

CITY OF FULLERTON  
WATER RATE STUDY  
MINUTES  
MAY 23, 2011 - 6:30 P.M.  
COUNCIL CHAMBERS

MEMBERS PRESENT:

Jim Williams  
Jack Dean  
Leland Wilson  
Greg Seborne  
Jeff Otter  
Sheridan George  
Adan Ortega  
Aarun Thakur  
Pat McNelly  
John Avera

MEMBERS ABSENT:

Ryan Alacantara  
Roland Chi  
Elaine Mitchell  
Arlene Rocabado

STAFF PRESENT:

Dave Schickling, Water System Manager  
Lorrie Lausten, Civil Engineer  
Steve Garten, Water Superintendent  
Chad Blais, Water Quality Specialist  
Clerical Assistant Norton

Edward Donahue, Consultant

ELECTION OF CHAIR

ERMC Committee Member McNelly was unanimously elected to act as Chair.

Mr. Donohue, Consultant for the Water Rate Study, presented the results of the water rate study, including:

- Revenue Requirements
- Financial Plan
- Usage, Demand and Customer Analysis
- Cost of Service Analysis
- Rate Alternatives
- Sample Bill and Comparisons

The report was presented on the proposed water rate increase for the purpose of the committee to compare the five Rate Alternatives A, B, C, D and E and make a recommendation to the City Council.

All rate structures will generate the same amount of revenue.

- ✓ Alternative A offers **across the board** increases.
- ✓ Alternative B uses **usage based** meter equivalents for all fixed charges increasing fixed charge revenue from 12% to 15%.
- ✓ Alternative C uses AWWA **capacity** meter equivalents for all fixed charges increasing fixed charge revenue from 12% to 15%.
- ✓ Alternative D uses AWWA **cost of meter** equivalents for all fixed charges increasing fixed charge revenue from 12% to 15%, **better to reflect cost of service**.
- ✓ Alternative E same as Alternative D with fixed charges set to generate 30% of revenues to fund capital expenses.

#### QUESTIONS:

1. Consultant referenced “fixed” charge but tied it back to the cost of water being used—the price per gallon goes up. Please clarify.
  - *The fixed charge can be based on meter size tied to amount of capacity of what goes through the meter (a larger meter would allow more water), or the cost of replacing the meter, rather than the amount of capacity.*
2. Are any fixed cost obligations dependent on water sales?
  - *It depends on what the fixed charge entails, i.e. just the cost of billing and meter maintenance and customer service, or costs of capital replacement would make the fixed charge higher.*

*Water System Manager Schickling added that if the City uses less water, it does not pay for the water supply pass-through cost. Currently 12% of all fixed cost, excluding a large portion of the water supply cost, is collected in the customer charge each month.*
3. Does Alternative E collect 30% of fixed charges and the remaining fixed charges and pass-through are collected through the variable rate?
  - *From an economic standpoint, the City would want a substantial portion of total revenues in the fixed charge. However, this would make the cost per gallon for the elderly, fixed income population, and low-end users extremely high.*
4. If my water bill is \$100, how much of that amount goes into capital improvements and how much is for the water and operating costs?

- *Out of the approximately \$27.5 million dollar revenue, only \$4 million is spent on operating costs. Most of the 47% operating costs are fixed and the other 53% is the cost of purchased water. In addition, if the fixed costs were a high percentage of the total water bill, there would be less incentive to conserve.*
5. The Metropolitan Water District is having difficulty selling water this year at a rate to reach their revenue target that because of ample rain. There seems to be a debate as to what degree MWD should be involved in conservation. The Urban Water Management Plan references conservation programs which are not being funded.
- *Staff has tried diligently to project how much water is needed to be purchased in any given year. Across the country, there is an approximate 1% per year per household decline in water consumption due, in part, to water conserving fixtures and conservation efforts.*
6. Is it fair to say that the price point has little to do with use and demand?
- *Some economists say that pricing can affect water use by as much as 40%. The water bill and sewer bill is a small percentage of a household income, and has been found to not be enough to affect the way a resident uses water.*
7. What is the difference between usage base vs. capacity?
- *One is based on actual usage; the other is based on potential usage.*
8. What if the franchise tax fee was removed from the General Fund and put back in the water fund?
- *This would place a burden on the General Fund, so the problem would just be moved from one fund to another. The franchise tax fee is 11% of the operating costs. It is an in-lieu franchise fee property tax. It is not for profit, but to take care of City functions that the water company requires from the City.*
9. Out of the 25,000 homes in Fullerton, what percentage of them have 5/8" vs. 1" size meters?
- *It's about 50/50.*

City staff and the consultant, from a technical perspective, recommend Alternative B as the best option to meet the goals set at the beginning of the water rate study. However, this alternative would have a significant impact on certain customers because it changes the structure of rates. Therefore preferred alternative is to take existing rate structure and increase rates across the board. Any of the alternatives will produce the same amount of revenue, but Alternative A would cause the least amount of impact to customers.

