

**OFFICE OF INDEPENDENT BUDGET ANALYST
CITY OF SAN DIEGO
M E M O R A N D U M**

No. 07-12

DATE: October 4, 2007

TO: Honorable Council President and Members of the City Council

FROM: Tom Haynes, Office of the Independent Budget Analyst

SUBJECT: Proposed Water and Sewer Rate Increases

On July 30, 2007 the City Council authorized the Mayor to distribute a notice of the City's intent to increase water and sewer rates, in conformance with Proposition 218 requirements. Proper procedures for Proposition 218 noticing have been followed, and Item 203 on the docket for October 8, 2007 requests Council approval of the proposed rate increases. The increase in water rates is proposed to accommodate for recent increases in the rates that the County Water Authority (CWA) charges the City for water. The proposed increase in sewer rates is to generate funding for the settlement payment in the case of *Shames v. City of San Diego*.

The IBA has reviewed the rate calculations and methodologies for accuracy and soundness, and we concur that the proposed rate increases are necessary and sufficient to cover increased expenditures for both the Water and Sewer Departments. We support the proposed rate increases in order to ensure that the scheduled capital improvement projects, as outlined in the February 2007 rate cases, can be completed as planned. The majority of these capital improvements are required under the California Department of Health Services Compliance Order (for Water) and the Final Consent Decree with the U.S. Environmental Protection Agency (for Sewer).

It should be noted that while the Sewer rate increases pursuant to the Shames settlement will sunset when the settlement amount is paid in full (estimated November 2011), the CWA reviews the rates charged to member agencies on an annual basis. It is anticipated that CWA will make further rate increases in the future, which may require additional pass-through rate increases by the City in ensuing years.