



STAFF REPORT

Meeting Date: April 3, 2012
To: Honorable Mayor & City Council
From: Christian Di Renzo, Senior Management Analyst
Subject: Water Utility Operations and Revenue Requirements for FY 2012/13 and 2013/14
Attachments: 1. Raftelis Financial Consultants, Inc. Water Rate Study

INTRODUCTION

This report was prepared with the intent of describing the operating activities and corresponding revenue requirements of the Water Utility ("Utility") and summarize the results of the water cost of service and rate study conducted by Raftelis Financial Consultants, Inc. ("Raftelis") for fiscal years 2012/13 and 2013/14.

WATER DISCUSSION

The City of Beverly Hills' ("City") municipal water system was established in 1923 with the acquisition of the water rights and facilities from the Beverly Hills Utilities Corporation, a subsidiary of the Rodeo Land and Water Company, the original developer of the City. In December of 1928 the City became an original member of the Metropolitan Water District of Southern California ("Metropolitan") following a vote of the City electorate. The City provides clean, safe and reliable water service to residents and commercial establishments throughout the City as well as approximately 11,000 residents of the City of West Hollywood¹. The primary source of water supply for the City is purchased from the Metropolitan while 10% is obtained through locally pumped groundwater.

The Utility operates with a staff of 25 dedicated Full Time Equivalent (FTE's) who engage in the multitude of annual activities necessary to administer four groundwater wells, operate a reverse osmosis treatment plant, rotate upwards of 1,000 valves, perform leak detection on 50 miles of pipes, and take more than 4,000 water quality samples. The water system consists of the following major components:

- 10 reservoirs for a total storage capacity of close to 40 million gallons
- 4 groundwater wells
- 2 service connections to Metropolitan

¹ 2010 Urban Water Management Plan dated August 2011
Page 1 of 9

- 184 miles of pipeline
- 1 reverse osmosis treatment plant capable of producing a maximum annual yield of 2,687 acre feet

As an enterprise fund, the Utility does not rely on tax revenues to support its system's operations. The Water Fund is solely dependent on user charges and fees to fund its operations, maintenance and long-term obligations related to the water system. Similar to most municipal water utilities around the country, the Utility operates a water system in an environment that presents continual challenges. The need for capital investment in the water system, debt service obligations, and the ongoing increases in the cost of purchased water from Metropolitan is placing significant pressure on finances. These factors will continue to impact the system for the foreseeable future; therefore at this time it is necessary to develop a detailed forecast of the true cost of operating and maintaining the water system to establish the appropriate level of rates, fees and charges to ensure the continued financial health and stability of the Water Fund.

REVENUE REQUIREMENTS

The revenue requirement of the Water Fund is the total amount of revenue that the Utility must collect in order to meet its operations and maintenance (O&M) expenses, water supply purchases, debt service payments and rate-financed CIP expenditures. The gross revenue requirements (that is, the total cash needed for the water system) can be classified into two major categories:

1. Operating Costs:

- Operating and maintenance expenses (day-to-day operations)
- O&M reserve contributions

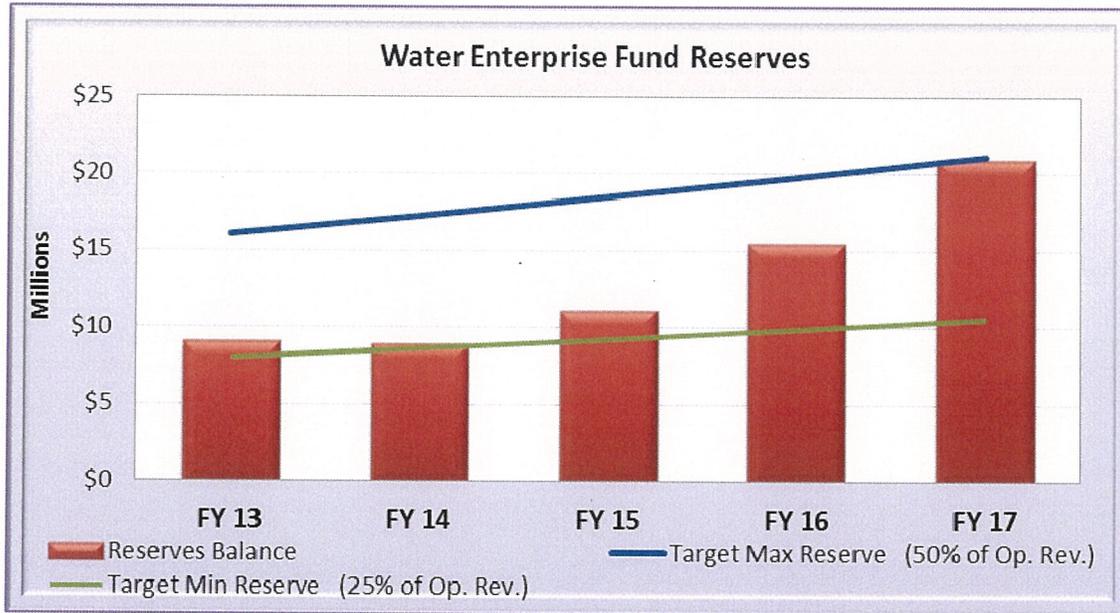
2. Capital Costs:

- Existing debt service and debt coverage ratio of 125% (annual principal and interest payments)
- Projected new debt service, if any
- Cash-funded capital projects

An O&M reserve is important to provide funds for unplanned capital repair or fluctuations in operating cash. This type of reserve is also valuable during unusually wet or dry years, which could result in reduced revenues due to lower than anticipated consumption levels. As these reserves accumulate, they could possibly be used in future years to offset, decrease or defer rate increases. O&M reserves are typically established as a percentage of a system's O&M budget and considered an important investment grade financial metric. Within the Water Fund anticipated unrestricted cash in FY 2012/13 totals approximately \$10 million and holds relatively steady through FY 13/14 suggesting the rate increase is sufficient to cover the various operating obligations, but not increase fund balance. The following graph projects fund balance estimates through FY 2016/17 (assuming annual increases of 7% throughout the five-year plan) when the fund would finally reach the 50% operating revenue reserve target considered optimal per the City's policies.

Attachment 1

Operating Fund Balance					
	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Water Enterprise Fund					
Reserves Balance	\$ 9,742,440	\$ 9,620,363	\$ 11,848,739	\$ 16,211,236	\$ 21,746,751
Target Max Reserve (50% of Op. Rev.)	\$ 16,092,211	\$ 17,249,039	\$ 18,515,456	\$ 19,779,600	\$ 21,160,151
Target Min Reserve (25% of Op. Rev.)	\$ 8,046,105	\$ 8,624,520	\$ 9,257,728	\$ 9,889,800	\$ 10,580,076



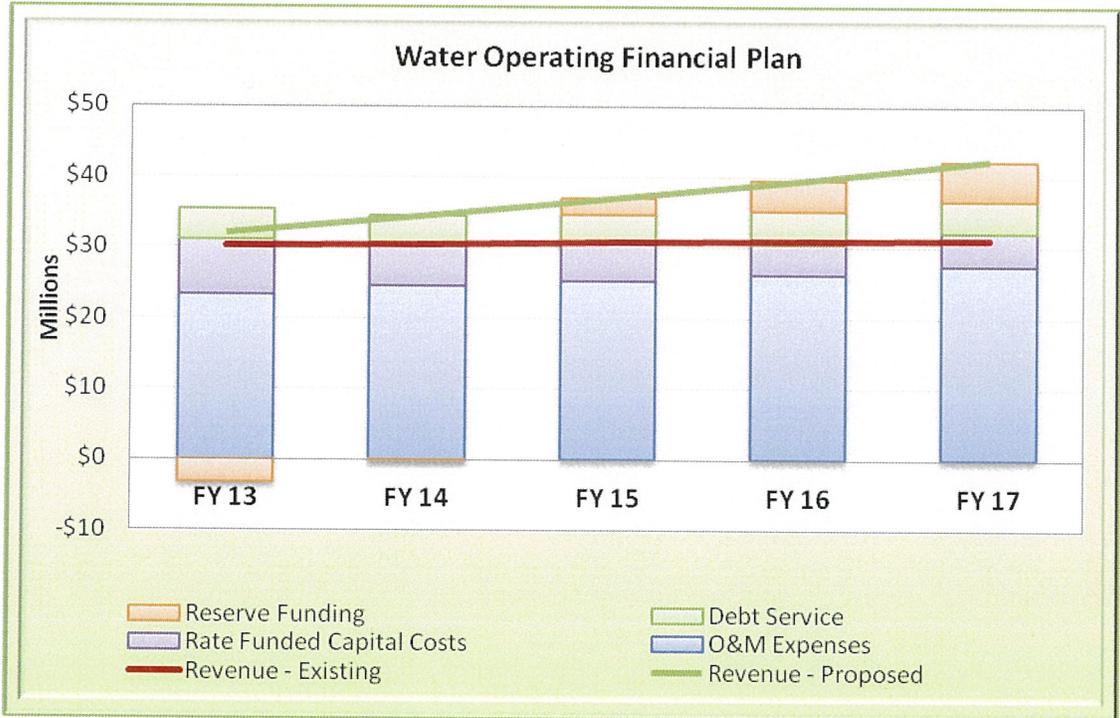
Cost savings from reduced water usage may result from conservation, but the reduction is not a 1:1 relationship. Most costs associated with operating the utility are fixed, such as debt service and payroll. There are also variable operating costs such as electricity and chemicals. Reduced water consumption affects energy and chemical costs; but, these two items tend to be largely fixed over a broad range of demand. Fixed and variable costs are typically recovered through usage cost-of-service rates; therefore, we risk under recovering the revenue needed to pay for these costs if we do not carefully integrate the anticipated use reductions in our financial planning and rate setting. The following five-year financial plan indicates a drawdown of reserves as the Utility completes significant capital projects (namely \$4 million in main replacements and the replacement of reservoirs 4B and 7 and retrofitting of 4A).

