



Presentation to City Council

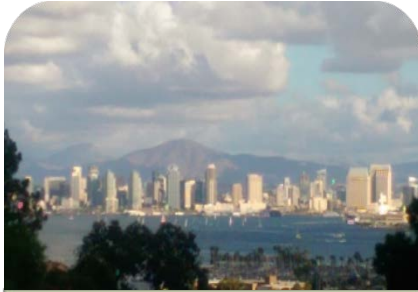
Cost of Service Study

Proposed Changes to Potable and Recycled Water Rates and Structure

Halla Razak, Director
City of San Diego Public Utilities

September 15, 2015

Public Utilities Department



Excellence in Serving our Customers

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

1.4M water & 2.5M
sewer customers

Award Winning and
Efficient Operations

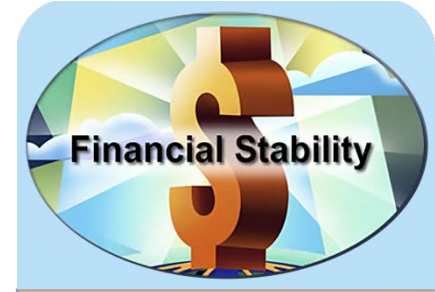


Water Supply

Reliance on imported
water

State Drought
Mandate and
Enforcement

Investing in Pure
Water



Finances

Water Fund Budget

Cost of Service Study
Process

Proposed Rates

Public Outreach

Excellence in Serving Our Customers:

Management for Value

Capital Investments

- Use of Grants and State Revolving Fund Loans
 - Saved **\$177,600,000** for 2010-2015
- Asset management / condition assessment of facilities
 - Saved **\$50,000,000** for transmission main replacement
- Investment in infrastructure continues
 - Water main breaks reduced by **43%** since FY 2013
 - Wastewater spills reduced by **24%** since FY 2013

Excellence in Serving Our Customers:

Management for Value

Streamlining Operations

- No rate increase for operating costs since 2012
- Permanent staff reductions **329.78** positions since 2007 - 2016
- Energy use **\$12,100,000** annual savings for energy generation
- Efficiency savings **\$1,604,200** in the past three years

Excellence in Serving Our Customers:

Management for Value

- Efficiency and Optimization Study Savings
 - *Independent consultant CH2M Hill initial observations:*
 - *“Facilities and systems are effectively operated and maintained”*
 - *“Staff demonstrates technical and managerial skills”*
 - *“Meeting or exceeding regulatory compliance”*
 - *“Engaged in continuous improvement”*

Excellence in Serving our Customers:

Award–Winning Projects and Programs

- Pure Water San Diego
 - U.S. Water Prize
 - CA Association of Sanitation Agencies
 - Public Outreach
- Wastewater Collections
 - California Water Environment Association
 - Large Collection System of the Year
- Alvarado Water Treatment Plant
 - American Society of Civil Engineers
 - Outstanding Civil Engineering Achievement Award



Water Supply:

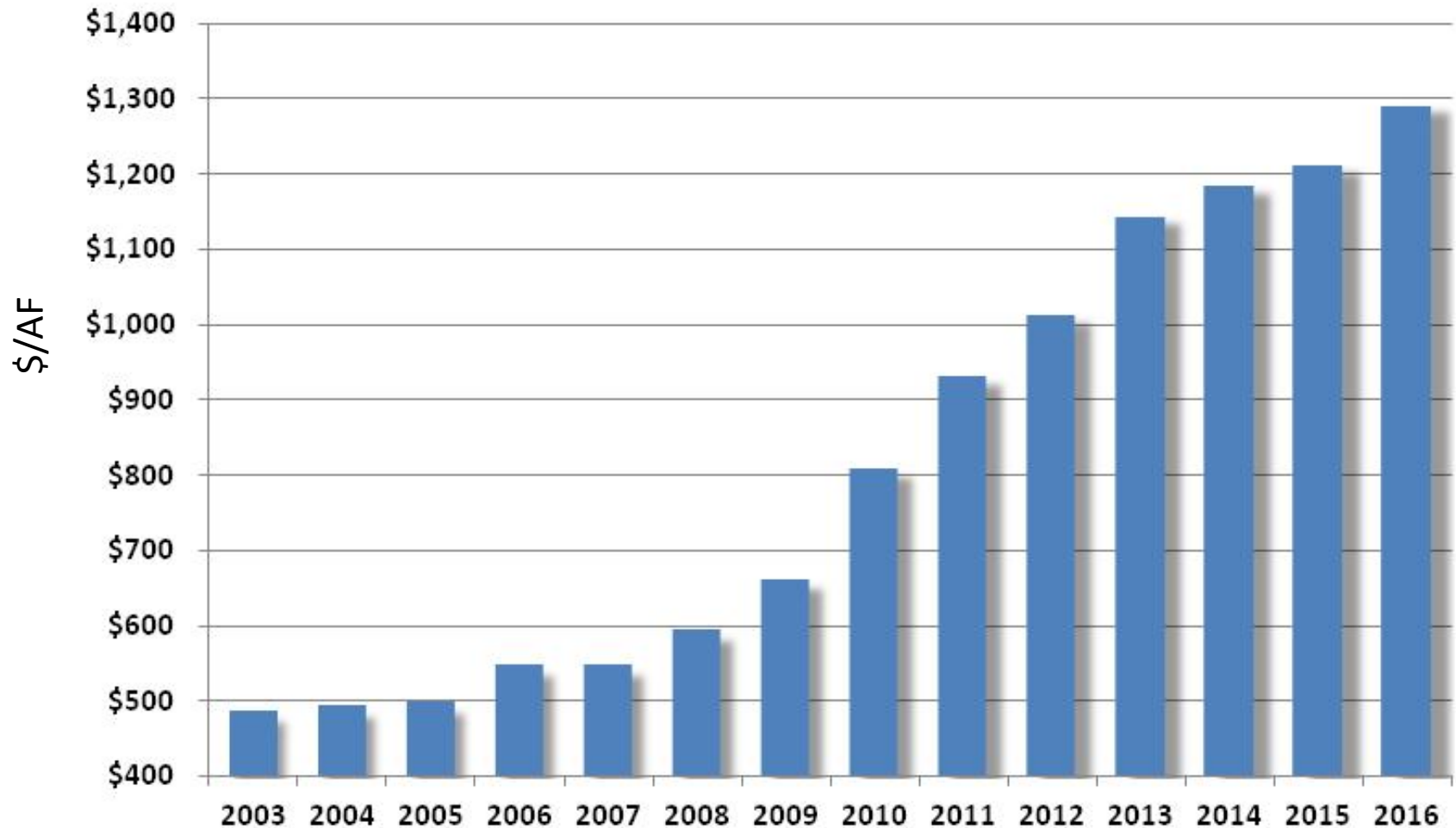
1.) Reliance on Purchased Water

- Metropolitan Water District (MWD) and San Diego County Water Authority (CWA) price increases:
- Imported water costs
- On average, 85-90% of San Diego water is imported



Water Supply:

