

## CITY COUNCIL AGENDA REPORT

July 21, 2015  
City Manager

**TITLE: OVERVIEW OF WATER AND SEWER RATES AND AUTHORIZATION TO MAIL THE PROPOSITION 218 NOTICE OF PUBLIC HEARING TO BE HELD ON OCTOBER 6, 2015**

**SUMMARY**

Completion of a comprehensive analysis of water and sewer rates is a City Council priority and consistent with the City’s water and sewer policies. The policies require the City of Pleasanton to operate these utilities on an enterprise basis, whereby the costs of services are borne entirely by the users of the system. The City last reviewed the rates in September 2010. Proposition 218 requires that any utility that has an annual cost of living increase in its rates, review those rates a minimum of every five years. Based on all of the above, the City contracted with HDR Engineering, Inc. to complete a water and sewer rate study.

Local water and sewer rates were increased in 2010 and have been annually adjusted by the change in the consumer price index (CPI). During this time, Pleasanton charged its customers 87.5% of the cost of purchased water from Zone 7 (the wholesaler). While the City has been able to absorb these increases, not passing through 100% of the Zone 7 rate to its customers is now placing a significant strain on the City’s water enterprise, which over the years has not been, nor should be, reliant on the General Fund to operate.

To ensure that both the water and sewer enterprises remain fiscally solvent and that appropriate reserves are in place to fund system maintenance and replacement obligations, staff is recommending for the average residential customer an average increase of \$10.73 per bi-monthly period for water and sewer rates effective October 15, 2015. This results in an overall rate increase of 6.7%. The following table demonstrates this recommendation for a residential customer who uses 30 100 cubic feet (Ccf) of water per bi-monthly billing period (22,440 gallons of water over a 60 day billing period):

<b>AVERAGE RESIDENTIAL ACCOUNT BI-MONTHLY BILLING PERIOD</b>				
	<b>Based on (30Ccf)</b>		<b>Bi-monthly</b>	<b>Monthly</b>
	<b>Current Bill</b>	<b>Recommended Rates</b>	<b>\$ Difference</b>	<b>\$ Difference</b>
<b>Sewer</b>				
<b>Local</b>	\$ 24.46	\$ 25.19		
<b>Regional</b>	<u>52.09</u>	<u>52.09</u>		
<b>Total</b>	76.55	77.28		
<b>Water</b>	<u>83.20</u>	<u>93.20</u>		
<b>Total</b>	\$159.75	\$170.48	\$10.73	\$5.37

\*assumes 5/8” meter charge

## **RECOMMENDATION**

Staff recommends the City Council authorize staff to mail the Proposition 218 notice to the ratepayers regarding the proposed changes to the water and sewer rates and set the public hearing date for consideration of this matter by the City Council on October 6, 2015.

## **FINANCIAL STATEMENT**

The water and sewer funds are enterprise funds. The operations of these funds are 100% fee based and as such, the proposed rate increases if ultimately approved by the City Council will be borne by the water and sewer customers. The City is a customer of the utilities also and as such, will incur rate increases for the water and sewer services at City parks, government buildings including the police station, City Hall, Library and Fire Stations.

## **ANALYSIS OF WATER AND SEWER RATES**

### Guidelines and Parameters for Water and Sewer Rates

Staff met with the Audit Committee of the City Council to develop the guidelines and parameters for structuring the proposed water and sewer rates. These parameters included:

- Encourage water conservation
- Maintain (to the degree financially possible) senior and low income discounts
- Include funding for a recycled water program
- Adhere to existing City fiscal policies
  - Enterprise Funds must be self-sufficient and fiscally sustainable
    - cost of services are to be borne by users of the system and
    - repair and replacement of capital facilities are fully funded through rates
- Establish fair and equitable rates across all customer classifications.

Based on these guidelines and parameters staff proceeded with a study of both the water and sewer operations to determine if there was a need for an increase in the sewer and water rates for these City provided services.

The City retained HDR to prepare a local water and sewer rate study. A complete copy of the two reports are included in Attachment 1 and 2.

### Audit and Review of Accounts and Expenditures

The first step in the analysis of the current water and sewer rates was to review and audit existing customer accounts to determine if there were any inconsistencies in the billing system. This is a routine operating procedure for a utility. Also, staff reviewed existing expenditures to determine if there were areas where costs could be reduced or an economy of scale could be realized prior to developing the expenditures for the rate analysis. In both cases, substantial adjustments were made that resulted in the need for a lower water rate increase than otherwise would have resulted without the review and audit. As is noted later in this report under the section Proposed Local Sewer Rate Increase, there is a need to restructure the charges to properties in the Ruby Hills area in order to have fair and equitable rates across all customers.

