



## CITY COUNCIL AGENDA REPORT

**Meeting Date:** 4/6/2023

**From:** Carolina Yuen, Finance Director

**Subject:** Public Hearing for the Proposed Water and Sewer Rate Increases

### Community Goal/Result

Fiscally Prudent

Safe Community

Ecological Sustainability

### Purpose

Ensure the City's water and sewer rates reflect the full cost of providing clean water and effective wastewater disposal to the various users while encouraging conservation of resources.

### Recommendation

Adopt Resolution No. 2023-\_\_\_\_\_ approving the proposed rates in Attachment A including (a) an annual increase of 9% through 2026/2027 in the water fixed charge, (b) an annual increase of 7% annually through 2027/2028 in the water usage rate, and (c) a 25% annual increase through 2027/2028 in sewer charges, and setting the discount rate for the City's Low Income Rate Assistance (LIRA) Plan to a fixed rate across all services, starting at 25%, and finding that no further environmental review is required because water and sewer rates is not considered a project under the California Environmental Quality Act (CEQA). CEQA Guidelines, Section 15378(b)(2) and (b)(4).

### Background

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

Subsequent to passing Ordinance No. 458, the California Supreme Court has determined that water and sewer charges are "property related" and hence subject to Proposition 218, The Right to Vote on Taxes Act. As such, the City is required to notify property owners and others obligated to pay water and sewer charges regarding any increase to such charges, and to conduct a public hearing at least 45 days later to allow time for community input. As a courtesy to all City customers, staff has also notified all account holders, for example, tenants, of the

forthcoming change in rates, notwithstanding that not all of them will be responsible for such charges.

The last rate study for water and sewer charges that the City had performed was in 2000. The City hired FCSG and Carollo Engineers to complete a rate structure study and Capital Improvement Plan. The City has been working from this rates study for the last twenty years and the City has taken the rates recommended in the Plan and adopted them based on need. The last operational rate increase went into effect in 2012.

Additionally, the City has implemented its first capital improvement charge to pay for bonds issued in 2015. This was the first of an anticipated series of Capital Rate Charges in order to pay for the water and wastewater Capital Improvement Plan. The concept was to sell bonds approximately every five years over 20 years with an overall plan to cover costs of about \$20 million in capital improvements. The bonds would have a term of 20 years so that after 20 years the City would have in place a Capital Charge which would only be reviewed to ensure it was adequate to pay for ongoing necessary capital improvements.

In 2022, the City Council approved the second of four increases slightly behind schedule, and therefore being phased in over a 17-year period, to pay for improvements identified as part of the Capital Improvement Plan.

The City also implemented a drought reserve charge in 2019 to ensure that during a drought, the City would not need to raise rates as other water providers have done in light of during a drought customers lower their water usage as a result of their conservation efforts.

Since 2012, the amount the City's water purchases have increased from \$2.69 per unit to \$4.50 per unit, an increase of 67%. Wastewater treatment has gone from \$4.81 per unit to \$11.63 per unit, an increase of 242%. The City has been able to keep operation rates constant due to an increase in usage among users and the use of one-time revenue sources (i.e., connection fees).

In April 2021 the City retained the firm Lechowicz and Tseng to review the City's operation water and sewer rates.

For over 18 months, the City Council Infrastructure Subcommittee worked with Lechowicz and Tseng to develop the proposed rate increases and suggested rate increases were presented at the City Council meeting held on December 15, 2022. Council selected the rate option under consideration at this meeting and directed staff to proceed with the requirements of Proposition 218 in order for the Council to consider adopting the rate increases.

## Discussion

### Water and Sewer Rates

Water and sewer rates are collected to pay for the operations of the water and sewer systems. Following are the various line items on the City's bi-monthly water and sewer bill:

- Water Service Charge – This is the charge for having a meter connected to the system and for the City to ensure that it has enough treated water available to provide the full capacity of that meter and all other meters at a given time.
- Water Usage Charge – This charge is based on the number of units used during the billing period (two months). 1 unit = 100 cubic feet of water = approximately 748 gallons.
- Sewer Charge – For residential customers, this charge is based on the average water usage from October through January. The rate is reset every April based on the calculated average from the previous October to January period. For commercial customers, this charge is based on the actual water used during the billing period.
- Capital Project Charge - This is to pay for capital projects and the rate is based on the amount of water used between April and June. The initial charge was for the repayment of the 2015 water and sewer bonds that funded various capital projects. This charge increased in 2022 and is expected to increase every 5 years between 2025 and 2035 to continue to fund a Capital Improvement Plan previously approved by Council. This charge is expected to be the source of funding for capital projects over time to avoid large rate increases to cover projects as they occur.
- Drought Contingency Fund Charge – Where other agencies traditionally have raised rates during droughts to combat lower water usage, the City adopted this charge to create a reserve fund to cover loss of revenue during drought years as customers are asked to conserve water. Approximately 70% of the City's costs are fixed but 70% of revenue is currently dependent on water usage. Water conservation efforts may therefore decrease revenues to levels that would not cover the related costs. The City anticipates that the Drought Reserve will be fully funded by 2025 if a drought does not continue.