10. What is staff's objection to the structure changes between Alternative B and Alternative E?
- *From an operational standpoint, Alternative E would be ideal. Alternative B was designed on actual customer usage. Staff has found that between Alternatives B and*

*E, there was as much as a 75% increase in certain individual user's current water bill. Many larger users with 6" meters actually would see a reduction in their water bill, while others with the same size meter would see as much as a 75% increase, depending on how much water is used.*

Public comments portion was opened, but there was no one who wished to speak on the matter.

Chair McNelly announced that each Ad Hoc member would be given the opportunity to speak on the issues.

11. Over the years, the current rate structure has not proven capable of keeping up with the CIP obligations that the City is incurring. In favoring Alternative A, how does staff plan to protect fixed revenues from future commodity rates?

- The City cannot protect customers under any of the alternatives because it is using only known data or reasonable projections. If City reserves were too large, the City would receive opposition for that, just as much as if there weren't enough reserves.*

12. How does the Urban Water Management Plan affect the City's sales projections?

- The Urban Water Management Plan is a 30-year planning document that is conservatively high in its values. Water demands in Fullerton for 2011 have rivaled those in 1976. Under SB 7x7 rules, the City needs to be at 177 gallons of water per person per day, and last year, the City was at 180. In Orange County, the recycling portion of that equation (groundwater replenishment system) may be used in the formula to achieve the per capita numbers. Staff took this year's projection and went up 2% for the next 10 years.*

13. The 20 x 2020 baseline calculations were from 1995-2005. In the rate study, staff estimates that even though there have been dramatic water use reductions in the last couple of years in Fullerton, how will those savings affect that baseline.

- The 20 x 2020 projection is up, the population is still growing, and the groundwater replenishment system is expanding – and there will be more of a push for conservation, but staff is comfortable with the five-year projections. In five years another study may be conducted.*

14. Given the state of the City's present infrastructure, what are the water losses, how much loss will be prevented with new pipelines, and has staff calculated what the avoided cost of that waste will be.

- Right now the City is at 6% per year in loss – majority of that amount is going through low flows and meters. The typical municipal water system that can hold its losses in the distribution system to under 10% is considered successful.*

15. Has staff's recommendation changed from the previous ERM meetings?

- Yes, staff originally favored Alternative C, but after studying differential impacts, Alternative A was found to be more conservative. The consultant stated that both*

*alternatives would produce the same amount of revenue, but Alternative C would more adversely impact some customers.*

16. How accurate are staff's projections for a 6% increase in MWD costs and a 3-1/2% increase in OCWD costs, because the federal government may soon be asking for a huge increase in costs.

- *That was the best projection the consultant was able to achieve, based on correspondence and agreements. One must differentiate between the pass-through costs and O&M costs. The 6% does not include water supply costs (pass-through), and staff is predicting an additional 1.8% pass-through increase next year.*

17. How does staff plan to get to Alternatives B and/or C?

- *The committee must make its recommendation as to which alternative it prefers, and then add a requirement for a certain time frame in which staff must make a more gradual change to the next alternative.*

18. Member Otter favored Alternative C because he felt it was the most equitable option with the least impact to those most affected by a rate increase, mainly those homes with 5/8" meters.

- *Staff recommended Alternative a because it wouldn't have such a drastic effect on those homes which have 1" meters as Alternative C.*

19. Member Sebourn felt that staff's proposed 6% increase in MWD costs was too low. He read through MWD's budget for the next fiscal year and found a 12% increase in salaries and benefits and 18.4% increase in other labor costs. The water system predicts a 23% increase in construction and operations costs. The City's personnel expenses, along with inflation of 3%, group benefit expenses are expected to go up 6.8% (general employees and 7.8% (safety employees). In addition, PERS costs are predicted to go up 3% (general employees) and 7.4% (safety employees).

The franchise fee does not appear on the water bill and that is \$3 million dollars which most citizens think is being applied to the water system, but is not. The cost per gallon of water also does not appear on the water bill. Member Sebourn was displeased with the way the water bill was structured. He suggested that all citizens see a fixed rate for the meter attached to their home, and another column for the amount of water used, so when a pass-through increase occurs, the fixed fee for the meter would not change.

