FROM: Carrie Mattingly, Utilities Director
Prepared By: David Hix, Utilities Deputy Director - Wastewater
             Ron Munds, Utilities Services Manager

SUBJECT: DROUGHT-RELATED REVIEW OF AVERAGE WINTER WATER USE FOR 2014-15 SEWER CAP

RECOMMENDATION

1. Make no change to the 2013-14 Average Winter Water Use (AWWU) period.
2. Confirm the establishment of the 2014-15 residential sewer caps based on the average of the data gathered during a customer’s 2013-14 AWWU period.
3. Due to extraordinary drought conditions during the 2013-14 AWWU period, upon customer request to be received no later than October 1, 2014, allow adjustments to individual sewer caps to be reviewed for drought impacts and approved by the Utility Billing Adjustment Committee on a case by case basis where appropriate; and
4. Direct staff to return to Council within twelve months with a draft policy to establish guidelines for the Average Winter Water Use period related to drought conditions.

REPORT-IN-BRIEF

With drought conditions gripping California and the Central Coast, concerns were raised by the City Council regarding the effects of the dry weather condition on establishing rate-payers’ sewer caps during the 2013-14 average winter water use (AWWU) period. The period during which the AWWU is established stretches from mid-November to mid-March to include three reads per meter.

City staff and its rate consultant HDR Engineering analyzed the 2013-14 AWWU data and found that the data does not demonstrate there is a clear correlation between the sewer caps that were just established during the average winter water use period and drought impacts. Therefore an across-the-board reduction in sewer caps is not being recommended. Fifty-two percent of rate-payers will either see caps go down or stay the same. Another 26 percent will see their cap increase 1 to 2 units. This is 78 percent of residential users. It is recommended, as a baseline, the 2014-15 sewer cap established during the 2013-14 average winter water use period is applied to all residential sewer rate-payers.

Recognizing how hard some community members work each year to keep their sewer caps as low as possible and acknowledging there was likely some measure of outdoor water use that occurred, it is recommended City Council direct the Utility Billing Adjustment Committee to analyze sewer caps for rate-payers who believe their sewer cap should be adjusted because they irrigated during the dry winter period. Consideration of a sewer cap adjustment will require a rate-payer to take action and should Council approve this approach, getting the word out will be
important. Outreach through City utility bills, the City website, the Utilities Department Resource newsletter, and media would occur.

Since climate change will likely result in more unpredictable weather patterns, such as the current drought conditions, in the future, staff is requesting Council direction to establish guidelines for the AWWU period during future drought conditions. Depending on Council direction, these policies and guidelines may be considered by Council at a future date.

This report outlines the analysis performed to evaluate the climatic impacts of the drought on water use during the average winter water use period and provides information supporting the recommendation. It presents ideas for policy alternatives to address future change in climatic conditions, and the ability to adapt billing practices to these changes.

**DISCUSSION**

**Background**
The current volume-based sewer rate structure was adopted by Council in June 2007 after extensive public outreach, research, study and analysis. The previous rate structure was a flat rate for all residential customers and flat rate plus a volume charge for non-residential customers. The main concern regarding the flat sewer rate from residential rate-payers, especially small and fixed income households, was that it wasn’t fair to customers who discharged small amounts to the sewer but were paying the same rate as large dischargers. Non-residential customers’ main complaint was that they were paying the same flat rate as residential customers plus a volume charge.

In December 2004, the City Council directed staff to proceed with a study to include the evaluation of monthly billing, an assessment of the water and sewer rate structures and a review of the utility billing software. Over the course of the study, there were five presentations to the City Council (similar to the Water Rate Structure Study completed in 2012) with consulting assistance from HDR Engineering. Additionally, a survey was mailed to the community at the beginning of the study to gain insights into the rate-payers’ perceptions of water and sewer services including rate structures. Survey results indicated the community was supportive of changes to the sewer rate structure that would make the charges more fair and equitable.

At the completion of the study, the City Council adopted the current volume-based sewer rate structure where residential customers pay a small fixed fee and establish a sewer cap during the winter months when outdoor irrigation is usually minimal or turned off completely, and non-residential customers pay the same small fixed charge and a volume charge based on their monthly water consumption. The new structure aligned with community expectations (increased control and knowledge of rate structure and charges) and City Council goals for the rate structure.