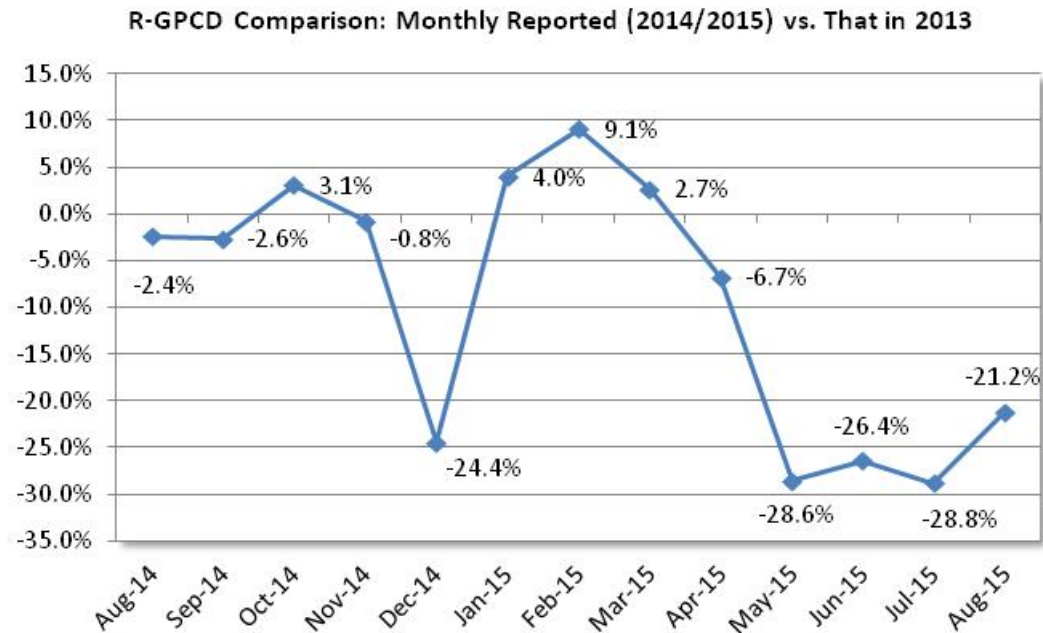
Increasing Cost of Purchased Water



Water Supply:

2.) State Mandated Water Restrictions

- State mandated 16% cut in water use
 - Mandatory enforcement and reporting per State Water Board
 - Limit outdoor irrigation – 2 days a week, 5 minutes per station



Water Supply:

3.) Desalination & Pure Water - New Water Resources

- Carlsbad Desalination Plant completion (regional)
- The City's Pure Water Program is a phased, multi-year program that:
 - Uses proven technology to produce a safe, sustainable and high quality water supply
 - Is drought-proof and locally-controlled to significantly improve our water reliability



- Is a cost-effective investment for San Diego's future water needs

Water Supply:

Pure Water - A New Water Resource

Initial
Phase
2021

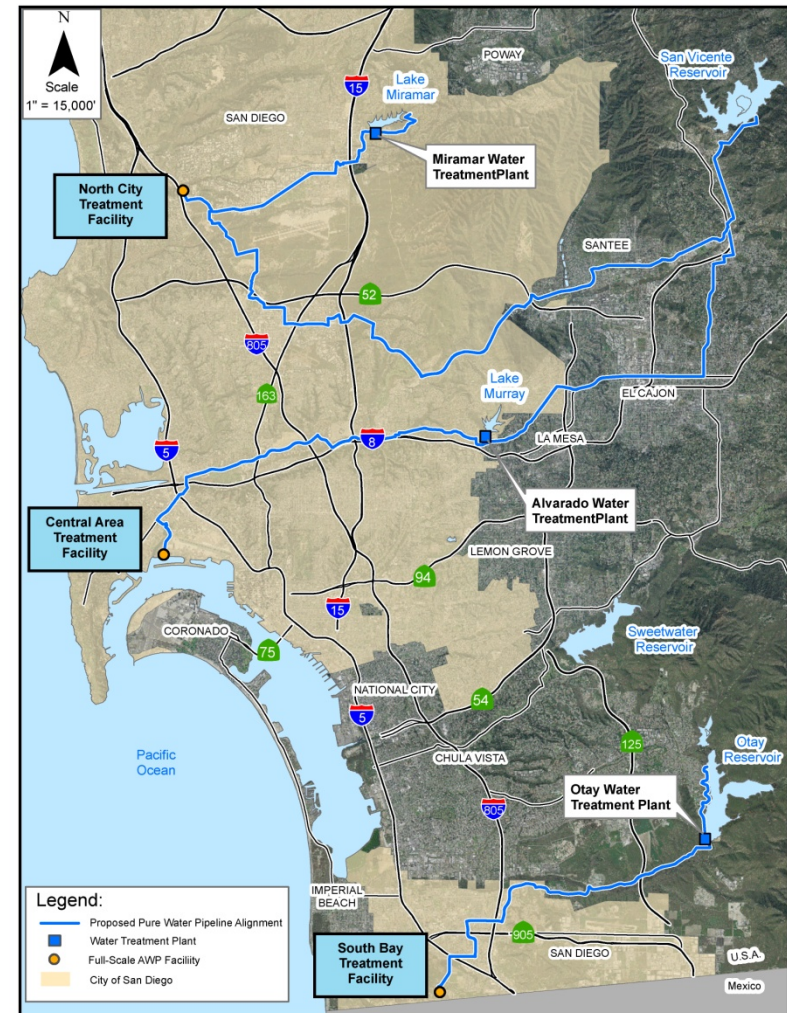
Up to 30 MGD

Recycled water will be purified at North City Plant and delivered to San Vicente or Miramar Reservoir

Long
Term
2035

83 MGD

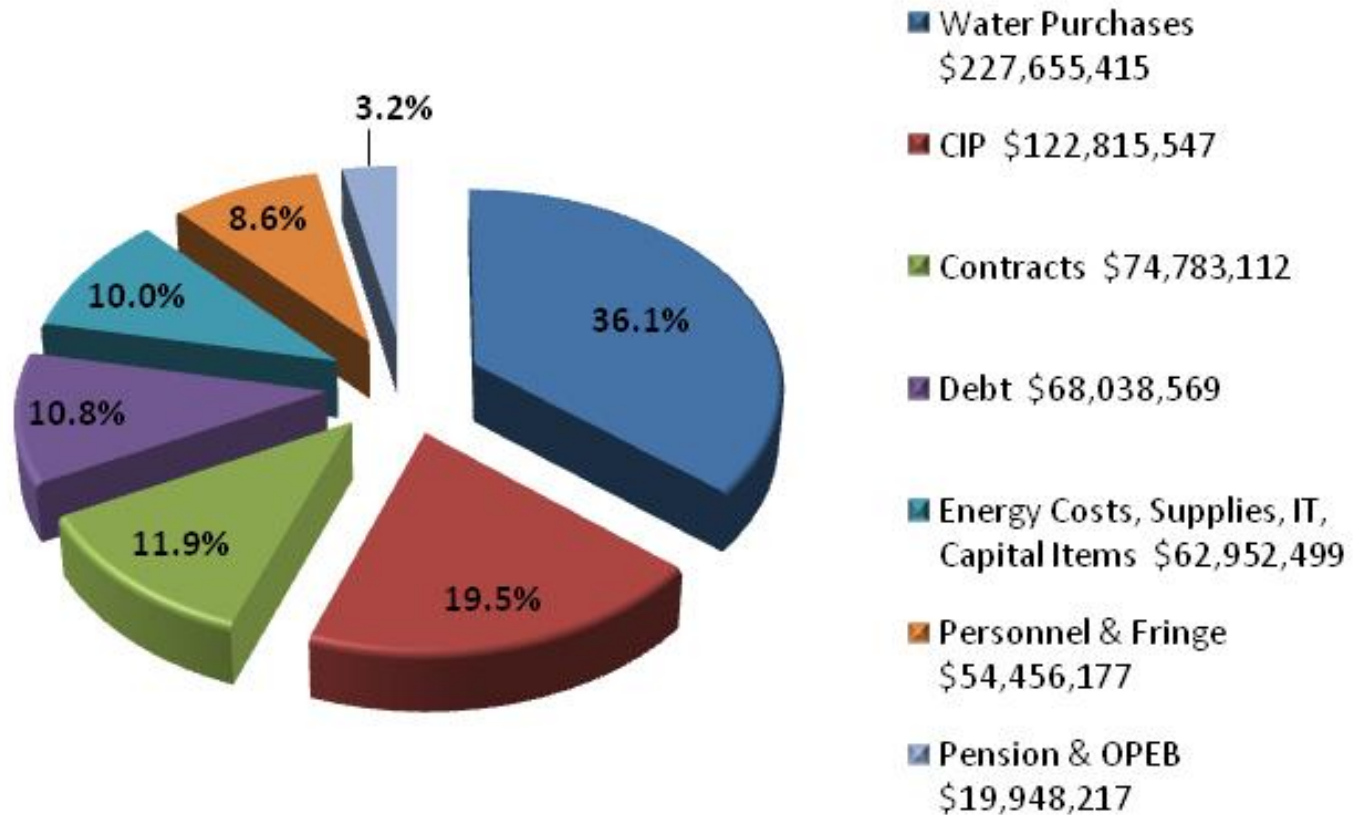
Recycled water will be purified at the Central Area Treatment Facility and South Bay Plant and delivered to San Vicente and Otay Reservoirs