## Proposed Water Rate Increase

### Background

The City does not own and operate a surface water treatment plant. Instead, the City relies on two primary sources for its water supply to its customers:

- Local groundwater from four City-owned deep wells accounts for 18 percent or approximately 3 million gallons per day (mgd) of the water system's average daily demand of 17 mgd.
- Water purchased from Zone 7 of Alameda County Flood Control and Water Conservation District (Zone 7), accounts for the remaining 82 percent or 14 mgd of the average daily demand.

The cost of water from Zone 7 and the local groundwater represent approximately 75% of the City's cost to deliver water to its customers. The remaining 25% of the cost of water delivered to a customer includes pumping charges (electricity), the cost of chemicals, repair and replacement costs of the water system infrastructure, unaccounted for water loss charges, and labor costs. These costs have increased annually since the last time the City increased water rates in September 2010.

### Potable Water Rates

#### Fixed Meter Charge

All customers are billed a fixed meter charge based on the size of the water meter. This charge covers a portion of the operations and systems maintenance costs and is constant regardless of how much water is used.

This charge is proposed to increase on January 1 each year beginning on January 1, 2016 per the increase in the Annual Consumer Price Index. The following table shows the current water fixed meter charge.

Current Fixed Meter Charge	
Meter Size	Charge
5/8 " displacement	\$17.62
3/4 " displacement	26.41
1 " displacement	44.04
1.5 " displacement	88.07
1.5 " turbo	88.07
2 " displacement	140.91
2 " turbo	140.91
3 " turbo	308.27
4 " turbo	880.78
6 " turbo	1,761.55
8 " turbo	3,088.72
10 " turbo	4,844.27

[1] Present rates adopted January 1, 2015.

The following section presents the components of the consumption rates and charges:

### Zone 7 Water Rate

The Zone 7 water rate is provided to the City and is a direct pass through to the City's customers. The setting of this rate is not within the control of the City of Pleasanton and is subject to change at least each January 1. The total cost of Zone 7 purchased water to the City is currently \$2.40 and is based on the current rate charged by Zone 7 (effective January 1, 2015) plus the cost of water losses on the system and total purchases from Zone 7.

In September 2010 the City set its potable water rates equal to 87.5% of the Zone 7 water rate and is currently \$2.10. After reviewing the cost of providing water to its customers, the study indicates that it is necessary to increase the potable water rate to 100% of the Zone 7 rate as of October 15, 2015. This results in the Zone 7 water rate charge increasing from its current level of \$2.10 to \$2.40.

### Distribution Costs by Customer Type

Most water delivery fees (Distribution Costs) vary, depending upon the peaks in customer demand for water service. These costs fund such items as facility repair and maintenance; daily inspections of water facilities to ensure the health and safety of the water supply; replacement of aging infrastructure and water meters; utility billing; and water conservation and education efforts. These costs are allocated to different customer classes based on the peak demand on the City's water system. The Distribution Costs are also proposed to increase January 1 each year commencing on January 1, 2016 by the increase in the Consumer Price Index (see Annual Consumer Price Index (CPI) Rate Adjustments below).

### Recycled Water

The City is in the process of developing a recycled water program for commercial irrigation water for the area between the DSRSD plant located on Johnson Drive and the northeast section of Pleasanton. Recycled water benefits all water users by freeing up potable water being used for irrigation for domestic water usage. Therefore, it is proposed that the water rates generate approximately \$535,000 per year or \$.10 per Ccf of added cost for the development of this program. It is proposed that this added cost be included in water rates for all customers except Tier 1 of the single family residential rates.

### Capacity Expansion

The City constructed several water related projects in the Vineyard Avenue Corridor Specific Plan area to accommodate an increased demand in water volume by large residential customers. Most of these costs will be repaid through fees paid by new housing development in the area. Since the expansion was also related to the high water consumption of existing residential water customers, it was determined that an additional \$.13 per CCF would be included in the fourth tier water rate (single family residential customers only) to cover the expansion cost for the Vineyard Corridor Improvements.

### Proposed Consumption Rates

The tables below provide the proposed consumption charges, if adopted, per 100 cubic feet (CCF), or per 748 gallons, of water consumed by type of water customer effective October 15, 2015. The proposed rates reflect the proposed increase in the Zone 7 rate from 87.5% to 100% of the current Zone 7 rate and the consumption charges adopted January 1, 2015 (distribution costs, recycled water surcharge (except Tier 1 of the single family residential rates) and capacity expansion charges). No additional rate increase is proposed at this time. However, as indicated the fixed meter charge and the distribution charges are subject to annual consumer price index changes effective January 1, starting in January 1, 2016 and the Zone 7 rate is subject to changes by the Zone 7 Board.

