



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

DATE: February 11, 2016

SUBJECT: UPDATE ON TIERED WATER RATES

ATTACHMENT: 1. Tiered Rate Schedule Adoption Timeline

BACKGROUND

At its January 5, 2016, meeting, the City Council did not move forward with the proposed tiered water rates structure and directed staff to return with additional analysis of the water operation's expenses and revenues. Based on this direction, a financial and operational analysis of the Water Enterprise Fund will be completed, and staff anticipates that it will return to the Public Works Commission with a new proposed tiered rate in summer 2016. At this point, staff projects that the new rates could go into effect in October 2016 (Attachment 1). In the short-term, the City Council directed staff to identify projects that could be delayed or cancelled to minimize or eliminate the immediate shortfall. The Public Works' Commission's Conservation Subcommittee requested that staff also include additional alternatives besides eliminating capital for the Commission to discuss.

ANALYSIS

Based on the rate model, at the end of FY 2015-16, staff projects that the shortfall will be approximately \$3.6 million, assuming that the 5% rate increase will go into effect on March 1, 2016. If the 5% rate increase does not go into effect, the projected shortfall based on the rate model will increase to approximately \$4.0 million.

Table 1 (below) shows the projected shortfall at the end of FY 2015-16 and FY 2016-17 (both with and without a 5% rate increase in effect on March 1, 2016), the impact on the Water Enterprise Fund Reserves, and the Target Reserves. The Target Reserve, based on City Council-adopted policy and bond obligations, is also included in Table 1 for reference. The projected shortfall and resulting reserve balance is based on the rates model.

Table 1 –Projected Shortfall in FY 2015-16 and FY 2016-17

	FY 15-16		FY 16-17	
	With March 2016 5% Rate Increase	No 5% Rate Increase	With March 2016 5% Rate Increase	No 5% Rate Increase
Projected Shortfall	\$3.6 million	\$4.0 million	\$6.9 million	\$8.2 million
Projected Resulting Reserve Balance	\$18.4 million	\$18.0 million	\$11.6 million	\$9.8 million
Target Reserve	\$21,592,328		\$23,592,590	

There are three primary alternatives to address this shortfall:

- Utilize funding from the reserves: The City is obligated to maintain debt service reserves and operational reserves. The City's obligation for its debt service reserves ratio is defined in the City's bond indenture requirement, and the required operational reserves are defined by adopted City policy.
- Eliminate or postpone projects to reduce expenses.
- Increase revenues from other sources.

In support of the Commission's discussion at the February 11, 2016, meeting, staff has reviewed and prioritized the capital projects planned for FY 2015-16 to determine which could be deferred until a revenue-neutral rate structure is put into place. Based on current operations and a current assessment of needs, staff recommends that the following projects proposed for FY 2015-16 be delayed or eliminated until a new revenue-neutral rate structure is in place.

- **Water Master Plan:**
While significant funding was budgeted in FY 2016-17, staff anticipates that limited funding will be expended. Currently, the development of a Water Commodity Charge (or Water Exaction Fee) is underway as a capital improvement project. Additional information about the schedule of the Water Exaction Fee is provided in a separate report to the Commission.
- **Robertson Yard**
The use of this Yard is being re-evaluated, so postponing spending will not impact the project.
- **Coldwater Canyon Reservoir**
Funding is available for this project through a remaining fund balance following the close-out of the initial project.
- **Water Main & Hydrant Replacement**
While there may be a short-term risk in delaying this project, this risk will be minimized provided that the project continues with a revenue-neutral rate structure is effective.
- **Replacement of Meters**
This expense is to build funding to prepare for the next meter replacement program, which is expected to begin in five to seven years.

This report is intended to inform the Commission's discussion about recommendations on how to accommodate this short-term gap. The review and discussion of the rate structure will be discussed with the Commission at a future meeting. Staff anticipates that this discussion will occur in summer 2016.

Staff is also finalizing additional information regarding the projects, which will be provided under separate cover.

Action	Task	Sub Task	Owner	February				March				April				May				June				July				August				September				October			
				Wk 1	Wk 2	Wk 3	Wk 4	Wk 1	Wk 2	Wk 3	Wk 4	Wk 1	Wk 2	Wk 3	Wk 4	Wk 1	Wk 2	Wk 3	Wk 4	Wk 1	Wk 2	Wk 3	Wk 4	Wk 1	Wk 2	Wk 3	Wk 4	Wk 1	Wk 2	Wk 3	Wk 4	Wk 1	Wk 2	Wk 3	Wk 4	Wk 1	Wk 2	Wk 3	Wk 4
Penalty Surcharge Adjustment			Trish																																				
		Finalize analysis		X																																			
		City Manager Review		X																																			
		Commission Update			X																																		
		Present to Council Study Session				X																																	
		Reso/Ord Approval				X																																	
	Effective					X																																	
Interim 5%			Trish																																				
		Notice to Council				X																																	
		To include Short Term Adj and Water fund status																																					
	Effective if confirmed					X																																	
Water Rate	Audit	RFP Posted	Trish/Don				X																																
		Award									X																												
		Report Complete													X																								
		City Manager Review														X																							
		Commission Recommendation														X							X																
Proposal	Community Outreach	Sub committee development	Trish					X								X																							
		PW Commission Updates			X							X																											
		PW Commission Recommendation																	X																				
		City Manager Review																																					
Adopt Water Rates	PW Liaison Meeting	Council Study Session	Trish																	X																			
		Public Notice																		X																			
		Formal Council Public Hearing																										X											
		Second Reading																														X							
		Effective																																					