C:\6-17-15\Water Supply3.mxd

Finances:

Total Water FY 2016 Budget \$630,649,536



Cost of Service Process

- Legal Requirements
- Financial Targets
 - Contractual debt coverage ratio
 - Cash balances
 - Reserves
- Rate Setting Drivers
 - Increased imported water costs
 - Investing in Water Reliability:
 - Carlsbad Desalination
 - Pure Water
 - Aging infrastructure and investment in efficiency
 - State drought mandate
 - Use of \$32M in Reserves

Proposed Water Rate Increases

Rate Increase Driver	2016 January	2016 July	2017 July	2018 July	2019 July
Increased imported water cost Carlsbad Desalination, Pure Water, Aging Infrastructure, Smart Meters, State drought mandate, Reserve Requirement	9.8%	6.9%	6.9%	5.0%	7.0%
Department Operations	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL INCREASE	9.8%	6.9%	6.9%	5.0%	7.0%

◆ Conduct Review of Funds

The County Water Authority (CWA) Rate Increase that must be passed through to the City is projected to be 2.5% in 2017 and 2018, and 3.0% in 2019. The City will only pass through to its customers the actual CWA pass through rate increase impact between 2.5% and 7%. The CWA pass through will not exceed 7% annually through 2019.

Use of \$32M from the Rate Stabilization Reserve (January 2016).

Water Consumption & Meter Charges

Fixed Charge / Month

Meter Size	Current Rates	Proposed FY 2016
5/8", 3/4"	\$20.31	\$22.26
1"	\$27.51	\$29.50
1.5"	\$43.96	\$46.04
2"	\$64.53	\$66.72
3"	\$112.86	\$115.32
4"	\$181.75	\$184.59
6"	\$352.44	\$356.23
8"	\$558.10	\$563.03
10"	\$798.72	\$804.98
12"	\$1,483.55	\$1,493.60
16"	\$2,580.72	\$2,596.85

Commodity Charge (per HCF)

Customer Class	Current Rates	Proposed FY 2016
Single Family		
Tier 1 (0-4 HCF)	\$3.90	\$4.24
Tier 2 (5-12 HCF)	\$4.36	\$4.75
Tier 3 (13-18 HCF)	\$6.23	\$6.79
Tier 4 (19+ HCF)	\$8.77	\$9.55
Other Classes		
Multi Family	\$4.65	\$5.12
Commercial/Industrial	\$4.47	\$5.02
Construction/Irrigation	\$4.95	\$5.67

Water sales are 80% variable (commodity) and 20% fixed (meter)

Single Family Residential Bill Impact

Customer Class	Monthly Bills - Proposed Rates			
	Existing Rates		FY 2016	
	(\$)		(\$)	
4 hcf	\$	35.89	\$	39.24
7 hcf	\$	48.99	\$	53.50
12 hcf	\$	70.81	\$	77.27
24 hcf	\$	160.81	\$	175.32

Other Customer Classes – Bill Impacts

Customer Class	Monthly Bills - Proposed Rates	
	Existing Rates	FY 2016
	(\$)	(\$)
Multi Family (2" meter, 100 hcf)	\$ 529.53	\$ 578.97
Commercial/Industrial		
3/4" meter, 100 hcf	\$ 467.31	\$ 523.76
2" meter, 300 hcf	\$ 1,405.53	\$ 1,571.23
Irrigation / Temp Construction (2" meter, 300 hcf)	\$ 1,548.63	\$ 1,767.72

Cost of Service Outreach

Presentation/Discussion	
Independent Rates Oversight Committee (2)	National Association of Office Professionals
COSS dialogue with stakeholders (2)	San Diego Hotel Motel Association
Building Owners and Manager's Association	San Diego County Apartment Association
San Diego Regional Chamber of Commerce (2)	South County Economic Development Council
San Diego Association of Realtors	BIOCOM
San Diego Regional Economic Development Corporation*	Associated General Contractors*

* - Scheduled

Recycled Water System

- 2 Water Reclamation Plants
- Associated Distribution System
- Approximately 620 connections
- 3 Agency customers with recycled water purchase agreements (Poway, Olivenhain and Otay)

Modified Cost of Service

- Financial Sufficiency – The recycled water program should be able to cover its own costs through revenue collected from its own fees and charges
- Considers only costs related to the production and distribution of recycled water
 - O&M and capital expenses for the distribution system and tertiary (recycled water) component of the wastewater treatment system
 - Debt service
- Reduces revenue requirements using offsetting revenues
 - MWD/CWA credits
 - Other revenues

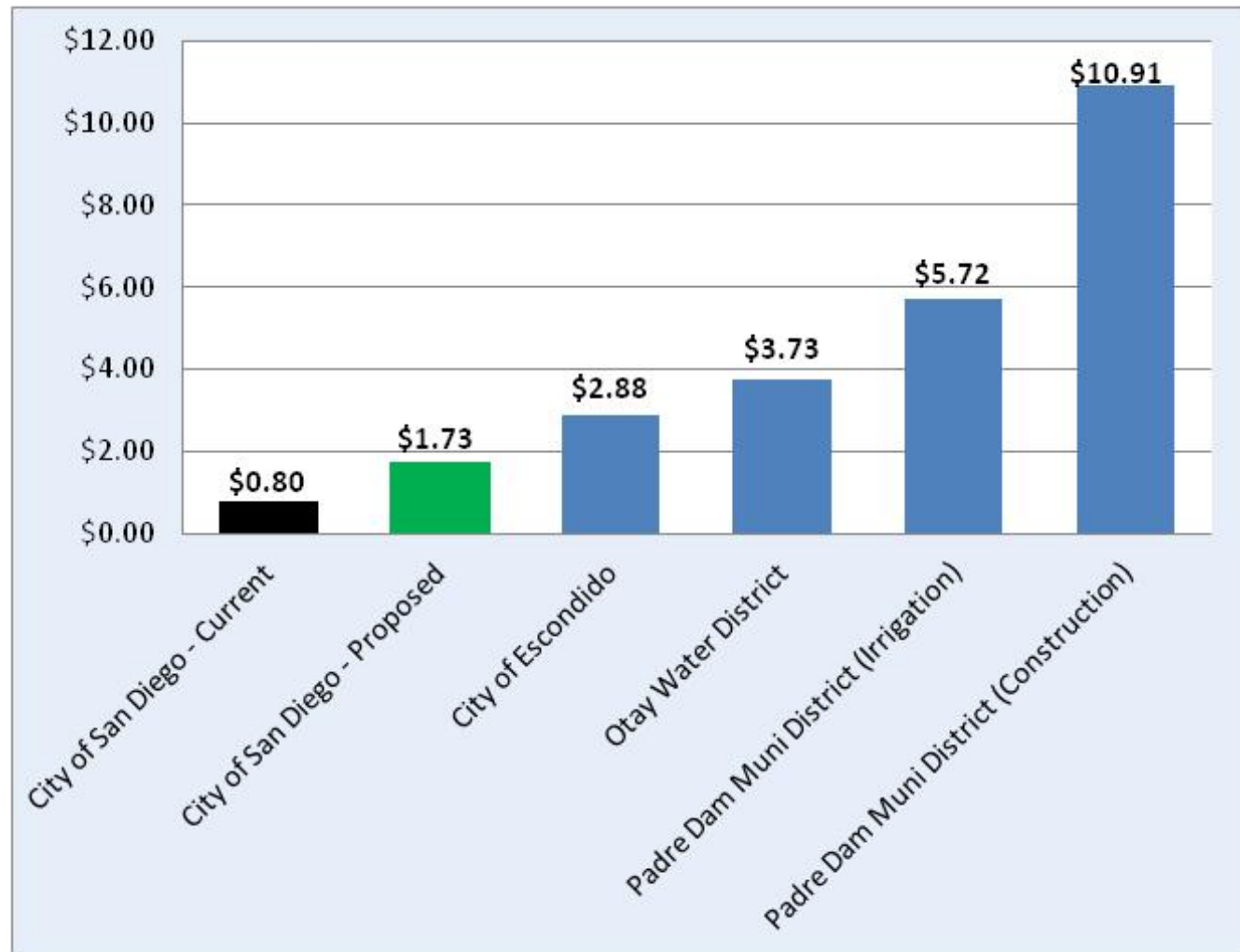
Recycled Water

Timeline	Commodity Rate (\$/HCF)
Existing Recycled Rate	\$0.80
Proposed Recycled Rate	\$1.73
Proposed Potable Irrigation Rate	\$5.67