The two most significant contributions to the operating budget are internal service fund charges (ISF) and the water purchase line item making up a combined total of 70% of the budget. Salaries and benefits represent approximately 13% of the budget and no new personnel have been added to the Water Division over the past three years. For FY 2011/12 ISF charges amount to \$7.2 million while close to \$9.3 million is budgeted for water purchase costs. Close to \$4 million of the ISF charges are attributable to four programmatic areas as reflected on the next page.

The next page as includes a Water Operating Financial Plan graph meant to summarize the fiscal condition of the fund over the next five years with the assumption of a 7% rate increase throughout each year.

	Budgeted Fiscal Year 11/12	Projected Fiscal Year 11/12
Projected Revenues		
Service Charges	27,395,638	26,005,930
Interest Earnings	395,090	464,257
Lease of Property	9,430	8,200
Rent - New Facility	849,390	851,994
Subsidy from MWD	325,000	325,000
Sale of Unused Property	-	-
Miscellaneous	62,513	54,318
Operating Revenues	29,037,061	27,709,699
Projected Expenses		
Personnel Services	3,140,865	3,095,900
Materials and Supplies	1,834,407	2,182,387
Purchased Water	9,269,000	9,269,000
Contractual Services	1,141,479	1,239,415
Internal Service Fund Charge	6,120,403	-
ISF Charges	-	6,120,366
CIP Mgmt / Project Admin	-	1,025,837
Depreciation and Amortizatio	3,548,006	3,546,806
Debt Service Interest	3,061,493	3,139,877
Capital Outlay	-	-
Miscellaneous Expenses	42,352	715,418
Operating Expense	28,158,005	30,335,007
Net from Operations	879,056	(2,625,308)

PW Administration: \$1.7 million
 Admin. Services: \$1.2 million
 Policy & Management: \$615,000
 City Attorney: \$415,000



PROPOSED RATES AND CUSTOMER IMPACT

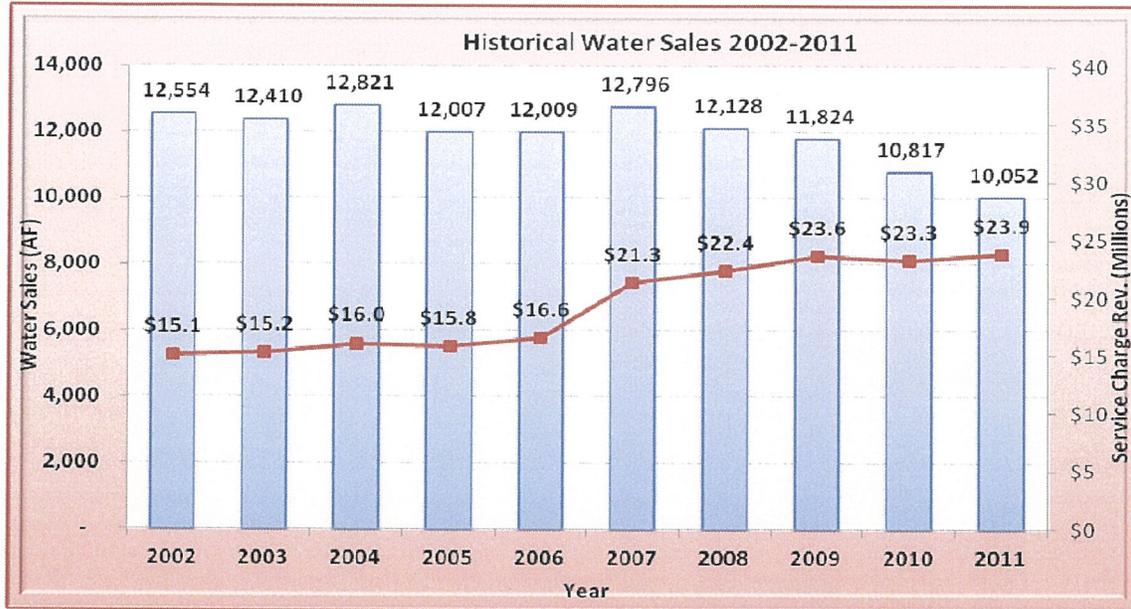
City staff, with assistance from Raftelis, recommends that the overall rates be adjusted for the Water Fund by 7% for FY 2012/13 and 7% for FY 2013/14. The City adopted increases of 15% for FY 2010/11 and FY 2011/12 which were helpful in mitigating the adverse impacts of declining water sales during those years and the considerable increase in water purchase costs. During FY 2009/10 and FY 2010/11 the Utility experienced an increase to its annual water purchase budget of \$825,000. Both FY 2008/09 and 2009/10 experienced a rate increase of 8%.

The current water rate structure includes a fixed charge and a commodity charge (billed in units; one unit of water equals 748 gallons) based on metered water usage. The fixed charges and commodity rates vary depending on customer class. Additionally, the single family residential class includes commodity charges that increase within designated usage blocks or Tiers. The proposed rates would collect approximately 12.2% of revenues from the fixed portion of the rate structure. As a result, the Water Fund is guaranteed this approximated amount of the total revenues regardless of water usage. The City provides service to customers in West Hollywood as well. These customers are charged a modest surcharge of 25% (on both volumetric sales and fixed charges) due to incremental costs associated with operating outside of the city's boundaries.

The Utility generates the vast majority of its revenues (approximately 80.2%) from the sale of water. However, current trends promoting conservation and water efficiency have resulted in reductions in water sales (and projected future decline as a result of compliance with SBx7-7, i.e. 20% reduction in urban water usage by 2020²) impacting the ability of the Utility to fund the operations and maintenance of the system. Over the past two years, the decline in usage is largely attributed to economic and state-wide drought conditions (both weather and regulatory related). Governor Schwarzenegger declared a state-wide drought on June 4, 2008. As a result, mandatory water restrictions and water conservation efforts were put in place which had a pronounced impact on water usage within the City. The drought declaration was rescinded on March 29, 2011, by Governor Brown and by the City Council two weeks later.

As illustrated in the following table water sales have been trending downward since 2007. In fact, sales in 2011 were 21% lower than 2007.

² The base year for the City's calculation is 1990. There is an interim target of 10% reduction by 2015 which the City readily achieved last fiscal year. The 20% reduction corresponds to 228 GPCD (gallons per capita daily).



The City currently charges the fixed charge on a per meter basis. This is a very common approach within the industry. The size of a customer’s meter represents the potential demand that they can place on the water system (i.e. a residential 5/8” meter can only demand so much water from the system, whereas a 6” meter can demand significantly more water). As a result it costs more to maintain the water supply for a larger meter and it also costs significantly more to replace and maintain a larger meter. Impacts to the fixed meter charge and commodity rate are indicated below.

Current & Proposed Rates

Inside City Rates

Bi-Monthly Service Charge

Meter Size	Current FY 2012	Proposed FY 2013	Proposed FY 2014
1" or less	\$ 35.17	\$ 40.49	\$ 43.32
1 1/2"	\$ 60.46	\$ 70.18	\$ 75.09
2"	\$ 90.80	\$ 105.81	\$ 113.22
3"	\$ 161.61	\$ 188.94	\$ 202.17
4"	\$ 262.76	\$ 307.70	\$ 329.24
6"	\$ 515.63	\$ 604.60	\$ 646.92

Outside City Rates

Bi-Monthly Service Charge

Meter Size	Current FY 2012	Proposed FY 2013	Proposed FY 2014
1" or less	\$ 43.96	\$ 50.61	\$ 54.16
1 1/2"	\$ 75.58	\$ 87.73	\$ 93.87
2"	\$ 113.50	\$ 132.26	\$ 141.52
3"	\$ 202.01	\$ 236.18	\$ 252.71
4"	\$ 328.45	\$ 384.63	\$ 411.55
6"	\$ 644.54	\$ 755.75	\$ 808.65

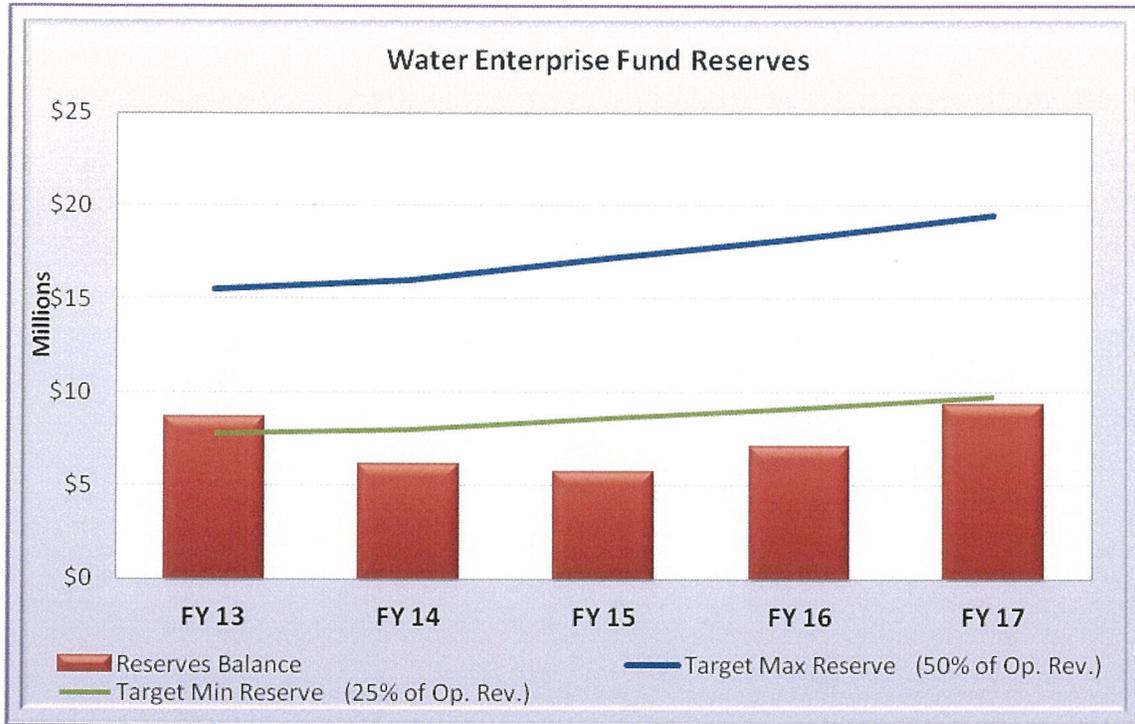
Current & Proposed Rates							
<u>Quantity Charge (in 100 cu ft , ccf)</u>				<u>Quantity Charge (in 100 cu ft , ccf)</u>			
Single Family Residential Rates & Duplexes (SFR)				Single Family Residential Rates & Duplexes (SFR)			
Bi-Monthly Tiers and Units	Current FY 2012	Proposed FY 2013	Proposed FY 2014	Bi-Monthly Tiers and Units	Current FY 2012	Proposed FY 2013	Proposed FY 2014
Tier 1 - 1 to 10	\$ 3.17	\$ 3.29	\$ 3.52	Tier 1 - 1 to 10	\$ 3.97	\$ 4.11	\$ 4.40
Tier 2 - 11 to 55	\$ 4.12	\$ 4.36	\$ 4.67	Tier 2 - 11 to 55	\$ 5.15	\$ 5.45	\$ 5.83
Tier 3 - 56 to 120	\$ 6.41	\$ 6.87	\$ 7.35	Tier 3 - 56 to 120	\$ 8.01	\$ 8.59	\$ 9.19
Tier 4 - 121 & up	\$ 12.22	\$ 13.27	\$ 14.20	Tier 4 - 121 & up	\$ 15.28	\$ 16.59	\$ 17.75
Multi Family Residential Rates (MFR)				Multi Family Residential Rates (MFR)			
1 to 4	\$ 3.17	\$ 3.29	\$ 3.52	1 to 4	\$ 3.97	\$ 4.11	\$ 4.40
5 to 9	\$ 4.12	\$ 4.36	\$ 4.67	5 to 9	\$ 5.15	\$ 5.45	\$ 5.83
10 to 16	\$ 6.41	\$ 6.87	\$ 7.35	10 to 16	\$ 8.01	\$ 8.59	\$ 9.19
17 & up	\$ 12.22	\$ 13.27	\$ 14.20	17 & up	\$ 15.28	\$ 16.59	\$ 17.75
Non Residential Rates				Non Residential Rates			
All Usage	\$ 5.39	\$ 5.63	\$ 6.02	All Usage	\$ 6.74	\$ 7.04	\$ 7.53

