



## AGENDA REPORT

**Meeting Date:** May 15, 2012  
**Item Number:** D-3  
**To:** Honorable Mayor & City Council  
**From:** Christian Di Renzo, Senior Management Analyst  
**Subject:** **AN ORDINANCE OF THE CITY OF BEVERLY HILLS TO INCREASE WATER RATES IN FISCAL YEARS 2012-2013 AND 2013-2014**

**Attachments:**

1. Ordinance
2. Residential Letter Notification
3. Commercial Letter Notification
4. Newspaper Notice
5. Raftelis Financial Consultants, Inc. Water Rate Study

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### **RECOMMENDATION**

It is being recommended that City Council move that the full reading of the ordinance be waived and that the ordinance entitled "Ordinance of the City of Beverly Hills to increase water rates in fiscal years 2012-2013 and 2013-2014" be introduced for first reading.

### **INTRODUCTION**

Staff is recommending that revenues collected by the Water Utility be increased by 7% for both fiscal year 2012/13 and 2013/14. The necessary increase, as significant as it may seem, will not mitigate a reserve draw-down in fiscal year 2012/13 as the Water Utility completes the concluding chapter of its extraordinary capital improvement program (CIP) with a projected capital expenditure of \$7 million. The anticipated revenue will assist in repayment of approximately \$5 million in annual debt service, maintain an obligatory bond covenant coverage ratio, absorb increases in the cost of water and the overall O&M budget, offset for continued reductions in water sales, and still manage to maintain a modest and prudent operating revenue reserve within the preferred 25-50% percent range.

### **DISCUSSION**

The ownership of a water system of the size and age of the City's is extremely capital intensive. The Water Utility has invested millions of dollars in constructing and maintaining the water system as it stands today. The Utility has replaced a large portion of the distribution system that had been in the ground for over 75 years (e.g. the oldest cast iron main dated from 1924) and by the end of fiscal year 2012/13 will have replaced and/or retrofitted nine of its ten reservoirs. The on-going funding of recent capital

investments and future requirements (most notably for fiscal year 2012/13) has a significant impact on water rates. While the capital investments have a pronounced impact on rates, the projects are vitally important to ensure the continued operation of the water system and could require potentially greater rate increases in the future if deferred.

Every two years the City engages Raftelis Financial Consultants, Inc. ("Raftelis") to conduct a cost of service analysis utilizing the most recent data available for customer water consumption and associated costs for the Water Utility. Most recently the analysis included a review of utility financial data, customer class profiles and the specific costs associated with providing utility services. The study was conducted based on industry-recognized procedures involving the functional classification of utility assets and expenses, and allocation of costs to customer classes based on the cost to provide the service - known as the base extra capacity method.

Specific customer class attributes included quantity of service and resource consumed; yearly usage variability; and peak demands created on the system by each class. The results of the study indicate that adjustments to rate schedules are required to accurately align future revenues collected from each customer class with the costs attributable to serving that class. The cost of service and rate study report is included as reference.

Current and proposed rates are reflected in the following tables. Inside city rates are itemized on the left-hand; outside city rates are on the right-hand side.

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

### **PREVIOUS RATE INCREASE**

The Water Utility required a revenue increase of 8% for fiscal years 2008/09 and 2009/10. These increases aided in the repayment of debt service issued for the purchase of the reverse osmosis treatment plant and for replacement of the Coldwater Canyon reservoir - a \$29 million project. Moreover the City did not anticipate a 21% increase by MWD taking place off schedule on September 1, 2009, rather than January 1 as is customary with the wholesaler. The rate increase realized additional revenue for MWD (and was considerably higher than the foregoing rate adjustments) to help offset the combination of lost sales due to the natural drought and regulatory pumping restrictions. Its wholesale sales projections were revised downward from 2.2 million acre feet to just under 1.9 million. This increase, coupled with additional debt issuance to replace the City's five above grade steel tanks and the beginning of a repayment schedule for the bonds noted above, forced the Water Utility to draw down greater reserves than projected. Currently, the Water Utility faces a debt service obligation of approximately \$5 million a year - a significant expense that did not exist five years ago.

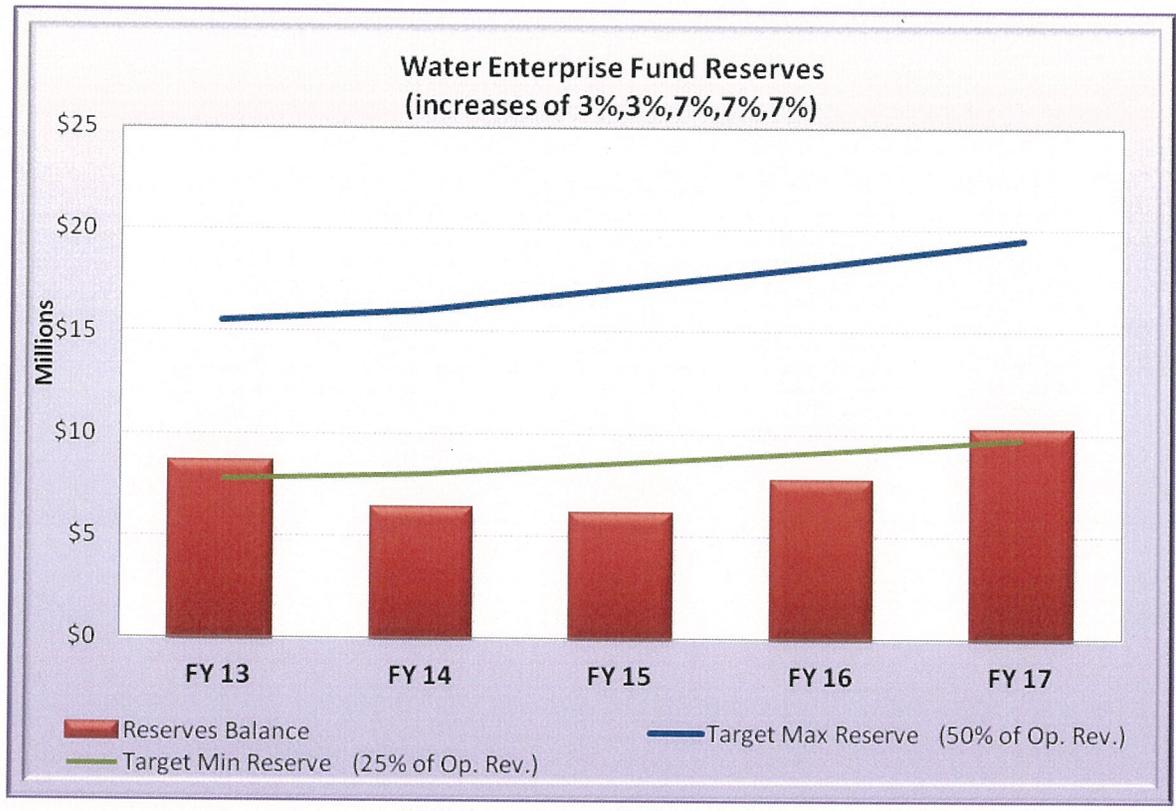
For fiscal years 2010/11 and 2011/12 the Water Utility was faced with a new operating reality: a significant increase in base ongoing expenditures attributable to a sustained increase in the cost of purchasing water, the repayment of debt service, and sharp declines in retail water sales. Increased expenditures mated to reduced revenue is an unsustainable model for any operation, public or private, regardless of how efficient it is. Between fiscal year 2008/09 and 2010/11 retail water sales dropped 15% for a realized loss of close to \$3.5 million. The Water Utility reacted by adjusting its rates 15% for both fiscal year 2010/11 and 2011/12. Staff does not anticipate the occurrence of further precipitous declines in retail water sales in the future although it is factoring meeting or coming close to the required 20% reduction in urban use by 2020 mandate. The financial model assumes a 1% water sales reduction for each of the next five years. No further debt issuance is anticipated for many years to come either and thanks to the refinancing of the 2007 and 2008 revenue bonds that occurred in March of 2012, the Water Utility will experience savings of \$1.6 million over the course of the 30-year amortized repayment schedule. Those revenue bonds were awarded a rare AAA rating by all three credit agencies suggesting a conscientious and prudent fiscal management of the Water Utility.

