

TO: Mayor and City Council

FROM: Don Blubaugh, City Manager

PREPARED BY: Richard Pearson, Community Development Director
Tim Tucker, City Engineer

SUBJECT: Water Rates – Public Hearing

DATE: February 13, 2007

RECOMMENDATION:

It is recommended that the City Council:

1. Conduct a public hearing on majority protest to proposed increase in water rates beginning May 1, 2007; and adopt resolution establishing proposed water rates after amendment of the Martinez Municipal Code.
2. Introduce an ordinance amending the Martinez Municipal Code Chapter 13.04.010 establishing water rates.
3. Direct staff to draft a fee resolution for the April 18, 2007 Council meeting in accordance with Attachment 1 of this report amending Section 14, Schedule of Fees and Rates, of the Regulations governing Water Service for the City of Martinez Water System.

BACKGROUND:

The City's water revenues are primarily generated from fixed monthly service charges, water usage charges, pumping charges, connection fees and other special charges. The service charges are based on meter size. Usage and pumping charges are applied per 100 cubic feet of water consumed. Rates were last reviewed by the Council in 2003. Rates have not increased since July 1, 2004. Over this time the City has experienced escalating electricity costs to pump to our reservoirs, insurance premiums and other operating costs. In addition untreated water from Contra Costa Water District has increased in cost 2.5% to 3% each year.

Water revenues are used for the purchase of un-treated water and the treatment and distribution of this water. These revenues also fund the maintenance and repair of the system along with needed capital improvements. The City recently completed a Water System Master Plan. The plan identified \$15,000,000 of improvements to the system needed over the next fifteen years. A financial analysis has been done to determine the water rates needed to generate the sufficient revenues to meet these demands.

DISCUSSION:

The process of adjusting fees has changed since the last fee increase. Proposition 218 has been defined to cover the process for adjusting some water fees relating to property rights. A public notice and public hearing is required. In addition a written protest can be submitted to the City by the property owner up to the time of the closing of the public hearing as indicated in the Public Notice. On December 19, 2006 staff met with Water Subcommittee to review the Water System Master Plan and financial analysis. According to the study, continued operations at the existing level of water sales revenue will not generate the income necessary to meet the needs of the water system and our customers, construct the needed infrastructure improvements and meet debt service coverage requirements. Additional revenue through an increase in water rates is required to support the water system enterprise. The Committee authorized staff to move forward on the public hearing process to adjust water rates for the years 2007 through 2009. A public hearing notice and proposed rate adjustments were mailed to all customers and property owners (Attachment 2) set February 21, 2007 as the date of the public hearing. As of the date of the writing of this report the City Clerk had received four protests.

Service and Quantity charges: Implementation of the water rates shown in Attachment "1" will result in a \$2.75 per month increase for the average residential customer effective May 1, 2007. This is an approximately six percent increase in rates. It is proposed lifeline service charge rates be fixed at 50% of the cost of the average homeowner (5/8" meter) beginning January 1, 2009. The general fund subsidizes the other 50% of the fee for this program. The service charge for larger meters is actually proposed to decrease slightly effective May 1, 2007, and begin increasing again with the January 1, 2008 rates. This is due to a more accurate accounting of the number of larger meters than was available during the last study that is initially incorporated in the May 1, 2007 rates.

Backflow Devices: There are approximately 500 customers required to have backflow prevention devices on their water service. This is often done on houses with well water or commercial irrigation systems. These devices protect the City's water system from contamination. State and Federal regulations mandate annual inspections and repair of these devices. The property owners with backflow devices pay the costs associated with running this program. This rate is proposed to be reduced also. There was a spike in the cost of this program prior to the previous study resulting in a higher rate than would normally have been expected. The costs of this program have since returned to a more normal range.

Capacity Charges: A capacity charge is a one-time fee paid as part of new development. This is a charge to pay for public agencies' facilities in existence at the time of the development or to pay for future facilities that will benefit the new development. This fee was recommended to be increased in the "out" years of the 2003 study. Staff proposes to implement those recommendations. This fee will remain at or below surrounding water districts rates.