In developing the rates several pricing goals and objectives were viewed in light of the Utility's overall strategies. There are several objectives that were identified to be keys for the study which are listed below in order of importance.

- 1) *Cost of Service Recovery* - The rate structure must provide the revenues needed to operate the system, provide for capital needs and meet the financial targets for long-term financial health and stability.
- 2) *Minimizing Customer Impact* - The direct impact to City customers should be minimized, realizing that customer retention and continued water usage is critical for the continued health and stability of the water system.
- 3) *Revenue Stability* - To assist in the financial stability within the Water Fund, the rate structure should provide a reasonable amount of revenue stability.
- 4) *Equitable Cost Allocation* - To ensure that users of the water system are charged appropriately for the cost of providing each customer class with water service.
- 5) *Water Conservation* - The wise use of water is a key component of the City's overall strategy for the water system. Therefore the rate structure should continue to encourage water conservation and price water based on the additional costs related to meeting peak demands.

Commission Review of Alternate Increase

On February 9, 2012, staff and Raftelis presented an alternative rate increase of 3% (reflecting an adjustment per CPI only) to the Public Works Commission. The ramification of a 3% increase for FY 2012/13 and 2013/14 to fund reserves is shown below (fiscal years 14/15 through 16/17 reflect a 7% annual increase).



Other Utilities

City staff is not proposing any increases to the rates charged by the Wastewater Fund for FY 2012/13 and FY 2013/14 thanks to its adequate revenues and reserves. It should be noted that a significant reason for this present scenario can be attributed to the City of Los Angeles' Hyperion Treatment Plant. Beverly Hills is one of numerous contracting cities that conveys its wastewater to Hyperion for treatment and, as a result, pays both O&M and capital costs commensurate with the volume of treated wastewater. The City of Los Angeles has curtailed its capital replacement program over the past few years which has allowed the Wastewater Fund to grow its reserves in the meantime. The Solid Waste Utility requires a CPI adjustment of 3% to its residential, commercial, and alley maintenance rates to offset for inflationary increases and personnel costs. The adjustment will not require further City Council approval³. Any increase to the Stormwater Fund's charges require voter approval. This fund operates in a deficit each year (aided most recently by a loan from the Solid Waste Utility) and would not be able to comply with future regulatory obligations unless additional revenues are identified.

FISCAL IMPACT

The recommended increase in water rates is projected to yield approximately \$1.9 million in FY 2012/13 and an additional \$2.1 million in FY 2013/14. The proposed rate increases will contribute towards minimizing the drawdown of fund balance in FY 2012/13 to approximately \$3 million and \$120,000 in FY 2013/14 as it funds the completion of its extraordinary capital investment through PAYGO, satisfies required debt coverage covenants, absorbs increases to its O&M expenditures (and reduced

³ In 2010 City Council approved Ordinance 10-O-2584 which allows for Consumer Price Index adjustments to automatically occur (as part of the annual fees and charges process) beginning July 1, 2012, through July 1, 2016.

water sales), and still manages to maintain a revenue reserve requirement above or close to the minimum 25% balance. Achieving a 50% operating reserve poses a unique challenge for the Water Fund and is a significant contributing factor to the projected rate requirements throughout the five year financial plan. What is a feasible reserve policy that serves a plurality of sound management objectives yet does not pose an unsustainable requirement on the residential and commercial community served by the Utility is perhaps worthy of further discussion.

RECOMMENDATION

This item is submitted for informational purposes and intended to elicit further discussion. No action is being requested until the public hearing and first reading scheduled to occur on May 15, 2012.



David Gustavson
Approved By

Beverly Hills Water Rate Study Update

Executive Summary

March 29, 2012



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March 29, 2012

Christian Di Renzo
Department of Public Works & Transportation
City of Beverly Hills
Beverly Hills, CA 90210

Subject: Executive Summary for Water Rate Study Update

Dear Mr. Christian Di Renzo:

Raftelis Financial Consultants Inc. (RFC) is pleased to present this executive summary report on the Water Rate Study Update (Study or Update) for the City of Beverly Hills (City). This report summarizes the recommendations and findings of the Study.

RFC recommends that the City retains the existing rate structure for all customer classes and implements revenue adjustments of seven (7) percent each for fiscal year (FY) throughout the Study period. The City's reserves are depleted; under the proposed financial plan the City will successfully meet its reserve targets within the five (5) year plan period.

Fiscal Year	Revenue Adjustment
FY 2013 – FY 2017	7%

All assumptions, including all increases in operating and capital costs, purchased water and groundwater projections, etc. were factored into the rates. In addition, the various tables describing the calculation of the rates are included.

We appreciate the assistance you and City staff have provided us during the course of the Study. If you have any questions, please call me at (626) 583-1894.

Sincerely,

Sudhir Pardiwala, Project Manager

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BACKGROUND

In 2008, Raftelis Financial Consultants, Inc. (RFC) reviewed and updated the rate structure of the City of Beverly Hills (City), which consists of a four-tiered increasing water rate structure for single family residences and multiple family residences and a uniform rate structure for non residential customers.

In 2009, the City engaged RFC to update its Water Model (Model) to address challenges arising from increases in Metropolitan Water District (MWD) wholesale rates in the 2009 Calendar Year (CY), usage restrictions, and significant operating and capital costs.

Lastly in 2011, the City engaged RFC to perform an update to its previous Model, incorporating financial data for the most recent fiscal year (FY).

The City faces the following ongoing challenges:

1. A reduction in rate revenues generated due to limited/no growth in the number of accounts (stagnant population), a recent trend of reduced water usage, and conservation mandates requiring additional future reductions in usage;
2. Capital costs associated with the repair and replacement of the City's aging infrastructure; and
3. Maintaining financial stability through adequate reserves funding, and fulfilling the required debt coverage ratios consistent with the City's current debt covenants, financial policies, and general industry practices.

The objectives of the Water Rate Study Update (Study or Update) include successfully funding increased water operating and capital costs and ensuring long-term financial stability; additionally, the rates should continue to promote conservation. In keeping with its practice, the City will implement rates for two (2) years.

PROCESS

RFC utilized an approach that is consistent with industry standards for conducting the Study. The process includes the following steps:

1. Calculation of revenues under existing rates;
2. Identification of revenue requirements);
 - a. Operation and Maintenance (O&M) expenses
 - b. Capital expenses and capital financing
3. Cash flow analysis that compares the revenue under existing rates with the revenue requirements to determine the necessary revenue adjustments;
4. Cost of Service analysis to equitably allocate costs appropriately to customer classes; and
5. Rate structure design and rate calculation to promote conservation.

Based on the City's objectives, RFC has developed a financial plan and conducted a Study that accomplishes the following goals:

- Ensures revenue sufficiency to meet operating and capital expenses;

- Equitably allocates the costs to provide service to the City’s customers; and
- Determines water rates that conform to cost of service principles and promote conservation.

DATA AND ASSUMPTIONS SUMMARY

In order to conduct the Study, RFC compiled current and historical data from the City. This data included number of accounts, billable water usage, MWD’s water supply allocation and rates, operating budgets, and capital improvement projects. The current budgeted data was the starting point for the financial plan. Historical data was used to help determine appropriate escalation factors. The following table shows the key assumptions RFC has used in this Study.

