	Tier 2: >115 hcf	\$ 1.87	\$ 1.90
Large Commercial/Industrial (use per account)	Tier 1: 0-619 hcf	\$ 1.49	\$ 1.51
	Tier 2: >619 hcf	\$ 1.87	\$ 1.90
Irrigation (use per acre)	Tier 1: 0-363 hcf	\$ 1.39	\$ 1.41
	Tier 2: >363 hcf	\$ 1.87	\$ 1.90
Municipal Water Usage	All consumption	N/A	\$1.41

**City of Davis**  
**FY 2010/11 Proposed Sewer Rate Schedules**

Users are charged a basic flat rate plus a variable charge. The variable charge is based on the average of the previous year's water use for the months of November through February (winter water usage) measured in hundreds of cubic feet (ccf) and multiplied by the variable rate below.

Residential

	Current 09/10			Proposed 10/11		
	Fixed Charges & Variable Rates			Fixed Charges & Variable Rates		
	Per account	Per unit	Variable	Per account	Per unit	Variable
Single Family	\$2.57	\$17.76	\$2.49	\$2.68	\$18.46	\$2.54
Single Family Condo	\$2.57	\$13.52	\$2.49	\$2.68	\$14.05	\$2.54
M2 Duplex	\$2.57	\$13.52	\$2.49	\$2.68	\$14.05	\$2.54
M3 Triplex	\$2.57	\$14.55	\$2.49	\$2.68	\$15.45	\$2.54
M4 Quadplex	\$2.57	\$14.86	\$2.49	\$2.68	\$15.62	\$2.54
M5 5+units	\$2.57	\$10.07	\$2.49	\$2.68	\$10.55	\$2.54
MH Mobile Homes	\$2.57	\$10.51	\$2.49	\$2.68	\$10.92	\$2.54

Commercial and Industrial

Commercial Classes	Current Rates		Proposed 10/11	
	Basic	Variable	Basic	Variable
	\$/mo acct	\$/ccf	\$/mo acct	\$/ccf
C1 Office/Retail	\$2.57	\$4.19	\$2.68	\$4.48
C2 Laundry	\$2.57	\$4.27	\$2.68	\$4.55
C3 All Other	\$2.57	\$4.19	\$2.68	\$4.48
C4 Conv. Hosp.	\$2.57	\$4.47	\$2.68	\$4.69
C5 Auto/Srv Station	\$2.57	\$4.55	\$2.68	\$4.78
C6 Restaurants	\$2.57	\$6.67	\$2.68	\$6.40
C7 Industrial <sup>(1)</sup>	\$2.57	\$4.58	\$2.68	\$4.81

<sup>(1)</sup> For Industrial uses, the rate will be calculated on an individual basis using the same BOD, TSS, and flow rates as the other commercial classes.

Premises Outside the City

(a) The rates to be charged for city sewer furnished to individual premises outside the city shall be the same as those established for premises within the city, plus a surcharge of twenty percent.

(b) In those cases where, by special agreement with the county, service is provided to areas outside the city through systems within a county service area, the rates to be charged shall be the same as city customers.