Proposed Base/Meter Charges

Monthly Base Fee	Existing	Proposed 1/1/2016	Proposed 1/1/2017	Proposed 1/1/2018	Proposed 1/1/2019	Proposed 1/1/2020
1"	\$ 8.63	\$ 21.54	\$ 21.54	\$ 21.54	\$ 21.54	\$ 21.54
1-1/2"	\$ 43.27	\$ 39.01	\$ 39.01	\$ 39.01	\$ 39.01	\$ 39.01
2"	\$ 65.96	\$ 60.01	\$ 60.01	\$ 60.01	\$ 60.01	\$ 60.01
3"	\$ 246.93	\$ 126.41	\$ 126.41	\$ 126.41	\$ 126.41	\$ 126.41
4"	\$ 411.53	\$ 224.31	\$ 224.31	\$ 224.31	\$ 224.31	\$ 224.31
6"	\$ 925.93	\$ 493.51	\$ 493.51	\$ 493.51	\$ 493.51	\$ 493.51
8"	\$ 1,234.59	\$ 843.13	\$ 843.13	\$ 843.13	\$ 843.13	\$ 843.13
10"	\$ 1,646.12	\$ 1,332.60	\$ 1,332.60	\$ 1,332.60	\$ 1,332.60	\$ 1,332.60

Recycled Water Rate Comparison



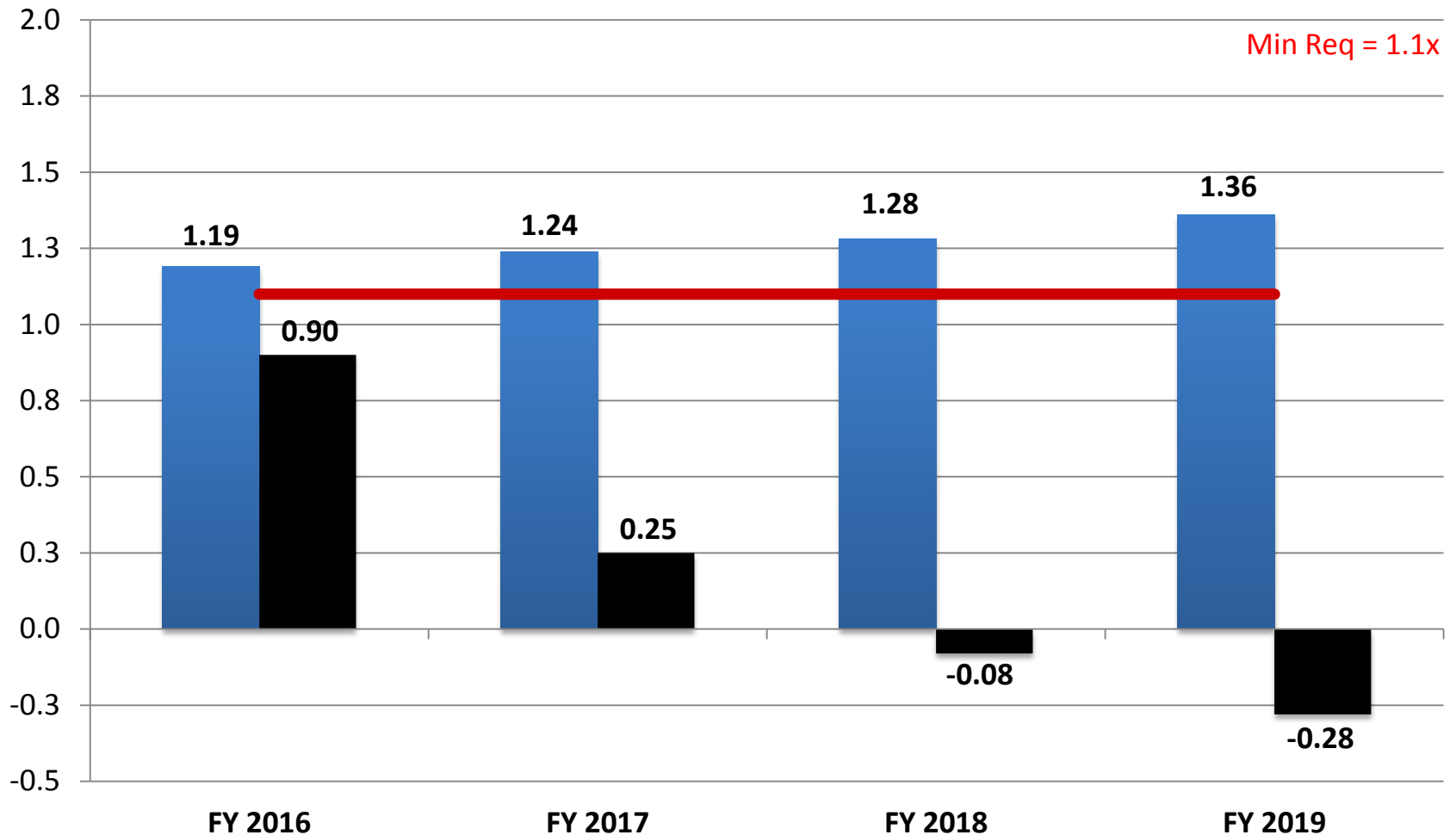
Recycled Water Outreach to Date

Presentation/Discussion	
Independent Rates Oversight Committee (2)	Metro JPA (2)
Recycled Water Contractors (2)	BIOCOM
Building Owners and Manager's Association	San Diego Hotel Motel Association
San Diego Regional Chamber of Commerce (2)	San Diego County Apartment Association
San Diego Association of Realtors	South County Economic Development Council
Otay Mesa Chamber of Commerce	

Minimize Impact to the Ratepayer

- Use of **\$32M** in Reserves
- First year increase in **two** 6 month increments
- 2 formal **Review** of Funds
- Low Income Program (Help to Others - **H2O**)
- Financial **metric** management

Projected Debt Service Coverage (DSC)



■ DSC (w/ Increases) ■ DSC (w/o Increases) — DSC (Min Req)

Moody's Ratings Update

- Affirmed rating on water bonds
 - Expects enterprise will **increase rates** to maintain **satisfactory financial** operations
 - Rate increases will result in **acceptable** debt service coverage
 - Mentions Water Supply **diversification** efforts (Pure Water and Desal CWA)