Table 1 – Escalation Factors and Assumptions

	Projected FY 2013	Projected FY 2014	Projected FY 2015	Projected FY 2016	Projected FY 2017
Inflation					
General O&M	4.00%	4.00%	4.00%	4.00%	4.00%
Personnel	3.00%	3.00%	3.00%	3.00%	3.00%
Supplies & Contract Services	2.00%	3.00%	4.00%	4.00%	4.00%
Internal Service Funds	3.50%	3.50%	3.50%	3.50%	3.50%
Capital	3.00%	4.00%	4.00%	4.00%	4.00%
CPI	3.00%	3.00%	3.00%	3.00%	3.00%
Financing Assumptions					
Debt Interest Rate	5.00%	5.00%	5.00%	5.00%	5.00%
Debt Term	30	30	30	30	30
Issuance Cost	2.50%	2.50%	2.50%	2.50%	2.50%
Month of Issue	1	1	1	1	1
Cash Flow Assumptions					
Reserves Target Min (% of Operating Revenues)	25%	25%	25%	25%	25%
Reserves Target Max (% of Operating Revenues)	50%	50%	50%	50%	50%
Reserve Interest Rate	2.00%	3.00%	4.00%	4.00%	4.00%
Required Debt Coverage Ratio	125%	125%	125%	125%	125%

FY 2012 budgeted expenses were used to make projections for future years.

Across many utilities in the industry, maintaining a reserves balance of 45 days (or 12.5 percent) unrestricted cash is adequate; however, Standard and Poor’s (S&P) has established alternative criteria when determining its ratings for utilities. As a general rule of thumb, the S&P has established a reserves balance of 60 to 120 days (or 17 to 33 percent) as ‘Good’ and anything greater than 120 days (or 33 percent) as ‘Strong’. Based on this information, RFC recommends that the City retains its current reserve policies, with an unrestricted reserves level set at a minimum of 25 percent of total operating revenues and a maximum of 50 percent of total operating revenues. This will ensure the City is able to maintain a strong credit rating and continue to be eligible for low-cost future debt financing.

During the forecast period, the City is assumed to have no growth in the number of accounts. In 2009, MWD mandated a water usage cutback on its member agencies in response to drought conditions;

however, that restriction was lifted in April of 2011. Although the number of accounts has remained somewhat constant (2009 Model projected a total 10,686 accounts in FY 2012, the updated Model projects a total of 10,320 accounts in FY 2012), total consumption values have dropped significantly (2009 Model projected approximately 4.9 million hundred cubic feet (ccf) total water consumption, the updated Model projects approximately 4.4 million ccf total water consumption, a drop of over 10 percent). Usage less than the projections shown here could result in a deficit that would need to be mitigated through either higher rates or reduced reserves.

The account and usage data used for the Study are shown in *Table 2*. For the Update, the most recent FY 2011 consumption data was readily available and was thus used as the basis for the Study.

Table 2 – FY 2011 Accounts and Usage Data

	Inside City		Outside City	
	# of Accounts	Usage (ccf)	# of Accounts	Usage (ccf)
Residential - Single	6,010	2,166,171	837	78,394
Residential - Multi	1,141	755,218	330	245,835
Residential - Duplex	233	48,211	251	36,672
Commercial/Industrial	891	744,049	436	159,159
Municipal/Irrigation	170	126,522	21	18,569
Total	8,445	3,840,171	1,875	538,629

The City’s projected groundwater production is estimated to be 1,200 acre-feet (AF) annually during the forecast period. Accounting for reduced water sales due to decreased usage, groundwater production and the estimated unaccountable water loss, the projected annual water purchases from MWD will be approximately 9,500 AF. Water purchase and production data is shown in *Table 3* below.

Table 3 – Water Purchase/Production Projections

Water Production/Purchases in Acre-Feet	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Billable Water Flow	9,952	9,952	9,952	9,952	9,952	9,952
Plus Water Loss	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Total Water Needed (Purchased & Produced)	10,701	10,701	10,701	10,701	10,701	10,701
Groundwater Production	1,273	1,200	1,200	1,200	1,200	1,200
MWD Purchases (acre feet)	9,428	9,501	9,501	9,501	9,501	9,501

Projected increases in MWD water rates are shown in *Table 4* below. MWD’s rates are expected to increase significantly at the start of CY 2013, approximately 9.3 percent, 9.7 percent, 9.6 percent, and zero (0) percent for its Tier 1 full service treated (baseline) rate, Tier 2 full service treated rate, Readiness-to-Serve (RTS) Charge, and Capacity Charge, respectively.

Table 4 – Projected MWD Water Rate Increases

	1/1/2012	1/1/2013	1/1/2014	1/1/2015	1/1/2016	1/1/2017
Projected MWD Rate Increases (% Increase)						
Estimated % Increase (Tier 1)		9.3%	5.1%	0.9%	5.4%	5.5%
Estimated % Increase (Tier 2)		9.7%	3.6%	2.3%	5.1%	5.1%
Estimated % Increase (RTS Charge)		9.6%	5.0%	7.1%	8.3%	9.2%
Estimated % Increase (Capacity Charge)		0.0%	0.0%	1.4%	4.0%	3.8%
Approved/Projected MWD Rates (\$/AF)						
<i>Commodity Rates</i>						
Tier 1 (Baseline)	\$ 794	\$ 868	\$ 912	\$ 920	\$ 970	\$ 1,023
Tier 2	\$ 920	\$ 1,009	\$ 1,045	\$ 1,069	\$ 1,123	\$ 1,180
<i>Fixed Charge</i>						
Readiness-to-Serve Charge (\$millions)	\$ 146	\$ 160	\$ 168	\$ 180	\$ 195	\$ 213
Capacity Charge (\$/cubic foot second)	\$ 7,400	\$ 7,400	\$ 7,400	\$ 7,500	\$ 7,800	\$ 8,100

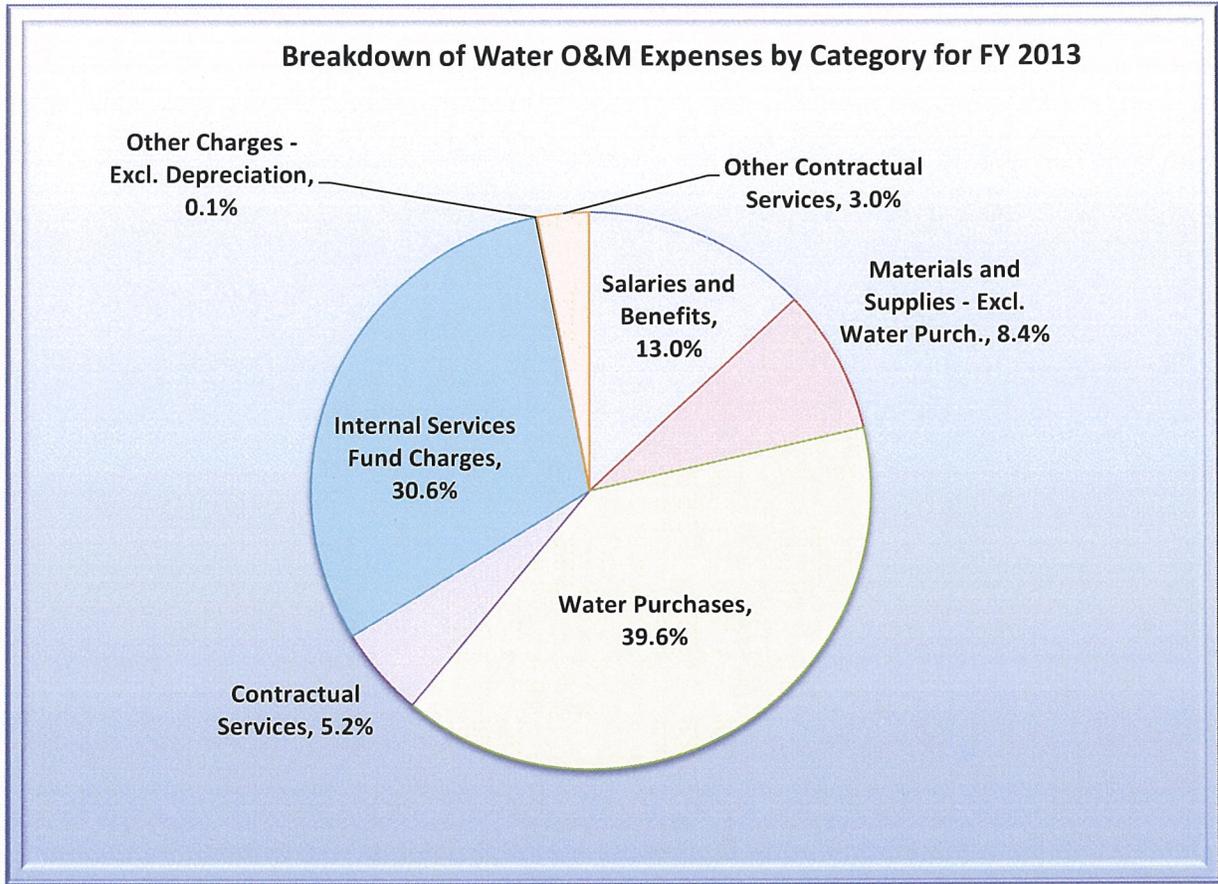
Table 5 shows the projected O&M expenses for the City for the next five (5) years. These projections are based on the City's FY 2012 budget (also shown in the tables below) and the escalation factors shown in Table 1. The O&M expenses shown below are higher than the numbers from the previous 2009 Study, including significant increases in internal service fund charges (budgeted \$7.1 million in FY 2012 in the updated Model as compared to \$5.7 million projected in the 2009 Model). One last thing to note is that expenses associated with water purchases are based off of budgeted numbers.

Table 5 – Operation and Maintenance (O&M) Expenses

	Budgeted	Projected	Projected	Projected	Projected	Projected
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Salaries and Benefits	\$ 3,040,442	\$ 3,131,655	\$ 3,225,605	\$ 3,322,373	\$ 3,422,044	\$ 3,524,705
Materials and Supplies - Excl. Water Purch.	\$ 2,182,387	\$ 2,025,957	\$ 2,086,736	\$ 2,170,205	\$ 2,257,013	\$ 2,347,294
Water Purchases	\$ 9,269,000	\$ 9,594,000	\$ 9,510,056	\$ 9,833,796	\$ 10,199,170	\$ 10,809,892
Contractual Services	\$ 1,233,528	\$ 1,258,199	\$ 1,295,945	\$ 1,347,783	\$ 1,401,694	\$ 1,457,762
Internal Services Fund Charges	\$ 7,146,203	\$ 7,396,320	\$ 7,655,191	\$ 7,923,123	\$ 8,200,432	\$ 8,487,447
Other Charges - Excl. Depreciation	\$ 20,486	\$ 21,305	\$ 22,158	\$ 23,044	\$ 23,966	\$ 24,924
Depreciation	\$ 3,488,648	\$ 3,628,194	\$ 3,773,322	\$ 3,924,255	\$ 4,081,225	\$ 4,244,474
Other Contractual Services	\$ 694,932	\$ 722,729	\$ 751,638	\$ 781,704	\$ 812,972	\$ 845,491
Transfers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL O&M EXPENSES (All - Excl. Depreciation)	\$ 23,586,978	\$ 24,150,166	\$ 24,547,328	\$ 25,402,028	\$ 26,317,292	\$ 27,497,516

The following figure separates O&M expenses for FY 2013 into various cost categories and provides a percentage of total O&M expenses breakdown for those categories.