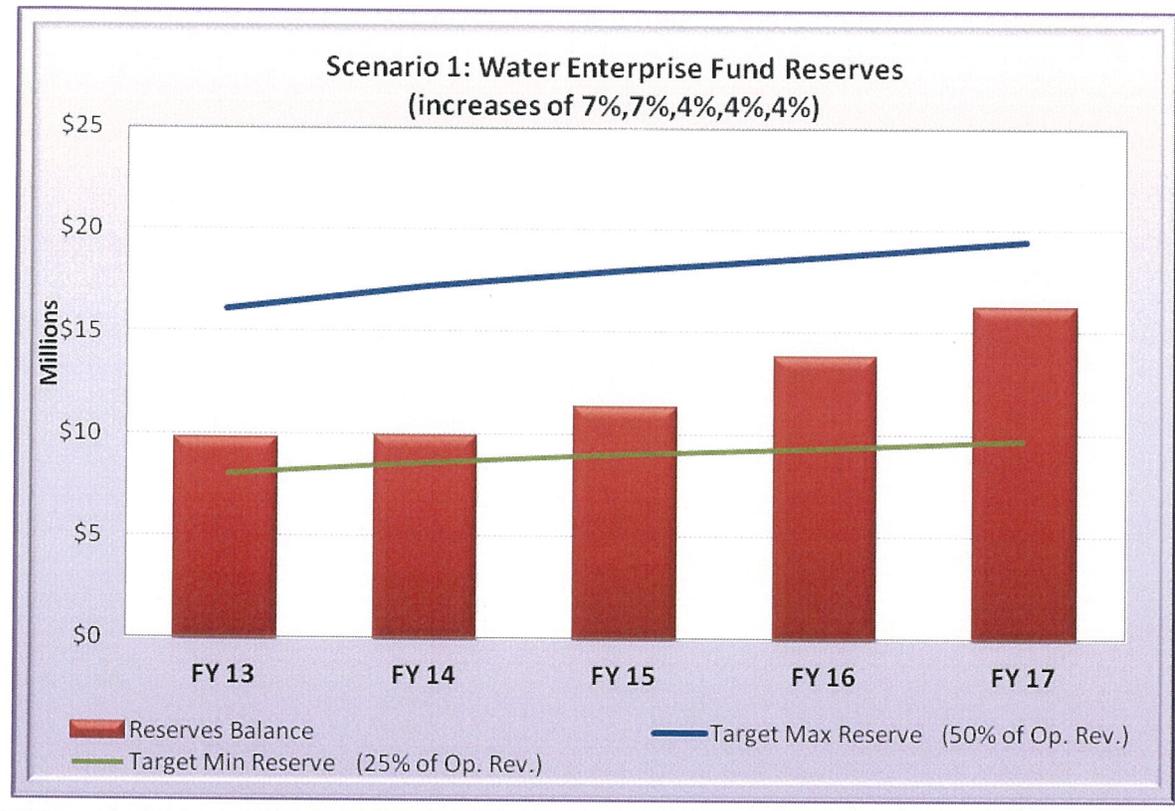
### **COMMISSION REVIEW OF ALTERNATIVE RATE INCREASE**

On February 9, 2012, staff and Raftelis presented an alternative rate increase scenario of 3% (reflecting an adjustment per CPI only) to the Public Works Commission. The intent was not to offer this as an option but rather to indicate the ramification of a 3% increase for FY 2012/13 and 2013/14 on fund balance reserves, as shown in the following graph (**note: fiscal years 14/15 through 16/17 reflect a 7% annual increase**). This scenario not only reveals that it would take five years just to reach the minimum operating reserve, but also suggests that it is preferable to secure additional revenue sooner rather than later as it benefits from the power of compounding and helps to offset the draw on reserves occurring in FY 2012/13 (see Scenario 1 i.e. staff recommendation).

**MWD BUDGET AND WATER RATE ADOPTION**

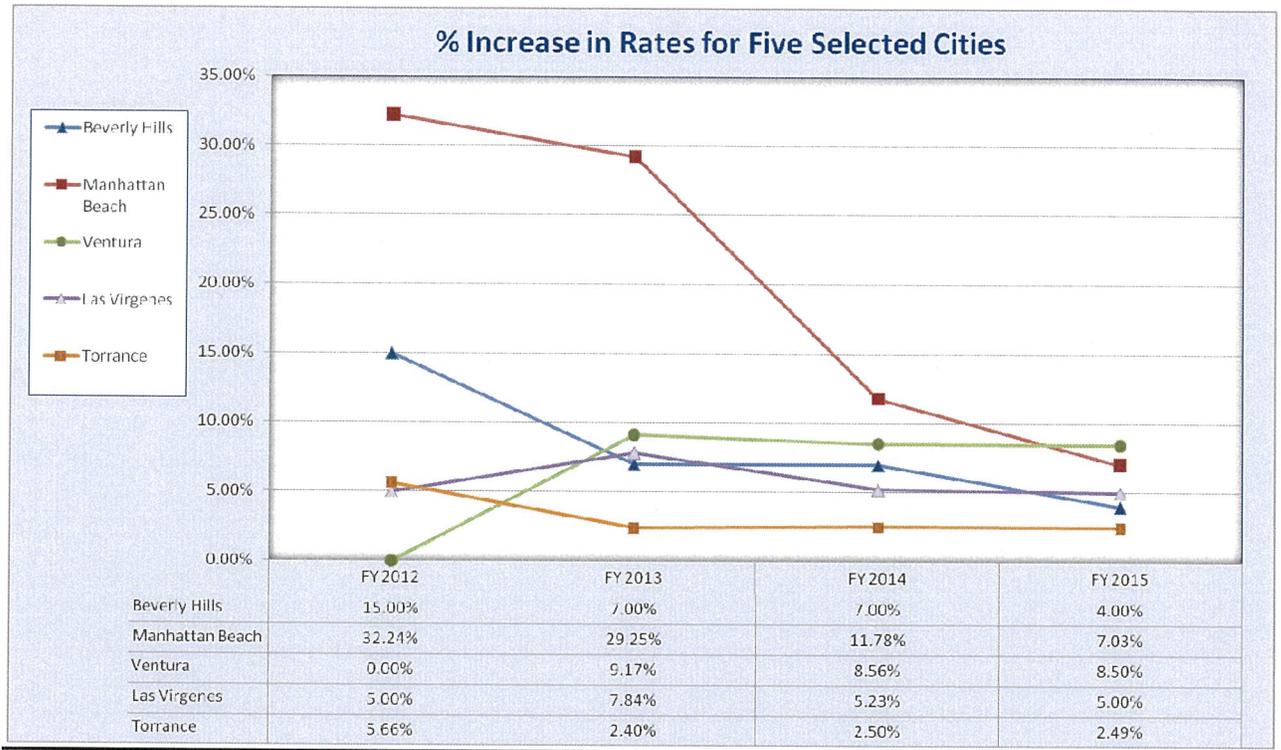
On April 10, 2012, after months of open, public meetings, the MWD Board voted to approve a \$1.78 billion budget for fiscal year 2012/13 and a \$1.89 billion spending plan for FY 2013/14. Concurrently, the board approved an average 5% increase in its wholesale water rate for FY 2012/13 and an average 5% increase for FY 2013/14. Note that the full service treated cost increase to the City is just less than 6.7% for FY 2012/13. The adoption of this lower rate increase when compared to the initially proposed average increase of 7.5% (but fully loaded rate adjustment of 9.3%) will result in approximately \$86,767 in savings for FY 2012/13 and \$102,221 in savings for FY 2013/14.





**RATE COMPARISON**

At the April 3, 2012, Study Session staff was requested to provide a comparison of rate increases proposed by other agencies. Five agencies from a survey were compared with the results shown below. For comparison purposes a single family residential customer with a ¾-inch meter and a monthly usage of 15 hundred cubic feet (hcf or ccf) was used. It is important to note that the proposed rates for FY 2013 and FY 2014 for Las Virgenes Municipal Water District (LVMWD) have not been approved. The following figure shows a comparison of proposed rate increases for the five agencies; the annual increase in rates is shown as a percentage. Note that both Torrance and Las Virgenes have pass-through rates which tend to depress the actual increase requested. The Las Virgenes Municipal Water District imports 99% of its retail water demand from MWD; Torrance imports 94% of its retail demand; Manhattan Beach imports 85% of its retail demand and; Ventura imports 29% of its retail demand (imports from the Casitas Municipal Water District not MWD).



**Significant Factors Driving Water Utility Rate Increases**

**Growing Infrastructure Needs**

Much of the original water infrastructure nationwide is in need of current replacement or will be in such need in the near future. In many cases, this will be the first time that utilities will face significant capital needs that is not funded by growth in the customer base. In addition, this existing infrastructure repair and replacement will likely be more costly than placing comparable new infrastructure in service in undeveloped areas.

The American Water Works Association (AWWA) has warned that the cost of repairing and expanding U.S. drinking water infrastructure will top \$1 trillion in the next 25 years, an expense that likely will be met primarily through higher water bills and local fees.<sup>1</sup> The AWWA examined the timing of water main installation and life expectancy, materials used, replacement costs and shifting demographics. Nationally the infrastructure needs are almost evenly divided between the needs to replace and expand infrastructure. "Because pipe assets last a long time, water systems that were built in the latter part of the 19th Century and throughout much of the 20th Century have, for the most part, never experienced the need for pipe replacement on a large scale," the report said. "The dawn of an era in which the assets will need to be replaced puts a growing stress on communities that will continue to increase for decades to come." It noted increases in household water bills will vary, but in some communities the infrastructure costs alone could triple the size of a typical family's bill. Rural communities may face the biggest challenge because their scattered populations require more pipe miles per customer. The study said that the most impacted households could see their drinking water bills

<sup>1</sup> AWWA report entitled "Buried No Longer: Confronting America's Water Infrastructure Challenge" released March 2012.

increase between \$300 and \$550 per year above current levels to address infrastructure needs.

### **Water Shortage**

Parts of California experience a continuing threat of water shortages. Highly populous areas which are dependent on the Colorado River (such as Southern California) have been particularly impacted by water shortages and use restrictions. Many cities in California face some kind of water use restriction, brought about by regulatory restrictions on accessing water or moving water supplies through an aqueduct system. There is also a mounting concern that climate change will reduce the snow pack in the local mountains, which serves as a natural storage system. Water shortages, whatever the source, typically have an adverse effect on the financial health of a utility, leading to increased pressure to raise rates.