<b>Proposed Consumption Rates For Single Family Accounts</b> <i>Effective October 15, 2015</i>						
<b>Tier*</b>	<b>Zone 7 Water</b>	<b>Distribution Costs</b>	<b>Recycled Water</b>	<b>Capacity Expansion</b>	<b>Proposed Rate</b>	<b>Present Rate</b>
0 - 20 CCF	\$2.4000	\$0.0000	\$0.0000	\$0.0000	<b>\$2.4000</b>	<b>\$2.1000</b>
21 - 40 CCF	2.4000	0.2581	0.1000	0.0000	<b>2.7581</b>	<b>2.3581</b>
41 - 60 CCF	2.4000	0.4825	0.1000	0.0000	<b>2.9825</b>	<b>2.6825</b>
Over 60 CCF	2.4000	1.1220	0.1000	0.1300	<b>3.7520</b>	<b>3.4520</b>

*\* CCF equals 100 cubic feet of water; or 748 gallons \**

<b>Proposed Consumption Rates For Commercial Business &amp; Multi-Family Accounts</b> <i>Effective October 15, 2015</i>						
<b>Customer Class</b>	<b>Zone 7 Water</b>	<b>Distribution Costs</b>	<b>Recycled Water</b>	<b>Proposed Rate</b>	<b>Present Rate</b>	
Commercial & Multifamily	\$2.4000	\$0.2693	\$0.1000	<b>\$2.7693</b>	<b>\$2.4693</b>	

<b>Proposed Consumption Rates For Irrigation Accounts</b> <i>Effective October 15, 2015</i>						
<b>Customer Class</b>	<b>Zone 7 Water</b>	<b>Distribution Costs</b>	<b>Recycle Water</b>	<b>Proposed Rate</b>	<b>Present Rate</b>	
Irrigation	\$2.4000	\$0.4152	\$0.1000	<b>\$2.9152</b>	<b>\$2.6152</b>	

### Senior and Low Income Discounts

The City is proposing to reduce the current 20% discount on water rates for single family residents who qualify as a “senior” (age 65 or older) to 15%, and continue to provide a 30% discount for residents who qualify as a low income family (those who qualify for PG&E, PacBell, or cable television discounts through either the California Department of Economic Opportunity or the Social Security Administration). Residents

cannot apply for both discounts. The City also currently limits both programs to a discount only if the water customer's bi-monthly water consumption is less than or equal to 40 CCF. The proposed rate program will continue these programs at these recommended levels.

How Do the Rate Increases Impact Our Customers?

The proposed rate increase impacts each customer differently based on the customer's bi-monthly water consumption. The following tables present the impact of the proposed water rate increases on the residential, business, multifamily and irrigation customer based on a low, moderate and high consumption for a two month period for each customer class.

<b>Single Family Residential Bill Impacts (Bi-Monthly)</b>		
<b>Water Rates &amp; Charges</b>	<b>Present Rates</b>	<b>Proposed Rates</b>
<i><b>Low Use (20 CCF)</b></i>		
Meter Charge	\$17.62	\$17.62
Water Charge	<u>42.00</u>	<u>48.00</u>
<b>Total</b>	<b>\$59.62</b>	<b>\$65.62</b>
<i>Bi-Monthly Increase</i>		\$6.00
<i>Monthly Increase</i>		\$3.00
<i><b>Moderate Use (40 CCF)</b></i>		
Meter Charge	\$17.62	\$17.62
Water Charge	<u>89.16</u>	<u>103.16</u>
<b>Total</b>	<b>\$106.78</b>	<b>\$120.78</b>
<i>Bi-monthly Increase</i>		\$14.00
<i>Monthly Increase</i>		\$7.00
<i><b>High Use (60 CCF)</b></i>		
Meter Charge	\$17.62	\$17.62
Water Charge	<u>142.81</u>	<u>162.81</u>
<b>Total</b>	<b>\$160.43</b>	<b>\$180.43</b>
<i>Bi-monthly Increase</i>		\$20.00
<i>Monthly Increase</i>		\$10.00

*\*Assumes a 5/8" meter\**

## Commercial & Multi-Family Bill Impacts (Bi-Monthly)

Water Rates & Charges	Present Rates	Proposed Rates
<b><i>Low Use (30 CCF)</i></b>		
Meter Charge	\$88.07	\$88.07
Water Charge	<u>74.08</u>	<u>83.08</u>
<b>Total</b>	<b>\$162.15</b>	<b>\$171.15</b>
<i>Bi-Monthly Increase</i>		\$9.00
<i>Monthly Increase</i>		\$4.50
<b><i>Moderate Use (90 CCF)</i></b>		
Meter Charge	\$88.07	\$88.07
Water Charge	<u>222.24</u>	<u>249.24</u>
<b>Total</b>	<b>\$310.31</b>	<b>\$337.31</b>
<i>Bi-monthly Increase</i>		\$27.00
<i>Monthly Increase</i>		\$13.50
<b><i>High Use (180 CCF)</i></b>		
Meter Charge	\$88.07	\$88.07
Water Charge	<u>444.47</u>	<u>498.47</u>
<b>Total</b>	<b>\$532.54</b>	<b>\$586.54</b>
<i>Bi-monthly Increase</i>		\$54.00
<i>Monthly Increase</i>		\$27.00