Lechowicz and Tseng reviewed the City's Water Service Charge, Water Usage, and Sewer Charge, analyzing the City's rates, customer usage and revenue produced from the rates. Their analysis confirmed that for FY2021 and FY2022, the City's Utility Fund was operating at a loss and using fund balance to cover these losses. A Utility Fund should be able to operate at least at a break-even or a net-positive position.

There were two main reasons the Utility Fund operated at a net loss over the past two years. First, there has been a decrease in water usage among our commercial accounts as a result of business closures in response to COVID-19 pandemic. Six of the City's largest 25 users reduced water usage by 12,300 units during FY2020. Simultaneously, the cost of wastewater treatment increased by 60% over the same period.

City Council and staff were aware of the decreasing revenues but decided not to propose rate increases during the pandemic. This has resulted in a decrease in net revenues (revenues less operating expenses) to levels below the City's debt coverage requirement of 1.25 times the annual debt service. Due to this, our credit rating for our utility bond was lowered from "AA-" to "A" which makes it challenging to obtain future debt to fund the Capital Improvement Plan.

As stated in the Background section above, the City has not increased its operational rates since 2012. By controlling costs, increases in usage in the early years of the rate change and one-time revenue sources, the City has been able to delay needed rate increases until this year. The City reviewed the rates and determined due to recessions, the pandemic, and increases for the drought contingency fund and capital projects, it was better policy to delay the water and sewer rate increases. If the City had increased the rates incrementally throughout the last 10 years, the average customer who uses 10 units of water every two months would have paid an additional \$5,100 over the decade.

The City decided in December 2022 to move forward with a public hearing for the proposed rate increases. The goal with the proposed increases is for the City to replenish its reserves by FY2028.

The City's consultant proposed to increase the base charge for water service, moving the City away from a variable rate for water usage to a more fixed position so that revenues will not be as impacted by reduced water usage in the future. The proposed water rate changes would in the first year increase the fixed charges based on meter size, from a range of \$22.67 to \$431.30 to a range of \$33.35 to \$448.19. After the first year, the fixed charges would increase annually 9% through 2026/2027.

In addition, the proposal is to also reduce the number of water usage tiers for variable consumption charges from six tiers to two. State law over the past 20 years has been interpreted by the courts to be stricter on the use of tier rates as tiering tends to benefit persons who use less water, and therefore pay less, thereby causing others to subsidize the cost of the overall system. As a result of this proposed change, proposed rates in the first year will range from \$6.30 to \$12.65 depending on water usage. Thereafter the rates will increase an additional 7% each year through 2027/2028.

Since the cost of wastewater treatment has increased significantly over the years, the need for a sewer rate increase is greater. Significantly, the proposed sewer rate changes will reduce the fixed charge in the first year from a range of \$68.87 to \$183.27 to one rate of \$64.20 but there would be an increase of 25% each year thereafter through 2027/2028.

The proposed sewer rate variable charge is to reduce the number of tiers to one tier and sewer rates will be based on "customer strength," (for example residential or commercial), instead of usage. The rates will increase from a range of \$2.81 to \$7.66 to one rate at \$8.29 per unit and

increase 25% each year thereafter through 2027/2028. The sewer bill for a residential customer who uses 10 units of water per billing cycle (every two months) would increase from \$106.67 to \$147.10 (an increase from \$640.02 to \$882.60 annually).

Because of the bi-monthly billing, the City does not intend to increase the rates until June 15<sup>th</sup>, 2023, where new rates will be reflected in the June – August bill which will be due in October.

Low Income Rate Assistance Program

The City offers all users who are enrolled in the PG&E Care program to enroll in the City’s Low Income Rate Assistance (LIRA) Program. Over the years, the percentage reduction in rates has increased as the Council determined it did not want to increase water and sewer rates on low-income individuals. However, there is no LIRA reduction for either the Capital Charge or the Drought Contingency Fund Charge because these rates have been determined to raise an absolute dollar amount. According to State Law, some users cannot offset the cost for other users, and therefore the decrease in revenue due to the LIRA program is funded by the City’s General Fund. Currently the City spends approximately \$40,000 each year from the General Fund for the LIRA program.

