



## REPORT TO COUNCIL City of Sacramento

915 I Street, Sacramento, CA 95814-2604  
www. CityofSacramento.org

Public Hearing  
December 2, 2008

Honorable Mayor and  
Members of the City Council

**Title:** Metered Water Rate Restructure

**Location/Council District:** All

**Recommendation:** Conduct a public hearing on the FY2008/09 Proposed Metered Water Rate Restructure and upon conclusion of the hearing adopt a Resolution amending the Water Service Fee and Charge Report to adopt the new metered water service rate structure.

**Contact:** Jessica Hess, Media and Communication Specialist, 808-8260

**Presenters:** Marty Hanneman, Interim Director, Department of Utilities, 808-7508  
Jamille Moens, Business Services Manager, 808-5988

**Department:** Utilities

**Division:** Administration

**Organization No:** 14001011

### Description/Analysis

**Issue:** In preparation for converting customers with metered water service connections to a metered water rate, in accordance with State law, the Department of Utilities recently conducted an analysis of its metered water service rate and is proposing adjustments to the metered rate structure to maintain revenue neutrality and more accurately reflect the costs of providing water service to the customer. Pursuant to Proposition 218, on October 16, 2008, the City mailed notice of the proposed metered rate restructure to all property owners receiving City water service.

**Policy Considerations:** Adopting a resolution amending the Water Service Fee and Charge Report will not impact the Department's budget, as the metered rate restructure being proposed is revenue neutral.

**Environmental Considerations:**

**California Environmental Quality Act (CEQA):**

The action recommended in this report pertains solely to the establishment of rates and is not subject to the California Environmental Quality Act (CEQA) pursuant to Public Resources Code Section 21080(b)(8). The recommended action also constitutes administrative and fiscal activity that will not have any significant effect on the environment, and that does not constitute a "project" as defined by the CEQA Guidelines [Sections 15061(b)(3); 15378(b)(2), (4) and (5)].

**Sustainability Considerations:** Converting water service customers to a metered water service rate that accurately reflects the costs incurred to provide water service will provide an incentive for our customers to save water and encourage sustainability in our community.

**Other:**

**Commission/Committee Action:**

**Rationale for Recommendation:** By State law, beginning January 1, 2010, all customers in the City of Sacramento with a water meter will be billed on a metered rate for their water use. In anticipation of this conversion, the Department conducted a study of the City's current metered rate and determined that the current rate would not maintain revenue neutrality as more customers converted to a metered rate.

The Department contracted with the Reed Group to analyze the metered rates further and suggest a rate that would be revenue neutral and would more accurately reflect the costs incurred to provide water service. The consultant evaluated our costs and determined which would be considered a fixed cost (something that could be applied to all customers, no matter how much water they used) and which would be considered a variable cost (something that would vary based on how much water was used).

Based on the Reed Group study, the Department is proposing a metered rate structure that more accurately reflects fixed and variable costs. This will provide our customers with a more accurate bill that reflects the costs to provide service to their property. Because customers will pay for the water that they use, customer bills will fluctuate. Most customers can anticipate a savings in wetter and cooler months and higher bills in the warmer, drier months. On average, however, their total annual bill will be similar to what they would have paid on a flat rate if they use the median amount of water.

**Financial Considerations:** None. This proposal is revenue neutral to the Department's Water Fund.

**Emerging Small Business Development (ESBD):**

Respectfully Submitted by: Jessica Hess  
Jessica Hess, Media and Communication Specialist

Approved by: Marty Hanneman  
Marty Hanneman, Assistant City Manager and Interim Director

Recommendation Approved:

*for* Marty Hanneman  
Ray Kerridge  
City Manager

**Table of Contents:**

	Report	pg. 1-3
<b>Attachments</b>		
1	Background	pg. 4-6
2	Resolution	pg. 7-8
	Exhibit A- Water Fees & Charges	pg. 9-10
3	Power Point Presentation	pg. 11-15

**Background**

In 2005, Governor Arnold Schwarzenegger sign A.B. 2572, requiring the City to install water meters on every water service connection by 2025. The bill also requires that customers with a meter be billed on a metered rate beginning in January 2010. All residential customers currently paying flat rates for water service will receive a comparative bill that shows both their flat rate and metered rate for a one year period prior to being converted to a metered rate, as allowed under A.B. 2572.