### **Increasing Regulatory Stringency**

While it is unclear how water regulation will be promulgated in the future, it is our expectation that standards will continue to become more stringent. As the ability to measure water quality improves and technology for producing "cleaner" potable water and effluent advances, regulations will inevitably follow and utilities will need to spend resources to acquire the new technology and/or reconfigure existing treatment processes. We believe that increasing regulatory stringency driven by these advances in technology will likely drive rates higher.

### **Decreasing Per Capita Consumption**

More and more utilities are facing declining per capita consumption. There are two primary reasons for this trend. The first reason is that each generation of new home appliances is more water efficient. During the 1960s and 1970s, growth in consumption was fueled by the addition of water using devices to homes. With the replacement of each device, water efficiency is gained. The second reason is that the conservation message has been internalized by much of the population. We believe this has been accomplished through public service efforts and often reinforced by the pricing structure. In addition, many utilities have faced droughts or capacity issues due to growth, which has forced additional efforts to reduce per capita consumption. This factor will continue to impact rates in the future. The impact will diminish over time, however, as there is a level below which per capita consumption will not drop.

### **NOTIFICATION**

Staff conducted a presentation of the preliminary findings to the Public Works Commission on February 9, 2012, and received support to continue with the proposed schedule. Before notices were mailed to customers of the Water Utility on March 28, 2012, (Proposition 218 requires that notices be mailed no sooner than 45 days in advance of the public hearing - scheduled for May 15, 2012) a Public Works Commission/City Council Liaison meeting was held to inform members of the City Council of the impending mailing. Staff attended a Homeowners Association meeting with the City Manager the evening of April 24, 2012. The associations present were the following: Municipal League of Beverly Hills; Beverly Hills Residents' Association; Southwest HOA; Trousdale Estates HOA and; Beverly Roxbury HOA. The presentation was well received by the members who broadly supported the proposed increase. On April 3 staff presented the proposed rate increases during the City Council Study Session. Although not required by law, notice was published in the Weekly and Courier

the first week of May and on May 10, 2012, staff presented once again to the Public Works Commission at which time public comment was considered.

**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 collect close to \$148,000 in FY 2013/14 to replenish reserves. The additional revenue will provide funds for CIP projects, help satisfy required bond covenant coverage, absorb increases to its O&M expenditures (and reduced water sales), and maintain a revenue reserve requirement above or close to the minimum 25% of operating revenue. Should City Council opt to consider a revenue adjustment of 7% for FY 2012/13 and 4% for FY 2013/14, the Water Utility's operating revenue reserve policy in the latter year would be further stressed given the loss of approximately \$828,000 in anticipated income that would result from the additional 3% increase.

  
\_\_\_\_\_  
Scott Miller  
Finance Approval

  
\_\_\_\_\_  
David Gustavson  
Approved By

# **Attachment 1**

**ORDINANCE NO. 12-O-\_\_\_\_\_**

**AN ORDINANCE OF THE CITY OF BEVERLY HILLS TO  
INCREASE WATER RATES IN FISCAL YEARS 2012-2013  
AND 2013-2014**

THE CITY COUNCIL OF THE CITY OF BEVERLY HILLS DOES ORDAIN

AS FOLLOWS:

Section 1. The City Council of the City of Beverly Hills hereby finds as follows:

A. The City Council is authorized pursuant to the California Health and Safety Code Section 5471 to prescribe, revise and collect rates and charges for water services and facilities furnished by the City.

B. The City Council wishes to increase the rates for water services (the “rates”) as provided in Exhibit A.

C. The City Council identified the parcels upon which the proposed rates would be imposed and calculated the amount of the proposed rates.

D. The City Clerk caused a notice of the time and place of a public hearing on the proposed rates to be mailed as required by Section 6 of Article XIID of the California Constitution.

E. Each notice described the amount of proposed rates, the basis upon which the amount of the proposed rates was calculated, the reason for the proposed rates, and the date time and location of a public hearing on the proposed rates.

F. On May 15, 2012, at the date, time and location set forth in the notice, the City Council conducted a public hearing on the proposed rates and heard and considered all objections and protests thereto and at the close of the public hearing, the City Council determined that written protests had not been presented by a majority of owners of the identified parcels.

G. All code references in the column entitled "Reference" in Exhibit A are to ordinances or resolutions of the City of Beverly Hills unless otherwise indicated.

Section 2. The rates listed in Exhibit A as Reference Nos. 08-O-2552 (Water Rates) shall be increased as provided in Exhibit A for Fiscal Year 2012-2013 and Fiscal Year 2013-2014.

Section 3. The City Clerk shall cause this Ordinance to be published at least once in a newspaper of general circulation published and circulated in the City within fifteen (15) days after its passage, in accordance with Section 36933 of the Government Code; shall certify to the adoption of this Ordinance and shall cause this ordinance and her certification, together with proof of publication, to be entered in the Book of Ordinances of the Council of this City.

Section 4. This Ordinance shall go into effect and be in full force and effect at 12:01 a.m. on the thirty-first (31st) day after its passage.

Adopted:  
Effective:

\_\_\_\_\_  
WILLIAM W. BRIEN, MD  
Mayor of the City of Beverly Hills,  
California

ATTEST:

\_\_\_\_\_  
(SEAL)  
BYRON POPE  
City Clerk

APPROVED AS TO FORM:

  
\_\_\_\_\_  
LAURENCE S. WIENER  
City Attorney

APPROVED AS TO CONTENT:

\_\_\_\_\_  
JEFFREY KOLIN  
City Manager

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SCOTT G. MILLER  
Director of Administrative Services/Chief  
Financial Officer



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DAVID D. GUSTAVSON  
Director of Public Works & Transportation

**EXHIBIT A**  
**[see attached]**

# EXHIBIT A

## Utility Rates & Fees

BHMC 6-1- REFERENCE	TYPE OF UTILITY CHARGE	2011/12 RATE		2012/13 RATE		2013/14 RATE	
		Inside City	Outside City	Inside City	Outside City	Inside City	Outside City
	Water						
88-R-7759	Service Connection Charge:						
	General						
	1" and smaller	670.46	848.70	717.39	908.11	767.61	971.68
	1- 1/2"	1,350.69	1,702.33	1,445.24	1,821.50	1,546.40	1,949.00
	2"	1,928.71	2,604.40	2,063.72	2,786.71	2,208.18	2,981.78
	3"	2,878.41	4,054.48	3,079.90	4,338.30	3,295.49	4,641.98
	4"	3,876.25	5,561.66	4,147.58	5,950.98	4,437.91	6,367.55
	6"	4,866.93	7,199.65	5,207.62	7,703.62	5,572.15	8,242.88
	8"	5,755.61	8,914.17	6,158.50	9,538.16	6,589.60	10,205.83
	Fire Protection Services						
	4"	3,876.25	5,817.44	4,147.58	6,224.66	4,437.91	6,660.39
	6"	4,866.93	7,744.13	5,207.62	8,286.22	5,572.15	8,866.26
	8"	5,755.61	9,541.02	6,158.50	10,208.89	6,589.60	10,923.52
	10"	6,753.55	13,408.81	7,226.29	14,347.43	7,732.14	15,351.75
88-R-7759	Service Installation Deposit:						
	*The city will charge fully allocated hourly rates for all personnel involved plus any outside costs and materials.	*	*	*	*	*	*
	Size of Service (deposit levels):						
	1 inch	2,676.00	2,676.00	2,863.32	2,863.32	3,063.75	3,063.75
	2 inches	5,351.90	5,351.90	5,726.54	5,726.54	6,127.39	6,127.39
	3 inches - Compound	9,098.25	9,098.25	9,735.12	9,735.12	10,416.58	10,416.58
	4 inches - Changeout	4,816.68	4,816.68	5,153.85	5,153.85	5,514.62	5,514.62
	4 inches - Compound	9,098.25	9,098.25	9,735.12	9,735.12	10,416.58	10,416.58
	4 inches - Fire	6,422.34	6,422.34	6,871.91	6,871.91	7,352.94	7,352.94
	6 inches - Changeout	9,098.25	9,098.25	9,735.12	9,735.12	10,416.58	10,416.58
	6 inches - Compound	14,450.15	14,450.15	15,461.66	15,461.66	16,543.97	16,543.97
	6 inches - Fire	7,492.68	7,492.68	8,017.17	8,017.17	8,578.37	8,578.37
	8 inches	11,203.28	11,203.28	11,987.51	11,987.51	12,826.63	12,826.63
88-R-7759	Fire Protection Service Installation Deposit:						
	*(Actual costs will be billed to customer and applied against deposit.)	*	*	*	*	*	*
	Size of service:						
	8 inches	7,335.49	7,335.49	7,848.98	7,848.98	8,398.40	8,398.40
	10 inches	8,802.59	8,802.59	9,418.77	9,418.77	10,078.09	10,078.09
88-R-7759	Fire Hydrant Installation Deposit:						
	*(Actual costs will be billed to customer and applied against deposit.)	4,401.29	4,449.73	4,709.39	4,761.21*	5,039.04	5,391.78*
88-R-7759	Service Restoration Charge:						
	After discontinuation at customer's request	80.26	91.03	85.88	97.41	91.89	104.22
	After discontinuation due to noncompliance	80.26	91.03	85.88	97.41	91.89	104.22
	After unauthorized turn on of water	160.52	176.63	171.75	188.99	183.77	202.22
88-R-7759	Temporary Service Connection:						
	Installation of service connection and meter	117.72	128.49	125.96	137.49	134.78	147.11
	Installation of meter to pre-existing service	117.72	128.49	125.96	137.49	134.78	147.11
	Service charge	94.05	103.72	100.64	110.98	107.68	118.75
	Equipment rental fee:						
	First 15 days or less	46.32	51.05	49.56	54.63	53.03	58.45
	Each succeeding 15 days or less	18.53	20.44	19.83	21.87	21.21	23.40
88-R-7759	Temporary Supply from Fire Hydrant:						
	Application fee	35.65	39.37	38.14	42.13	40.81	45.08
	Deposit	1,078.09	1,189.37	1,153.56	1,272.62	1,234.31	1,361.71

