



AGENDA REPORT

Meeting Date: February 16, 2016

Item Number: G-2

To: Honorable Mayor & City Council

From: Trish Rhay, Assistant Director of Public Works Services, Infrastructure & Field Operations
Caitlin Sims, Senior Management Analyst

Subject: IMPLEMENTATION OF PREVIOUSLY APPROVED 5% WATER RATE INCREASE & REDUCTION OF CAPITAL EXPENSES

Attachments: 1. Ordinance 15-O-2692

RECOMMENDATION

- 1) Implement previously adopted 5% water rate increase, as adopted in Ordinance 15-O-2692 on October 20, 2015, and scheduled to become effective on March 1, 2016; and
- 2) Identify alternative(s) to utilize operating reserves, increase revenues from other sources, decrease capital expenses in order to reduce further revenue shortfalls.

INTRODUCTION

At its October 20, 2015, meeting, the City Council adopted Ordinance 15-O-2692, authorizing two 5% increases to the water rates. The first 5% increase became effective on November 20, 2015. The second 5% increase was to become effective on March 1, 2016 (if needed). In the event that the City Council adopted a new tiered rate structure before March 1, 2016, the second 5% increase would not be needed.

At its January 5, 2016, meeting, the City Council tabled its discussion to revise the tiered water rates structure and directed staff to complete additional analysis before returning with a proposed new tiered water rate structure. The additional analysis will be complete in July. If Council approves the revised rate structure proposal, the projected effective date is October 2016. Therefore, the second 5% rate increase is needed to address the water revenue shortfall until the new tiered rate structure is adopted. Even with the 5% rate increase, there is an ongoing budget shortfall that needs to be addressed in the short-term.

DISCUSSION

Based on projections from HF&H, staff projects that the estimated revenue shortfall of \$6.0 million in the Water Enterprise Fund through October 2016. The following sections discuss the two actions proposed to address this shortfall:

Action 1: Notice of Upcoming Second 5% Rate Increase Effective March 1, 2016

To address the short-fall while a new tiered structure is being developed, staff worked with the firm HF&H Consultants, LLC ("HF&H") and the Public Works Commission's Conservation Subcommittee (Chair Aronberg and Vice-Chair Wolfe) to identify alternatives to minimize revenue loss until the tiered water rates structure was adopted.

The proposed recommendation from the Public Works Commission and the Public Works Liaison Committee (Vice Mayor Mirisch and Councilmember Brien) was to implement two 5% rate increases and use \$4 million from operating reserves.

At its October 20, 2015, meeting, the City Council adopted Ordinance 15-O-2692, to implement two water rate increases of 5%. The first rate increase became effective on November 20, 2015. The second increase was to become effective on March 1, 2016 (if needed). In the event that the City Council adopted a new tiered rate structure before March 1, 2016, the second 5% increase would not be needed. Since the City Council tabled the discussion on the proposed tiered rate structure, the current projected timeline for implementation of a new tiered rate structure is October 2016. Therefore, the second 5% rate increase is needed to address the water revenue shortfall until the new tiered rate structure is adopted.

Moving forward with the March 1, 2016 water rate increase will generate additional revenue of approximately \$0.8 million. Based on the HF&H projections, the remaining revenue shortfall would be approximately \$5.2 million through October 2016.

Action 2: Reduce Capital Expenses and/or Increase Revenues to Minimize Shortfall

The following three alternatives are proposed to address this \$5.2 million remaining shortfall:

- 1) Utilize funding from operational reserves
- 2) Increase revenues from other sources
- 3) Eliminate or postpone capital projects to reduce expenses

A more complete analysis of these options can be found below.

Utilize Funding from Operational Reserves

Current policy requires that the City maintains a target level of cash reserves in the Water Fund that is 50% (fifty percent) of gross annual water user revenues. If the implementation of the second 5% increase goes forward on March 1, the cash reserve at June 30, 2016 would be \$19.9 million.

Increase Revenues from Other Sources

The Water Enterprise Fund currently owns properties that are either underutilized or being leased to outside tenants at less than market rates, based on past Council direction. In these cases, ratepayers to the Water Enterprise Fund are subsidizing the difference between the current rent and the market rate, which could amount to approximately \$1.5 million annually. If the City Council wishes to maintain the obligation of these properties under market value, then

this subsidy could be borne by all residents, as an expenditure of the General Fund, rather than that of ratepayers through the Water Enterprise Fund.

Eliminate or Postpone Capital Projects to Reduce Expenses

The final alternative is to eliminate or postpone capital projects in order to reduce expenses. Staff has reviewed the capital improvement projects budgeted and what has been expended or encumbered for FY 2015-16 and has identified which could be entirely eliminated or postponed until a long-term tiered water rates structure is adopted. Staff presented these projects at the Public Works Commission meeting on February 11, 2016.

