



THE CITY OF SAN DIEGO



City of San Diego

Water Cost of Service Study

Proposed Changes to Water Rate Structure

Public Utilities Department

Fall 2013





Public Utilities Department



Provide services to the 8th largest US city and surrounding area

1.3M water & 2.5M sewer customers

Operate complex water and wastewater systems

Heavily regulated by Federal & State agencies

USEPA, State WRB, CA DPH

DPH Compliance Order

EPA Consent Decree

Large capital intensive programs

Almost \$1B invested in systems over last 5 years

More than \$412M planned capital projects over next 2 years

Significant fixed costs

Purchased water costs of \$209M (43% budget)

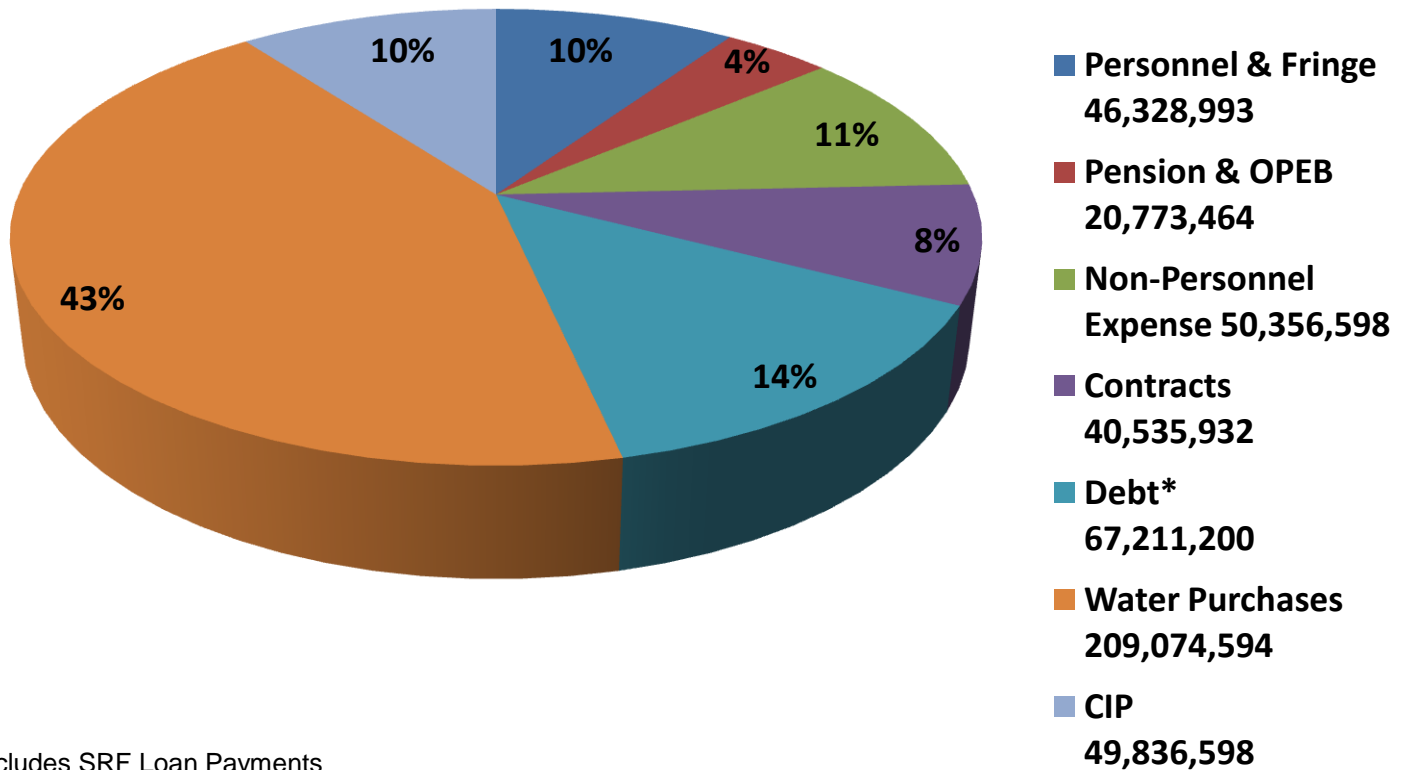
Over \$2B outstanding debt

Annual debt payments of \$180M



Water Fund Budget

Total FY 2014 Budget \$484,117,379



* Debt includes SRF Loan Payments



Department Achievements*

- City has invested \$993 million in infrastructure improvements since 2008
- The water capital program is currently \$98 million
- Increased efficiencies resulted in:
 - 415 fewer employees
 - \$103 million in bond refinancing, and
 - \$251 million in grants

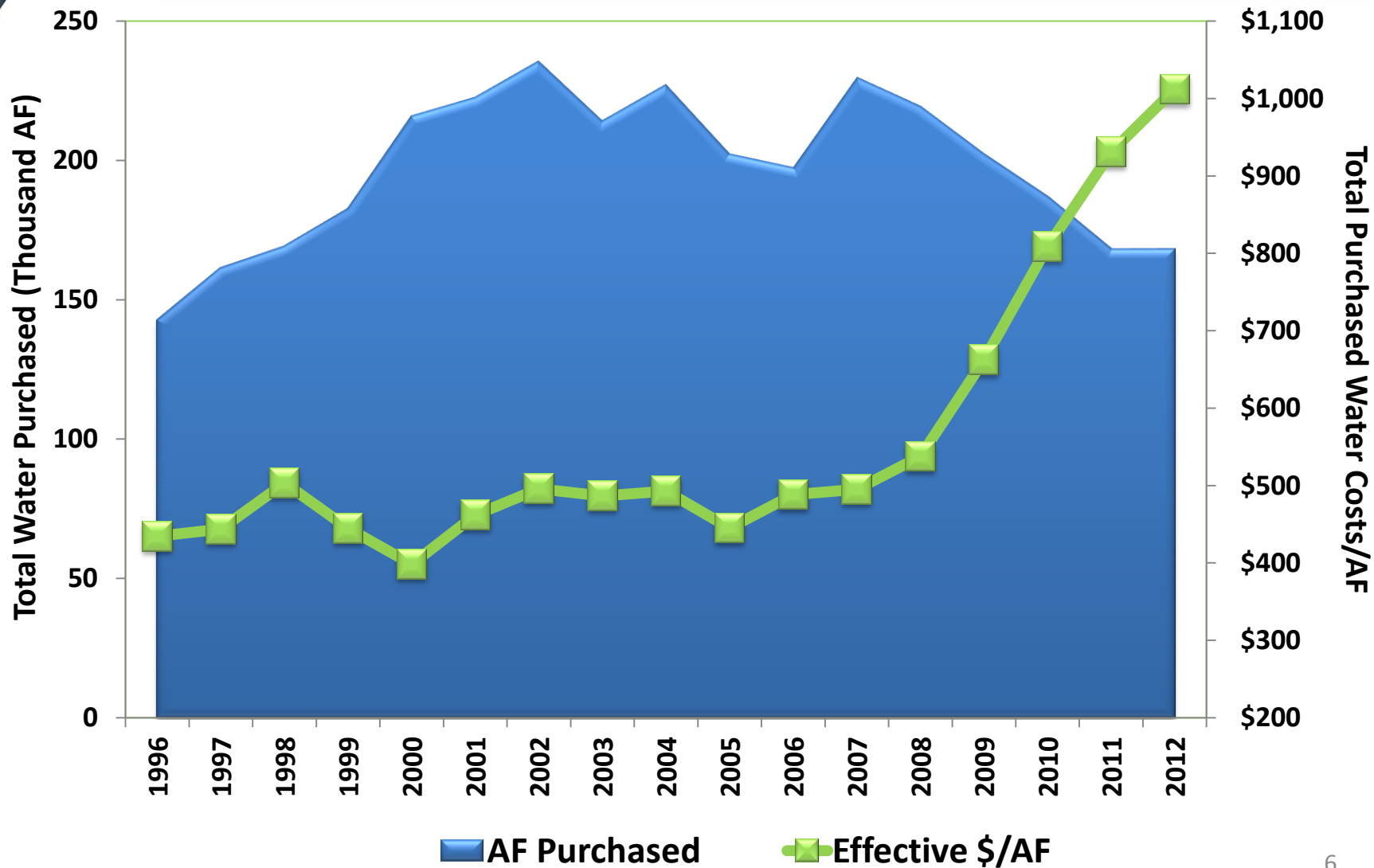
*Includes both water and wastewater funds