The City's current metered water rate consists of a fixed portion that is intended to cover the Department's fixed costs for providing water service and fire protection to our customers (such as operation and maintenance of treatment plants and pipes and administrative services such as billing) and a variable portion that is intended to cover the variable costs for providing water service (such as fuel, electricity and chemicals). The fixed cost, also known as a base service charge, is determined by the size of meter providing service to the property. The variable cost will depend on how much water a parcel actually uses. The current variable rate is \$0.77 per hundred cubic feet (or 748 gallons) of water.

In preparation for the conversion to metered rates, the City of Sacramento Department of Utilities evaluated its current metered water rate, which presently applies primarily to commercial accounts. When applied to the entire rate base, the revenue that would be generated by the current metered rate would fall short of current and future cost projections by approximately \$8 million, demonstrating that the current rate will not provide for revenue neutrality as the City shifts to metered water service rates for all customers. In addition, the Department of Utilities has not conducted a rate study on its metered water rate since the 1960's. While the rate had increased with Council approved rate increases, its structure had not changed.

For these reasons, the Department of Utilities contracted with the Reed Group to evaluate the metered water rate. Their analysis looked at how the Department's fixed and variable costs were allocated in the actual rate structure, as well as developing a more accurate metered water rate that could be applied to all customers and that would be revenue neutral to the Department.

The Reed Group analysis showed that the Department's current breakdown of fixed to variable portions of its metered water rates do not accurately reflect the costs of providing water service to all of our customers. Their analysis concluded that a proper breakdown of fixed to variable costs would be approximately 41% fixed service charges to 59% variable water usage charges. From this analysis, the Reed Group developed a rate that would more accurately reflect costs of service and be revenue neutral. A copy of the Reed Group metered rate report is on file and available for public review in the office of the City Clerk.

Current revenues for the Department's water fund are \$58.83 million, excluding

revenues generated by private fire service connections and water sales under several different special contracts and arrangements. When revenue generated by flat rate customers (that will not be converted to metered rates until after 2010) is removed, that totals \$20.1 million revenue required for water service provided to customers that will be charged metered rates as of January 1, 2010. The chart below shows how the restructured metered rates will be applied based on the estimated number of accounts that will be subject to metered billing as of January 1, 2010.

**Metered Water Rate Calculation**

**Service Charge Calculation**

Meter Size	Up to 1"	1.5"	2"	3"	4"	6"	8"	10"	12"	TOTAL
<b>Number of Metered Accounts<sup>1</sup></b>	29,099	1,827	2,229	433	313	122	43	11	0	34,077
<b>Monthly Service Charge</b>	\$14.19	\$26.67	\$41.86	\$77.08	\$127.39	\$253.16	\$404.09	\$580.18	\$1,083.28	
<b>Annual Revenue (\$1,000s)</b>	\$4,956	\$587	\$1,120	\$401	\$478	\$371	\$209	\$77	\$0	\$8,197

		Rate per 100 cubic feet	Annual Revenue
<b>Total Annual Water Usage<sup>2</sup></b>	21,240,000	\$0.56	\$11,812,864

**Revenue Requirement<sup>3</sup>**

Revenue from Monthly Service Charges	\$8,197,136 (41%)
Revenue from Water Usage Rate	\$11,812,864 (59%)
<b>TOTAL REVENUE REQUIREMENT</b>	<b>\$20,010,000</b>

As shown above, the Department of Utilities is proposing to continue to have a fixed and variable portion to its metered rate. The fixed portion of the rate will be based on the size of the meter providing service to the parcel. The variable rate will be based on the water usage at a rate of \$0.56 per hundred cubic feet of water (748 gallons).