Moody's Ratings Update

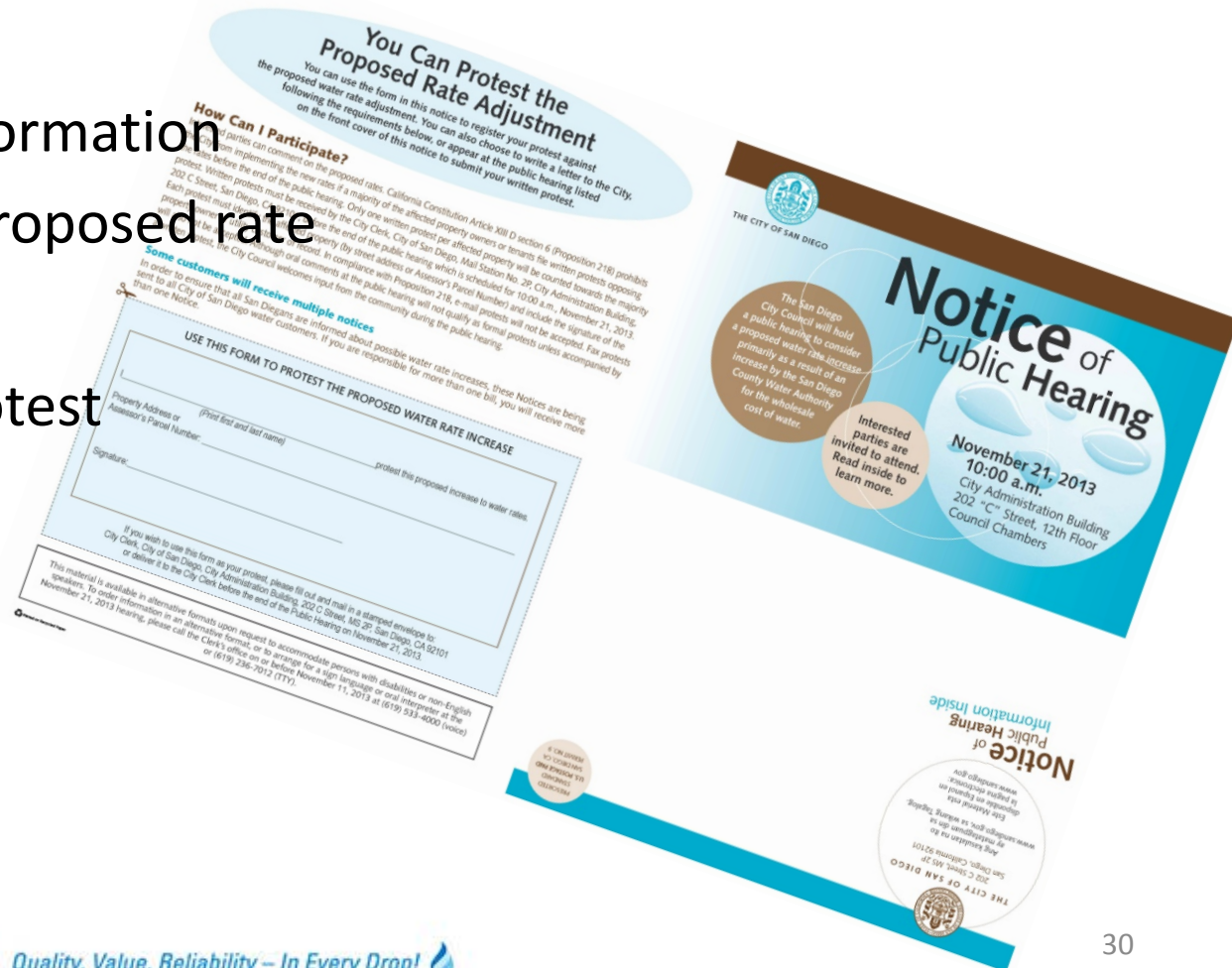
- Rating Update: Moody's affirms Aa2 on San Diego CA's Senior Water Revenue Bonds and Aa3 on Subordinate Water Revenue Bonds (August 10, 2015)
 - *"What could make the rating go down?"*
 - *"Material deterioration in debt service coverage levels"*
 - *"Sustained decline in unrestricted liquidity"*
 - *"Deferment of adequate customer rate increases"*

Impact of No Rate Increases

- **Not meeting the required debt coverage ratios (DCR)**
 - Ineligible for **grants** and loans
 - Inability to obtain **financing**
 - **Default** on the existing debt
 - The bond holder could **force** a rate increase
 - Demand full **payment** of debt
- **Impact to our operations**

Proposition 218 – Notice of Public Hearing

- Every customer will be 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

Proposed Rate Increase Timeline

Date	Activity
July 20, 2015	Independent Rates Oversight Committee Approval on Potable Rates Proposal
July 2015	Council Briefings
July 2015	Stakeholder Outreach
August 5, 2015	Environment Committee
August 10, 2015	Independent Rates Oversight Committee Recycled Water Presentation
September 15, 2015	Council sets public hearing
September 2015	Mail public notices
September - November	Community and Stakeholder Outreach
November 17, 2015	Public Hearing at City Council
January 1, 2016	Rate increase effective

Future Scheduled Community Outreach

Date	District	Organization
September 17	7	Serra Mesa Community Council
September 24	1	Carmel Valley Community Planning Board
October 1	1	La Jolla Community Planning Association
October 5	9	City Heights Area Planning Committee
October 12	8	Southeast Planning Group
October 13	1	University City Planning Group
October 13	4	Skyline – Paradise Hills Planning Committee
October 14	9	Kensington – Talmadge Planning Group
October 14	9	College Area Community Planning Group
October 21	8	Barrio Logan Planning Group
November 5	5	Scripps Miramar Ranch Planning Group

Community Outreach Pending

District	Organization
2	Clairemont Town Council
2	Point Loma Association
3	North Park Planning Committee
3	University Heights Community Association
4	Encanto Neighborhoods Community Planning Group
5	Rancho Bernardo Planning Board
5	Rancho Peñasquitos Planning Board
6	Clairemont Community Planning Group
6	Mira Mesa Community Planning Group
7	Tierrasanta Community Council

Council Request

- Request to set the public hearing date of November 17
- Request to mail the Notice of Public Hearing that will explain the following adjustments:
 - Potable water base fee and commodity charge
 - Private Fire Service
 - Recycled water
- Accept the Cost of Service Study Report

San Diego Tap Water Cost Comparison

PER GALLON COST (JULY 2015)		
Milk	\$	3.49
Coffee	\$	10.67
Soda	\$	3.99
Boxed Wine	\$	11.36
Vended Water	\$	0.35
Store Brand Water	\$	1.09
Name Brand Water	\$	1.49
San Diego Tap Water* - DELIVERED	\$	0.009

* Based on average monthly bill at 12 HCF

Where to find more information

- Visit:
www.sandiego.gov/water/

- Follow us:



Facebook

City of San Diego Public Utilities



Twitter

@SDPubUtilities



Backup Slides

Low Income Program Update

- 💧 Leading California agencies' working with the State to establish a new program
- 💧 Participate in monthly conference calls with the California Urban Water Agencies (CUWA)
 - Water Equity Committee
- 💧 Currently working on setting up the Help to Others (H2O) Program
 - 💧 Proposition 218 compliant funding source
 - Voluntary tax deductible contributions (donations)

Modified Cost of Service Calculation

		Projected 2016	Projected 2017	Projected 2018	Projected 2019	Projected 2020
Revenue Requirements						
	O&M Costs	\$ 3,239,173	\$ 3,292,855	\$ 3,348,279	\$ 3,405,510	\$ 3,464,618
	Treatment Costs	\$ 4,259,540	\$ 4,429,921	\$ 4,607,118	\$ 4,791,403	\$ 4,983,059
	<u>Capital Costs</u>					
	Existing Debt Service	\$ 5,166,144	\$ 5,117,096	\$ 5,186,900	\$ 5,187,188	\$ 5,186,413
	Proposed Debt Service	\$ 77,135	\$ 154,270	\$ 154,270	\$ 154,270	\$ 154,270
	Pay-as-you-go Capital	\$ 1,170,085	\$ 200,691	\$ -	\$ -	\$ -
	<i>Subtotal: Capital Costs</i>	\$ 6,413,364	\$ 5,472,057	\$ 5,341,170	\$ 5,341,459	\$ 5,340,683
Total Revenue Requirements		\$ 13,912,078	\$ 13,194,834	\$ 13,296,567	\$ 13,538,372	\$ 13,788,360