\*Assumes a 1 1/2" meter\*

<b>Irrigation Bill Impacts (Bi-Monthly)</b>		
<b>Water Rates &amp; Charges</b>	<b>Present Rates</b>	<b>Proposed Rates</b>
<i>Low Use (150 CCF)</i>		
Meter Charge	\$140.91	\$140.91
Water Charge	<u>392.28</u>	<u>437.28</u>
<b>Total</b>	<b>\$533.19</b>	<b>\$578.19</b>
<i>Bi-Monthly Increase</i>		\$45.00
<i>Monthly Increase</i>		\$22.50
<i>Moderate Use (300 CCF)</i>		
Meter Charge	\$140.91	\$140.91
Water Charge	<u>784.56</u>	<u>874.56</u>
<b>Total</b>	<b>\$925.47</b>	<b>\$1,015.47</b>
<i>Bi-monthly Increase</i>		\$90.00
<i>Monthly Increase</i>		\$45.00
<i>High Use (600 CCF)</i>		
Meter Charge	\$140.91	\$140.91
Water Charge	<u>1,569.12</u>	<u>1,749.12</u>
<b>Total</b>	<b>\$1,710.03</b>	<b>\$1,890.03</b>
<i>Bi-monthly Increase</i>		\$180.00
<i>Monthly Increase</i>		\$90.00

\*Assumes a 2" meter\*

### Potable Water Drought Rates

As part of the recent water rate study, drought rates were developed. The goal of drought rates is to maintain sufficient revenues for the utility to operate while a decline in consumption occurs due to drought conditions and mandated conservation. Although the drought rates are available once the Council has adopted them, they are not implemented until the Council directs City staff to activate the drought rates. This means that rates are not automatically increased as a result of going into Stage 1, or increasing a drought stage, but when the Council determines they are necessary to maintain system revenues due to drought induced consumption declines. Below are the proposed drought rates showing the additional rate component as well as sample bill impacts to each customer class.



Proposed Drought Rates				
	Stage 1	Stage 2	Stage 3	Stage 4
<b>Single Family</b>				
0-20 CCF	\$0.1619	\$0.5689	\$1.2266	\$2.5611
21-40 CCF	0.1619	0.5689	1.2266	2.5611
41-60 CCF	0.1619	0.5689	1.2266	2.5611
60+ CCF	0.1619	0.5689	1.2266	2.5611
<b>Commercial/Multi-Family</b>	\$0.1385	\$0.5400	\$1.1631	\$2.5145
<b>Irrigation</b>	\$0.1458	\$0.5655	\$1.2244	\$2.6470

*\*Drought rates are an additional component to the existing potable consumption rates\**

Drought Rates: Single Family Bill Impacts 5/8" Meter (Bi-Monthly)					
Targeted Reduction Goal	Normal Condition	Stage 1	Stage 2	Stage 3	Stage 4
	0.0%	5.0%	15.0%	27.5%	45.0%
<b>Residential Customer Using 20 CCF</b>					
Assuming No Change in Use - 20 CCF	\$65.62	\$68.86	\$77.00	\$90.15	\$116.84
Assuming Reduced Usage -					
Revised CCF Usage	20.0	19.0	17.0	15.0	11.0
Total Bi-Monthly Bill	\$65.62	\$66.30	\$68.09	\$72.02	\$72.19
<b>Residential Customer Using 40 CCF</b>					
Assuming No Change in Use - 40 CCF	\$120.78	\$127.26	\$143.54	\$169.85	\$223.23
Assuming Reduced Usage -					
Revised CCF Usage	40.0	38.0	34.0	29.0	22.0
Total Bi-Monthly Bill	\$120.78	\$121.42	\$123.58	\$126.01	\$127.48
<b>Residential Customer Using 60 CCF</b>					
Assuming No Change in Use - 60 CCF	\$180.43	\$190.15	\$214.57	\$254.03	\$334.10
Assuming Reduced Usage -					
Revised CCF Usage	60.0	57.0	51.0	44.0	33.0
Total Bi-Monthly Bill	\$180.43	\$180.71	\$182.60	\$186.68	\$185.99