1 Based on number of estimated accounts transferring to metered rates in 2010.

2 Estimated annual water usage of customers subject to metered rates in 2010.

3 Portion of revenue requirement that would be allocated to metered rate customers as of January 2010

Customers with a one-inch meter (a typical single family customer) who use the median amount of water would see a decrease in monthly bills compared to their flat rate bills during colder winter months and a slight increase during the dry summer months. On average, annual metered water bills for customers with a one-inch meter who use the average amount of water will be \$18 less than their current annual flat rate bill.

Pursuant to Proposition 218 and City Code Chapter 3.44, on October 16, 2008 the City mailed notice of the proposed metered rate restructure to all owners of property receiving City water service. As of November 14, 2008, the protest rate is less than one percent. Any additional information received prior to the public hearing, including the total number of written protests that have been received by the City Clerk, will be presented to the City Council in a verbal report on December 2, 2008. All protests received are on file and available for review in the Office of the City Clerk.

**Attachment 2**

**RESOLUTION NO.**

Adopted by the Sacramento City Council

**AMENDMENT TO THE CITY OF SACRAMENTO FEE AND CHARGE REPORT  
FOR METERED WATER RATE RESTRUCTURE**

**BACKGROUND**

- A. Articles XIII C and XIII D of the California Constitution (Proposition 218) establish various procedures for the approval of local taxes, assessments and property-related service fees.
- B. For the imposition or increase of water service rates that are “property-related fees” within the meaning of Proposition 218, Proposition 218 requires that a notice describing the proposed fee or fee increase and establishing a date, time and location of a public hearing on the proposed fee or fee increase, be mailed to the record owner of each parcel subject to the proposed fee or fee increase.
- C. At such hearing (held not less than 45 days after the notice is mailed), Proposition 218 requires the agency proposing such fee or fee increase to consider all protests filed against the proposed fee or fee increase, and prohibits the agency from approving the proposed fee or fee increase if written protests against the proposed fee or fee increase are presented by a majority of the owners or tenants of the affected parcels.
- D. On October 16, 2008, the City mailed a notice to all owners of property subject to the City’s water service rates, which notice: (i) described the proposed adoption of a new rate structure for metered water service; (ii) stated that the proposed metered rate restructure would be considered for adoption by the City Council at a public hearing to be held on December 2, 2008 at 2 pm, in the City Hall Council Chamber; and (iii) provided notice that an owner or tenant had the right to file a written protest against the proposed metered rate restructure with the City Clerk at or before the time set for public hearing.
- E. On December 2, 2008, the City Council held such public hearing, and considered all protests against the proposed metered rate restructure as well as all testimony and other information presented by City staff and members of the public.
- F. Based on the testimony and other information presented to it, the City Council found that as of the date and time of the public hearing, the number of written protests

received by the City Clerk against the proposed metered rate restructure was less than a majority of the record owners of the parcels that will be subject to the proposed rates.

**BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:**

- Section 1. The City of Sacramento Fee and Charge Report is hereby amended to include the metered water service rates attached hereto as Exhibit A, to take effect on January 1, 2009.
- Section 2. Based on the information presented to it and upon all information in the public record, and in compliance with Public Resources Code Section 21080(b)(8), the City Council finds that the restructured metered water service rates are for the purpose of:
  - a. Providing funds to meet operating expenses, including employee wage rates and fringe benefits.
  - b. Permitting the generation of necessary cash flow to finance maintenance of the City's water service system and meeting financial reserve needs and requirements.
  - c. Funding the purchase or lease of necessary supplies and equipment for the system.
  - d. Providing funds for capital projects necessary to provide and maintain service by the system.