Less: Revenue Offsets						
	Credits from MWD and CWA	\$ 2,997,742	\$ 2,732,333	\$ 3,189,724	\$ 2,830,514	\$ 2,463,974
	Base Charge Revenue (Projected)	\$ 571,306	\$ 583,593	\$ 625,752	\$ 645,001	\$ 664,989
	Poway Contract Revenue	\$ 490,682	\$ 515,412	\$ 541,389	\$ 568,676	\$ 597,338
	Fees from Olivenhain	\$ 19,663	\$ 19,663	\$ 19,663	\$ 19,663	\$ 19,663
	Interest Revenue	\$ -	\$ -	\$ -	\$ -	\$ -
	Meter Installation Revenue	\$ 275,000	\$ 25,000	\$ 200,000	\$ 30,000	\$ 30,000
	Capacity Fee Revenue	\$ 195,008	\$ 24,376	\$ 146,256	\$ 24,376	\$ 24,376
Subtotal Revenue Offsets		\$ 4,549,401	\$ 3,900,377	\$ 4,722,784	\$ 4,118,230	\$ 3,800,341

TOTAL NET REVENUE REQUIREMENTS	\$ 9,362,677	\$ 9,294,457	\$ 8,573,783	\$ 9,420,142	\$ 9,988,020
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Total Sales (HCF)	4,703,758	4,787,988	5,834,415	5,933,537	6,029,093
Calculated Recycled Water Rate, \$/HCF	\$ 1.99	\$ 1.94	\$ 1.47	\$ 1.59	\$ 1.66
Average Calculated Rate	\$ 1.73				

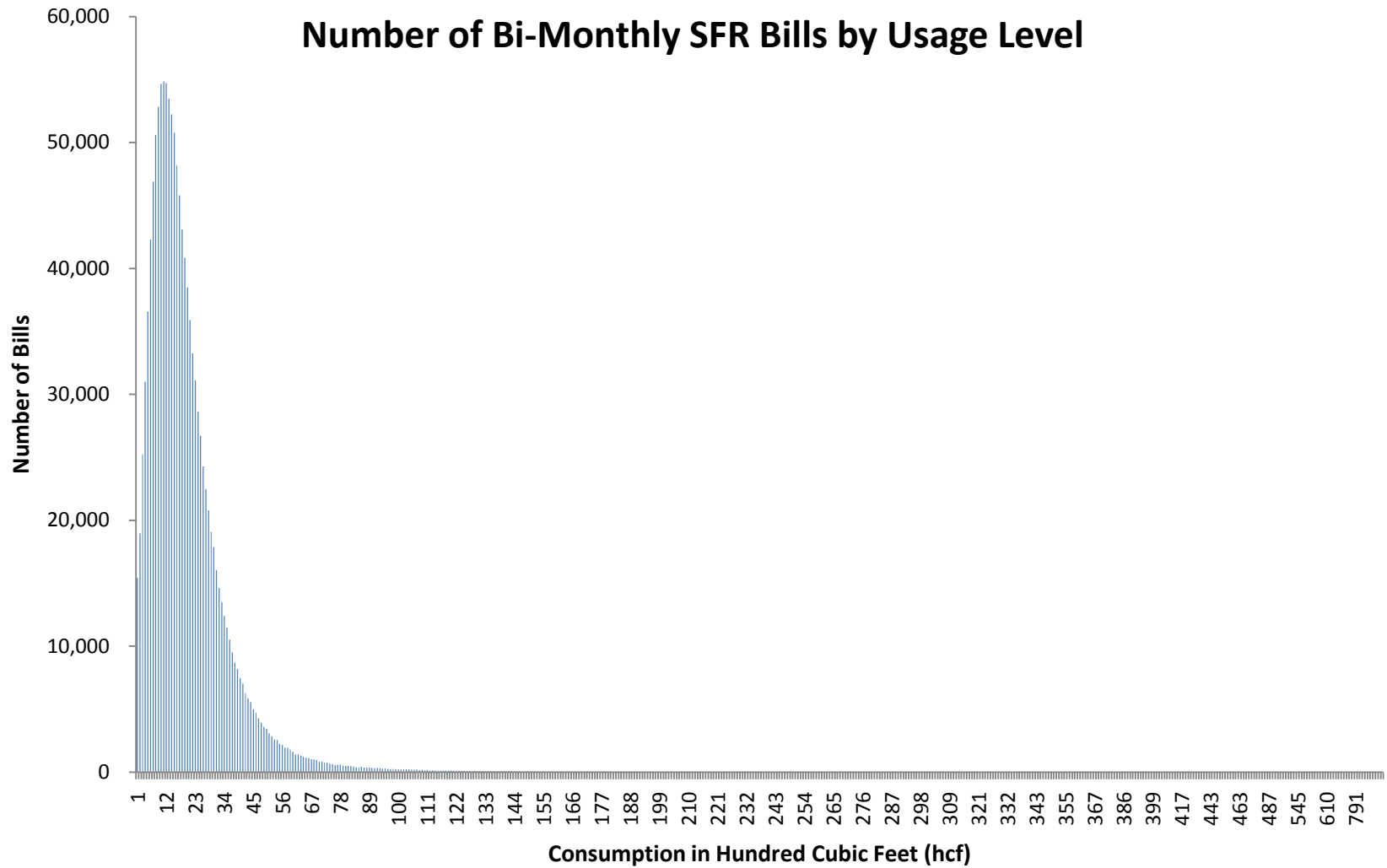
North City Zone Rate

North City					FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenue Requirements									
O&M Costs					\$ 3,014,810	\$ 3,065,484	\$ 3,117,813	\$ 3,171,859	\$ 3,227,686
Treatment Costs					\$ 2,450,918	\$ 2,548,955	\$ 2,650,913	\$ 2,756,949	\$ 2,867,227
Capital Costs									
Existing Debt Service					\$ 4,920,429	\$ 4,868,831	\$ 4,912,343	\$ 4,912,635	\$ 4,911,869
Proposed Debt Service					\$ 47,061	\$ 94,121	\$ 94,121	\$ 94,121	\$ 94,121
Pay-as-you-go Capital					\$ 641,823	\$ 383,495	\$ -	\$ -	\$ -
Subtotal: Capital Costs					\$ 5,609,312	\$ 5,346,447	\$ 5,006,465	\$ 5,006,756	\$ 5,005,990
Total Revenue Requirements					\$ 11,075,039	\$ 10,960,886	\$ 10,775,190	\$ 10,935,564	\$ 11,100,904
Less: Revenue Offsets									
Credits from MWD and CWA					\$ 2,997,742	\$ 2,732,333	\$ 3,189,724	\$ 2,830,514	\$ 2,463,974
Base Charge Revenue (Projected)					\$ 554,743	\$ 566,768	\$ 608,525	\$ 627,358	\$ 646,914
Poway Contract Revenue					\$ 490,682	\$ 515,412	\$ 541,389	\$ 568,676	\$ 597,338
Fees from Olivenhain					\$ 19,663	\$ 19,663	\$ 19,663	\$ 19,663	\$ 19,663
Interest Revenue									
Meter Installation Revenue					\$ 275,000	\$ 25,000	\$ 200,000	\$ 30,000	\$ 30,000
Capacity Fee Revenue					\$ 195,008	\$ 24,376	\$ 146,256	\$ 24,376	\$ 24,376
Subtotal Revenue Offsets					\$ 4,532,838	\$ 3,883,552	\$ 4,705,557	\$ 4,100,587	\$ 3,782,266
TOTAL NET REVENUE REQUIREMENTS					\$ 6,542,202	\$ 7,077,334	\$ 6,069,633	\$ 6,834,978	\$ 7,318,638
Total Sales (HCF)					2,617,217	2,643,390	3,631,324	3,666,723	3,702,476
Calculated Recycled Water Rate, \$/HCF					\$ 2.50	\$ 2.68	\$ 1.67	\$ 1.87	\$ 1.98
Average 5 year rate					\$ 2.138				

