



**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 *mt*

**DATE:** July 9, 2015

**SUBJECT:** RATE INCREASE UPDATE

**ATTACHMENT:** 1. June 30, 2015 City Council Agenda Report on Water Rates

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A water rate analysis and rate increase recommendation was presented to the City Council for consideration during its June 30, 2015, meeting. The recommendation includes a 5% rate increase to be effective in October 2015, and a subsequent 5% increase in December 2015. Attached is a copy of the June 30, 2015, agenda report.

Staff will provide additional information during the July 9, 2015, Commission meeting and update the Commission on comments/feedback received from the City Council on this item.



## AGENDA REPORT

**Meeting Date:** June 30, 2015  
**Item Number:** G-3A  
**To:** Honorable Mayor & City Council  
**From:** Trish Rhay, Assistant Director of Public Works Services, Infrastructure & Field Operations  
Michelle Tse, Senior Management Analyst  
**Subject:** A. RECOMMENDATION TO INCREASE WATER USE RATES FOR FY15-16 DUE TO ONGOING CONSERVATION EFFORTS  
**Attachments:** 1. Resolution 15-R-13037 -- Stage D Resolution

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### **RECOMMENDATION**

The Public Works Liaison Committee ("Liaison Committee") is recommending that the City Council initiate the public noticing and hearing process for two water rate increases of 5% each to cover the projected revenue shortfall as a result of anticipated reduction in consumption, and increasing expenses to fulfill the State's drought mandate. After these increases, there is a reduction in revenue due to conservation of an additional \$4M over a 12 month period, which can be offset through the use of Water Enterprise Fund reserves.

### **INTRODUCTION**

On April 1, 2015, the Governor declared the first ever state-wide mandatory water use reduction of 25% through February 2016. Under this directive, the State Water Resources Control Board instituted mandatory conservation water use reduction targets for each water provider, including the City of Beverly Hills.

At its May 5, 2015 Formal meeting, the City Council approved Resolution 15-R-13037, declaring a Stage D (30%) water use reduction. A copy of the Resolution is included as Attachment 1. The City Council directed staff to review the City's existing water rates and determine if a rate increase should be implemented given increasing costs and anticipated reductions in water sales and revenue. The major concern expressed by the City Council was that the City should plan accordingly such that sufficient revenues are available to offset standard operating costs.

Staff worked with the firm HF&H Consultants LLC ("HF&H") to review the City's operating costs to determine whether a water rate increase was needed.

**DISCUSSION**

For background, the City Council approved a 2% water rate increase in August 2014 for FY14-15. During the last several months, staff has been working with the Public Works Commission on the development of the Water Enterprise Plan which not only identified projects and programs to increase the City's water system reliability, but also included a 10-year financial forecast. The financial analysis generated the information needed to project any rate increases necessary to fund the Water Enterprise Plan for future years. The Water Enterprise Plan framework was approved by the City Council during the May 18, 2015 Formal meeting. At this same meeting, the City Council directed staff to evaluate additional potential rate adjustments needed to compensate for increased operating costs, conservation efforts, and reduced consumption. The next sections elaborate on the analysis completed on water rates.

***Water Rate Analysis***

As part of the analysis, water operating costs for FY15-16 were reviewed. The following summarizes the projected fiscal impacts based on existing operating costs and projected revenue loss due to increased conservation efforts as well as potential solutions for addressing such shortfalls:

**Table 1: Rate Strategies for Addressing Revenue Needed to Cover Capital and Operating Costs**

Description	Cost Impact (12 months)	Potential Solution(s)
1. Budgeted Operating Expense Increases	\$1,036,382	<ul style="list-style-type: none"> <li>• 3.53% rate increase</li> </ul>
2. Revenue loss due to Conservation	\$5,710,049 (net of reduced water purchases)	<ul style="list-style-type: none"> <li>• Additional 24.9% rate increase</li> <li>• Offset revenue loss through available reserves</li> <li>• Combination of "a" and "b"</li> </ul>
<b>Total Impact:</b>	<b>\$6,746,431</b>	

The following sections further describe each of the various revenue needs based on projected revenue loss.

***1. Budgeted Operating Expense Increases of \$1,036,382:***

There was a projected overall operating cost increase of 3.53%, approximately \$1M, which is primarily due to personnel cost increases with the addition of the Water Resources Manager and the Conservation Coordinator positions.

***2. Revenue Loss Due to Conservation of \$5,710,049:***

For revenue forecasting purposes, staff used the following assumptions regarding customer usage reductions:

- 50% of customers reduce water use by 30%
- 25% of customers reduce water use by 15%
- 25% of customers do not reduce water use

The assumptions outlined above average an overall 18.8% City-wide reduction; this equates to an estimated revenue loss of 24.9% (\$7.8 million) per year. Since the City utilizes a tiered rate

system, it is important to note that an overall 18.8% water use reduction does not equate to a proportional revenue loss. As consumption decreases, the City's need to purchase water will decrease an estimated 18.8% (\$2.1 million) per year. Therefore, the total revenue shortfall is estimated to be \$5.7 million.