# EXHIBIT A

## Utility Rates & Fees

BHMC 6-1- REFERENCE	TYPE OF UTILITY CHARGE	2011/12 RATE		2012/13 RATE		2013/14 RATE			
		Inside City	Outside City	Inside City	Outside City	Inside City	Outside City		
	Service charge								
	Each 6 month period or less	141.68	156.29	151.60	167.23	162.22	178.93		
	Equipment rental fee								
	First 15 days or less	46.32	51.05	49.56	54.63	53.03	58.45		
	Each succeeding 15 days or less	18.53	20.44	19.83	21.87	21.21	23.40		
	Meter relocation (each)	46.32	51.05	49.56	54.63	53.03	58.45		
07-R-12338	Fire Flow Test (per test)	230.10	230.10	246.21	246.21	263.44	263.44		
88-R-7759	Water Meter Testing (per test)	460.30	460.30	492.52	492.52	527.00	527.00		
06-0-2506	Groundwater Replenishment Fee	812.15	0.00	869.00	0.00	929.83	0.00		
08-0-2552	Water Rates:								
	Service charges (bimonthly):								
	Meter size (per meter):								
	1 inch and smaller	35.17	43.96	40.49	50.61	43.32	54.16		
	1-1/2 inches	60.46	75.58	70.18	87.73	75.09	93.87		
	2 inches	90.80	113.50	105.81	132.26	113.22	141.52		
	3 inches	161.61	202.01	188.94	236.18	202.17	252.71		
	4 inches	262.76	328.45	307.70	384.63	329.24	411.55		
	6 inches	515.63	644.54	604.60	755.75	646.92	808.65		
	Quantity charge:*								
	Bimonthly Water Usage - units of 100 cu ft (per 100 cu ft)								
	Single Family Residences & Duplexes (SFR)		Multi-Family Residential (MFR) (Tier acts as a multiplier by # of units.)						
	Tier 1 - from 1 and up to 10		Tier 1 - from 1 to 4	3.17	3.97	3.29	4.11	3.52	4.40
	Tier 2 - over 10 and up to 55		Tier 2 - over 4 and up to 9	4.12	5.15	4.36	5.45	4.67	5.83
	Tier 3 - over 55 to 120		Tier 3 - over 9 and up to 16	6.41	8.01	6.87	8.59	7.35	9.19
	Tier 4 - over 120 +		Tier 4 - over 16+	12.22	15.28	13.27	16.59	14.20	17.75
	Non-residential rate (Commercial, Governmental and Schools)	5.39	6.74	5.63	7.04	6.02	7.53		
	*Capital charge incorporated in usage.								
08-0-2552	Fire Protection Service Charge (bimonthly):								
	Size of Connection:								
	2 inch and smaller	23.86	29.82	24.65	30.81	25.39	31.73		
	2-1/2 inches	35.60	44.50	36.77	45.96	37.87	47.34		
	3 inches	51.85	64.81	53.56	66.95	55.17	68.96		
	4 inches	100.14	125.16	103.44	129.30	106.55	133.18		
	6 inches	273.44	341.80	282.48	353.10	290.95	363.69		
	8 inches	572.34	715.42	591.27	739.09	609.01	761.26		
	10 inches	1,021.95	1,277.44	1,055.75	1,319.69	1,087.42	1,359.28		

# **Attachment 2**



## NOTICE OF PUBLIC HEARING FOR PROPOSED WATER UTILITY RATE INCREASE

March 28, 2012

Dear Resident:

The City is proposing to increase rates for water services for fiscal years 2012/13 and 2013/14 to keep pace with higher costs, comply with government regulatory requirements, budget for emergencies, and provide for continued infrastructure improvements. This notice provides information about the proposed rate increases and details on the public hearing where you may express your views on the proposed rate increases.

### *Water Utility Rates*

***Summary of water rate increase*** – The City proposes to increase water rates effective July 1, 2012 and July 1, 2013. The proposed rate increases are provided in the attached exhibit. On average most residents will experience a \$24.22 increase for their bimonthly water service. If you need further assistance determining the amount of the water rate increase for your home, you may contact the City by calling 310-285-2436 or by mail or in person at Administrative Services – Utility Billing, 455 N. Rexford Drive, Beverly Hills, California, 90210.

***Basis upon which the water rate was calculated*** – The bimonthly water rate is comprised of a fixed charge and a consumption charge. The fixed charge is a flat charge that varies based on the size of a water meter. The consumption charge is the quantity of water consumed per 100 cubic feet of water. The consumption charge is comprised of a four-tiered pricing structure. The unit costs for each tier increases and a customer is charged based on the amount of water consumed. For customers with water meters for fire protection systems, the bimonthly water rate also includes a fixed charge that varies based on the size of the water meter.

***Reason for water rate increase*** - The water utility rates provide revenues to pay for the maintenance and operation of the water system and its capital expenses. The system includes pipelines, pump stations, fire hydrants, storage reservoirs, wells, and water meters as well as facilities and processes required to comply with all state and federal drinking water standards. Water rates are set at a level to generate enough revenue to cover the costs of operating and maintaining this system. Rate increases are required to cover the following costs:

- Higher wholesale water rates from the Metropolitan Water District;
- Energy costs associated with operating facilities and equipment;
- Maintaining an ongoing investment in the water system infrastructure;

- Comply with bond covenant obligations; and
- Maintain adequate reserves.

The City conducted a water rate study, dated February 9, 2012, which allocated the water system revenue requirements to different user classes in proportion to their use of the water system.

### *Written Reports*

The City has caused a written report regarding the water rates (the "Water Report") to be prepared and filed with the City Clerk. As required by California Government Code Section 66016, the Water Report provides data indicating the amount of cost, or estimated cost, to provide water service and the revenue sources anticipated to provide water service, and the Solid Waste Report provides data indicating the amount of cost, or estimated cost, to provide solid waste service and the revenue sources anticipated to provide solid waste services.

A copy of the Water Report will be available at the office of the City Clerk on or about May 4, 2012.

### *Notice of Public Meeting and Public Hearing*

**NOTICE IS HEREBY GIVEN that the Public Works Commission will hold a meeting to discuss the proposed rate increase on May 10, 2012, at 455 N Rexford Drive, Room 280A at 8:30 AM.**

**NOTICE IS HEREBY GIVEN that the City Council will hold a public hearing on the proposed water rate increase on May 15, 2012, at 7:00 PM at 455 N Rexford Drive, City Council Chambers.**

### *You Can Be Heard*

At the public hearing, the City council will hear and consider all objections or protests to the proposed water rate increase. Any property owner or property tenant that is directly responsible for payment of water service charges (each, a "water customer") may submit a written protest against the proposed water rate increase. Written protests may be delivered to the City Clerk at the public hearing prior to the end of the public hearing or may be mailed or personally delivered to the City Clerk at City Hall, 455 N. Rexford Drive, Beverly Hills, CA 90210. Protests that are mailed or delivered to City Hall must be received by the City Clerk before 5:30 on May 15, 2012.

To be counted, a written protest must: (1) identify the parcel of property subject to the proposed water rate increase, (2) identify the water customer and (3) include the signature of the water customer. A majority protest exists if, at the end of the public hearing, there are written protests submitted by a majority of the water customers subject to the proposed water rate increase. No more than one written protest per parcel of property will be counted in calculating a majority protest. The City Council cannot adopt the proposed water rate increase if a majority protest exists.

*Questions*

For more information about the proposed water rate increase you may call Utility Billing at 310-285-2436.

Sincerely,

A handwritten signature in black ink, appearing to read 'David Gustavson', written in a cursive style.

David Gustavson  
Director of Public Works & Transportation  
Attachment: Proposed Rate Schedule

# **Attachment 3**



## NOTICE OF PUBLIC HEARING FOR PROPOSED WATER UTILITY RATE INCREASE

March 28, 2012

Dear Business Customer:

The City is proposing to increase rates for water services for fiscal years 2012/13 and 2013/14 to keep pace with higher costs, comply with government regulatory requirements, budget for emergencies, and provide for continued infrastructure improvements. This notice provides information about the proposed rate increases and details on the public hearing where you may express your views on the proposed rate increases.

### *Water Utility Rates*

***Summary of water rate increase*** – The City proposes to increase water rates effective July 1, 2012 and July 1, 2013. The proposed rate increases are provided in the attached exhibit. On average an apartment building with six units will experience a \$47.04 increase for their bimonthly water service, whereas a typical business operator will experience a \$156.67 increase for their bimonthly water service. If you need further assistance determining the amount of the water rate increase for your business, you may contact the City by calling 310-285-2436 or by mail or in person at Administrative Services – Utility Billing, 455 N. Rexford Drive, Beverly Hills, California, 90210.