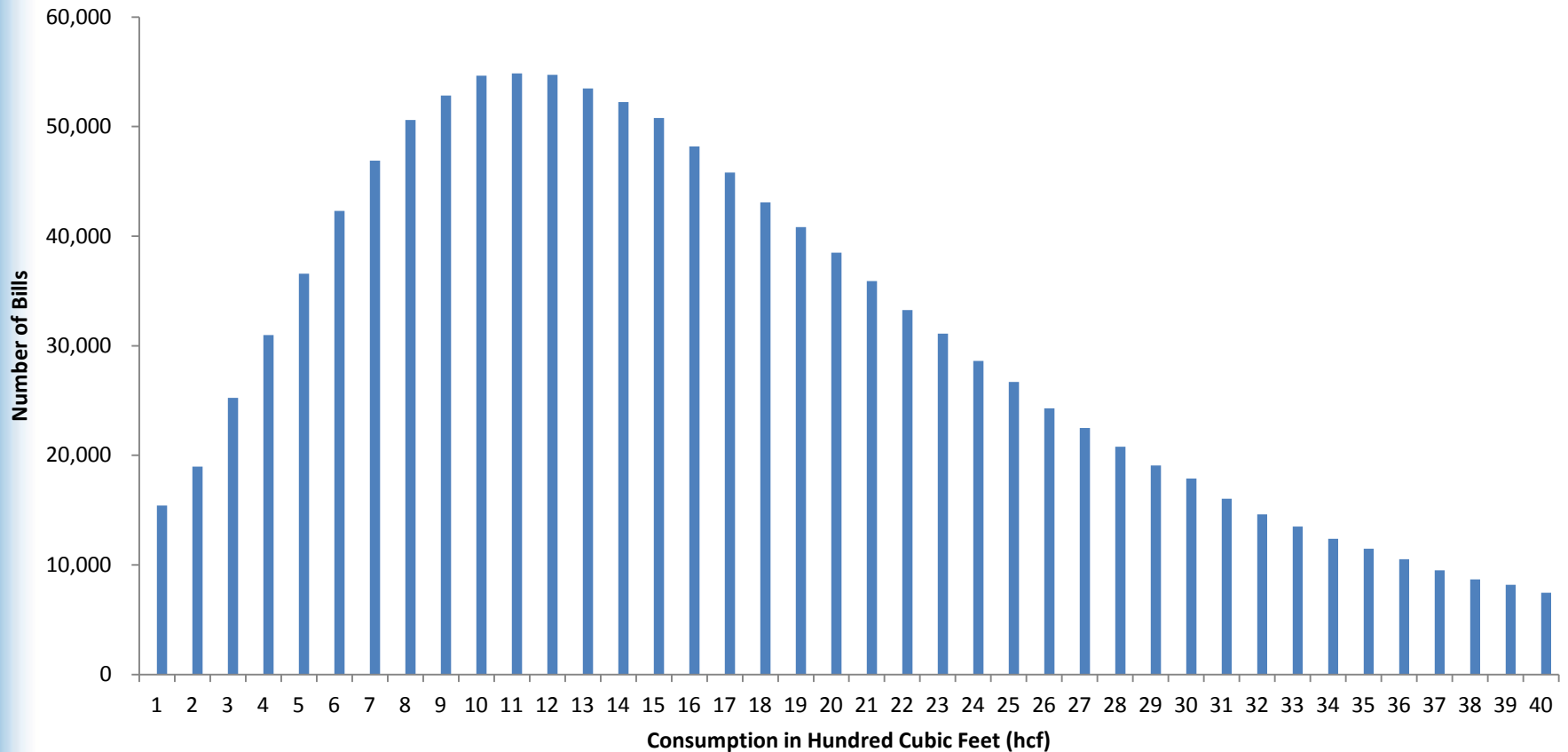
South Bay Zone Rate

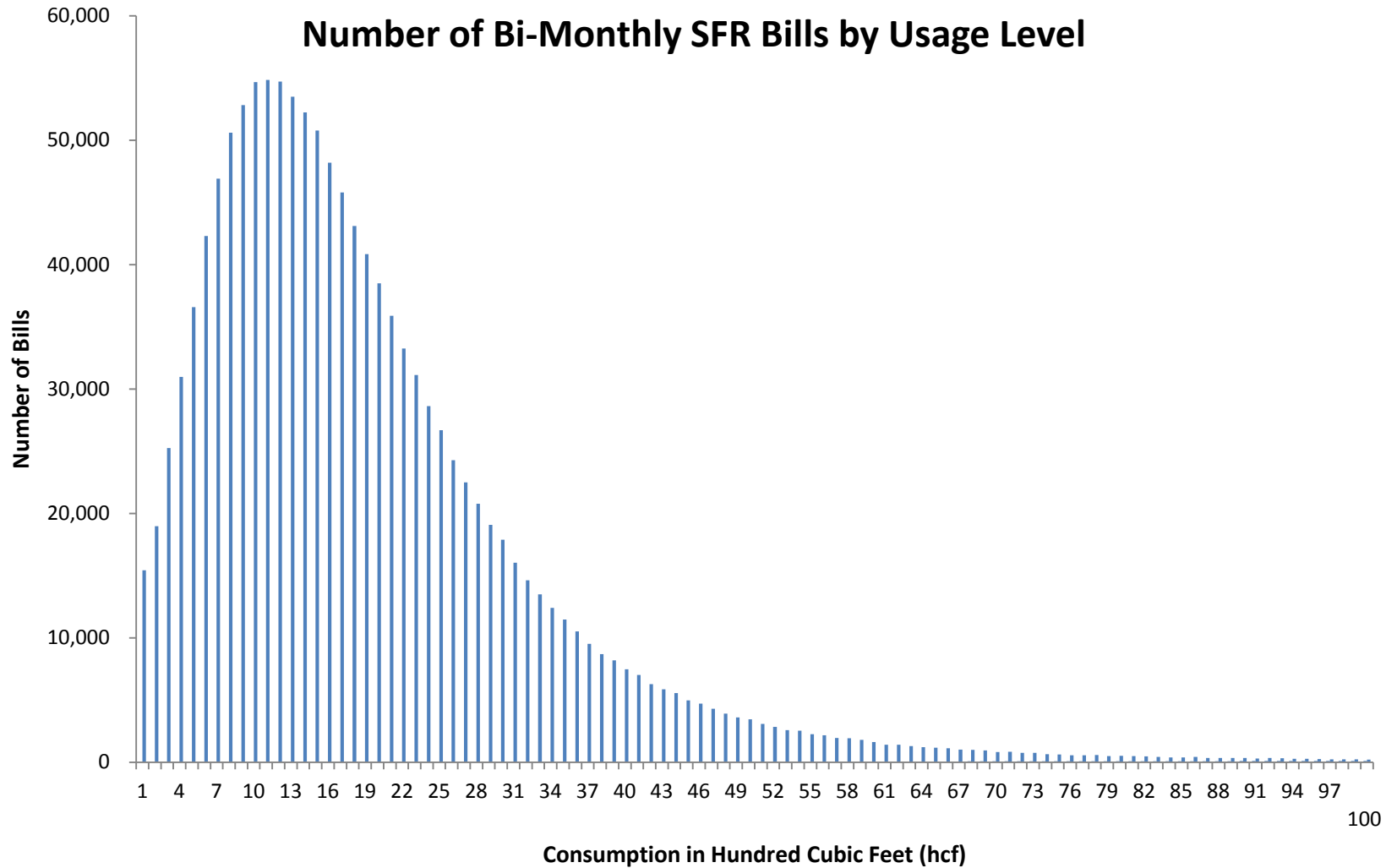
South Bay					FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Revenue Requirements									
O&M Costs					\$ 224,364	\$ 227,371	\$ 230,466	\$ 233,652	\$ 236,931
Treatment Costs					\$ 1,808,622	\$ 1,880,967	\$ 1,956,205	\$ 2,034,454	\$ 2,115,832
Capital Costs									
Existing Debt Service					\$ 245,716	\$ 248,265	\$ 274,556	\$ 274,554	\$ 274,544
Proposed Debt Service					\$ 39,960	\$ 79,919	\$ 79,919	\$ 79,919	\$ 79,919
Pay-as-you-go Capital					\$ 317,482	\$ 82,627	\$ -	\$ -	\$ -
Subtotal: Capital Costs					\$ 603,157	\$ 410,812	\$ 354,475	\$ 354,473	\$ 354,463
Total Revenue Requirements					\$ 2,636,143	\$ 2,519,149	\$ 2,541,147	\$ 2,622,578	\$ 2,707,226
Less: Revenue Offsets									
Credits from MWD and CWA					\$ 5,608	\$ 5,664	\$ 5,720	\$ 5,778	\$ 5,836
Base Charge Revenue (Projected)					\$ 16,563	\$ 16,825	\$ 17,227	\$ 17,643	\$ 18,075
Poway Contract Revenue									
Fees from Olivenhain									
Interest Revenue									
Meter Installation Revenue									
Capacity Fee Revenue									
Subtotal Revenue Offsets					\$ 22,171	\$ 22,489	\$ 22,947	\$ 23,421	\$ 23,911
TOTAL NET REVENUE REQUIREMENTS					\$ 2,613,972	\$ 2,496,660	\$ 2,518,199	\$ 2,599,157	\$ 2,683,316
Total Sales (HCF)					2,086,541	2,144,598	2,203,091	2,266,814	2,326,617
Calculated Recycled Water Rate, \$/HCF					\$ 1.25	\$ 1.17	\$ 1.14	\$ 1.15	\$ 1.15
Average 5 year rate					\$ 1.173				

