

# *City of Brisbane*

## *Agenda Report*

To: City Council via City Manager

From: Stuart Schillinger, Administrative Services Director

Subject: Potential Implementation of a Utility Rate Increase to Create a Drought Reserve.

Date: November 2, 2017

### **Purpose:**

To ensure the continued fiscal viability of the utility system by keeping rates equal to the cost of providing available and safe water to the community.

### **Recommendation:**

Direct staff to begin the process setting up a Drought Reserve within the Utility Fund and increase the rate charged to fund the Drought Reserve.

### **Background:**

In 2001 the FCS Group determined that water and sewer rates needed to be increased over 200% in order to pay for on-going costs as well as needed capital projects. As part of the review process Council directed staff to develop a method to ensure annual rate increases would be as level as possible. Staff recommended and City Council approved Ordinance No. 458 which would allow for an inflationary factor in automatic rate increases to further ensure the financial integrity of the Utility Fund.

On August 13, 2001 the City Council discussed Ordinance No. 458 which set the process for determining future water and sewer rate increases. Additionally, the proposed Ordinance recommended that all cost increases from San Francisco be passed on to customers to ensure that the City would not again fall as far behind in water and sewer rates as it had by 2001.

Subsequent to passing Ordinance No. 458, the California Supreme Court ruled water and sewer charges are property related and subject to Proposition 218, the Right to Vote on Taxes Act.

Proposition 218 requires that prior to any water or sewer rate increase the City mail a letter to all users of the system and the property owners. The letter needs to be mailed 45 days prior to the City Council holding a Public Hearing on the rate increase. If more than 50% of the impacted parties protest the rate increase either in writing or in person the City Council cannot implement the increase. If there is less than a 50% protest than the City Council can decide if it would like to implement the rate increase.

The current potential rate increase is designed to create a reserve within the Utility Fund to stabilize rates during a drought. The last drought required a reduction in watering from our customers. The customers who reduced their use of water the most was landscape users. They reduced their use by over 40,000 units (each unit is 760 gallons). Overall, we used about 59,000 less units of water during

the drought. This reduced the revenue of the Utility System by approximately \$426,000. The reason it was so high is the City charges landscape meters the most per unit of water used.

The City Council's Infrastructure, Utilities, and Franchise Subcommittee reviewed this issue over the past year and half to determine the best method to ensure a stable and appropriately funded Utility Fund.

### **Discussion:**

Staff presented a variety of options for the Subcommittee to consider. One method would be to impose higher rates on users during the drought. Although, this would have the best tie-in to the situation that created the need for the rate increase it would also seem to be counterintuitive when it was imposed. As the City is requiring homeowners and business owners to use less water they would end up paying more for each unit used. The reason the rate needs to go up when less water is used is approximately 70% of the costs of providing water is fixed while only about 30% depends on the amount of water used. Conversely, about 70% of the revenues the City receives is based on the amount of water used while only about 30% is fixed. Fixed costs of the system includes, paying for staff to maintain and repair the system, water quality testing, and paying for the existing pipes, storage tanks, and pump stations.

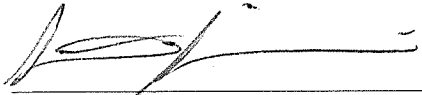
A second method would be to create a drought reserve so rates would not need to increase as the amount of water used decreased. This would allow the City to maintain a steady rate during times of reduced water usage. The Committee studied different methods for the creation of the reserve. First, the Committee determined that creating the reserve over a four year period would be better at mitigating increases than doing it in only one year. Second, it determined that the reserve should be funded by all users of the system, since it benefits all users. The Committee decided that 50% of the reserve should be funded by landscape users and 50% by the Commercial and Residential users. It further determined that for Commercial/Residential users there should be recognition that lower water users have already reduced their use during non-drought periods and should benefit from this. Therefore, the method that the Subcommittee is recommending to the full City Council is; the drought fund be funded at \$106,000 a year, that Landscape users be charged \$612.81 a year (or \$102.14 a billing period), Residential/Commercial users who use more than the median amount of water during a year (72 units) be billed \$41.91 a year (or \$6.99 billing period), and those who use less than the median be billed \$13.91 a year (or \$2.32 per billing period). The individual water usage would be determined by using the same four month period as is used for the capital charge.

The Subcommittee wanted to know the impact of this method on the residents at Altamar and Viewpoint since they pay for both personal residential use and then are billed for the landscape meters owned by the Associations. The average cost for a resident at Altamar would be \$45.67 a year (assuming that there are an equal number of users above and below median) and for Viewpoint it would be \$74.45 a year (again assuming an equal number of users above and below the median).

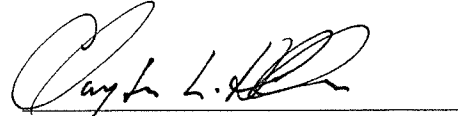
If the Council directs staff to move forward with creating and funding a Drought Reserve the next step would be to mail out a letter to all users and property owners. Then there would need to be a minimum 45 day waiting period before the City Council can hear the item again. It is anticipated that the mailing will take place in middle to late November based on other work load the Utility Billing person needs to do. Therefore, this item would be brought back to City Council at their January 18<sup>th</sup> meeting.

**Fiscal Impact:**

Stabilize the rates for the water service by the creation of a Drought Reserve. The cost of doing the mailer will be approximately \$2,500.



Stuart Schillinger  
Administrative Services Director



Clay Holstine  
City Manager