Key Elements for Financial Viability





2013 Rate Case Drivers: Increasing Water Purchase Costs





Background

- Annual price increases from the San Diego County Water Authority
- Public Utilities must maintain healthy debt coverage ratio to achieve lower interest rates
- Public Utilities proposing a change in the tiered rate structure in recognition of conservation
- Many customers' bills will decrease in 2014
- Written protests to the proposed rate adjustment are accepted



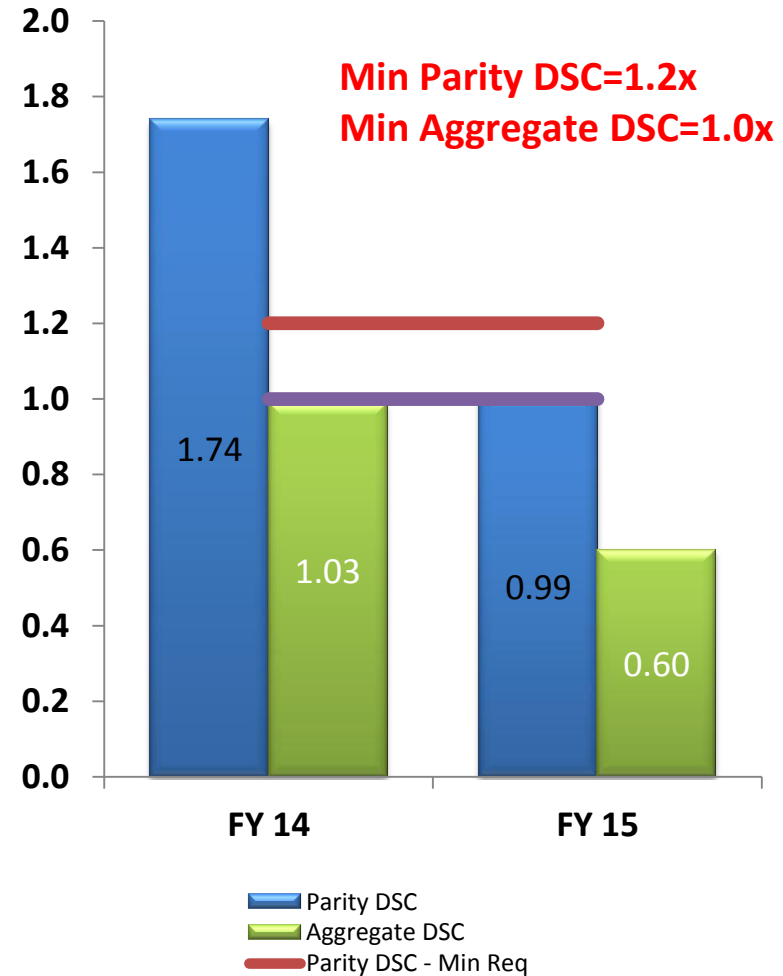
Debt Service Coverage (DSC)

- Debt service coverage is similar to an individual's credit rating
- Strong DSC ratio important to achieve lower interest rates on future borrowing
 - Your dollar goes further when interest rates remain low
- Annual revenues are a key consideration to the rating



2013 Water Rate Case

- Independent analysis shows that Water Utility has a bond/loan coverage-driven problem
 - Absorbed CY 12 & CY 13 wholesale water purchase increases
 - Delta between annual revenues and operating expenses is shrinking
 - Department is recommending debt service coverage target of 1.25





Purpose of Water Rate Increases

Purpose of Rate Increase	CY 2014	CY 2015
Recover Prior Year CWA Pass-through Costs	5.00%	4.75%
Recover CY 2014 CWA Pass-through	2.25%	
Recover CY 2015 CWA Pass-through*		2.25%
Meet Target Aggregate DSC Ratio of 1.25x		0.50%
Total Annual Increase	7.25%	7.50%

* Amount of CY 2015 CWA pass-through is unknown at this time. COS study assumes a not to exceed increase of 2.25%. This amount is the maximum that would be implemented as part of the proposed CY 2015 7.50% increase.