The rate strategies were reviewed by both the Public Works Commission Conservation Subcommittee (Commissioner Wolfe and Commissioner Felsenthal) and the Public Works Liaison Committee (Vice Mayor Mirisch and Councilmember Brien). As part of the analysis, scenarios showing the interim rate increases needed to cover operating costs were presented. Based on the review, the Liaison Committee is recommending a progressive approach of two interim water rate increases of 5% each and use of \$4M of the operating reserves (over a 12 month period) to cover projected consumption revenue shortfalls. The analysis includes the planned implementation of a new tiered structure by February 2016, which will be designed to cover the total system costs of providing water to the City's customers, which includes the remaining costs of FY15/16.

The following Table 2 shows new tier rates based on the recommended rate increases for both residential and commercial customers in Beverly Hills and West Hollywood.

**Table 2: New Tier Rates for Beverly Hills and West Hollywood Customers**

**Beverly Hills Rates:**

Single Family/Multi-Family	Present	October 11, 2015 (with 5% increase)	December 15, 2015 (with 5% increase)
Tier 1	\$ 3.53	\$ 3.71	\$ 3.90
Tier 2	\$ 4.67	\$ 4.90	\$ 5.15
Tier 3	\$ 7.36	\$ 7.73	\$ 8.12
Tier 4	\$14.22	\$14.93	\$15.68
Commercial			
Tier 1	\$6.04	\$6.34	\$6.66

**West Hollywood Rates:**

Single Family/Multi-Family	Present	October 11, 2015 (with 5% increase)	December 15, 2015 (with 5% increase)
Tier 1	\$ 4.41	\$ 4.63	\$ 4.86
Tier 2	\$ 5.84	\$ 6.13	\$ 6.44
Tier 3	\$ 9.21	\$ 9.67	\$10.15
Tier 4	\$17.77	\$18.66	\$19.59
Commercial			
Tier 1	\$ 7.55	\$ 7.93	\$ 8.33

***Water Rate Impact on Penalty Surcharge***

A more detailed discussion on the water penalty surcharges is separately agendaized for the June 30, 2015 City Council Formal Session.

***Water Rate Implementation***

The Liaison Committee suggested that the first 5% rate increase begin in July 2015. State law, however, requires a 45-day advance notice to water customers and a public hearing be held regarding any rate increases.

Therefore, the soonest the rate increases can be implemented is outlined in the following projected timeline:

June 30, 2015: Council approval to proceed with the rate increase  
July 6, 2015: Deadline to mail out notices to all water customers (minimum of 45-day advance notice)  
September 1, 2015: Public Hearing/First Reading on Proposed Water Rate Increases  
September 10, 2015: Second Reading  
October 11, 2015: Effective Date of Ordinance / First rate increase becomes effective (minimum effective date is 30 days after Second Reading)  
December 15, 2015: Second rate increase becomes effective

***Projected New Tiered Water Rate Structure Timeline***

It is important to note that this recommended water rate increase would be in effect until the City finalizes a new tiered water rate structure that would account for expected long-term conservation, reductions in consumption, and necessary revenues to achieve the goals identified in the 10-year capital investment of the Water Enterprise Plan.

The current projected timeline for the new tiered water rate structure development is as follows:

July - September 2015: Conservation Rate Structure Development  
October 9, 2015: Framework presented to Public Works Commission  
October 2015: Framework presented to Public Works Liaison Committee  
October 20, 2015: Framework presented to City Council (Study Session)  
October 27, 2015: Deadline to mail out notices regarding new water rate structure (minimum 45 advance notice to water customers)  
December 15, 2015: Introduce to City Council Formal Session — First Ordinance Reading  
January 2016: City Council Formal Session — Second Ordinance Reading  
February 2016: Ordinance Effective Date (minimum effective date is 30 days after Second Reading)

Based on the projected timeline, staff will be returning with a proposed new tier water rate structure for the City Council's consideration by Fall 2015.

**FISCAL IMPACT**

The two rate increases (5% in October and 5% in December) and the use of \$4M from operations and reserves is estimated to cover revenue loss from conservation and increasing operating expenses until a new tiered rate structure can be put in place in February 2016.

  
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Approved By  
Don Rhoads

  
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Approved By  
George Chavez

# Attachment 1

RESOLUTION NO. 15-R- 13037

RESOLUTION OF THE COUNCIL OF THE CITY OF  
BEVERLY HILLS DECLARING AND IMPLEMENTING  
STAGE D WATER CONSERVATION MEASURES

RECITALS

WHEREAS, during calendar year 2014, the Governor declared a drought in the State of California and the State Water Resources Control Board enacted emergency water conservation measures. As a result, the City of Beverly Hills declared the Stage B shortage, which is currently in effect, mandating a 10% reduction in potable water use.

WHEREAS, in April 2015, the Governor issued an Executive Order directing the State Water Board to impose restrictions to achieve an aggregate statewide 25% reduction in potable urban water use through February 2016. As a result, the State Water Board released a preliminary framework, outlining reduction targets from 8% to 36% for each water supplier, with Beverly Hills having a reduction target of 36%.