**Drought Rates: Com/Multi-Family Bill Impacts  
1 1/2" Meter (Bi-Monthly)**

	<b>Normal Condition</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Stage 4</b>
<b>Com/Multi Customer Using 30 CCF</b>					
Assuming No Change in Use - 30 CCF	\$171.15	\$175.30	\$187.35	\$206.04	\$246.58
Assuming Reduced Usage -					
Revised CCF Usage	<b>30.0</b>	<b>29.0</b>	<b>26.0</b>	<b>22.0</b>	<b>17.0</b>
Total Bi-Monthly Bill	\$171.15	\$172.40	\$174.11	\$174.58	\$177.89
<b>Com/Multi Customer Using 90 CCF</b>					
Assuming No Change in Use - 90 CCF	\$337.31	\$349.77	\$385.91	\$441.99	\$563.61
Assuming Reduced Usage -					
Revised CCF Usage	<b>90.0</b>	<b>86.0</b>	<b>77.0</b>	<b>65.0</b>	<b>50.0</b>
Total Bi-Monthly Bill	\$337.31	\$338.14	\$342.89	\$343.68	\$352.26
<b>Com/Multi Customer Using 180 CCF</b>					
Assuming No Change in Use - 180 CCF	\$586.54	\$611.47	\$683.74	\$795.90	\$1,039.15
Assuming Reduced Usage -					
Revised CCF Usage	<b>180.0</b>	<b>171.0</b>	<b>153.0</b>	<b>131.0</b>	<b>99.0</b>
Total Bi-Monthly Bill	\$586.54	\$585.30	\$594.39	\$603.21	\$611.17

**Drought Rates: Irrigation Bill Impacts  
2" Meter (Bi-Monthly)**

	<b>Normal Condition</b>	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Stage 4</b>
<b>Irrigation Customer Using 150 CCF</b>					
Assuming No Change in Use - 150 CCF	\$578.19	\$600.06	\$663.02	\$761.85	\$975.24
Assuming Reduced Usage - Revised CCF Usage	<b>150.0</b>	<b>143.0</b>	<b>128.0</b>	<b>109.0</b>	<b>83.0</b>
Total Bi-Monthly Bill	\$578.19	\$578.63	\$586.44	\$592.13	\$602.57
<b>Irrigation Customer Using 300 CCF</b>					
Assuming No Change in Use - 300 CCF	\$1,015.47	\$1,059.21	\$1,185.12	\$1,382.79	\$1,809.57
Assuming Reduced Usage - Revised CCF Usage	<b>300.0</b>	<b>285.0</b>	<b>255.0</b>	<b>218.0</b>	<b>165.0</b>
Total Bi-Monthly Bill	\$1,015.47	\$1,013.30	\$1,028.49	\$1,043.34	\$1,058.67
<b>Irrigation Customer Using 600 CCF</b>					
Assuming No Change in Use - 600 CCF	\$1,890.03	\$1,977.51	\$2,229.33	\$2,624.67	\$3,478.23
Assuming Reduced Usage - Revised CCF Usage	<b>600.0</b>	<b>570.0</b>	<b>510.0</b>	<b>435.0</b>	<b>330.0</b>
Total Bi-Monthly Bill	\$1,890.03	\$1,885.68	\$1,916.07	\$1,941.64	\$1,976.44

## Rates for Recycled Irrigation Water Service

The City purchases and delivers recycled irrigation water to commercial customers in various areas within its service area. The recycled water system is being expanded to provide irrigation service to additional areas within the City. Based on the development of the costs associated with providing recycled water service, purchases from Dublin San Ramon Services District and the City of Livermore, and delivering water through its distribution system, rates have been proposed effective October 15, 2015. The City charges commercial customers a consumption charge only for recycled water. Provided below is a summary of the present and proposed recycled water rates.

<b>Present &amp; Proposed Recycled Water Rates</b> <i>Effective October 15, 2015</i>		
	<b>Present</b> <sup>[1]</sup>	<b>Proposed</b>
Rate Per CCF	\$2.3537	\$2.6237

[1] Present rates are the rates effective January 1, 2015.

The current recycled water rate is based on 90% of the potable irrigation rate. It is proposed that as potable water rates are adjusted based on the change in the annual CPI and changes in the Zone 7 water wholesale rates, the recycled water rate will adjust to remain at 90% of the potable irrigation water rate. Customers will be notified of the rate change in the December billing for the rate that will be effective January 1 of 2016 through 2020.