Impact of No Water Rate Increases

- Revenue coverage levels would be minimal/below legal requirements
- Insufficient revenue to meet operating and annual debt in FY 15
 - Could lead to significant reduction in infrastructure investments, i.e. pipe replacement
 - Credit rating considerations may lead to higher borrowing costs on future debt



Water Rate Recommendations Effective January 1, 2014

- Maintain monthly base fee
 - Reduction from current price
- Adopt 4-tier water consumption rate structure for Single-family Residential class
 - Promotes water conservation
- Maintain uniform commodity rate structure for all other classes (multi-family, commercial, industrial & irrigation)



Monthly Meter Charges

Single-family Residential is usually 5/8" or 3/4" meter size

Meter Size	Meter Charge	
	Existing Rates	Recommended
	(\$/monthly)	(\$/monthly)
5/8", 3/4"	19.33	18.89
1"	28.46	25.59
1.5"	49.34	40.89
2"	75.44	60.03
3"	136.74	104.98
4"	224.15	169.07
6"	440.73	327.86
8"	701.64	519.16
10"	1,006.94	742.99
12"	1,875.82	1,380.05
16"	3,267.86	2,400.67



Water Consumption Charges

Class	Existing Monthly Tiers [*]		Existing Rates	Proposed Monthly Tiers [*]		Proposed Rates
	From	To		From	To	
Single Family	hcf	hcf	\$/hcf	hcf	hcf	\$/hcf
	0	7	3.61	0	4	3.64
	8	14	3.92	5	12	4.08
	15+		4.40	13	18	5.82
				19+		8.19
Other Domestic	All Use		3.92	All Use		4.34
Non Residential			3.76			4.17
Irrigation			4.01			4.62
Temp Construction			4.01			4.62



Single Family Residential Bill Impact

Single-family Monthly Use	Monthly Bills - Proposed Rates		
	Existing	CY 2014	CY 2015
	(\$)	(\$)	(\$)
4 hcf	33.77	33.45	35.95
7 hcf	44.60	45.69	49.09
12 hcf	64.20	66.09	70.99
25 hcf	120.44	158.34	170.15



