CITY OF BEVERLY HILLS

PUBLIC WORKS SERVICES DEPARTMENT

MEMORANDUM

TO: PUBLIC WORKS COMMISSION

FROM: Trish Rhay, Assistant Director of Public Works Services – Infrastructure & Field Operations

Michelle Tse, Senior Management Analyst

DATE: June 11, 2015

SUBJECT: PENALTY SURCHARGE AND TIERED WATER RATE STRUCTURE REVIEW

ATTACHMENT: None

Staff has been working with HF&H Consulting LLC ("HF&H") to first evaluate the water penalty surcharges and concurrently, possible water rate increases. Due to the recent court decision of the *San Juan Capistrano* case, staff has been reviewing the City's penalty surcharge structure to ensure compliance with State law. The basic premise of the court case is that assessments should equate to the cost of service.

Staff and HF&H have preliminarily identified City risks to be incorporated as part of the penalty surcharge assessment. A brief description of identified risks and assumptions are outlined below.

1. City Costs: Conservation program costs including enhanced rebates are based on Years 1-5 of the Water Enterprise Plan.

2. Metropolitan Water District ("MWD") Costs: The cost projection is based on the assumption that the City will need to purchase water at the higher Tier 2 rate if the City does not reduce its MWD allocation.

3. State Water Resources Control Board Costs ("State Board") costs: The cost projection is based on the assumption that if the City does not reach its conservation goal, the State Board may fine the City at the rate of $10,000 per day.

Based on these various assumptions, it is projected that the City will carry approximately $6 million in risks if the City fails to comply with conservation requirements.

A table showing the breakdown of these risks is included below.

A.	**Estimated Risk Costs (FY 2015-16)**			
I.	**City Costs - Accelerated Conservation Measures**			
	Conservation Programs (years 1-5)	$700,000		
	Rebates (years 1-5)	$500,000		
				$1,200,000
II.	**MWD Costs - Tier 2 Rate For Use Over Shortage Allocation**			
	SF Usage - 2014 (af)	6,225	*57%*	
	MF Usage - 2014 (af)	2,080	*19%*	
	Comm Usage - 2014 (af)	2,629	*24%*	
	AF @ No Cutback	10,934	*100%*	
	AF @ MWD Level 3 Cutback	9,643		
	Difference	1,291	12%	
	MWD Tier 2 Rate ($/af)	$2,960		
				$3,821,897
III.	**DWR Costs - Fine for Use Over Conservation Standard**			
	Penalty for not achieving reduction %	$10,000	/day	
	Approx. # of days (3/16 through 6/16)	100	days	
				$1,000,000
IV.	**Total Risks Costs (FY 2015-16)**			
				$6,021,897

The costs outlined above are used to evaluate and develop a penalty surcharge structure that is equitable and to be implemented via the City's utility billing system Munis. Concurrently, staff has been reviewing how the penalty surcharge structure will impact water rates. The penalty surcharge structure is assessed for excess water use beyond an established baseline. Under the existing Stage D Conservation Program, the baseline is set at 70%. The preliminary penalty surcharge framework and general timeline was discussed during the Public Works Liaison meeting on May 27, 2015.

Once the penalty surcharge structure has been fully vetted, HF&H will review and develop a new tiered water rate structure to be implemented in the long term that may replace the City's existing penalty surcharge framework.

Staff will provide additional information during the June 11, 2015, Commission Meeting. Staff intends to present the penalty surcharge rate structure at a City Council Study Session in late June.