The current sewer rate structure was adopted in 2007. Table 1 compares the Council’s rate structure goals from the 2007 sewer and water rate structure study and the goals established as part of the 2012 rate structure study which was only for water. While the priority order has changed somewhat, the 2007 and 2012 rate structure goals remain aligned. The rate structure study assumed compliance with all legal requirements.
Table 1 – Rate Structure Goal Comparison

<table>
<thead>
<tr>
<th>2007 Rate Structure Goals</th>
<th>2012 Rate Structure Goals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comply with legal requirements</td>
<td>Comply with legal requirements</td>
</tr>
<tr>
<td>Encourage conservation</td>
<td>Revenue stability and predictability</td>
</tr>
<tr>
<td>Ensure revenue adequacy to fully meet system operating and capital needs</td>
<td>Stability and predictability of rates</td>
</tr>
<tr>
<td>Provide equity and fairness between classes of customers</td>
<td>Simple and easy to understand and administer</td>
</tr>
<tr>
<td>Be easy to understand and easy to administer</td>
<td>Fair allocation of total cost of service among customer classes</td>
</tr>
<tr>
<td>Facilitate ongoing review to facilitate rate stability</td>
<td>Discourage wasteful use</td>
</tr>
</tbody>
</table>

2013-14 Winter Water Use Analysis

Historic Sewer Cap Averages. For a multitude of reasons, average winter water use for residential customers has been fluctuating between six and seven units for many years. The 2013-14 average winter water use is just below seven units; a one unit increase over 2012-13. It is important to keep in mind the average winter water use only sets a cap for the amount of water that residential sewer rate-payers can be charged. It is not necessarily the volumetric amount used to calculate the monthly charge to a residential rate payer. It is a cap; the top amount of water use that will be used in calculating the bill. For example, if one has a sewer cap of seven and he goes out of town for a month and uses no water for the billing period, only the fixed charge is billed; no volumetric component is billed. If one has a sewer cap of seven and she uses 23 units of water during a billing period, the fixed charge plus the volumetric component, limited to the sewer cap of seven, is charged.

Table 2 – Historic Average Sewer Cap Comparison

<table>
<thead>
<tr>
<th>Winter Period</th>
<th>Sewer Cap Effective July 1</th>
<th>Average Sewer Cap Units</th>
<th>Change from Previous Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>2008</td>
<td>8</td>
<td>N/A</td>
</tr>
<tr>
<td>2008-09</td>
<td>2009</td>
<td>7</td>
<td>-1</td>
</tr>
<tr>
<td>2009-10</td>
<td>2010</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>2010-11</td>
<td>2011</td>
<td>6</td>
<td>-1</td>
</tr>
<tr>
<td>2011-12</td>
<td>2012</td>
<td>7</td>
<td>+1</td>
</tr>
<tr>
<td>2012-13</td>
<td>2013</td>
<td>6</td>
<td>-1</td>
</tr>
<tr>
<td>2013-14</td>
<td>2014</td>
<td>7</td>
<td>+1</td>
</tr>
</tbody>
</table>

Analysis. HDR Engineering has been assisting City staff with the annual review of the average winter water use and establishment of sewer caps since 2007. In response to City Council’s request to analyze the impacts the current drought has had on winter water use, HDR Engineering analyzed and compared individual customer sewer cap data from the previous year for the first time. This analysis has not been performed before therefore it is not definitively known whether the up and down movement seen in individual sewer caps is normal. The data to
perform historic analyses on individual sewer caps is not available because the City moved to new utility billing software in 2012 which changed the account numbering format for customers thereby eliminating the ability to sort the data and match account information.

Overall, 78 percent of the sewer caps moved in a direction that, in general, seems to be a reasonable year-to-year sewer cap change. An increase of one or two units in 26 percent of sewer caps occurred. It also seems reasonable increases of greater than two units could be attributable to outdoor watering due to drought conditions. It could also be attributable to other causes; for example, the prior year could have been unusually low for some reason. Without analyzing each individual account for prior years’ usage, it is not clear, and even then there is no certainty as there are many things that can influence indoor water use. Therefore there is not a recommendation to reduce sewer caps across the board by some number of units due to impacts correlated to drought. If most rate-payers had shown an increase in average winter water use, these changes could have more readily been correlated with drought impacts.