Indexing of Rates: Beginning January 1, 2010 staff proposes to build in an annual inflation formula. Staff proposes the rates be automatically increased by the same percentage of increase to the City for untreated water. This has typically been 2% to 3% per year over the last five years. Staff proposes to limit the annual changes in rates between 0% and 5% in any one year.

Rate studies will continue to be conducted. Should additional revenues be needed to maintain our ability to provide safe, dependable quality water public notice will be provided and a public hearing will be required.

Staff proposes to change the mechanism of implementing rate adjustments. Currently the Municipal Code requires rates be changed through ordinances. Staff proposes rates be changed by resolution. With the new Proposition 218 public notice requirements, setting rates by the more cumbersome ordinance process no longer provides the highest visibility method. The Municipal Code also indicates that rates must be approved by a two-third majority (67%). This percentage is proposed to be adjusted to reflect a five member Council where a majority is sixty percent (60%) approval. The code is also proposed to clarify the necessity to comply with Proposition 218 or other laws in affect at the time of a rate adjustment (Attachment 3). In addition Section 14, Schedule of Fees and Rates, of the City of Martinez Water System Regulations Governing Water Service will be modified to reflect the updated rates once approved by the City Council.

FISCAL IMPACT:

Adopting the recommended rate schedule will help insure the City meets the City's Certificate of Participation Rate Covenant and provides adequate reserves to operate and maintain the City's Water System.

Attachments:

Proposed Rates
Resolution
Public Notice
Proposed Ordinance

ATTACHMENT "1"

Meter Service Charge Monthly:

| Meter Size | Current | Effective May 1, 2007 | Effective Jan. 1, 2008 | Effective Jan. 1, 2009 |
|--|----------------|----------------------------------|-----------------------------------|-----------------------------------|
| Lifeline 5/8-inch | \$5.72 | \$8.01 | \$9.57 | 50% 5/8 meter cost |
| 5/8-inch | 19.05 | 20.03 | 21.25 | \$22.50 |
| Combined Residential Sprinkler/Domestic | 26.78 | 25.50 | 27.72 | 28.97 |
| 1-inch | 44.79 | 44.72 | 47.62 | 50.58 |
| 1 1/2-inch | 87.69 | 85.87 | 91.57 | 97.38 |
| 2-inch | 139.16 | 135.26 | 144.31 | 153.55 |
| 3-inch | 276.43 | 266.95 | 284.95 | 303.31 |
| 4-inch | 430.85 | 415.11 | 443.17 | 471.79 |
| 6-inch | 859.80 | 826.66 | 882.66 | 939.81 |
| 8-inch | 1,546.13 | 1485.13 | 1585.86 | 1688.63 |
| 10-inch | 2,489.83 | 2390.53 | 2552.75 | 2718.26 |

Effective January 1, 2010 Meter Service charges will be automatically adjusted by the same percentage of increase of untreated water costs. Increases are limited to annual changes in rates between 0% and 5% in any one year.

Quantity Charge, \$/hundred cubic feet

| Current | Effective May 1, 2007 | Effective Jan. 1, 2008 | Effective Jan. 1, 2009 |
|----------------|----------------------------------|-----------------------------------|-----------------------------------|
| \$2.40 | \$2.55 | \$2.72 | \$2.89 |

Effective January 1, 2010 Quantity charges will be automatically adjusted by the same percentage of increase of untreated water costs. Increases are limited to annual changes in rates between 0% and 5% in any one year.

Elevation Zone Charges, \$/hundred cubic feet

| Zone | Current | Effective May 1, 2007 | Effective Jan. 1, 2008 | Effective Jan. 1, 2009 |
|-------------|----------------|----------------------------------|-----------------------------------|-----------------------------------|
| I | \$0.25 | \$0.27 | \$0.27 | \$0.28 |
| II | 0.41 | 0.44 | 0.45 | 0.46 |
| III | 0.60 | 0.56 | 0.58 | 0.60 |
| IV | 0.93 | 0.75 | 0.77 | 0.79 |

Effective January 1, 2010 Zone charges will be automatically adjusted by the same percentage of increase of untreated water costs. Increases are limited to annual changes in rates between 0% and 5% in any one year.