***Basis upon which the water rate was calculated*** – The bimonthly water rate is comprised of a fixed charge and a consumption charge. The fixed charge is a flat charge that varies based on the size of a water meter. The consumption charge is the quantity of water consumed per 100 cubic feet of water. The consumption charge is comprised of a four-tiered pricing structure. The unit costs for each tier increases and a customer is charged based on the amount of water consumed. For customers with water meters for fire protection systems, the bimonthly water rate also includes a fixed charge that varies based on the size of the water meter.

***Reason for water rate increase*** - The water utility rates provide revenues to pay for the maintenance and operation of the water system and its capital expenses. The system includes pipelines, pump stations, fire hydrants, storage reservoirs, wells, and water meters as well as facilities and processes required to comply with all state and federal drinking water standards. Water rates are set at a level to generate enough revenue to cover the costs of operating and maintaining this system. Rate increases are required to cover the following costs:

- Higher wholesale water rates from the Metropolitan Water District;
- Energy costs associated with operating facilities and equipment;

- Maintaining an ongoing investment in the water system infrastructure;
- Comply with bond covenant obligations; and
- Maintain adequate reserves.

The City conducted a water rate study, dated February 9, 2012, which allocated the water system revenue requirements to different user classes in proportion to their use of the water system.

### *Written Reports*

The City has caused a written report regarding the water rates (the "Water Report") to be prepared and filed with the City Clerk. As required by California Government Code Section 66016, the Water Report provides data indicating the amount of cost, or estimated cost, to provide water service and the revenue sources anticipated to provide water service, and the Solid Waste Report provides data indicating the amount of cost, or estimated cost, to provide solid waste service and the revenue sources anticipated to provide solid waste services.

A copy of the Water Report will be available at the office of the City Clerk on or about May 4, 2012.

### *Notice of Public Meeting and Public Hearing*

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### *You Can Be Heard*

At the public hearing, the City council will hear and consider all objections or protests to the proposed water rate increase. Any property owner or property tenant that is directly responsible for payment of water service charges (each, a "water customer") may submit a written protest against the proposed water rate increase. Written protests may be delivered to the City Clerk at the public hearing prior to the end of the public hearing or may be mailed or personally delivered to the City Clerk at City Hall, 455 N. Rexford Drive, Beverly Hills, CA 90210. Protests that are mailed or delivered to City Hall must be received by the City Clerk before 5:30 on May 15, 2012.

To be counted, a written protest must: (1) identify the parcel of property subject to the proposed water rate increase, (2) identify the water customer and (3) include the signature of the water customer. A majority protest exists if, at the end of the public hearing, there are written protests submitted by a majority of the water customers subject to the proposed water rate increase. No more than one written protest per parcel of property will be counted in calculating a majority protest. The City Council cannot adopt the proposed water rate increase if a majority protest exists.

### *Questions*

For more information about the proposed water rate increase you may call Utility Billing at 310-285-2436.

Sincerely,

A handwritten signature in black ink, appearing to read "David Gustavson". The signature is fluid and cursive, with a large initial "D" and "G".

David Gustavson  
Director of Public Works & Transportation  
Attachment: Proposed Rate Schedule

# **Attachment 4**



City Clerk's Office

## NOTICE OF PUBLIC HEARING

NOTICE IS HEREBY GIVEN that the Council of the City of Beverly Hills, at its regular meeting to be held on **Tuesday, May 15, 2012, at 7:00 p.m.**, in the Council Chambers of the City Hall, 455 N. Rexford Drive, Beverly Hills, California, will hold a public hearing to consider adoption of:

### AN ORDINANCE OF THE CITY OF BEVERLY HILLS TO INCREASE WATER RATES IN FISCAL YEARS 2012-2013 AND 2013-2014

At the public hearing, the City Council will hear and consider all objections or protests to the rate adjustments. If the City Council adopts the ordinance, adjustments to the Water Rates will become effective July 1, 2012 and July 1, 2013.

Copies of the ordinance are available for review or purchase in the Office of the City Clerk, 455 N. Rexford Drive, Beverly Hills, California 90210. Any interested person may attend the meeting and be heard. Written comments may also be submitted and should be addressed to the City Clerk, 455 N. Rexford Drive, Beverly Hills, California 90210. The comments should be received prior to the hearing date.

Please remember, if you challenge the Council's action in regard to this matter in court, you may be limited to raising only those issues you or someone else raised at the public hearing described in this notice, or in written correspondence delivered to the City, either at or prior to the public hearing.

A handwritten signature in black ink, appearing to read "Byron Pope".

BYRON POPE, CMC  
City Clerk

# **Attachment 5**

# Beverly Hills Water Rate Study Update

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## Executive Summary

January 31, 2012

**RFC**

RAFTELIS FINANCIAL  
CONSULTANTS, INC.



201 S. Lake Blvd, Suite 301  
Pasadena • CA • 91101

■ Phone 626•583•1894  
Fax 626•583•1411

■ www.raftelis.com

January 31, 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. Increased 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.

Previously, the City has been able to offset the revenue decrease through the collection of penalty rates (through the implementation of stage B of the water conservation ordinance as a result of the mandated conservation requirement set by MWD in 2009); however, MWD rescinded the mandatory conservation restriction in April of 2011 and as a result, penalty rates are no longer applicable. In addition, the City faces the challenge of funding significant capital costs associated with reservoir replacement and repair in FY 2012.

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
<b>Inflation</b>					
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%
<b>Financing Assumptions</b>					
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
<b>Cash Flow Assumptions</b>					
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
<b>Total</b>	<b>8,445</b>	<b>3,840,171</b>	<b>1,875</b>	<b>538,629</b>

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
<b>Projected MWD Rate Increases (% Increase)</b>						
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%
<b>Approved/Projected MWD Rates (\$/AF)</b>						
<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

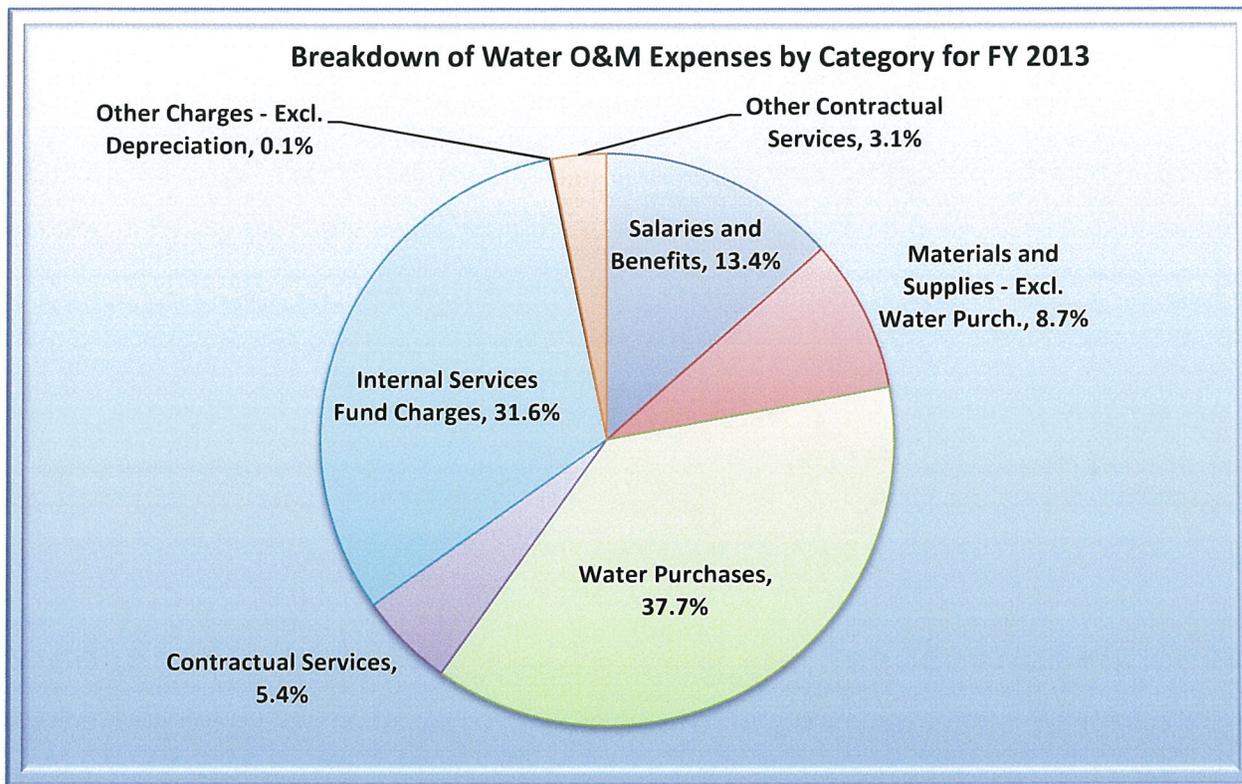
Table 5 shows the projected O&M expenses for the City for the next five (5) years. These projections are based on the City’s FY 2012 budget (also shown in the tables below) and the escalation factors shown in Table 1. The O&M expenses shown below are higher than the numbers from the previous 2009 Study, 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).