Project	Adjusted FY 15/16 Budget	FY 16/17 Budget
Water Master Plan	\$392,144	-
Robertson Yard	\$75,000	-
Coldwater Canyon Reservoir	\$104,857	-
Water Main & Hydrant Replacement	\$4,395,589	\$4,000,000
Reservoir & Pump Station Replacement	\$2,570,544	\$1,575,000
Replacement of Water Meters	\$991,254	-

Staff presented all three of these options to the Public Works Commission at its February 11, 2016, meeting to determine which option, or combination of options, would be the best recommendation to the City Council to address the budget shortfall. The Public Works Commission recommended the City Council consider the following options:

Project	Proposed Spending Modifications (Cutting or Delaying Capital Projects; Increasing Water Enterprise Fund Revenues)	
	FY 2015-16	FY 2016-17
Transfer from General Fund for under-market property leases	\$1.5 million	\$1.5 million
Delay Water Main & Hydrant Replacements	\$2 million	-
Delay Replacement of Water Meters	\$891,254 ¹	-
TOTAL	\$5,891,254	

The Public Works Commission's recommendation would address the entire projected shortfall until October 2016.

Staff will provide any additional information regarding the Public Works Commission's recommendation at the February 16, 2016, City Council meeting.

¹ \$100,000 in the Water Meter CIP has been encumbered in FY 2015/16.

Implementation of Tiered Water Rate Structure

The recommendations discussed above are only intended to address the short-term budget shortfall as a result of conservation. While these actions may minimize the shortfall, a long-term tiered water rates structure will be required to ensure that the City is able to account for its long-term water conservation goals while still maintaining and expanding the water system, as adopted in the recently-approved Water Enterprise Plan.

At the January 5, 2016, the City Council directed staff to conduct a financial review of the Water Enterprise Fund and an operational audit of the City's water operations. Staff anticipates that these two analyses will be completed by summer of 2016. Staff will also conduct additional public outreach to homeowners' associations, the commercial customers, and other interested stakeholders over the next several months.

At this time, staff projects that the new tiered water rate structure could be in effect in October 2016.

FINANCIAL IMPACT

Based on anticipated revenues and expenditures through October 2016, the projected revenue shortfall is \$5.2 million. This projection includes the 5% rate increase that is currently scheduled to go into effect on March 1, 2016. If the 5% rate increase does not become effective as is currently scheduled, the projected revenue shortfall would increase by \$0.8 million to \$6.0 million through October 2016.



Don Rhoads
Approved By



George Chavez
Approved By

Attachment 1

ORDINANCE NO. 15-O-2692

**AN ORDINANCE OF THE CITY OF BEVERLY HILLS TO
INCREASE RATES AND CHARGES FOR WATER
SERVICES AND FACILITIES FURNISHED BY THE CITY**

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 and charges (the “rates”) for water services and facilities furnished by the City, 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 XIIIID 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.

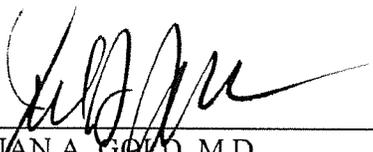
(f) On September 1, 2015 and on October 6, 2015, the City Council conducted a public hearing on the proposed rates and heard and considered all objections and protests thereto and at the close of the public hearing, the City Council determined that written protests had not been presented by a majority of owners of the identified parcels.

Section 2. The City Council hereby approves the rates in the amounts and on the effective dates as provided in Exhibit A.

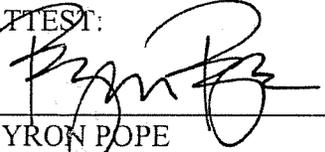
Section 3. The City Clerk shall cause this Ordinance to be published at least once in a newspaper of general circulation published and circulated in the City within fifteen (15) days after its passage, in accordance with Section 36933 of the Government Code; shall certify to the adoption of this Ordinance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

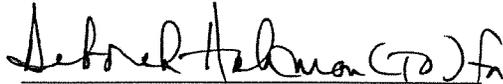
Adopted: October 20, 2015
Effective: November 20, 2015



JULIAN A. GOLD, M.D.
Mayor of the City of Beverly Hills,
California

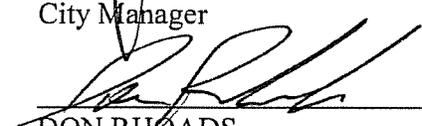
ATTEST:


BYRON POPE (SEAL)
City Clerk

APPROVED AS TO FORM:


LAURENCE S. WIENER
City Attorney

APPROVED AS TO CONTENT:


MAHDI ALUZRI
City Manager


DON RHOADS
Director of Administrative Services/Chief
Financial Officer