20. Member Williams wanted confirmation that the water reserve fund would not in any way be impacted by any of the recommended models.

- *Mr. Donohue indicated that this was correct.*

21. Member Dean asked for more information regarding the subject of bonds.

- *Since the water system is not growing, most of the capital costs are in the form of repair, replacement, maintenance or upgrades. Ideally, this would all be paid out of current revenues; however, there would be a significant increase in rates if the work*

*was all done at once. Bonds are a way to get money up front and at the end of the five year period, the City would have 75% of its capital projects funded with cash and 25% with bonds. The use of bonds could then be eliminated, should the City so desire.*

22. Member Wilson inquired about the status of the sewer increase which was implemented in the mid-2000s. He also questioned whether staff would make a concentrated effort to combine the pipeline work with sewer repairs and street maintenance.

- *The revenues last year decreased because of water conservation, but the City is doing the amount of capital projects predicted at that point of inception. Approximately 3-1/2 miles of sewer mains are being replaced per year. Staff is presently doing one mile per year of water lines, and they do try to combine work efforts wherever possible.*

23. How quickly after Council approves the rate increase can the general public expect to see work begin?

- *After Council approval, staff would immediately obtain bond funding and work would be expected to commence in April of 2012.*

24. What is the franchise tax fee actually applied to?

- *It goes into the General Fund and is applied equally across the board.*

25. Member Williams emphasized the importance of thoroughly explaining to the water customers what the water rate increase will be used for and how important it is.

26. Member Wilson asked how much each water main leak costs to repair.

- *To send out City crews on the average is approximately \$5,500-\$6,000 each and the City experiences approximately 100 per year.*

27. Chair McNelly reported that when the Citizens Infrastructure Review Committee (CIRC) was originated, one of the recommendations by the original group was that a long-term replacement program be addressed, with water being listed as one of the most important. He had always felt that the replacement cost for water mains was inadequate, and he was also a proponent of the sewer fee. He suggested Alternative A as the most "transparent" equal option and would be easier for Council to "sell."

28. Member Ortega concurred with Alternative A, but was concerned about the correlation between "fixed costs" to "fixed revenues". The City must meet its infrastructure needs, but building on the current rate structure will not meet that challenge.

29. Member George favored Alternative B.

30. Member Otter was reluctant to recommend Alternative A, because Table 7.17 infers that Alternative A not be chosen and suggested rescoring this matrix. Alternative C actually reduces the rate for those homeowners that have 5/8" meters, and he would recommend that alternative.

31. Member Ortega would be uncomfortable rescoring matrix and recalibrating specific scores. However the responsibility of this ad hoc committee was to weigh the goals and objectives in the matrix. He would delete the water conservation component because he didn't see enough of a cost differential between the tiers. Protecting jobs and economic development should also be weighed.
32. Member Otter stated that he would analyze those rows given the greatest weight which are 1 and 2.
33. Member Williams recommended Alternative A because of the simplicity of explaining to the citizens, and the "across-the-board" distribution factor.
34. Member Otter reiterated that the matrix rated minimizing customer impact too low, and if the score were doubled in this category, then he would favor Alternative A. He still would be recommending Alternative C.

The following Committee Members supported Alternative A:

Avera  
Dean  
Ortega  
McNelly  
Sebourn  
Williams  
Wilson

The following Committee Members supported Alternative C

Otter  
George  
Thakur

MOTION made by Thakur seconded by Otter recommending Alternative C.

MOTION failed with five oppositions.

MOTION made by Ortega, seconded by Williams to recommend Alternative A. Motion CARRIED by a vote of 10 to 3.

Amendment to the motion to recommend Alternative A by the Ad Hoc Committee with the following addition:

The Ad Hoc Committee further recommends to the City Council that staff be directed to take steps to match fixed revenues to fixed costs transitioning toward a rate structure over time that protects the City against the volatility of the water costs that otherwise may encroach upon the City's need to maintain an orderly and timely pipe replacement schedule.

Water System Manager Schickling advised that the June 1<sup>st</sup> mailer will describe the need for the 6% increase in revenue, and samples of water bills using the different alternatives. The public hearing will then be held on July 19<sup>th</sup>.

ADJOURNMENT:

Meeting adjourned at 9:00 p.m.

Minutes by:

Beverly Norton, Staff ERM Committee  
Becky Stevens, Staff Water Engineering