*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	\$ 8,850,974	\$ 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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total O&amp;M Expenses (All - Excl. Depreciation)</b>	<b>\$ 23,586,978</b>	<b>\$ 23,407,140</b>	<b>\$ 24,547,328</b>	<b>\$ 25,402,028</b>	<b>\$ 26,317,292</b>	<b>\$ 27,497,516</b>

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 (2) largest sources of O&M expenses are water purchase costs and internal services fund charges (37.7 percent and 31.6 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 slightly 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 \$40.2 million in capital expenses for the FY 2012-2017 Study period.

Table 6 – Capital Improvement Plan– Inflated

CIP #	Project Name	Budgeted	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	\$ 3,800,000	\$ 3,914,000	\$ 4,070,560	\$ 4,233,382	\$ 4,402,718	\$ 4,578,826
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	\$ 5,209,751	\$ 257,500	\$ 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
<b>TOTAL CIP</b>		<b>\$ 10,392,559</b>	<b>\$ 5,801,792</b>	<b>\$ 5,819,624</b>	<b>\$ 5,146,505</b>	<b>\$ 6,294,505</b>	<b>\$ 6,787,276</b>

**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). The City estimates approximately \$5.8 million in capital expenses for FY 2013 and FY 2014, respectively; revenue adjustments are required in order to offset such costs. 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

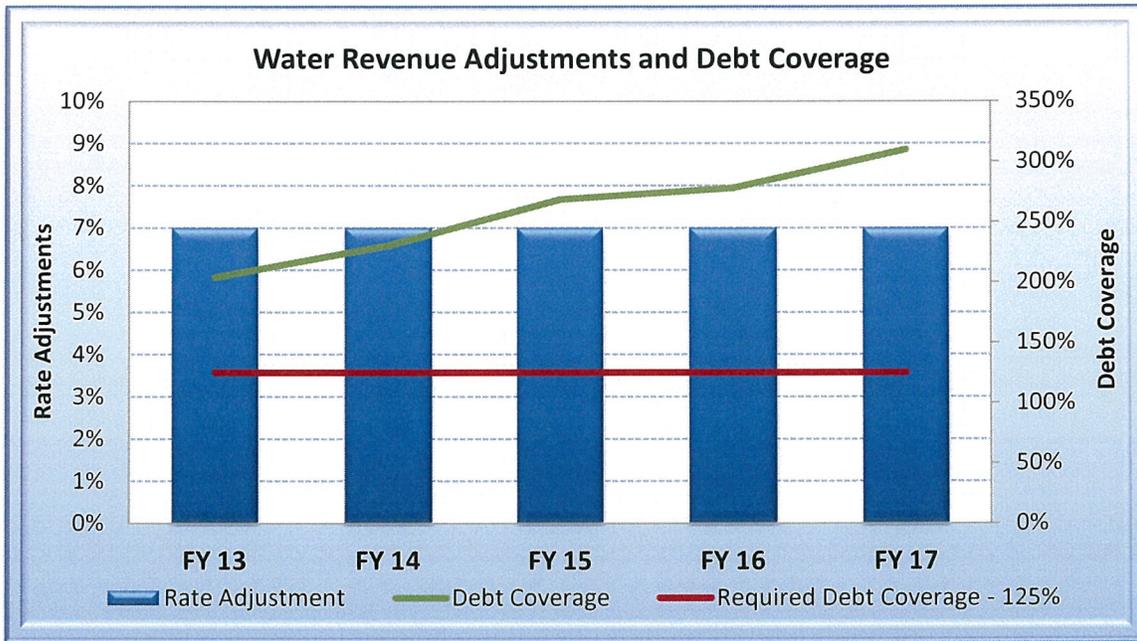


Figure 3 shows the water enterprise reserve levels (alternatively, Table 7 provides ending reserve balances and target reserve levels in a numerical format). The reserve is being depleted in the early years to fund capital projects. The City should gradually replenish its reserves so that they meet target 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

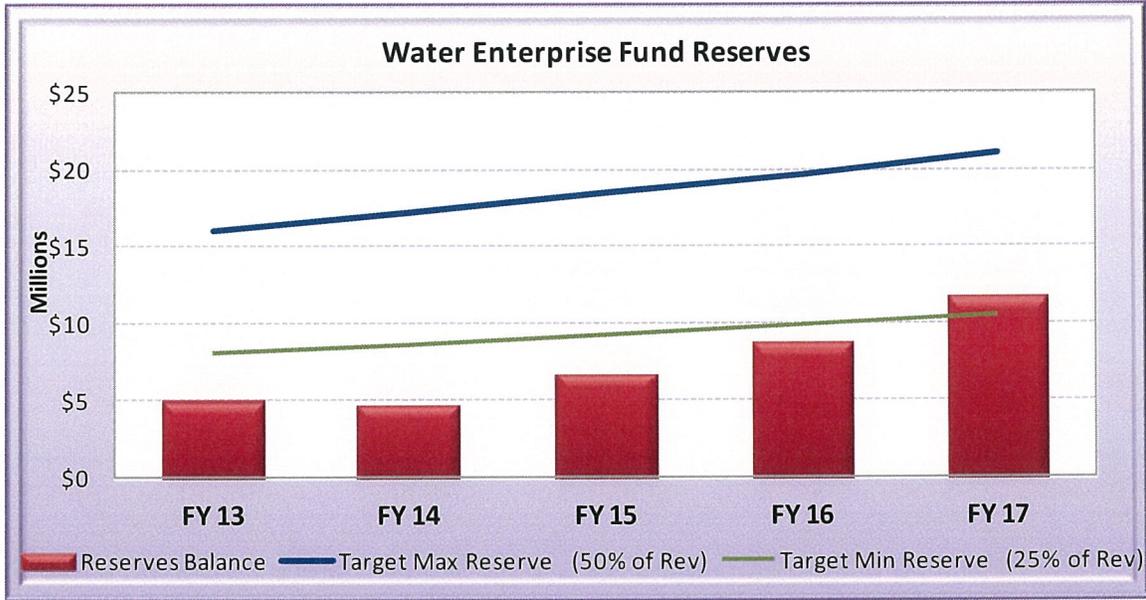
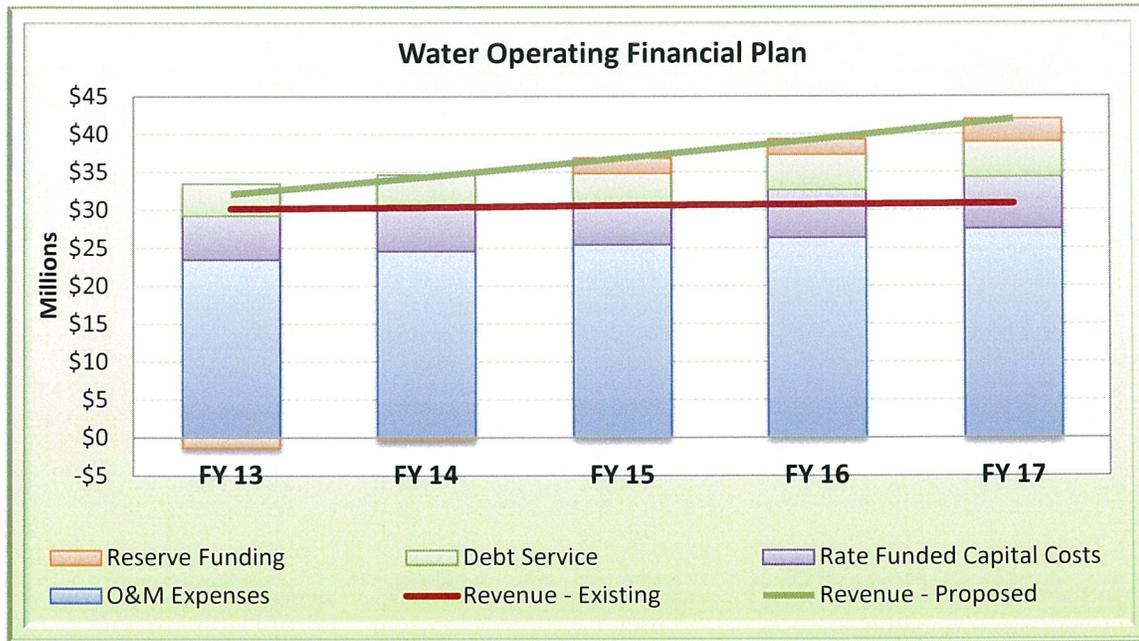


Table 7 – Water Enterprise Fund Reserves

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
<b>Water Enterprise Fund</b>					
Reserves Balance	\$ 4,852,955	\$ 4,580,397	\$ 6,601,381	\$ 8,619,843	\$ 11,630,401
Target Max Reserve (50% of Op. Rev)	\$ 16,033,655	\$ 17,173,799	\$ 18,411,760	\$ 19,650,332	\$ 20,982,132
Target Min Reserve (25% of Op. Rev)	\$ 8,016,827	\$ 8,586,900	\$ 9,205,880	\$ 9,825,166	\$ 10,491,066

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**

<b>Meter Size</b>	<b>Current FY 2012</b>	<b>Proposed FY 2013</b>	<b>Proposed FY 2014</b>
1" or less	\$ 35.17	\$ 38.11	\$ 40.78
1 1/2"	\$ 60.46	\$ 65.09	\$ 69.65
2"	\$ 90.80	\$ 97.47	\$ 104.29
3"	\$ 161.61	\$ 173.01	\$ 185.12
4"	\$ 262.76	\$ 280.93	\$ 300.60
6"	\$ 515.63	\$ 550.73	\$ 589.28