Figure 1 – Breakdown of Water O&M Expenses by Category for FY 2013



It is important to note that two largest sources of O&M expenses are water purchase costs and internal services fund charges (39.6 percent and 30.6 percent, respectively); these expenses are key factors in the level of necessary water rate adjustments.

Assembly Bill AB 3030 allows water utilities which purchase wholesale water from a provider to “pass-through” increases in wholesale water costs to its ratepayers. Should the City decide to pass through wholesale water rate increases from MWD in the future, the City’s O&M expenses would be adjusted to reflect the separately passed through costs and result in smaller revenue adjustments from remaining expenses.

Table 6 shows the projected Capital Improvement Plan (CIP) for the next five (5) years. CIP included in the current model has been scaled down from before; the 2009 Model included a total \$48.8 million in capital expenses for the FY 2010-2015 Study period, as compared to the current Model which estimates a total of \$31.3 million in capital expenses for the FY 2012-2017 study period.

Table 6 – Capital Improvement Plan– Inflated

CIP #	Project Name	Estimated	Projected	Projected	Projected	Projected	Projected
		FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
***	Project Management	\$ 866,058	\$ 892,040	\$ 927,721	\$ -	\$ 1,003,423	\$ 1,043,560
195	Street Resurfacing	\$ 275,000	\$ 283,250	\$ 294,580	\$ 306,363	\$ 318,618	\$ 331,362
387	Water Main and Hydrant Replacement	\$ 800,000	\$ 3,914,000	\$ 4,070,560	\$ 4,233,382	\$ 2,317,220	\$ 2,409,909
602	Irrigation Upgrades	\$ 141,750	\$ 146,003	\$ 151,843	\$ 157,916	\$ 164,233	\$ 170,802
795	Water Treatment Plant	\$ -	\$ 206,000	\$ -	\$ -	\$ -	\$ 240,991
796	Reservoir Replacement and Repair	\$ 1,600,000	\$ 2,163,000	\$ 267,800	\$ 278,512	\$ 289,652	\$ 301,239
880	Water Facility Improvements	\$ -	\$ -	\$ -	\$ 29,404	\$ -	\$ -
896	Public Works Asset Management System	\$ -	\$ -	\$ -	\$ 29,522	\$ -	\$ -
916	Wells Rehab and Groundwater Development	\$ 100,000	\$ 103,000	\$ 107,120	\$ 111,405	\$ 115,861	\$ 120,495
TOTAL CIP		\$ 3,782,808	\$ 7,707,292	\$ 5,819,624	\$ 5,146,505	\$ 4,209,007	\$ 4,618,359

REVENUE ADJUSTMENTS

RFC reviewed the operating and capital expenses and the revenues under the current rates to determine the revenue adjustments over the planning period.

Revenue requirements for the five (5) year planning period were projected from the City’s FY 2012 budget. The projections indicated that the City needs several rate adjustments over the next few years. As stated previously, factors that significantly drive such rate increases include increases to operating costs (specifically with respect to water purchase costs and internal service fund charges), as well as costs associated with CIP (such as replacement of reservoirs, mains and hydrants). In addition, the City has drawn down reserves to fund operating and capital expenditures in prior years; these reserves need to be replenished to meet the City’s reserve targets and maintain eligibility for future low-cost debt financing. The proposed rate adjustments will be effective in July of each year.

Based on the accounts and usage information shown in *Table 2* and the City’s current water rates, the City is projected to generate approximately \$27.6 million in sales revenues (excluding revenues from fire service charges). Each percentage point increase in FY 2013 is equal to approximately \$276,000 in additional revenues (subsequent rate increases may generate more revenue than the number listed, due to the fact that subsequent revenue adjustments are compounded).

As previously stated, RFC recommends that the City retain its current practice of maintaining an operating reserve balance of up to 50 percent of its total revenues. The City’s reserves are depleted because of the extensive CIP needed to maintain the City’s water system. To adequately ensure financial stability of the City’s water enterprise while minimizing impacts on customers, we recommend the following revenue adjustments over the five (5) year planning period:

FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
7%	7%	7%	7%	7%

As per the City’s current debt covenants, the City is required to maintain net adjusted revenues (total revenues less operating expenses) equal to no less than 125 percent of the City’s net annual debt service (for both existing and additional proposed debt); under the proposed plan, the City will meet the debt coverage requirement of 125 percent each year. *Figure 2* shows the revenue adjustments and debt

coverage levels for each year of the planning period. As shown, the revenues projected to be generated from rates are sufficient to maintain the required 125 percent debt coverage ratio each year.

Figure 2 – Revenue Adjustments and Debt Coverage

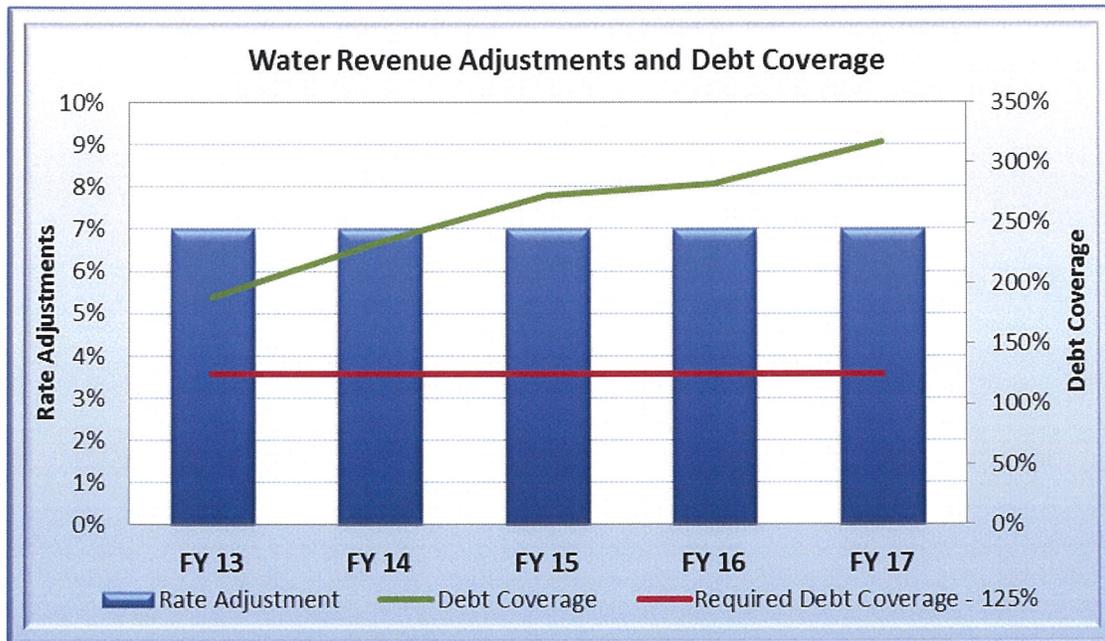


Figure 3 shows the water enterprise reserve levels (alternatively, Table 7 provides ending reserve balances and target reserve levels in a numerical format). The reserve is being depleted in the early years to fund capital projects. The City should gradually replenish its reserves so that they meet target levels by the end of the five (5) year planning period. This will be accomplished from revenues generated from the proposed rates.