## Proposed Local Sewer Rate Increase

### Background

The City does not own or operate a wastewater treatment plant. A majority of the City's wastewater is treated by Dublin San Ramon Services District (DSRSD) and the Ruby Hills area is treated by City of Livermore. The current average dry weather flow (ADWF) from the City to DSRSD is approximately 6 million gallons per day (mgd). A small portion of the City's wastewater flows, which originate from Ruby Hills, are conveyed to the City of Livermore water reclamation plant. The flow from Ruby Hills to the City of Livermore's plant is approximately 0.25 mgd ADWF. Once the City's sewer is secondarily treated either at the facilities at DSRSD or the City of Livermore, the treated sewer is stored and transported through the facilities owned and operated by the Livermore Amador Valley Wastewater Management Agency (LAVWMA) to the East Bay Discharge Authority (EBDA) outfall line into the outer Bay.

A City of Pleasanton sewer bill is comprised of the regional wastewater treatment component either provided by DSRSD or the City of Livermore, the transport component provided by LAVWMA (included in the treatment charges from DSRSD or City of Livermore) and finally the local collection component provided by the City of Pleasanton. The portions of the sewer bill associated with the cost of the treatment and transport components are managed by DSRSD and the City of Livermore and said charges are passed through to the customer by the City. The portion of the sewer bill

associated with the local collection system is managed by the City and is the subject of the rate review by HDR and this rate increase.

### City's Sewer Collection System

The City maintains and operates a sewer collection system. The City's above ground wastewater system includes 13 sewer pump stations. The below-ground sewer assets consist of both gravity and force mains ranging in pipe diameter from 2 to 42 inches and the below-ground sewer assets include approximately 270 miles of pipe of which a majority was installed between 1980 and 1990. A majority of the sewer mains are vitrified clay pipe and are smaller than 12 inches in diameter.

Local sewer service charges are developed to equitably allocate costs to users for asset operation, pay for debt service incurred for the construction of sewer facilities, and to perform the necessary maintenance and repairs (or replacement) of the wastewater collection system. The costs also include the labor and pumping charges associated with the collection and pumping of raw sewer to the DSRSD and/or City of Livermore treatment plants. The local portion of the current City rates represents approximately 36% of the overall bi-monthly sewer bill.

### Audit/Review of Expenditures and Cost of Service Increases

Just as experienced in the Water Fund, the City's costs have increased in the Sewer Fund since the 2010 study. Staff started the review by auditing the City's Utility Billing records and found some billing inconsistencies that are proposed to be corrected in this rate study. In addition, Staff was able to reduce costs prior to developing the expenditures for the rate study and as a result of this the City is able to limit the rate increase to 3% at this time.

### Senior and Low Income Discounts

The City is proposing to reduce the current 20% discount on water rates for single family residents who qualify as a "senior" (age 65 or older) to 15%, and continue to provide a 30% discount for residents who qualify as a low income family (those who qualify for PG&E, PacBell, or cable television discounts through either the California Department of Economic Opportunity or the Social Security Administration). Residents cannot apply for both discounts. The City also currently limits both programs to a discount only if the water customer's bi-monthly water consumption is less than or equal to 40 CCF. The proposed rate program will continue these programs at these recommended levels.

### Proposed Rates

The table below presents the current bi-monthly local sewer bill and the proposed rates by customer classification as of October 15, 2015:

**Present & Proposed Sewer Service Charge  
(Local Only, Bi-Monthly)  
Effective October 15, 2015**

	<b>Present <sup>[1]</sup></b>	<b>Proposed</b>
<b>Single Family</b>	\$24.46	\$25.19
<b>Condominium</b>	16.79	17.17
<b>Multi-Family</b>	12.80	13.18
 <i>Commercial Consumption Charge (\$/CCF) <sup>[2]</sup></i>		
Auto Steam Cleaning	\$1.375	\$1.416
Bakeries	1.365	1.406
Commercial Laundries	1.375	1.416
Groceries w/Garbage		
Disposals	1.320	1.360
Mortuaries	1.600	1.648
Restaurants (Fast Food)	1.285	1.324
Restaurants (Full Service)	1.285	1.324
All Other	1.161	1.196
 <i>Institutional Consumption Charge</i>		
Schools - No Irrigation Use	\$1.116	\$1.141
Schools - Irrigation Use	0.733	0.750
All Others	1.161	1.187
 <i>Industrial, Demand Users</i>		
Fixed Charge (\$/Connection)	\$2.77	\$2.85
Annual Loadings		
Volume (\$/MG)	\$124.98	\$128.73
Peak Monthly Loadings		
(\$/MGD)		
Flow	\$80,822.84	\$83,247.53

[1] Present rates are the rates effective July 1, 2015.