**Quantity Charge (in 100 cu ft , ccf)**

**Single Family Residential Rates & Duplexes (SFR)**

<b>Bi-Monthly Tiers</b>	<b>Current FY 2012</b>	<b>Proposed FY 2013</b>	<b>Proposed FY 2014</b>
1 to 10	\$ 3.17	\$ 3.43	\$ 3.67
11 to 55	\$ 4.12	\$ 4.47	\$ 4.78
56 to 120	\$ 6.41	\$ 6.90	\$ 7.38
121 & up	\$ 12.22	\$ 13.06	\$ 13.97

**Multi Family Residential Rates (MFR)**

1 to 4	\$ 3.17	\$ 3.43	\$ 3.67
5 to 9	\$ 4.12	\$ 4.47	\$ 4.78
10 to 16	\$ 6.41	\$ 6.90	\$ 7.38
17 & up	\$ 12.22	\$ 13.06	\$ 13.97

**Non Residential Rates**

All Usage	\$ 5.39	\$ 5.69	\$ 6.09
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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	\$ 47.64	\$ 50.97
1 1/2"	\$ 75.58	\$ 81.36	\$ 87.06
2"	\$ 113.50	\$ 121.84	\$ 130.37
3"	\$ 202.01	\$ 216.26	\$ 231.40
4"	\$ 328.45	\$ 351.16	\$ 375.74
6"	\$ 644.54	\$ 688.41	\$ 736.60

**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	\$ 3.96	\$ 4.29	\$ 4.59
11 to 55	\$ 5.15	\$ 5.59	\$ 5.98
56 to 120	\$ 8.01	\$ 8.63	\$ 9.23
121 & up	\$ 15.28	\$ 16.33	\$ 17.47

**Multi Family Residential Rates (MFR)**

1 to 4	\$ 3.96	\$ 4.29	\$ 4.59
5 to 9	\$ 5.15	\$ 5.59	\$ 5.98
10 to 16	\$ 8.01	\$ 8.63	\$ 9.23
17 & up	\$ 15.28	\$ 16.33	\$ 17.47

**Non Residential Rates**

All Usage	\$ 6.74	\$ 7.11	\$ 7.61
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*Table 10 – Proposed Rates for Fire Service for FY 2013 and FY 2014 – Inside City Rates***Fire Protection Service Charge**

<b>Meter Size</b>	<b>Current FY 2012</b>	<b>Proposed FY 2013</b>	<b>Proposed FY 2014</b>
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*

<b>Meter Size</b>	<b>Current FY 2012</b>	<b>Proposed FY 2013</b>	<b>Proposed FY 2014</b>
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 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

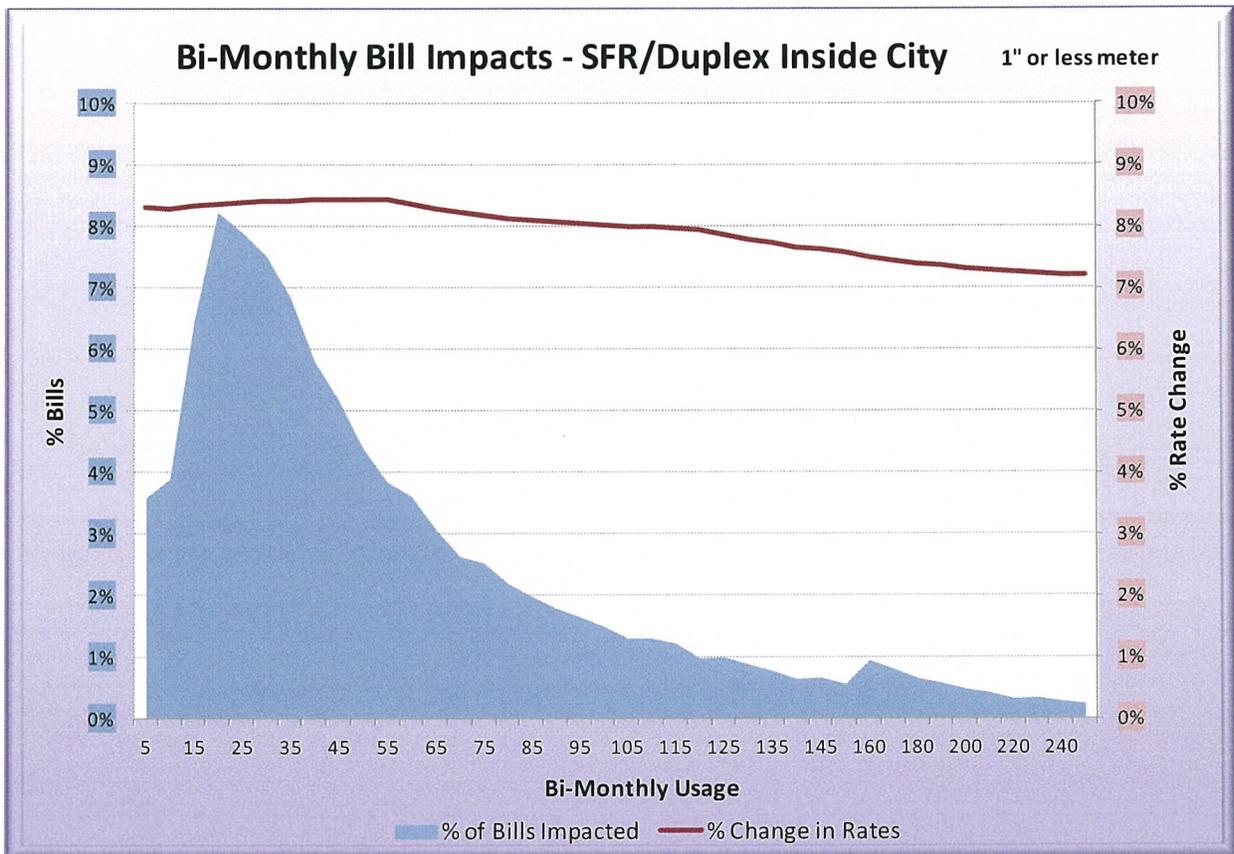
Bi-Monthly Usage (hcf)	Existing	Proposed	% Change	\$ Change	% of Bills in the Block
5	\$ 51.02	\$ 55.26	8%	\$ 4.24	3.57%
10	\$ 66.87	\$ 72.41	8%	\$ 5.54	3.87%
15	\$ 87.47	\$ 94.76	8%	\$ 7.29	6.41%
20	\$ 108.07	\$ 117.11	8%	\$ 9.04	8.21%
25	\$ 128.67	\$ 139.46	8%	\$ 10.79	7.89%
30	\$ 149.27	\$ 161.81	8%	\$ 12.54	7.50%
35	\$ 169.87	\$ 184.16	8%	\$ 14.29	6.84%
40	\$ 190.47	\$ 206.51	8%	\$ 16.04	5.79%
45	\$ 211.07	\$ 228.86	8%	\$ 17.79	5.16%
50	\$ 231.67	\$ 251.21	8%	\$ 19.54	4.38%
55	\$ 252.27	\$ 273.56	8%	\$ 21.29	3.82%
60	\$ 284.32	\$ 308.06	8%	\$ 23.74	3.59%
65	\$ 316.37	\$ 342.56	8%	\$ 26.19	3.05%
<b>70</b>	<b>\$ 348.42</b>	<b>\$ 377.06</b>	<b>8%</b>	<b>\$ 28.64</b>	<b>2.61%</b>
75	\$ 380.47	\$ 411.56	8%	\$ 31.09	2.51%
80	\$ 412.52	\$ 446.06	8%	\$ 33.54	2.17%
85	\$ 444.57	\$ 480.56	8%	\$ 35.99	1.97%
90	\$ 476.62	\$ 515.06	8%	\$ 38.44	1.77%
95	\$ 508.67	\$ 549.56	8%	\$ 40.89	1.64%
100	\$ 540.72	\$ 584.06	8%	\$ 43.34	1.48%
105	\$ 572.77	\$ 618.56	8%	\$ 45.79	1.28%
110	\$ 604.82	\$ 653.06	8%	\$ 48.24	1.28%
115	\$ 636.87	\$ 687.56	8%	\$ 50.69	1.21%
120	\$ 668.92	\$ 722.06	8%	\$ 53.14	0.96%
125	\$ 730.02	\$ 787.36	8%	\$ 57.34	0.98%
130	\$ 791.12	\$ 852.66	8%	\$ 61.54	0.86%
135	\$ 852.22	\$ 917.96	8%	\$ 65.74	0.75%
140	\$ 913.32	\$ 983.26	8%	\$ 69.94	0.62%
145	\$ 974.42	\$ 1,048.56	8%	\$ 74.14	0.65%
150	\$ 1,035.52	\$ 1,113.86	8%	\$ 78.34	0.54%
160	\$ 1,157.72	\$ 1,244.46	7%	\$ 86.74	0.93%
170	\$ 1,279.92	\$ 1,375.06	7%	\$ 95.14	0.79%
180	\$ 1,402.12	\$ 1,505.66	7%	\$ 103.54	0.63%
190	\$ 1,524.32	\$ 1,636.26	7%	\$ 111.94	0.56%
200	\$ 1,646.52	\$ 1,766.86	7%	\$ 120.34	0.46%
210	\$ 1,768.72	\$ 1,897.46	7%	\$ 128.74	0.40%
220	\$ 1,890.92	\$ 2,028.06	7%	\$ 137.14	0.31%
230	\$ 2,013.12	\$ 2,158.66	7%	\$ 145.54	0.32%
240	\$ 2,135.32	\$ 2,289.26	7%	\$ 153.94	0.26%
250	\$ 2,257.52	\$ 2,419.86	7%	\$ 162.34	0.22%