Service	Current Discount	Proposed Discount
Water Service	36.75%	One rate for all services Proposed at 25% to start
Water Use	49.90%	
Sewer	42.40%	
Fire Service	36.75%	

If the City Council wishes to allocate the same dollar amount (\$40,000) in the future, the consultants proposed a flat discount of 25% on these users’ bill to accomplish this. If the Council wishes to allocate additional General Fund dollars to the LIRA program, it may increase the rate of the discount. Staff recommends setting a flat discount rate for the bill instead of different rates or each type of service.

Proposition 218 Process

Staff mailed letters dated February 17, 2023, to each Brisbane property owner and utility users to inform them about the proposed rate increase, details of the public hearing and instructions on how to submit a written protest and protest in person. As of this writing, less than 10 protests have been received by the City Clerk. There are at least 2000 property addresses connected to the City’s water and sewer systems. If more than 50% of the property owners and utility users protest the rate increases, the City will not be able to increase the rates to ensure

the continued ability to provide clean drinking water and safe conveyance of wastewater to the treatment plant. If there is no majority protest, Council may determine the amount of the increases and when the increases will be implemented. As mentioned, staff recommends the rate increases to go into effect June 15, 2023.

**Fiscal Impact**

The cost to the customers can be viewed through the following samples of billings based on usage:

Sample Usage	Current Bill	Proposed Rates - effective June 15, 2023
4 units	Water Charge - \$22.67 Water Usage – \$14.80 Sewer Charge - \$80.11 Drought Reserve -\$2.32 Capital Charge - \$40	Water Charge - \$33.35 Water Usage - \$18.89 Sewer Charge -\$97.36 Drought Reserve -\$2.32 Capital Charge - \$40
10 units	Water Charge - \$22.67 Water Usage - \$60.18 Sewer Charge - \$106.67 Drought Reserve \$2.32 Capital Charge - \$70	Water Charge-\$33.35 Water Usage - \$56.68 Sewer Charge - \$147.09 Drought Reserve -\$2.32 Capital Charge - \$70
20 units	Water Charge - \$22.67 Water Usage - \$ 170.68 Sewer Charge - \$183.27 Drought Reserve \$6.99 Capital Charge - \$100	Water Charge- \$33.35 Water Usage - \$183.18 Sewer Charge - \$229.98 Drought Reserve - \$6.99 Capital Charge - \$100
100 units irrigation – 2 inch meter	Water Charge – \$92.47 Water Usage -\$1,225.46 Sewer Charge \$0 Drought Reserve \$102.14 Capital Charge - \$130	Water Charge - \$88.95 Water Usage - \$1,131.64 Sewer Charge - \$0 Drought Reserve - \$102.14 Capital Charge - \$130

Adopting the resolution would enable the City to cover the costs through revenues collected over five years.

**Environmental Review**

Adoption of this resolution increasing water and sewer rates is not subject to further environmental review under the California Environment Quality Act (CEQA) because it is a governmental fiscal activity that does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment and/or it is general

policy and procedure activity and hence, under either situation, not a “project,” CEQA Guidelines, Section 15378 (b)(2) and (4).

**Measure of Success**

The City is able to provide clean, safe drinking water and effectively dispose of wastewater as economically as possible while being financial sustainable.

*Carolina Yuen*  
\_\_\_\_\_  
Carolina Yuen, Finance Director

*Clayton L. Holstine*  
\_\_\_\_\_  
Clay Holstine, City Manager

Attachment: Resolution 2023-\_\_\_\_\_ and rate tables with proposed increases

**RESOLUTION NO. 2023-\_\_\_\_\_**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BRISBANE INCREASING THE CHARGES FOR WATER AND SEWER SERVICES AND SETTING THE DISCOUNT RATE FOR THE CITY'S LOW INCOME RATE ASSISTANCE PLAN AT 25% FOR ALL SERVICES**

**WHEREAS**, Subsection 13.12.020.C of the Brisbane Municipal Code states that it is the policy of the City to adjust water service charges to reflect increases in the cost of living and the cost of water supplied to the City by San Francisco; and

**WHEREAS**, Subsection 13.08.020.D of the Brisbane Municipal Code states that it is the policy of the City to adjust sewer service charges to reflect increases in the cost of living and the cost of sewer treatment services furnished to the City by San Francisco; and