[2] Commercial customer bills include a minimum equal to the multi-family bi-monthly charge for up to the first 5 CCF

**Annual Consumer Price Index (CPI) Rate Adjustments**

In order to remain fiscally solvent in the Sewer Fund, staff is recommending starting July 1, 2016, the City annually increase the above sewer rates based on the increase in the consumer price index (CPI). It is proposed that the City Manager be authorized and directed to increase these rates and charges based upon the percentage change

reflected in the Annual Consumer Price Index (CPI) – All Urban Consumers for the San Francisco-Oakland-San Jose, CA area available as of March 31. The rates will be recalculated in April of each year and will be effective the following July 1 of that year. Customers will be notified on the billing they receive prior to July 1.

#### Pass Through of Future Regional Rate Increases

The City does not own or operate a wastewater treatment plant. Instead a majority of the City's wastewater is treated by Dublin San Ramon Services District (DSRSD) and the remaining area is treated by City of Livermore. Government Code §53756 (AB 3030 [2008]) permits the City to automatically pass-through the increases or decreases in DSRSD and City of Livermore wholesale regional sewer treatment charges. This law still requires that the City provide rate payers with notice 30 days prior to such automatic adjustments taking effect. And, this law only allows for such pass-through for five years until the need for Council reauthorization. The City is proposing that for the next five years anytime DSRSD or the City of Livermore increase their regional sewer rates that apply to Pleasanton customers; the City will notify its customers 30 days prior to such automatic adjustments taking effect.

#### Structural Changes – Ruby Hill Local Sewer Rates

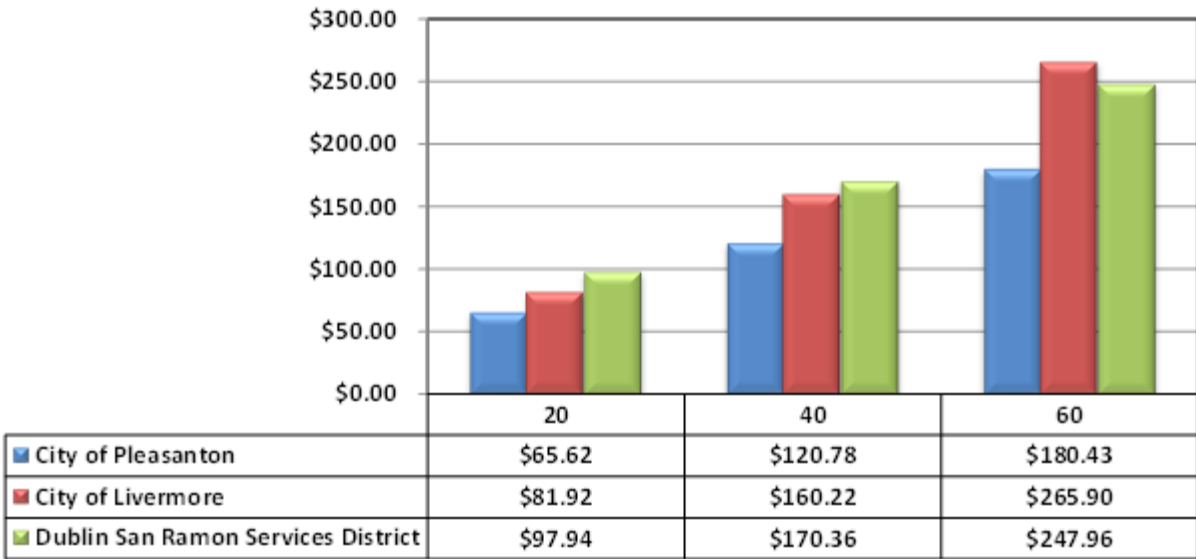
The City of Pleasanton is required to maintain the collection system within Ruby Hill which receives treatment services from Livermore. Based on this Pleasanton staff have been charging Ruby Hill customers an administration fee in order to pay Pleasanton for the maintenance of the local collection system. This fee, however, is not sufficient to pay for the costs which the service to Ruby Hill incurs. Given this, the City is proposing to transition the customers in Ruby Hill to the full single family local collection charge over the next two years. Effective October 15, 2015, the Ruby Hills local sewer collection fee will be increased from \$4.32 to \$12.60 and on July 1, 2016, will be increased to match the full single family rate. Consequently, the City will no longer collect the administration fee from the customers.

### **COMPARISON OF WATER AND SEWER RATES WITH OTHER JURISDICTIONS**

For water and sewer user fees, the study shows the need for an approximately 6% water rate increase (depending on customer classification and water consumption) effective October 15, 2015 and the ability to pass through 100% of all Zone 7 water rate increases in the future plus an annual CPI increase starting January 1, 2016 on distribution costs and meter charges. It is also proposed for local sewer rates to be increased 3% effective October 15, 2015 and then annually starting July 1, 2016 increased by the change in CPI.

