BACKGROUND: On September 23, 2014, City Council adopted Resolution No. NS-28,836 implementing a 10 percent across-the-board water rate increase for each of the next five years, and establishing a Drought Cost Recovery Fee and a mechanism for levying the fee in the future if and as needed. At the same time, City Council approved a work plan for reviewing and revising water fees and charges.

The work plan approved by City Council consisted of two parts. The first task was to review and revise the Water Department’s System Development Charges (SDCs), also referred to as connection fees. The process of updating SDCs began in October 2014 and is scheduled to be completed later this spring. The second task was to perform a cost of service analysis and rate study focusing on alternative water rate structures and design. The schedule for this second task extends from March 2015 through June 2016, which includes time needed for the public noticing and public hearing process required under Prop 218.

The action taken by City Council in September to raise water rates was an urgent first step to improve the financial position of the Water Fund. Taking time then to consider changing the rate structure would have led to further deterioration in the financial viability of the utility. Instead, City Council decided to postpone performing a new rate study until after the initial rate adjustment and Drought Cost Recovery Fee took effect, and thereby allow the time and flexibility to conduct a comprehensive analysis and review of potential water rates. The City has contracted with Raftelis Financial Consultants, Inc. of Pasadena, CA (RFC) to assist the Water Department in both updating the SDCs and performing the new rate study.

DISCUSSION: The purpose of this joint City Council/Water Commission Study Session is to kick off the water rate study project with a discussion of policy and pricing objectives. In establishing water rates, many different and sometimes competing considerations come into play. These include administration, equity, appropriate funding mechanisms, rate stability and
affordability, and promoting water use efficiency. To guide this discussion, RFC has prepared an exercise in which members of City Council and Water Commission have been asked to rank the pricing objectives they believe are the most important. The results of this exercise and input received from the discussion will establish the policy direction for the remainder of the rate study and help in selecting a rate structure best suited to each customer class.

To provide some background and context for the discussion, staff has arranged for a brief opening presentation by the Executive Director of the California Urban Water Conservation Council (CUWCC) to discuss best management practices regarding retail water pricing and the ongoing work this organization is doing with utilities throughout California around issues of water conservation pricing and fiscal stability.

After the guest speaker and financial consultant make their presentations and address City Council questions, there will be a public comment period for various stakeholders and others wishing to address the Council on the subject. Following public input, the Water Commission, staff and RFC will take direction from City Council for continuing the work to establish cost-based rates that provide for proper operation, maintenance, and reinvestment in the water system.

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ATTACHMENTS:
Pricing Objectives Exercise Worksheet
Water Service Rates and Charges