Figure 3 – Water Enterprise Fund Reserves

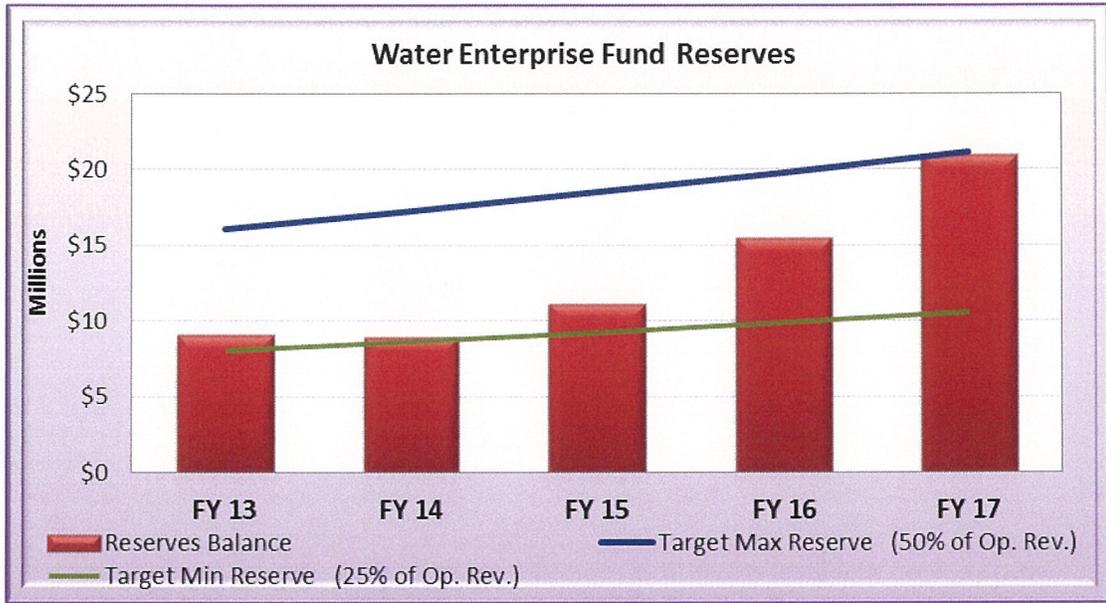
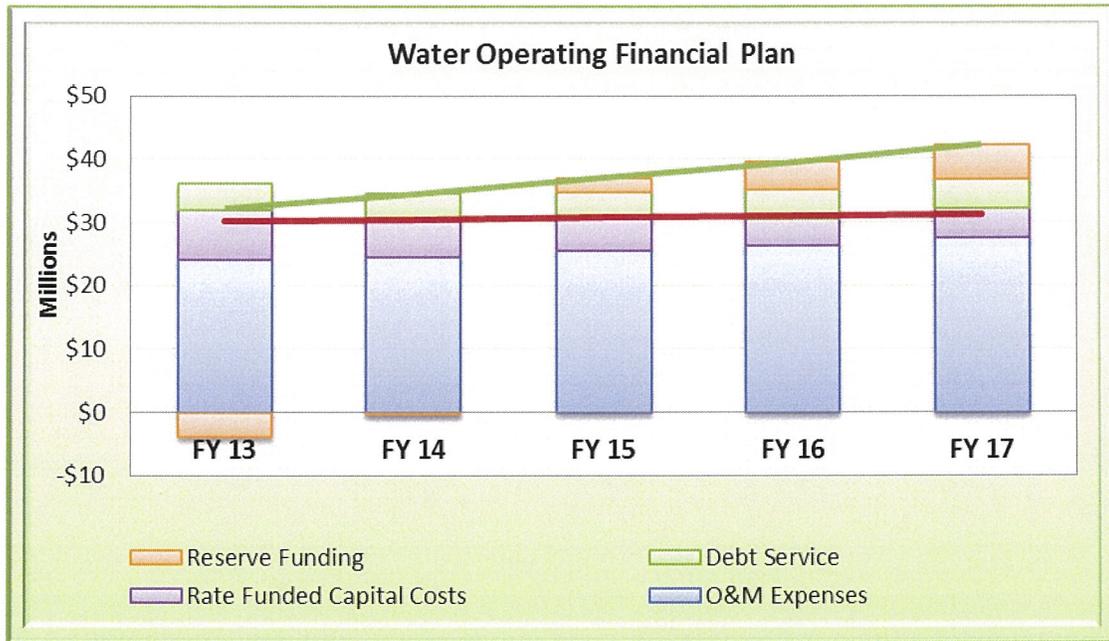


Table 7 – Water Enterprise Fund Reserves

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Water Enterprise Fund					
Reserves Balance	\$ 8,991,908	\$ 8,846,972	\$ 11,043,781	\$ 15,373,423	\$ 20,874,742
Target Max Reserve (50% of Op. Rev.)	\$ 16,088,458	\$ 17,237,610	\$ 18,499,673	\$ 19,763,172	\$ 21,143,053
Target Min Reserve (25% of Op. Rev.)	\$ 8,044,229	\$ 8,618,805	\$ 9,249,836	\$ 9,881,586	\$ 10,571,527

The total projected revenue requirements for the City, which include projected O&M expenses, debt service, rate funded capital costs, revenues under existing and proposed rates, as well as the replenishment of reserve funds are shown in *Figure 4*. One thing to note is that negative reserve funding levels indicate that the proposed revenues generated are inadequate in meeting revenue requirements, and as a result reserve levels are being drawn down.

Figure 4 –Water Operating Financial Plan



COST OF SERVICE

The Cost of Service is developed to recover all revenue requirements needed from the City’s users. The cost of service allocations in this Study are based on the Base-Extra Capacity method endorsed by the American Water Works Association (AWWA), a nationally recognized industry group. Under the Base-Extra Capacity method, revenue requirements are allocated to different user classes proportionately to their use of the water system. Allocations are based on average day usage (Base), maximum day (Max Day) usage, maximum hour peak (Max Hour) usage, meter services and billing and collection. For this Study, RFC used the same peaking factors that were used in the previous Study for each customer class.

PROPOSED RATES

RFC recommends that the City retain the use of a rate structure that includes both a fixed bi-monthly service charge and a quantity or quality charge.

Service Charge:

RFC suggests that the City continue to utilize a bi-monthly service charge varying by meter size. The service charge is composed of a fixed customer billing charge that is constant for all meters and a meter charge that varies with the capacity of the meter.

Quantity Charge:

Single Family Residences (SFR): RFC recommends retaining the same four-tiered rate structure and tier widths for single family customers. The bi-monthly tiers and usage levels in each tier are:

	Water Usage (ccf)		% of Usage in the Block	% of Bills in the Block
	From	To		
Tier 1	0	10	16.1%	7.5%
Tier 2	11	55	46.6%	56.0%
Tier 3	56	120	23.1%	25.5%
Tier 4	121	& Up	14.2%	11.0%

Multiple Family Residences (MFR): The rate structure for multi family customers will not change as well. The bi-monthly tiers and usage levels in each tier are (usage levels are based off of the bill frequency provided in the 2009 Model since there was insufficient information regarding the number of multi family equivalent dwelling units (EDUs) to develop a new bill frequency):

	Water Usage (ccf)		% of Usage in the Block	% of Bills in the Block
	From	To		
Tier 1	0	4	30.8%	3.0%
Tier 2	5	9	33.2%	32.7%
Tier 3	10	16	22.5%	42.0%
Tier 4	17	& Up	13.5%	22.3%

Non Residential: RFC recommends continuing a uniform rate for non-residential customers.

Outside City Customers: RFC projections are based on the City retaining the current outside city rate differential of 125 percent versus inside city rates.

Fire Service: RFC recommends that the City continue to escalate the fire service charge by the projected Consumer Price Index (CPI) factors.

Table 8 and *Table 9* show the proposed rates for the first two years of the plan period. *Table 10* and *Table 11* show the proposed rates for fire service. The proposed fire service rates for FY 2013 and FY 2014 are based on a CPI of three (3) percent (CPI shown in *Table 1*).

Table 8 – Proposed Rates for FY 2013 and FY 2014 - Inside City Rates

Bi-Monthly Service Charge

Meter Size	Current FY 2012	Proposed FY 2013	Proposed FY 2014
1" or less	\$ 35.17	\$ 40.49	\$ 43.32
1 1/2"	\$ 60.46	\$ 70.18	\$ 75.09
2"	\$ 90.80	\$ 105.81	\$ 113.22
3"	\$ 161.61	\$ 188.94	\$ 202.17
4"	\$ 262.76	\$ 307.70	\$ 329.24
6"	\$ 515.63	\$ 604.60	\$ 646.92

Quantity Charge (in 100 cu ft , ccf)

Single Family Residential Rates & Duplexes (SFR)

Bi-Monthly Tiers	Current FY 2012	Proposed FY 2013	Proposed FY 2014
1 to 10	\$ 3.17	\$ 3.29	\$ 3.52
11 to 55	\$ 4.12	\$ 4.36	\$ 4.67
56 to 120	\$ 6.41	\$ 6.87	\$ 7.35
121 & up	\$ 12.22	\$ 13.27	\$ 14.20

Multi Family Residential Rates (MFR)

1 to 4	\$ 3.17	\$ 3.29	\$ 3.52
5 to 9	\$ 4.12	\$ 4.36	\$ 4.67
10 to 16	\$ 6.41	\$ 6.87	\$ 7.35
17 & up	\$ 12.22	\$ 13.27	\$ 14.20

Non Residential Rates

All Usage	\$ 5.39	\$ 5.63	\$ 6.02
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Table 9 – Proposed Rates for FY 2013 and FY 2014 - Outside City Rates

Bi-Monthly Service Charge

Meter Size	Current FY 2012	Proposed FY 2013	Proposed FY 2014
1" or less	\$ 43.96	\$ 50.61	\$ 54.16
1 1/2"	\$ 75.58	\$ 87.73	\$ 93.87
2"	\$ 113.50	\$ 132.26	\$ 141.52
3"	\$ 202.01	\$ 236.18	\$ 252.71
4"	\$ 328.45	\$ 384.63	\$ 411.55
6"	\$ 644.54	\$ 755.75	\$ 808.65

Quantity Charge (in 100 cu ft , ccf)**Single Family Residential Rates & Duplexes (SFR)**

Bi-Monthly Tiers	Current FY 2012	Proposed FY 2013	Proposed FY 2014
1 to 10	\$ 3.97	\$ 4.11	\$ 4.40
11 to 55	\$ 5.15	\$ 5.45	\$ 5.83
56 to 120	\$ 8.01	\$ 8.59	\$ 9.19
121 & up	\$ 15.28	\$ 16.59	\$ 17.75

Multi Family Residential Rates (MFR)

1 to 4	\$ 3.97	\$ 4.11	\$ 4.40
5 to 9	\$ 5.15	\$ 5.45	\$ 5.83
10 to 16	\$ 8.01	\$ 8.59	\$ 9.19
17 & up	\$ 15.28	\$ 16.59	\$ 17.75

Non Residential Rates

All Usage	\$ 6.74	\$ 7.04	\$ 7.53
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*Table 10 – Proposed Rates for Fire Service for FY 2013 and FY 2014 – Inside City Rates***Fire Protection Service Charge**

Meter Size	Current FY 2012	Proposed FY 2013	Proposed FY 2014
2"	\$ 23.93	\$ 24.65	\$ 25.39
2 1/2"	\$ 35.70	\$ 36.77	\$ 37.87
3"	\$ 52.00	\$ 53.56	\$ 55.17
4"	\$ 100.43	\$ 103.44	\$ 106.55
6"	\$ 274.25	\$ 282.48	\$ 290.95
8"	\$ 574.05	\$ 591.27	\$ 609.01
10"	\$ 1,025.00	\$ 1,055.75	\$ 1,087.42

Table 11 – Proposed Rates for Fire Service for FY 2013 and FY 2014 –Outside City Rates

Meter Size	Current FY 2012	Proposed FY 2013	Proposed FY 2014
2"	\$ 29.91	\$ 30.81	\$ 31.73
2 1/2"	\$ 44.63	\$ 45.96	\$ 47.34
3"	\$ 65.01	\$ 66.95	\$ 68.96
4"	\$ 125.54	\$ 129.30	\$ 133.18
6"	\$ 342.82	\$ 353.10	\$ 363.69
8"	\$ 717.56	\$ 739.09	\$ 761.26
10"	\$ 1,281.25	\$ 1,319.69	\$ 1,359.28

RECOMMENDATIONS

RFC recommends that the City adopt the proposed rates for the planning period shown above. The City will build its reserves to the appropriate target levels over the five (5) year plan. In addition, the City should review its rates in two (2) years to ensure that financial conditions have not changed, taking into considerations changes to capital costs, as well as fluctuations in revenues due to changes in consumption patterns.