Tables 3 and 4 show the results of the analysis.

**Table 3 - What Happened with Sewer Caps?**

<table>
<thead>
<tr>
<th>Sewer Cap Status</th>
<th>Number of Customers</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stayed the same</td>
<td>2,174</td>
<td>21%</td>
</tr>
<tr>
<td>Decreased</td>
<td>3,169</td>
<td>31%</td>
</tr>
<tr>
<td>Increased</td>
<td>4,989</td>
<td>48%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>10,332</td>
<td></td>
</tr>
</tbody>
</table>

To better understand the water use of customers that experienced an increase, the data was further filtered and stratified with the results in Table 3.

**Table 4 – Analyzing Increases in Sewer Caps**

<table>
<thead>
<tr>
<th>Sewer Cap Increase Amount</th>
<th>Number of Customers</th>
<th>Percent of those Seeing Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-2</td>
<td>2,715</td>
<td>54%</td>
</tr>
<tr>
<td>3-6</td>
<td>1,690</td>
<td>34%</td>
</tr>
<tr>
<td>7-10</td>
<td>402</td>
<td>8%</td>
</tr>
<tr>
<td>11-20</td>
<td>155</td>
<td>3%</td>
</tr>
<tr>
<td>21+</td>
<td>27</td>
<td>1%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>4,989</td>
<td></td>
</tr>
</tbody>
</table>

If the customers with a one- or two-unit increase are added to the group that is experiencing either a decrease or status quo in their sewer caps, the group represents 78% of the residential customer base. As a point of reference, a one to two unit increase in a sewer cap could equate to $8.52 to $17.04 per month increase (using 2013-14 rates) in a customer’s sewer bill.

**Overview and Recommendations**

The data does not demonstrate there is a clear correlation between the sewer caps that were just established during the average winter water use period and drought impacts. Therefore an across-the-board reduction in sewer caps is not being recommended. Fifty-two percent of rate-payers...
will either see caps go down or stay the same. Another 26 percent will see their cap increase one to two units. It is recommended, as a baseline, the 2014-15 sewer cap established during the 2013-14 average winter water use period is applied to all residential sewer rate-payers.

Recognizing how hard some community members work each year to keep their sewer caps as low as possible and acknowledging there was likely some measure of outdoor water use that occurred, especially for those who saw increases in water use over two units during their average winter water use period, it is recommended City Council direct the Utility Billing Adjustment Committee, because of the severe drought weather during most of the average winter water use period, to analyze sewer caps for rate-payers who believe their sewer cap should be adjusted because they irrigated during the dry winter period. The UBAC will utilize past sewer cap data when available and information provided by the customer when considering an adjustment. This has potential to be a significant work effort, but after analyzing other alternatives, seems the right thing to do to address sewer caps that were inflated due to water use during drought.

Consideration of a sewer cap adjustment will require a rate-payer to take action and should Council approve this approach, getting the word out will be important. Outreach through City utility bills, the City website, the Utilities Department Resource newsletter and media would occur.

**Policy Approach Based on Drought Conditions**

Climate change will likely bring more unpredictable weather patterns with more frequent warm and dry periods. As rate-payers experienced this year, a dry December and a warm and dry January provided no rainfall for their landscaping. The intent of using water use with a cap as the basis for sewer use billing is to have a reasonable measurement of what goes into the sewer system for treatment. Rate-payers are justifiably concerned about increasing their sewer caps during a severe drought. To remain flexible to rate-payer concerns, a Council-adopted policy setting forth allowable actions related to the winter water use period (should specific criteria be met related to drought) seems a good path forward.

Should Council be supportive, staff could develop language, guidelines and scenarios for proposed policy that will allow greater flexibility to determine when conditions are not favorable to an average winter water use period of three months. To address local and statewide conditions, the following is an example of possible draft policy language regarding what criteria would trigger some as-yet-defined action:

1. Two consecutive months of less than one inch of rain during the winter use period; or
2. Governor’s or Board of Supervisors’ declaration of a drought emergency and 25% increase of average water use citywide during the winter water use period.