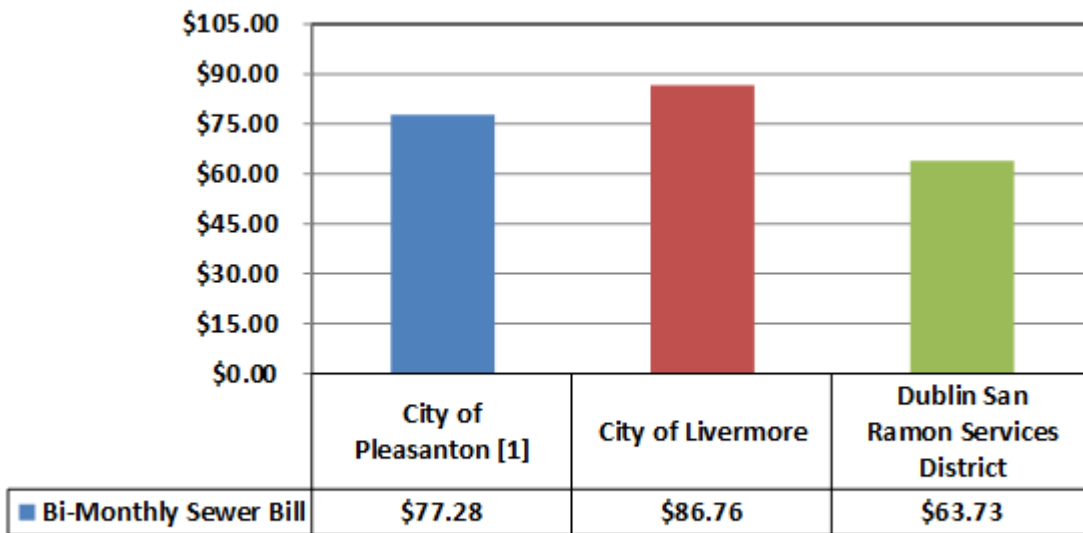
The final step in the analysis and development of the rates is how Pleasanton's water and sewer rates compare to other agencies that provide similar services. The following table is a comparison of our current and proposed water rates to the surrounding jurisdictions. As you can see our water rates are considerably lower than surrounding jurisdictions for a household consuming 20, 40 and 60Ccf of water per bi-monthly period.

### Residential Bi-Monthly Bill Comparison (CCF)



The table below presents a comparison of Pleasanton’s sewer charges to other surrounding jurisdictions. Pleasanton compares favorably to Livermore, but does not to DSRSD. DSRSD has a considerably lower local rate compared to Livermore and Pleasanton. Staff reviewed this issue and found that our staffing levels and electrical costs are higher than DSRSD’s due to pumping charges associated with pumping sewer to the DSRSD plant located on Stoneridge Drive adjacent to 680 freeway, as compared to their gravity flow system that has very little if any pumping costs.

### Single Family Residential Bi-Monthly Sewer Bill



[1] - Includes DSRSD regional treatment charge of \$52.09



## **OUTREACH TO THE RATE PAYERS**

In order to implement the proposed rate increases and the changes in the rate structures, Proposition 218 requires the City to publish and mail a 45 day notice of said increases and/or structural changes to the rates to all water and sewer customers and hold a public hearing to adopt the proposed rates. In addition to the required notices, the City as part of its standard operating procedures is proposing to publish an additional notice of the public hearing regarding the rate changes ten days in advance of the public hearing proposed to be scheduled on October 6, 2015 as outlined in the schedule shown below. Finally, staff is planning to hold several workshops for the public to receive more information regarding the proposed rate increases and to meet with the Economic Vitality Committee of the City and the Chamber of Commerce to discuss the impacts on the business community.

The following is the proposed schedule of events:

<u>Date</u>	<u>Action</u>
<b>July 21</b>	Mail Proposition 218 Notice to all water and sewer customers
<b>July 22</b>	Publish 45 day notice of the Public Hearing scheduled for October 6, 2015
<b>August 5 and 20</b>	Hold public workshops regarding proposed water and sewer rate increases (evenings)
<b>August 20 and 26</b>	Meet with the Economic Vitality Committee of the City and the Chamber of Commerce regarding proposed water and sewer rate increases
<b>October 6</b>	Hold Public Hearing and consider proposed rate increases
<b>October 15</b>	Implementation of water and sewer rate increases (By Utility billing if adopted by City Council)

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Fiscal Review:

Approved by:

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Director of Finance

Nelson Fialho  
City Manager

Attachments:

- 1) Local Sewer Rate Study prepared by HDR Engineering, Inc.
- 2) Water Rate Study prepared by HDR Engineering, Inc.
- 3) Proposition 218 Notice