CUSTOMER IMPACTS

Before implementing any rate structure recommendations, it is important to understand the impacts on customers. RFC worked with City staff to ensure that the new rate structure would recover the necessary revenues while at the same time maintaining manageable customer impacts.

Since residential customers represent a large part of the City's customer base, RFC has developed the following tables and figures that demonstrate the impacts of the proposed rates for FY 2013 across varying usage levels.

Table 12 shows the rate impacts on customers at varying usage levels as well as the percentage of bills which fall within that level. Both the dollar and percentage impacts increase with usage level. The table also highlights the impacts on customers with an average usage of 70 ccf bi-monthly. *Table 13* shows the comparison of bills based on existing and proposed rates for different customer classes under average bi-monthly water usage conditions (average water usage varies with customer class). This bill comparison takes into account both water and wastewater bills (from the *Beverly Hills Wastewater Rate Study Update Executive Summary 2012*, no revenue adjustments are necessary the five (5) year planning period from FY 2012-2017).

Figure 5 shows a graphical representation of the level of rate increases experienced by residential customers with a 1-inch or smaller meter. The red line represents the percentage change in bi-monthly bills and the blue area represents the percentage of bills at each level of usage for residential customers with a 1-inch or smaller meter.

Table 12 – Customer Impacts – Inside City SFR/Duplex Customers

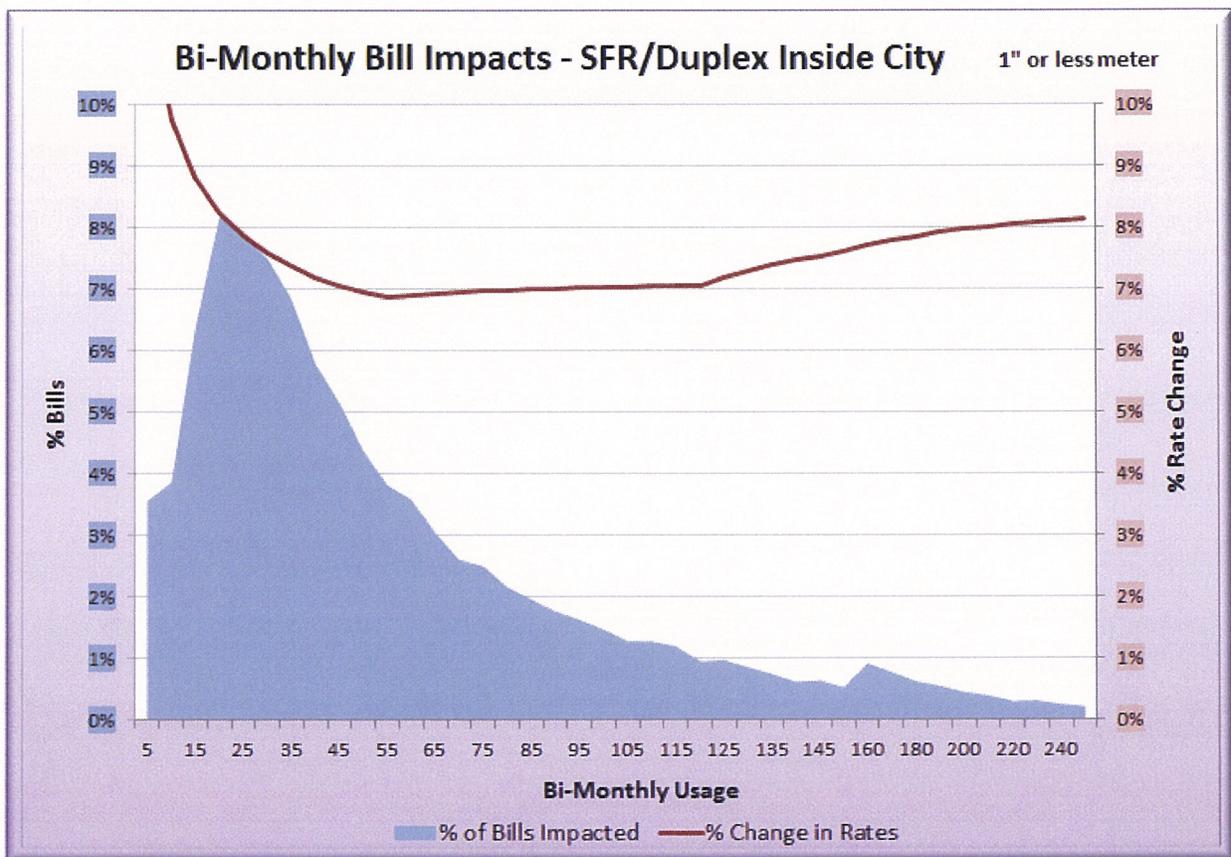
Bi-Monthly Usage (hcf)	Existing	Proposed	% Change	\$ Change	% of Bills in the Block
5	\$ 51.02	\$ 56.94	12%	\$ 5.92	3.57%
10	\$ 66.87	\$ 73.39	10%	\$ 6.52	3.87%
15	\$ 87.47	\$ 95.19	9%	\$ 7.72	6.41%
20	\$ 108.07	\$ 116.99	8%	\$ 8.92	8.21%
25	\$ 128.67	\$ 138.79	8%	\$ 10.12	7.89%
30	\$ 149.27	\$ 160.59	8%	\$ 11.32	7.50%
35	\$ 169.87	\$ 182.39	7%	\$ 12.52	6.84%
40	\$ 190.47	\$ 204.19	7%	\$ 13.72	5.79%
45	\$ 211.07	\$ 225.99	7%	\$ 14.92	5.16%
50	\$ 231.67	\$ 247.79	7%	\$ 16.12	4.38%
55	\$ 252.27	\$ 269.59	7%	\$ 17.32	3.82%
60	\$ 284.32	\$ 303.94	7%	\$ 19.62	3.59%
65	\$ 316.37	\$ 338.29	7%	\$ 21.92	3.05%
70	\$ 348.42	\$ 372.64	7%	\$ 24.22	2.61%
75	\$ 380.47	\$ 406.99	7%	\$ 26.52	2.51%
80	\$ 412.52	\$ 441.34	7%	\$ 28.82	2.17%
85	\$ 444.57	\$ 475.69	7%	\$ 31.12	1.97%
90	\$ 476.62	\$ 510.04	7%	\$ 33.42	1.77%
95	\$ 508.67	\$ 544.39	7%	\$ 35.72	1.64%
100	\$ 540.72	\$ 578.74	7%	\$ 38.02	1.48%
105	\$ 572.77	\$ 613.09	7%	\$ 40.32	1.28%
110	\$ 604.82	\$ 647.44	7%	\$ 42.62	1.28%
115	\$ 636.87	\$ 681.79	7%	\$ 44.92	1.21%
120	\$ 668.92	\$ 716.14	7%	\$ 47.22	0.96%
125	\$ 730.02	\$ 782.49	7%	\$ 52.47	0.98%
130	\$ 791.12	\$ 848.84	7%	\$ 57.72	0.86%
135	\$ 852.22	\$ 915.19	7%	\$ 62.97	0.75%
140	\$ 913.32	\$ 981.54	7%	\$ 68.22	0.62%
145	\$ 974.42	\$ 1,047.89	8%	\$ 73.47	0.65%
150	\$ 1,035.52	\$ 1,114.24	8%	\$ 78.72	0.54%
160	\$ 1,157.72	\$ 1,246.94	8%	\$ 89.22	0.93%
170	\$ 1,279.92	\$ 1,379.64	8%	\$ 99.72	0.79%
180	\$ 1,402.12	\$ 1,512.34	8%	\$ 110.22	0.63%
190	\$ 1,524.32	\$ 1,645.04	8%	\$ 120.72	0.56%
200	\$ 1,646.52	\$ 1,777.74	8%	\$ 131.22	0.46%
210	\$ 1,768.72	\$ 1,910.44	8%	\$ 141.72	0.40%
220	\$ 1,890.92	\$ 2,043.14	8%	\$ 152.22	0.31%
230	\$ 2,013.12	\$ 2,175.84	8%	\$ 162.72	0.32%
240	\$ 2,135.32	\$ 2,308.54	8%	\$ 173.22	0.26%
250	\$ 2,257.52	\$ 2,441.24	8%	\$ 183.72	0.22%

Table 13 – Customer Impacts for Different Customer Classes

	Bi-Monthly Utility Bills				
	Avg. Usage (ccf)	Current	Proposed	Increase	
		Total Current Bill	Total Proposed Bill	% Increase	\$ Increase
Single Family/Duplex 1" meter (Inside City)	70	\$ 435.80	\$ 460.02	6%	\$ 24.22
Single Family/Duplex 2" meter (Inside City)	150	\$ 1,178.53	\$ 1,266.94	8%	\$ 88.41
MultiFamily 1" meter (Inside City) 13.3 ccf/unit	13.3	\$ 183.39	\$ 192.37	5%	\$ 8.98
Non Residential 1" meter (Inside City)	40	\$ 474.57	\$ 489.49	3%	\$ 14.92
Non Residential 2" meter (Inside City)	500	\$ 5,190.00	\$ 5,325.01	3%	\$ 135.01

From Table 13, it can be concluded that all 1-inch and 2-inch customers who have average bi-monthly usage will see proposed bill increases no greater than roughly eight (8) percent. Multi family and non residential customers will see smaller percentage increases in their total bills, primarily due to the fact that their sewer bill is a much larger percentage of the total bill (there are no proposed changes to sewer rates).