Policy could allow the Utilities Director the flexibility to determine if the winter water use period should be shortened or modified for establishing a sewer cap due to local and/or state climate conditions that meet specific criteria. An example would be a winter water use period of just two months because of a dry and warm December and January, thus resulting in a two-month average to establish the sewer cap and allowing customers to irrigate in February before loss of landscaping. Another scenario could be to make a finding that the prior year’s consumption and
subsequent sewer cap better represents rate-payer usage. Based on a suggestion received, a scenario staff analyzed fairly in-depth was the feasibility of using the lowest three water use months of the year, instead of December, January and February, to establish the sewer cap. In sum, something that seemed conceptually straightforward was quite difficult. The City’s utility billing software vendor said the action could not be automated thereby requiring extensive staff resources to pull and calculate data manually for each individual account. All potential scenarios require fleshing out which requires time for analysis and alignment with rate structure goals and objectives established by Council.

To establish policy that can quickly respond to climate change, certain business practices related to meter reading would require significant adjustment. The benefits of contract meter reading are currently being analyzed for various reasons of which this is one. Staff continues to explore and evaluate the feasibility and advisability of transitioning to this business model including consulting with employees, employee associations and other appropriate departments (Human Resources and Finance and IT). Appropriate action will return to the City Council once this analysis is complete.

**California Constitution Article XIII (Proposition 218)**

The City Attorney’s Office has reviewed the report’s recommendations and has found that they conform to Proposition 218 requirements by not changing the adopted rate structure or sewer cap methodology. However, Council direction on the policy issues discussed in the report and/or a direction by Council to pursue a different alternative in establishing the sewer caps may result in changing the sewer rate structure as adopted in 2007 which would then require a protest hearing in accordance with Proposition 218. The City currently has an adopted structure in which unique individual circumstances can be reviewed by the Utility Billing Adjustment Committee and individual adjustments made as appropriate.

**FISCAL IMPACT**

There is no fiscal impact related to the recommendations in this report. Costs associated with Alternative 4 would be incorporated into the 2015-17 Financial Plan.

**ALTERNATIVES**

1. Take no action. Council could choose to receive and file this report. Should Council take no action, the 2013-14 average winter water use will be used as the 2014-15 sewer cap. The Utility Billing Adjustment Committee will consider any requests for adjustments to sewer caps in its usual manner.

2. Approve Recommendations 1 and 2. Council could decide to direct staff to use the 2013-14 average winter water use as the 2014-15 sewer cap. Although the result is similar to taking no action, it adds the benefit of assisting the Utility Billing Adjustment Committee in its deliberations in that Council did not support Recommendation 3.

3. Approve Recommendations 1, 2 and 4. Council could decide it desires to develop and adopt an average winter water use drought policy first before or instead of directing the proposed outreach and the Utility Billing Adjustment Committee to analyze individual
sewer caps that are presented to it due to drought impacts experienced during the 2013-14 average winter water use period.

4. Direct staff to conduct a sewer rate structure review. In addition to some or all of the recommendations, Council may desire to explore alternatives to the current sewer rate structure related to drought pricing. Council should select this alternative if it believes the goals for the sewer rate structure should be amended; the current rate structure meets the current goals. Staff will be commencing the Proposition 218 process early spring 2015 for the 2015-17 sewer rates. Should Council select this alternative, the sewer rate structure study would be conducted in 2015-16 unless Council specifically directs otherwise.

T:Council Agenda Reports\2014\2014-05-06\Winter Water Use Sewer Cap (Mattingly-Hix-Elke)
Item B-3 again

Realized I'd left out something.

48% of households have higher sewer caps due to increased drought-driven water usage.

Homeowner rate is in the mid 30% range of households.

Many households are apartments with no irrigation need.

It's clear who you are hurting with staff's proposal – just about every homeowner in the city.

Cast your lot with or against homeowners: We'll be watching.

Richard Schmidt
Mejia, Anthony

From: Richard Schmidt <slobuild@yahoo.com>
Sent: Sunday, May 04, 2014 9:20 AM
To: Ashbaugh, John; Jan Marx; Smith, Kathy; Carpenter, Dan; Christianson, Carlyn; Mejia, Anthony
Subject: Agenda item B3
Attachments: council sewer cap may 14.doc

Dear Council Members,

Please see attached correspondence on this item.

RS
Re: Item B-3

May 4, 2014

Dear Council Members:

1. The staff’s figures show that 48% of residential sewer caps will increase this year, but staff concludes there is no evidence this huge number of increases was related to the drought and continued outdoor irrigation into normally wet months.