Number of Bi-Monthly SFR Bills by Usage Level



Usage Distribution for 90% of Bi-Monthly SFR Bills





Moody's Ratings Update

- Strengths (as indicated by Moody's)
 - Large, highly diverse service area with above average resident socio-economic indicators
 - Strong financial oversight with conservative budgeting and projections
 - Strong financial metrics
- Challenges
 - Ongoing pressure associated with long term California drought
 - conservation requirements
 - increase rates to offset decrease in consumption and resulting sales revenues
 - Highly reliant on single wholesaler for 90% of water supply
 - Significant long-term capital plans (increased funding requirements)

Updated Recommended Rates

- The commodity rate for recycled water should be lower than the potable water rate to incentivize sales

Alternative	Commodity Rate HCF	Current Rate	Proposed Rate June, 2013	New Proposed Rate January 1, 2016 – June 30, 2020
1	Unitary	\$.80	\$2.261	\$1.73
2	Zone -North City	N/A	\$3.208	\$2.138
2	Zone -South Bay	N/A	\$1.300	\$1.173

Proposed Rate Increase Timeline

Date	Activity
September 15, 2015	Council sets public hearing
Other community meetings scheduled	
September 2015	Mail public notices
September - November	Community and Stakeholder Outreach
November 17, 2015	Public Hearing at City Council
January 1, 2016	Rate increase effective



THE CITY OF SAN DIEGO

Water Authority Board of Directors
Legislation, Conservation & Outreach Committee

San Diego's H2O Program

Wilson Kennedy, MBA, CFE

August 13, 2015



Compliance with Proposition 218

- 💧 Funding for a Low Income Customer Assistance Program must comply with Proposition 218
- 💧 Proposition 218 requires that revenues from the fee/charge **shall not**:
 - “exceed the funds required to provide the service”
 - “be used for any purpose other than that for which the fee was imposed”
- 💧 Research identified voluntary tax deductible contributions (donations) as the only Proposition 218 compliant source of funding

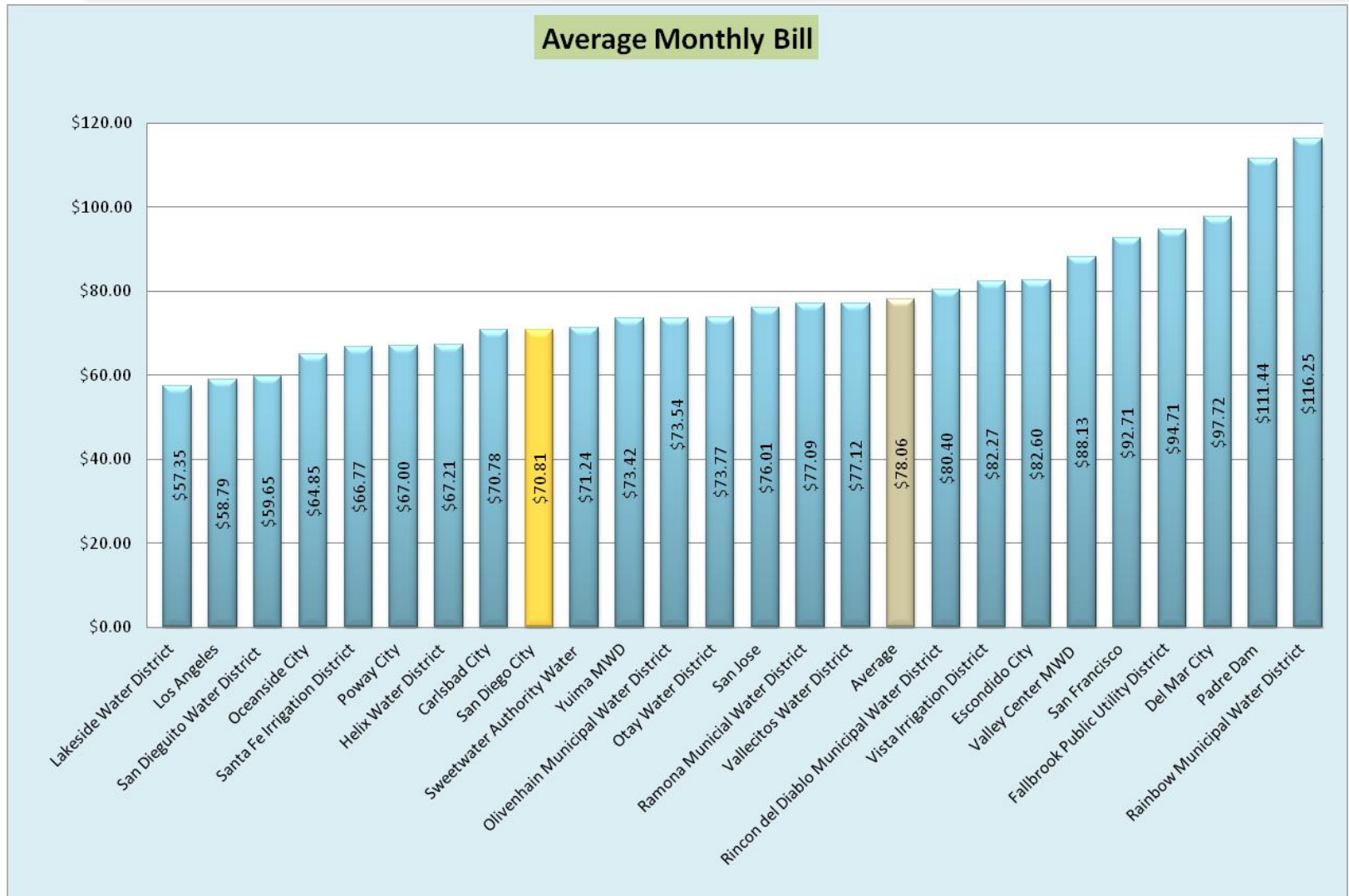
Key Findings Based on National Research

- 💧 National research of 21 agencies
- 💧 Average of 3% - 4% of customers enrolled
- 💧 Many offer recurring monthly assistance (\$5 - \$10/mo.)
- 💧 Alternative Programs
 - Limit the number of enrollees based on available funds
 - Offer one-time assistance during a 12-month period (recommended direction)

Key Findings Based on National Research

- 💧 Some partner with local non-profit organizations
 - Both the City and County of Riverside
 - The City of Tempe, Arizona
 - The City of Salem, Oregon
- 💧 Many require enrollment in assistance programs
 - Local Assistance Programs
 - Utility Assistance Programs
 - Other Qualifying Low Income Programs

Water Rate Comparison



Recycled Water Customers

	Recycled Water
North City	613
South Bay	6
Agencies with contracts	3
Total	622

Questions?

