
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: September 4, 2009

IBA Report Number: 09-71

City Council Meeting Date: September 8, 2009

Item Number: 331

Proposed Water Rate Increase to Offset Increased San Diego County Water Authority Rates

OVERVIEW

This report is background for proposed water rate increases to City ratepayers. As discussed in the Public Utilities Department August 25, 2009 report (No. 09-120), on September 8, 2009, Council is being asked to approve Proposition 218 Noticing of the recommended rate increases and setting a public hearing date for a Council vote for November 17, 2009. Note that on July 22, 2009 the Natural Resources and Culture Committee forwarded this item to the full City Council without a recommendation. A City Council vote on the proposed rate increases *will not* occur during the September 8, 2009 Council meeting but is expected at the November 17, 2009 meeting.

On June 25, 2009 the San Diego County Water Authority (CWA) approved increases for their Melded Supply Rate, Melded Treatment Rate, Transportation Rate and other rates, following the Metropolitan Water District's April 14, 2009 rate increases to the CWA. The Melded Supply Rate, Melded Treatment Rate and Transportation Rate increases charged by the CWA to the City of San Diego are effective September 1, 2009, and other CWA rate increases are effective January 1, 2010.

In their August 25, 2009 report (No. 09-120), the Public Utilities Department noted "CWA pass-through rate increases were not part of the City's four-year, 6.5% annual water rate increase approved by the City Council as part of the Water Department's four-year capital improvement plan in February 2007."

Water Department staff is recommending approval of “Proposition 218 Noticing of proposed water rate increase of \$0.12 per equivalent dwelling unit based upon meter size and an increase of 10.60% applied to all customer classes and tiered water consumption rates equally in order to offset the increase in the wholesale cost of water purchased by the City from [CWA].” The Water Department’s objective is to “maintain cost/revenue neutrality and to maintain consistency with the City’s four-year water rate plan previously approved.” The recommended effective date for the rate increases to San Diego ratepayers is January 1, 2010. Cost increases from the CWA to the City Water Department that are effective September 1, 2009 are captured in the rate increases proposed to City Council.

FISCAL/POLICY DISCUSSION

Upon review of the Water Department’s reports and calculations of the water consumption rates’ proposed increases, it was noted that the rate increases to City customers will begin on January 1, 2010. However, some rate increases to the City Water Department began on September 1, 2009. The costs for increases from September 1 through December 31, 2009 are incorporated into the January 1, 2010 rate increases to City customers.

Water Department staff has confirmed that the charges for this one-time, four month period will be removed on January 1, 2011, and rates will be adjusted accordingly to avoid overcharging. It is anticipated that another CWA pass-through increase could occur at this time, offsetting such an adjustment. Subsequently, City water rates beginning fiscal year 2012 are anticipated to be based on a new cost of service study.

Cost/revenue neutrality with regard to the proposed pass-through rate increases is dependent upon projections of future water sales by the Water Department. Lower than expected sales could affect whether the Water Department breaks even on the pass-through. The current estimate for fiscal years’ 2010 and 2011 decline in water sales is approximately 7.5%, compared to fiscal year 2009. Recent monthly trends have shown a higher percentage decline in water sales, which staff has taken into consideration.

Water Department staff recommends approval of Proposition 218 Noticing procedures and holding a public hearing on November 17, 2009 regarding the rate increases. The cost for the Proposition 218 requirements is an estimated \$140,000, not including staff time. In Report No. 09-120, staff notes that California AB 3030 allows automatic increases, with 30 days notice, for inflation adjustments and pass-through increases in water wholesale charges, if the initial schedule of fees is adopted pursuant to Proposition 218.

AB 3030 may be an option for the future. However, discussions with City Attorney staff confirmed that AB 3030 is not an option for the currently proposed rate increases, as there were no automatic adjustments provided as part of a schedule of fees pursuant to a Proposition 218 process.

CONCLUSION

The IBA recommends approval for Proposition 218 Noticing and setting a public hearing date for Council vote on the proposed water rate increases for November 17, 2009.

Additionally, prior to future requests for Proposition 218 Noticing, it is recommended that Mayoral staff coordinate with the Council to provide for review of proposed rate increases.

[SIGNED]

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