**Table of Contents:**

Exhibit A- Water Service Fees and Charges, Section IV- Metered Water Rates

Exhibit A

Water Service Fees and Charges

The Fee and Charge Report of the City of Sacramento is hereby amended to include the following water service rates, effective January 1, 2009.

IV. MONTHLY METERED WATER USE, PER 100 CUBIC FEET

A.	For irrigation of landscaping on parks and medians which are owned and operated by the City of Sacramento and are open to the general public, provided that a turf audit is submitted to the Department of Utilities once every three (3) years, or at such time sooner as may be required by any individual user's case by the Department of Utilities:	Per 100 cubic feet:	0.1150	
B.	<del>For irrigation of landscaping at the Governor's Mansion State Historic Park and Sutter's Fort State Historic Park, provided that a turf audit is submitted to the Department of Utilities once every three (3) years, or at such time sooner as may be required by any individual user's case by the Department of Utilities:</del>	<del>Per 100 cubic feet:</del>	<del>0.4472</del>	
C.	For emergency water supply at the California State Fair and Exposition:			
		Monthly service charge:	129.50	
		Per 100 cubic feet:	0.7667	
D. B.	For all other metered water services:	Per 100 cubic feet:	0.7667	0.5600
E.	For water supply to operate SMUD cogeneration facilities:	Per 100 cubic feet:	0.4849	

For metered service, monthly basic service charges, regardless of water usage, as follows:

<u>Metered Size</u>		
5/8" x 3/4"	7.77	14.19
3/4"	7.77	14.19
1"	7.77	14.19
1½"	10.36	26.77
2"	12.95	41.86
3"	19.42	77.08
4"	25.90	127.39
6"	51.80	253.16
8"	84.18	404.09
10"	129.50	580.18
12"	194.26	1,083.28

Water Service Fees and Charges

The Fee and Charge Report of the City of Sacramento is hereby amended to include the following water service rates, effective January 1, 2009.

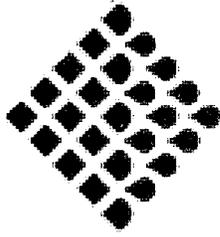
IV. MONTHLY METERED WATER USE, PER 100 CUBIC FEET

A.	For irrigation of landscaping on parks and medians which are owned and operated by the City of Sacramento and are open to the general public, provided that a turf audit is submitted to the Department of Utilities once every three (3) years, or at such time sooner as may be required by any individual user's case by the Department of Utilities:	Per 100 cubic feet:	0.1150
B.	For all other metered water services:	Per 100 cubic feet:	0.5600

For metered service, monthly basic service charges, regardless of water usage, as follows:

<u>Metered Size</u>	
5/8" x 3/4"	14.19
3/4"	14.19
1"	14.19
1½"	26.77
2"	41.86
3"	77.08
4"	127.39
6"	253.16
8"	404.09
10"	580.18
12"	1,083.28

# Metered Water Rate Restructure



CITY OF SACRAMENTO  
DEPARTMENT  
OF UTILITIES

December 2, 2008



CITY OF SACRAMENTO  
DEPARTMENT  
OF UTILITIES

# Restructure Metered Water Rate

- In 2010, nearly 26,000 customers will be required to convert to a metered water rate
- Current Metered Water Rate is not revenue neutral
- Restructuring metered rate now allows for a complete calendar year of comparative billing at the new metered rate structure before residential customers convert in 2010.

# Goal of Proposed Restructure

- A rate that is revenue neutral to the Utilities Water Fund
- A rate that is fair to all customers
- A rate that will be easy to apply during the transition of flat to metered rates

# Proposed Restructure

- Consists of Flat Service Charge based on meter size and a variable portion based on water usage.
- All customers will pay for the water they use
- Typical single family customers with a 1-inch meter who use the median amount of water will not see an increase in their bill

# Metered Vs. Flat Water Bill

Annual Bill Flat: \$311.64

Annual Bill Metered: \$295.72