Table 13 – Customer Impacts for Different Customer Classes

	Bi-Monthly Utility Bills				
	Avg. Usage (ccf)	Total Current Bill	Total Proposed Bill	% Increase	\$ Increase
Single Family/Duplex 1" meter (Inside City)	70	\$ 435.80	\$ 464.44	7%	\$ 28.64
Single Family/Duplex 2" meter (Inside City)	150	\$ 1,178.53	\$ 1,260.60	7%	\$ 82.07
MultiFamily 1" meter (Inside City) 13.3 ccf/unit	13.3	\$ 183.39	\$ 191.23	4%	\$ 7.84
Non Residential 1" meter (Inside City)	40	\$ 474.57	\$ 489.51	3%	\$ 14.94
Non Residential 2" meter (Inside City)	500	\$ 5,190.00	\$ 5,346.67	3%	\$ 156.67

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 seven (7) 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



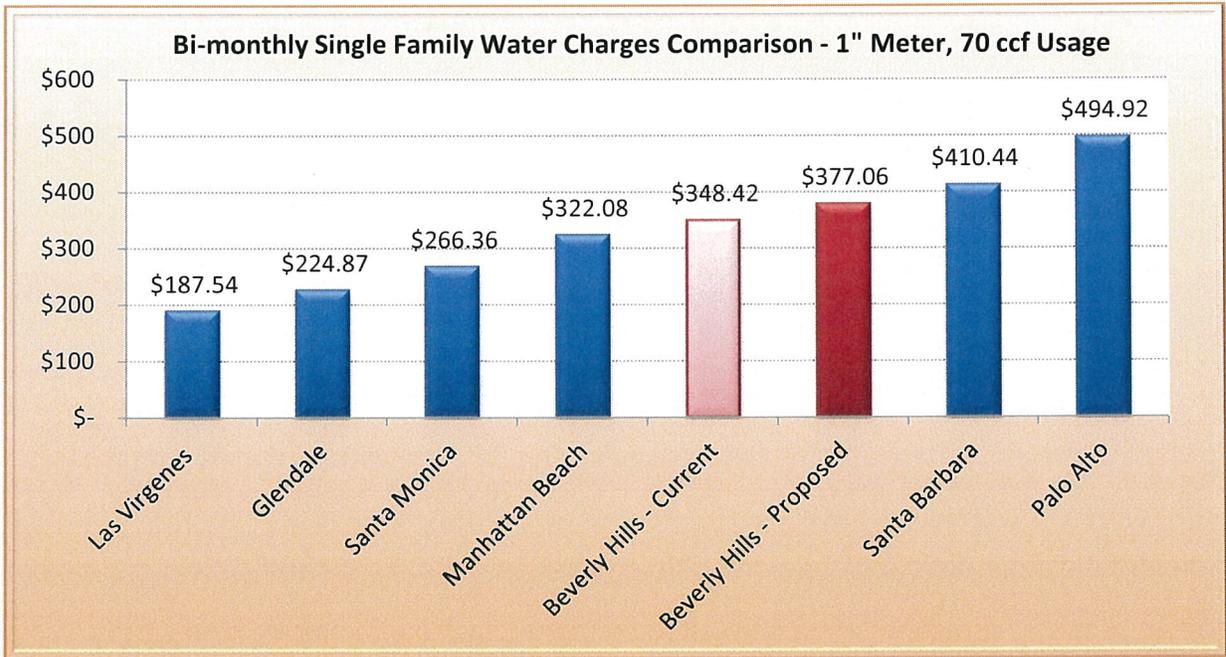
From *Figure 5*, the greatest percentage of bills for single family residential users with a 1-inch or smaller meter fall within 15-20 ccf of bi-monthly water usage (roughly 8.2 percent of all bills). For the customers which fall into this category, their total water bills will increase by roughly eight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



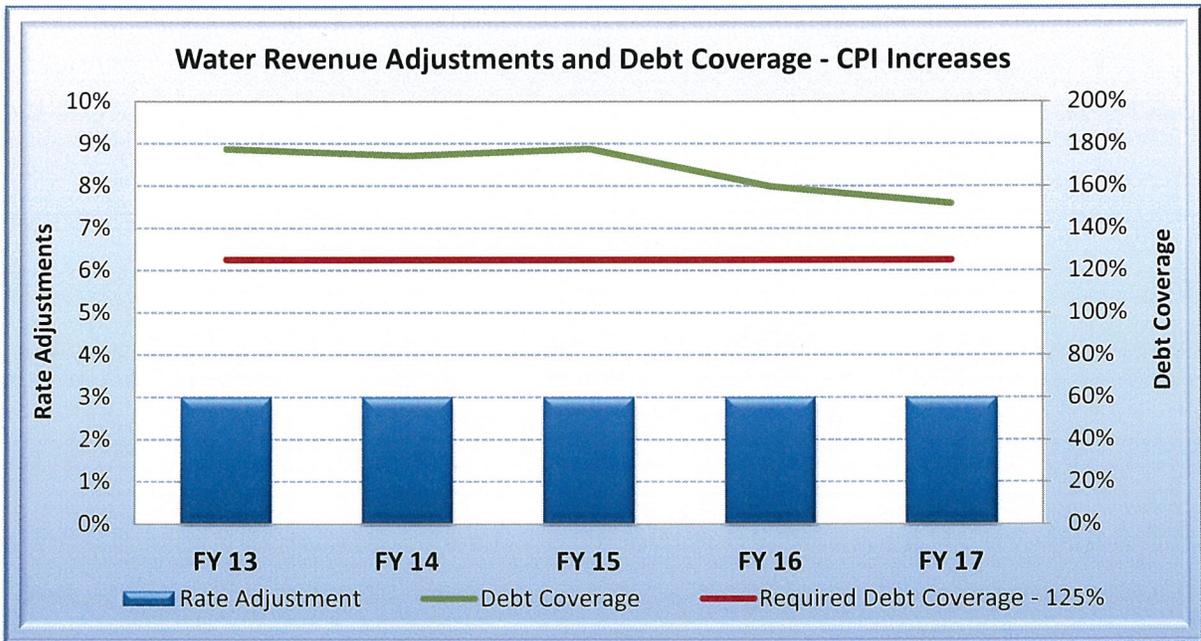
**APPENDIX**

*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 177 percent in FY 2013 to 152 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. As stated previously, the City estimates extensive capital spending in FY 2011 and FY 2012; as a result the water enterprise reserves have been depleted. CPI increases 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

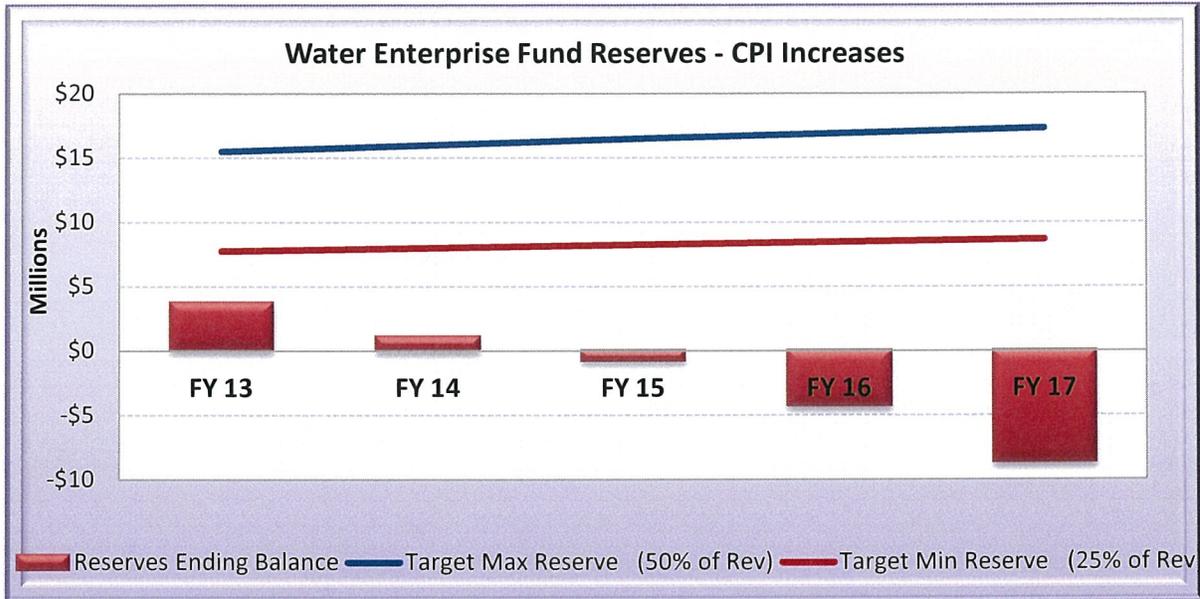


Figure 9 shows the proposed operating financial plan under the alternative CPI increases. As seen below, the total revenue requirements for the water enterprise (O&M expenses, total debt service, and capital costs) exceed the revenues generated by the proposed revenues; as a result, reserve funding becomes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

Figure 9 – Water Operating Financial Plan – CPI Increases