This is a really bizarre line of argument, totally unbacked by concrete factual evidence.

The Council needs to be more reasonable and generous.

Here’s the best solution: Hold sewer caps at last year’s level, unless for some reason a resident’s water usage went down this year. THIS IS ONLY FAIR.

• The city stands to reap an unearned windfall from all those increased sewer caps not driven by any actual increase in the usage of sewer facilities.
• On top of that, you’ll raise rates again this summer.
• Doesn’t that suggest to the public simple greed on the part of the city? Voters are not stupid, and they’ll be pissed off and react accordingly.
• Then you’re going to ask voters to tax themselves again this fall. Come on, folks – your inner circle tells you this is OK, but get real. Voters are not stupid, and they’re also emotional. You’re stirring a hornets’ nest with a stick. Greedy and unwarranted increases in sewer charges will be just one more poke at the hornets’ nest.
• Voters will be even more annoyed when they come to realize their utility enterprise bills are inflated so they can be used to pay for the inexcusable publication of “Resource” (probably adds $25 to $30 per year to our bills), for Katie Lichtig’s and other inflated administrative salaries, for the city IT system, for operating city hall, etc., none of which have a thing to do with providing water and sewer service. Voters are not stupid!

On the other hand, if the Council demonstrates wisdom by holding sewer caps stable at this time of natural rain stress, you’ll look good, and will engender good will among residents.

It’s up to you to shape the outcome.

2. Staff recommends that reductions to sewer caps be made on an individual basis. They start with a bias that anything less than a 3 unit increase in sewer caps isn’t related to drought irrigation, a proposition for which they offer zero evidence and is another example of their total contempt for the concept of conservation as practiced diligently by many if not most of your constituents. They will individually review each and every appeal made to them, which given the 48% of households experiencing an increase could be a HUGE NUMBER OF INDIVIDUAL APPEALS THEY HAVE TO
SORT THROUGH. How will they do this? If they can handle it, this suggests they are overstaffed at the moment. If they can’t handle it, then what? Will they be back to you begging for more employees to accomplish this? Or for farming it out to an expensive consultant incurring still more cost? This is a crazy proposal given the amount of staff work it will take.

A much better solution is just to hold last year’s caps in place. No fuss, no extra work, just a simple one-time computer program correction. Staff provides no discussion why their crazy make-work procedure is better than this simple solution. The Council should just say NO, and hold the caps in place.

**Holding caps is the sensible way to do this. Holding caps is also the courteous and fair way to do this. It shows you care.**

3. **As for the staff report . . .** Typical of city staff reports these days, this one is long on argument, short on facts and factual analysis. The staff report, if read carefully rather than in summary, is a damning illustration both of manipulative presentation of information and of the inability to be logical in reaching conclusions. It also undermines any pretext of city competence in even the simplest and most direct utility data accumulation and analysis.

On the one hand, we are told in summary, there is data to show non-significant changes in household water usage this season compared to last. (Which, from all our own personal experiences with irrigating to make up for lack of rain prior to February, seems on its face preposterous, and certainly doesn’t jibe with our personal knowledge.)

But deeper in the staff report, it is admitted that the city in fact has no water use data to determine the meaning of the alleged “data” upon which their argumentative recommendation is based. This, it is explained, is because the city chose to implement a billing system of late that actually prevents the accumulation of meaningful data by making it impossible to compare water usage by account before and after the billing system change! (Of course, that in itself is a lame excuse, as any intelligently-designed municipal IT system could and should accumulate this info month by month for future retrieval.)

So the “data” upon which staff bases its recommendation turns out to be subjective, with no way to determine its legitimacy.

Oh, and the “data” isn’t even something the city accumulates, which it could easily and routinely do if it had an intelligent IT system that tracked such things in an automated way; the city has to hire an expensive engineering consultant to create it, thus adding onto the utility budget yet another costly frill for which ratepayers must pay.

Really, can’t the City of San Luis Obispo do better than this?
This is a very sad indicator of the lack of creative problem solving skills among your staff. It also reflects upon poor-quality top leadership who are providing extremely poor leadership over and guidance for those they've hired to do the grunt work. The latter problem is long overdue for correction. You need to do something about that.

Richard Schmidt