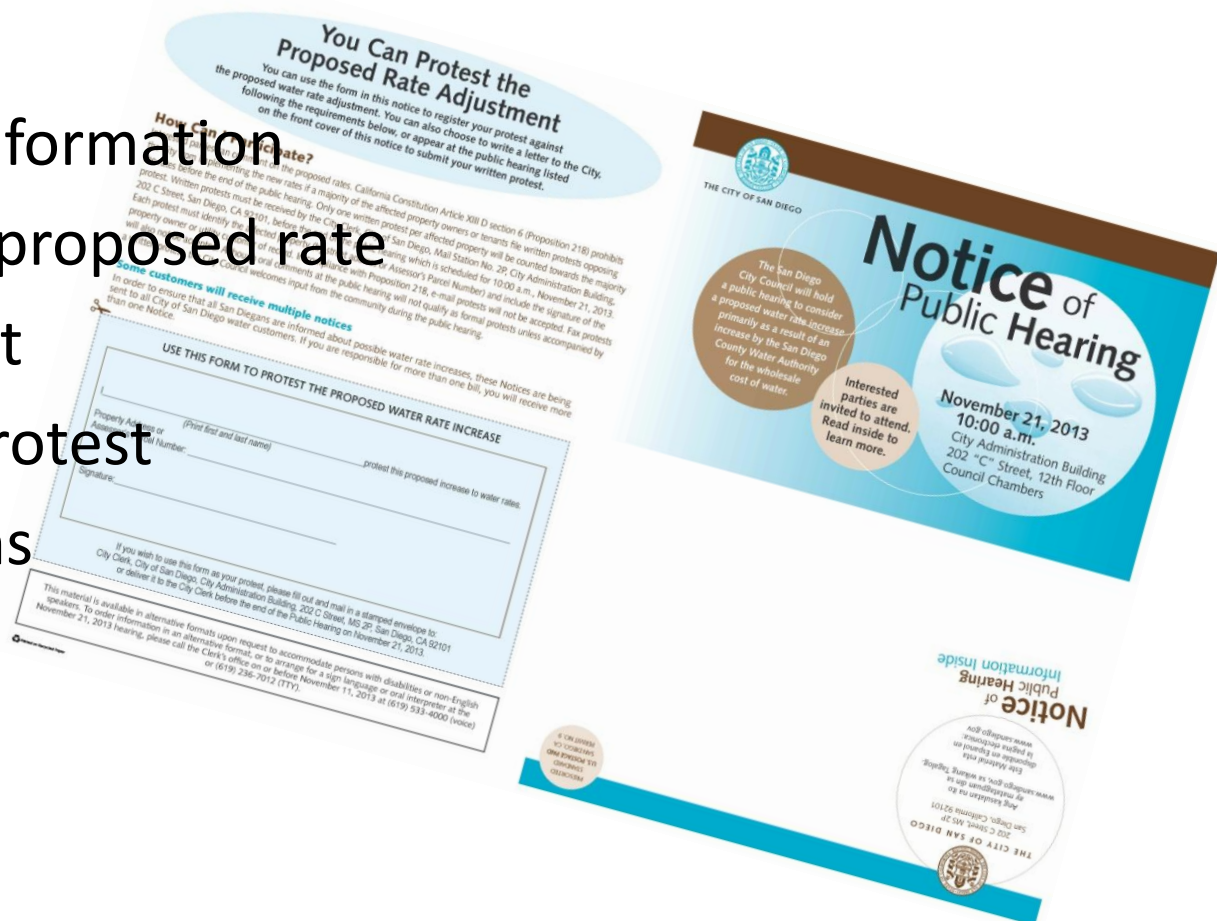
Bill Impacts – Other Customer Classes

Customer Class	Monthly Bills - Proposed Rates		
	Existing	CY 2014	CY 2015
	(\$)	(\$)	(\$)
Multi Family (2" meter, 100 hcf)	467.44	494.03	531.53
Commercial / Industrial			
3/4" meter, 100 hcf	395.33	435.89	469.31
2" meter, 300 hcf	1,203.44	1,311.03	1,411.53
4" meter, 1,000 hcf	3,984.15	4,339.07	4,671.75
8" meter, 2,000 hcf	8,221.64	8,859.16	9,538.10
Temp Construction / Irrigation (2" meter, 550 hcf)	2,280.94	2,601.03	2,798.03



Proposition 218 – Notice of Public Hearing

- Every customer was mailed a Notice of Public Hearing
- Detailed information about the proposed rate adjustment
- Includes protest instructions





Proposition 218 – Know Your Rights

- California Constitution prohibits implementing the new rates if a majority of the affected property owners or tenants file written protests opposing the rates
- Each protest must identify the affected property and include the signature of the property owner or utility customer of record
- By California law, only written protests allowed
 - No email or faxed protests



Summary

- Water rates are changing to pay for the water we purchase from the Water Authority
- Maintaining a healthy debt service coverage ratio allows lower interest rates
- Increasing the number of tiers encourages efficient water use
- Many customers will see a decrease in their 2014 bills
- Only written protests to the proposed rate adjustment are accepted



Where to find more information

- Visit:

www.sandiego.gov/water/rates

- Follow us:



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Department Awards

- Platinum Award for Utility Excellence from the Association of Metropolitan Water Agencies (2012)
- Partnership for Safe Water Awards
- National Association of Clean Water Agencies
- California Water Environment Association
- American Society of Civil Engineers – Outstanding Civil Engineering Achievement