**WHEREAS**, the City Council finds and determines that increases in the cost of the providing water service and sanitary sewer service to customers in the City have made it necessary to increase the amounts charged by the City for providing such services; and

**WHEREAS**, a proposed schedule of rate increases over five years was presented to the City Council, a copy of which is attached hereto and incorporated herein by reference; and

**WHEREAS**, as required by law, notice of the proposed increased charges was given to the persons who are responsible for payment of such charges, as shown on the records of the City, which included notice of a public hearing to be conducted by the City Council at which time any protests to the proposed increases would be considered, such notice having been given at least 45 days prior to the hearing; and

**WHEREAS**, on April 6, 2023, the City Council conducted a public hearing on the proposed increases in water and sewer charges, at which time any person was given an opportunity to protest the same; and

**WHEREAS**, protests were not made by a majority of the persons who would be responsible for payment of the water and sewer charges,

**NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Brisbane as follows:**

1. The schedule of water service and sewer services charges attached hereto is approved (attachment A).
2. The discount rate for the City's Low Income Rate Assistance Plan shall be 25% for all service charges.
3. The increased water and sewer service charges shall be effective as of June 15, 2023, shall be implemented in the bimonthly bill which will be sent to customers in August 2023, and due in October 2023.

---

Mayor



I hereby certify that the foregoing Resolution No. 2023-\_\_\_\_\_ was duly and regularly adopted at the regular meeting of the Brisbane City Council on April 6, 2023, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

---

Ingrid Padilla, City Clerk

Approved as to form:



Michael Roush, Legal Counsel

Attachment A

**Proposed Bimonthly Water Rates**

<i>Rate Effective Date:</i>	<b>PROPOSED WATER RATES</b>				
	June 15, 2023	June 15, 2024	June 15, 2025	June 15, 2026	June 15, 2027
<b>FIXED CHARGES</b>					
<u>Meter Size</u>					
5/8"	\$33.35	\$36.17	\$39.23	\$42.55	\$46.28
3/4"	\$33.35	\$36.17	\$39.23	\$42.55	\$46.28
1"	\$41.90	\$45.45	\$49.29	\$53.46	\$58.12
1-1/2"	\$63.29	\$68.65	\$74.44	\$80.75	\$87.72
2"	\$88.95	\$96.49	\$104.62	\$113.49	\$123.24
3"	\$157.37	\$170.73	\$185.10	\$200.79	\$217.96
4"	\$234.35	\$254.25	\$275.64	\$299.01	\$324.52
6"	\$448.19	\$486.25	\$527.14	\$571.85	\$620.52
<b>CONSUMPTION CHARGES (per ccf) (1)</b>					
<u>All Usage over 1 ccf</u>					
Tier 1: 1- 20 ccf	\$6.30	\$6.76	\$7.26	\$7.79	\$8.36
Tier 2: Over 20 ccf	\$12.65	\$13.47	\$14.34	\$15.27	\$16.25

(1) 1 ccf = 1 hundred cubic feet = 748 gallons

**Proposed Bimonthly Sewer Rates**

<i>Rate Effective Date:</i>	<b>PROPOSED SEWER RATES</b>				
	<b>June 15, 2023</b>	<b>June 15, 2024</b>	<b>June 15, 2025</b>	<b>June 15, 2026</b>	<b>June 15, 2027</b>
<b>RESIDENTIAL (1)</b>					
Flat Charge	\$64.20	\$79.86	\$99.32	\$123.54	\$153.66
Variable Charge (per ccf) (2)	\$8.29	\$10.15	\$12.43	\$15.23	\$18.67
<b>COMMERCIAL</b>					
<b>Standard</b>					
Flat Charge	\$64.20	\$79.86	\$99.32	\$123.54	\$153.66
Variable Charge (per ccf)	\$9.02	\$11.04	\$13.53	\$16.59	\$20.33
<b>Medium</b>					
Flat Charge	\$64.20	\$79.86	\$99.32	\$123.54	\$153.66
Variable Charge (per ccf)	\$11.12	\$13.61	\$16.68	\$20.45	\$25.07
<b>Heavy</b>					
Flat Charge	\$64.20	\$79.86	\$99.32	\$123.54	\$153.66
Variable Charge (per ccf)	\$13.21	\$16.18	\$19.83	\$24.32	\$29.81

(1) Residential bill is based on winter consumption (Oct, Nov, Dec & Jan)

(2) 1 ccf = 1 hundred cubic feet = 748 gallons