



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
Caitlin Sims, Senior Management Analyst CS

DATE: November 12, 2015

SUBJECT: TIERED WATER RATES STRUCTURE RECOMMENDATION

ATTACHMENTS: None

Since July 2015, City staff and the Public Works Commission's Conservation Subcommittee have been working with HF&H Consultants, LLC, ("HF&H") to analyze the City's existing rate structure. Through this process, the City and consultants have conducted a comprehensive analysis and re-evaluation of the tiered rate structure itself, with consideration for policy and legal decisions rendered during this past year. These considerations included the San Juan Capistrano Court Case, the City's mandatory water use reductions, and the implementation of the City's Water Enterprise Plan.

DISCUSSION

HF&H, staff and the Conservation Subcommittee have developed a proposed rate structure that they believe best addresses three primary factors:

- (1) Identifies and defines customer classes and tier "breakpoints" in a manner that is consistent with Proposition 218:
 - a. Proposition 218 requires that rates be set in accordance with service costs. In its decision on the *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* case, the California Fourth Court of Appeals further clarified that cities must be able to show how rates at different tier levels are based on the actual cost of providing service. In its evaluation, HF&H, staff and the Conservation Subcommittee fully assessed the costs of providing water to the different customer classes and the different tier levels.
- (2) Is revenue neutral:
 - a. The proposed rate structure allows the City to recover its fixed and variable operating costs even with the City's decreasing water consumption revenues, as the City strives for its long-term water supply and conservation goals.
- (3) Accounts for the City's long-term water conservation goals:
 - a. State law requires the City to reduce its water usage by 20% by 2020. The City's target 2020 usage is based on the City's average daily consumption over a ten-year period (from 1996 to 2005). As the City moves towards this long-term conservation goal and water users use less water, the City's revenues from water consumption will decrease. Many of the City's costs for operating and

maintaining the water system are fixed, so rates should be set at a level that allows the City to cover its operating costs even as water consumption revenues are decreasing.

The new tiered water rate structure does not cover the potential costs that have resulted from non-compliance with the Governor's drought declaration. These costs will be recovered as a part of the penalty surcharge, for which the framework was approved by the City Council at its June 30, 2015, meeting.

The rate structure evaluation included an assessment of the City's budgeted expenses and revenues in FY 2015-16 and in each of the next five years. These expenses include the fixed costs of operating the water system including distribution lines, staff, materials and supplies and debt service payments, and budgeted capital projects such as water main and hydrant replacements, water meter replacements, water treatment plant maintenance, and reservoir replacement. The City's budgeted expenses do not include those capital projects included in the Water Enterprise Plan that will be debt-financed. Revenues primarily include those from water consumption charges, meter and fire service revenues.

For the purposes of the analysis, HF&H and staff assumed that there would be a system-wide 19.5% reduction in FY 2015-16, compared to FY 2014-15. This assumes that approximately 50% of customers meet their 30% reduction target, 25% of customers reduce by 15% and 25% of customers have no reduction. This assumption has been supported by water conservation trends since Stage D Water Conservation Measures were adopted by the City Council in May 2015.

Based on the analysis of the water demands of different customer classes at different tier levels, HF&H, staff and the Conservation Subcommittee developed a proposed rate structure. This proposed rate structure will first be presented to the Public Works Liaison Committee for their input on November 9, 2015. The information will subsequently be presented at the November 12, 2015, Commission meeting.

Staff seeks input from the Commission on the following:

- (1) What is the Commission's input and/or recommendation on the recommended tiered water rate structure and the assumptions contained therein?

NEXT STEPS

The anticipated schedule for the implementation of the new tiered water rates structure is as follows:

November 9, 2015: Framework presented to Public Works Liaison Committee
November 12, 2015: Framework presented to Public Works Commission
November 17, 2015: Framework presented to City Council (Study Session)
November 22, 2015: Deadline to mail out notices regarding new water rate structure (minimum 45-day advance notice to water customers)
January 2016: Introduce to City Council Formal Session – First Ordinance Reading
Mid-January 2016: City Council Formal Session – Second Ordinance Reading
Mid-February 2016 (30 days after Second Ordinance Reading): Ordinance Effective Date

Based on the projected timeline, the new tiered water rates structure will be implemented in mid-February 2016.