Figure 5 – Bi-Monthly Bill Impacts – SFR/Duplex Inside City



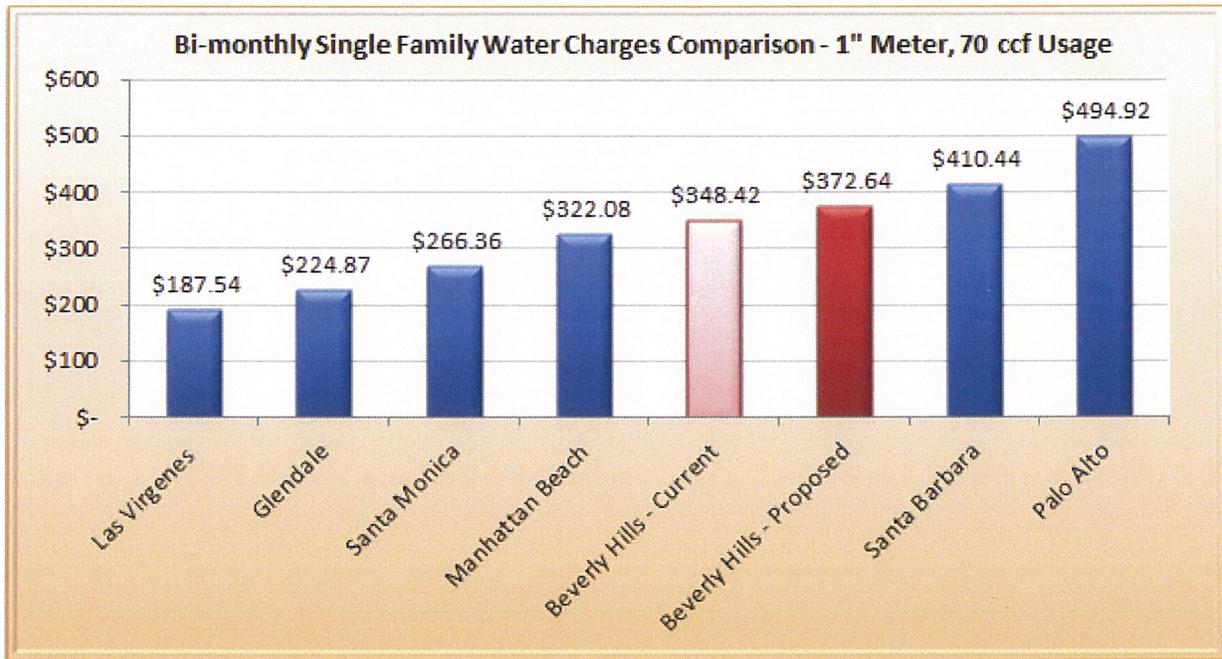
From *Figure 5*, the greatest percentage of bills for single family residential users with a 1-inch or smaller meter fall within 15-20 ccf of bi-monthly water usage (roughly 8.2 percent of all bills). For the customers which fall into this category, their total water bills will increase by roughly eight (8) percent.

RATE SURVEY

Comparing water rates with other representative communities can provide insights into a utility’s pricing policies related to water service. Care should be taken, however, in drawing conclusions from such a comparison. High rates may not mean the utilities are operated and managed poorly. Many factors affect the level of costs and the pricing structure employed to recover those costs. Some of the most prevalent factors include geographic location, demand, water source, customer constituency, level of treatment, level of grant funding, age of system, level of general fund subsidization, and rate-setting methodology.

Figure 6 compares bi-monthly bills under existing and proposed rates to other bills within the region, using regional charges that will be in effect at the time of the City’s rates increase. In order to provide a meaningful comparison, all bills are calculated on a bi-monthly basis for an SFR customer using a 1” meter and an assumed bi-monthly usage of 70 hundred cubic feet, which is the average usage for SFR customers in the City. From the figure, the City’s bi-monthly residential water charge is still comparable to other agencies even after the rate adjustments.

Figure 6 – Bi-monthly Single Family Water Charges Comparison – 1” Meter, 70 CCF Usage



APPENDIX

Alternative #1: CPI Increases

The following section describes the results of the financial plan associated with CPI rate increases (three (3) percent each year over the five (5) year planning period as shown in *Table 1*). All other data assumptions and methodologies used to develop the financial plan and associated rates in the previous sections remain the same.

Figure 7 below shows the proposed revenue adjustments and resulting debt coverage for the City’s water enterprise. In this alternative scenario, the smaller revenue adjustments result in lower debt coverage ratios which gradually decrease throughout the planning period (from 162 percent in FY 2013 to 159 percent in FY 2017). However, under the alternative scenario, the City is still able to maintain the required 125 percent debt coverage ratio; this can be attributed to the fact that a significant portion of the City’s expenses are related to capital, and thus the City is required to maintain a significant net adjusted revenue to be able to fund such capital costs.

Figure 7 – Water Revenue Adjustments and Debt Coverage – CPI Increases

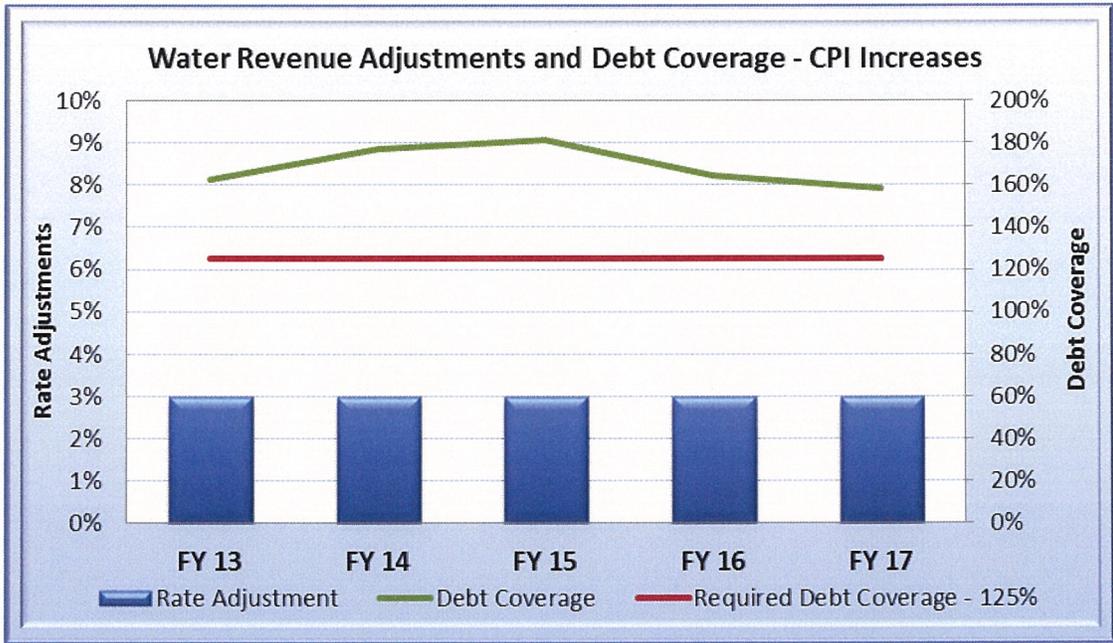


Figure 8 below shows the water enterprise reserve levels under the alternative scenario. CPI increases result in revenues that are unable to successfully meet revenue requirements, and as a result, reserves continue to decrease throughout the five (5) year planning period.

Figure 8 – Water Enterprise Fund Reserves – CPI Increases

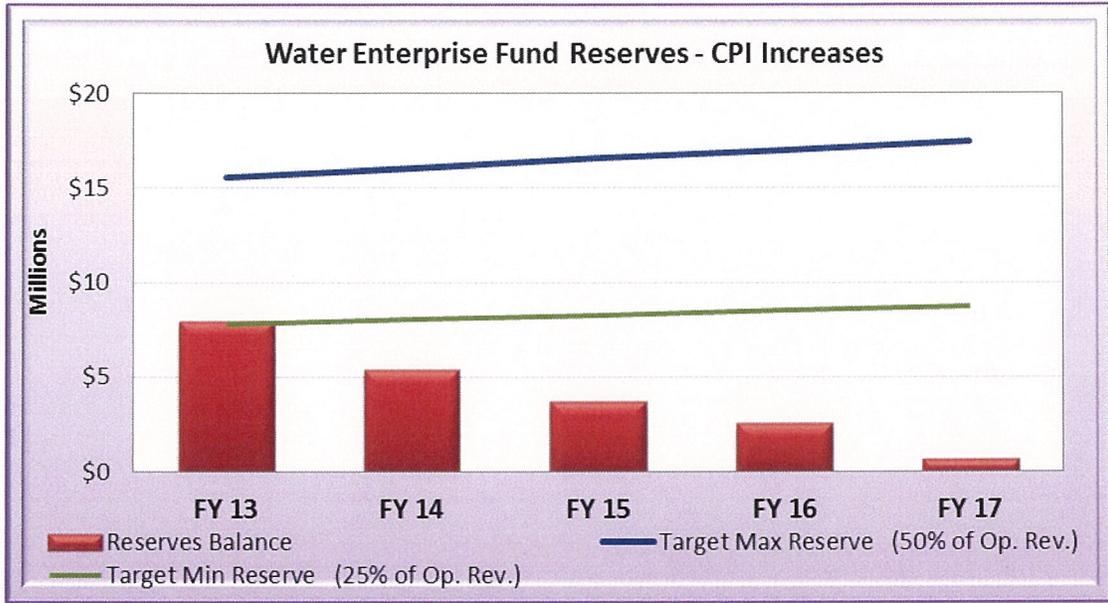


Figure 9 shows the proposed operating financial plan under the alternative CPI increases. As seen below, the total revenue requirements for the water enterprise (O&M expenses, total debt service, and capital costs) exceed the revenues generated by the proposed revenues; as a result, reserve funding becomes negative which indicates that the reserves are being drawn down to fund revenue requirements.

Figure 9 – Water Operating Financial Plan – CPI Increases