WHEREAS, given the Governor's Executive Order and the State Water Board's reduction target for Beverly Hills of 36%, the City Manager is recommending the further declaration of a water shortage emergency and the implementation of water conservation Stage D pursuant to Beverly Hills Municipal Code Section 9-4-301.

NOW THEREFORE, the City Council of the City of Beverly Hills does hereby resolve as follows:

Section 1. Water Conservation Stage D is hereby declared throughout the City's service area mandating a minimum 30% reduction in potable water use.

Section 2. The City Council hereby directs that the Assistant Director of Public Works Services implement Water Conservation Stage D as follows:

Stage D Requirements:

- a. Restaurants shall serve water upon request only;
- b. All public restrooms in the city and private bathrooms in hotels shall notify patrons and employees of water conservation goals;
- c. Plumbing and irrigation leaks shall be repaired as soon as practicable. The city may issue notices to repair visible leaks;
- d. Landscape irrigation shall be restricted to selected days and times as determined by the city manager, unless such irrigation uses reclaimed wastewater;

e. Refilling of swimming pools, spas or ponds shall be prohibited unless required for health or safety reasons. Topping off pools with water in order to maintain filter effectiveness and prevent standing water and breeding of insects shall be considered a refilling of a pool for health reasons;

f. Operation of water fountains shall be prohibited unless the water is recirculated;

g. Exterior washdown of buildings and washdown of vehicles shall be prohibited, unless: (1) the washing is done on the immediate premises of a commercial car wash or commercial service station or with reclaimed wastewater; or (2) the health, safety and welfare of the public is contingent upon frequent vehicle cleaning, such as the cleaning of garbage trucks and vehicles to transport food and perishables;

h. Water usage from fire hydrants shall be limited to firefighting, related activities or other activities necessary to maintain the public health, safety and welfare;

i. Except for single-family and multi-family residential users in tier 1 who will remain in tier 1 for the next billing cycle, users shall reduce water usage to 70% of the amount in the baseline period as determined by the city council.

Section 3. A penalty surcharge may be assessed for water usage contrary to the provisions of Stage D or any water conservation measure adopted by the City Council in an amount to be determined by the city council, and which shall be consistent with State law.

Section 4. Violation by any person of the stage D mandatory requirements shall constitute a misdemeanor and, upon conviction, shall be punished by a fine not to exceed \$1,000.00. Continued excessive use may result in termination of water supply through irrigation water services and/or restriction of water supply through domestic meters. The violation of each element, and each separate violation thereof, shall be deemed a separate offense, and shall be punished accordingly.

Section 5. The drought emergency water conservation regulations as promulgated by the State Water Resources Control Board shall be implemented.

Section 6. The procedure for a water customer to appeal the imposition of the water penalty surcharge will be as outlined in Resolution 09-R-12672 adopted by the City Council on May 13, 2009.

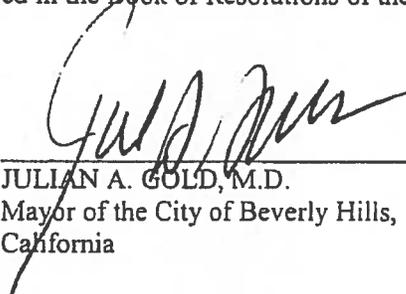
Section 7. The City Council hereby finds, in the exercise of its independent judgment and analysis, that this Resolution is exempt from the California Environmental Quality Act ("CEQA") because the requirements for water conservation contained in this Resolution will not have a significant effect on the environment, and the adoption of this Resolution and the timing thereof is mandated by the current drought conditions and the State Water Board's water reduction target for the City. In this case, the City is acting at the direction of the State Water Board to protect, maintain, restore and enhance natural resources and the environment. To comply with the requirements of the State Water Board, the City Council finds that the adoption of this Resolution is categorically exempt from the requirements of CEQA pursuant to CEQA Guidelines Sections 15307 and 15308. Furthermore, this Resolution will have no possible

significant effect on the environment, given that the provisions of this Resolution provide similar regulations as currently exist and will not in and of themselves cause any change in the environment. Staff is hereby directed to prepare and post a notice of exemption pursuant to CEQA Guidelines Section 15062.

Section 8. In accordance with Beverly Hills Municipal Code Section 9-4-303, the City Council hereby directs the City Clerk to publish this Resolution within 10 days of its adoption at least once in a newspaper of general circulation within the city and to post this Resolution in at least three (3) public places and continue to post this Resolution until such time as the restrictions set forth herein are repealed by resolution of the City Council.

Section 9. The City Clerk shall certify to the adoption of this resolution and shall cause this resolution and his certification to be entered in the Book of Resolutions of the Council of the City.

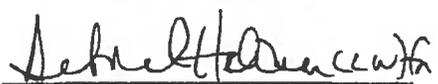
Adopted: May 5, 2015

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

ATTEST:

  
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BYRON POPE (SEAL)  
City Clerk

APPROVED AS TO FORM:

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

APPROVED AS TO CONTENT:

  
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GEORGE CHAVEZ  
Director of Public Works Services