STAFF REPORT

Meeting Date: October 21, 2014

To: Honorable Mayor & City Council

From: Trish Rhay, Assistant Director of Public Works Services – Utilities and Infrastructure
Noel Marquis, Assistant Director of Administrative Services
Michelle Tse, Senior Management Analyst

Subject: Water Penalty Surcharge and Implementation

Attachments: None.

INTRODUCTION

At the September 11, 2014 meeting, staff was directed to evaluate and recommend, for the City Council's consideration, an appropriate baseline to assess the penalty surcharges as it relates to the City's Stage B water conservation program, and to develop an implementation schedule based on the City's utility-billing capabilities. This report transmits options on the penalty surcharge assessments.

DISCUSSION

Given the severe drought conditions, the State enacted emergency regulations to outdoor water use and to promote water conservation. Part of the State's directive requires water suppliers taking action within thirty (30) days from the State's emergency declaration to limit outdoor water use and implement other water conservation measures. As such, the City Council approved the implementation of Stage B of the City's water conservation program, requiring water customers to reduce their overall water usage by 10%. Water use in excess of the 90% baseline amount would be assessed a penalty surcharge. Per the City Council's direction, total usage within Tier 1 for single-and multi-family water customers has been exempted from the penalty surcharge assessments as amended by ordinance adopted by the City Council at the September 23, 2014 meeting, with an effective date of October 24, 2014, thirty days after the second reading.

In response to Council request to better address unusual usage spikes, staff recommends that a water customer's baseline usage be the average water use in the last three years (i.e. Fiscal Years 2010-2013). The 3-year average approach is similar to the approach previously used in 2009 when the City Council had declared a Stage B water conservation program be enacted at that time. Additionally, a three-year average

will level out periods of high and low use in any given year and serve as a better indicator of overall water use.

The City Council also directed staff to evaluate additional scenarios to determine the most appropriate penalty structure. Staff proceeded to evaluate the City's new utility billing system and its programming capabilities. The penalty surcharge framework in the previous billing system was customized and programmed as an "add-on" to meet the City's billing needs. Similarly, the penalty surcharge as outlined in the City's Municipal Codes would need to be added to the new system. As such, any revision to the existing utility billing system's penalty surcharge calculations will require programming by vendor, Tyler Technologies.

Staff evaluated two options for administering the penalty surcharges.

Option 1: Program the utility billing system to align with the current penalty surcharge structure.

Implementation of the penalty surcharges would be delayed until the programming is fully completed and tested, which could take up to eighteen months. The vendor is finalizing the cost estimate and timeline for completion and staff should be able to present this information orally to the City Council at the Study Session. This option would not require an ordinance amendment since the intent is to align the utility billing system with what is currently outlined in the Municipal Code. If the programming, implementation, testing and costs are minimal, then staff recommends going with this option.

The following examples illustrate how the penalty surcharges are calculated under Option 1. For a medium sized water customer who typically uses 80 units in a billing cycle, a 10% reduction would mean the target usage of 72 units. If the customer still used 80 units of water, the penalty surcharges would be $57.76. The chart shows this and 2 additional examples as follows:

Munis Billing Structure by Cycle 3 Year Average

		Small 1"	Medium 1.5"	Large 2"
Jun/Jul Period	**Target**	**32**	**72**	**330**
	Actual	**32**	**80**	**413**
Meter charge		43.36	75.16	113.32
Units 1-10	3.53	35.30	35.30	35.30
Units 11-55	4.67	102.74	210.15	210.15
Drought Rate		-	-	-
Units 56- 120	7.36	-	125.12	478.40
Penalty Rate 1	14.72	-	58.88	-
Penalty Rate 2	29.44	-	117.76	-
Units over 120	14.22	-	-	2,986.20
Penalty Rate 1	14.72	-	-	610.88
Penalty Rate 2	29.44	-	-	1,221.76
	Total Water Charge:	181.40	622.37	5,656.01
	Difference:	-	117.76	652.38

If the programming in Option 1 is too extensive or takes too long, then Option 2 should be considered.

Option 2: Utilize the format currently available on the City's utility billing system.

The Utility Billing program, as developed by the vendor, does have a method of calculating and assessing penalties for over usage. Staff has reviewed the functionality of this process and has found that it could provide a work around solution. However, further discussion would be required to make certain everyone is in agreement with the methodology used.

In brief, the following are some of staff's thoughts on the Munis method:

The method developed by Tyler for the Munis program assumes an escalating usage reduction as usage levels increase. In the example, staff used the following reductions for our test.

Min Amount	Max Amount	Reduction %
0	55	0
56	120	5
121	300	10
301	999999999	20

The ranges of usage shown above are not the same as our billing tiers. For example, the first level with 0% reduction covers both Tiers 1 and 2 of the City's billing structure. The second level is the same as our Tier 3 billing level and the 3rd and 4th levels break our tier 4 billing level into two levels of reduction, with the highest level requiring a 20% reduction.

Using the above reduction levels and some basic assumptions for the remainder of the Munis method, staff calculated three examples of usage and the penalty assessments that would result in a failure to reduce usage:

Drought Billing Structure by Cycle 3 Year Average

		Small 1"	Medium 1.5"	Large 2"
Jun/Jul Period	**Target**	**29**	**72**	**372**
	Actual	**32**	**80**	**413**
Meter charge		43.36	75.16	113.32
Units 1-10	3.53	35.30	35.30	35.30
Units 11-55	4.67	88.73	210.15	210.15
Drought Rate	9.34	28.02	-	-
Units 56- 120	7.36	-	125.12	478.40
Drought Rate	14.72	-	117.76	-
Units over 120	14.22	-	-	3,583.44
Drought Rate	28.44	-	-	1,166.04
	Total Water Charge:	195.41	563.49	5,586.65
	Difference:	14.01	58.88	583.02

With the assumptions that were used in the above calculations, staff found that the Munis method caused higher penalties for the medium and large water users. Further

discovery would be required to define the usage levels and penalty rates that would provide amounts closer to our existing format if we want to move forward with this approach.

Since the penalty structure outlined in Option 2 would be different than what is currently outlined in the Municipal Code, an amendment would be required. This could take up to sixty days before it becomes effective. The sixty day period is due to the need for two readings and the ordinance becoming effective 30 days thereafter. However, because of the significant disadvantages, the penalty structure outlined in Option 2 should only be considered a short term solution.

Given this, the Public Works Conservation Subcommittee and staff will review the option of a new water rate tier structure that is designed to promote ongoing, sustainable water conservation. The rationale is that higher volume water users impose a higher cost on the water system, and thus should pay higher rates. This analysis will be brought back to the City Council for discussion at a future meeting.

Regardless of the selected approach, the penalty surcharge component includes an appeals process. As such, staff reviewed the appeals process previously used in 2009, and has made improvements such as standardizing forms and developed an initial pre-screening process to better streamline the appeals process.

Depending on the City Council's direction regarding the approach for assessing the penalty surcharges, staff will follow up with any necessary ordinance amendments to align the administrative policy with the Municipal Code.

FISCAL IMPACT

If the City's utility billing system is to be programmed to align with the current penalty structure as outlined in the Municipal Code, there will be programming related costs which will be presented to the City Council during the Study Session.

RECOMMENDATION

Staff is seeking City Council direction to use the three-year water baseline period to assess the water penalty surcharges, and seeking direction on which approach to use when assessing the water penalty surcharges.

George Chavez
Approved By