Private Fire Protection Service Charge (Monthly):

| Line Size | Current | Effective May 1, 2007 | Effective Jan. 1, 2008 | Effective Jan. 1, 2009 |
|-------------------|----------------|----------------------------------|-----------------------------------|-----------------------------------|
| 2-inch or smaller | \$43.13 | \$29.18 | \$31.81 | \$34.49 |
| 3-inch | 84.36 | 58.36 | 63.62 | 68.96 |
| 4-inch | 130.74 | 91.19 | 99.41 | 107.78 |
| 6-inch | 259.59 | 182.39 | 198.82 | 215.56 |
| 8-inch | 465.75 | 328.30 | 357.88 | 388.01 |
| 10-inch | 749.22 | 528.92 | 576.59 | 625.13 |
| 12-inch | 1,110.00 | 784.27 | 854.94 | 926.92 |

Effective January 1, 2010 Private Fire Protection Service charges will be automatically adjusted by the same percentage of increase of untreated water costs. Increases are limited to annual changes in rates between 0% and 5% in any one year.

Monthly Backflow Prevention Program Charge

| Device size | Current | Effective May1, 2007 | Effective Jan. 1, 2008 | Effective Jan. 1, 2009 |
|--------------------|----------------|---------------------------------|-----------------------------------|-----------------------------------|
| 5/8- or 3/4-inch | \$18.75 | \$12.25 | 12.50 | 12.75 |
| 1-inch | 18.83 | 13.15 | 13.41 | 13.68 |
| 1 1/2-inch | 19.67 | 23.88 | 24.36 | 24.84 |
| 2-inch | 19.83 | 25.80 | 26.32 | 26.84 |
| 3-inch | 34.58 | 98.52 | 100.49 | 102.50 |
| 4-inch | 37.42 | 133.62 | 136.29 | 139.02 |
| 6-inch | 51.25 | 194.30 | 198.19 | 202.15 |
| 8-inch | 64.67 | 360.53 | 367.74 | 375.09 |
| 10-inch | 77.83 | 523.35 | 533.82 | 544.50 |

Effective January 1, 2010 Backflow Prevention Program charges will be automatically annually adjusted by the previous calendar year (Jan.1 through Dec. 31) increase in construction costs as listed for the San Francisco Bay Area by Engineering News Records (ENR). Increases are limited to annual changes in rates between 0% and 5% in any one year.

Water system Capacity Charge (single family):

| Current | Effective May 1, 2007 | Effective Jan. 1, 2008 | Effective Jan. 1, 2009 |
|----------------|----------------------------------|-----------------------------------|-----------------------------------|
| \$5,300 | \$5,900 | \$6,100 | \$6,300 |

Second units on the same parcel and multifamily dwelling unit fee shall be one-half the fee charged a single family unit. (Current fee \$1,978)

Effective January 1, 2010 Capacity charges will be automatically annually adjusted by the previous calendar year (Jan.1 through Dec. 31) increase in construction costs as listed for the San Francisco Bay Area by Engineering News Records (ENR). Increases are limited to annual changes in rates between 0% and 5% in any one year.

RESOLUTION NO. -07

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MARTINEZ
FINDING THAT THERE HAS BEEN NO MAJORITY PROTEST TO PROPOSED
WATER SERVICE RATES BEGINNING MAY 1, 2007 AND DIRECTING THAT THE
PROPOSED WATER SERVICE RATES BE CONSIDERED FOR ESTABLISHMENT
AFTER AMENDMENT OF THE MARTINEZ MUNICIPAL CODE**

WHEREAS, beginning May 1, 2007, the City of Martinez shall continue to incur costs of operating a water system that provides water services to its residents and businesses; and

WHEREAS, the City of Martinez must recover the costs of providing water services from its water system customers to continue to operate the City's water system at a desirable level of service; and

WHEREAS, the City of Martinez has mailed notice in the form attached hereto at least 45 days in advance to the owners of all properties served by, and to customers of, the water system of water service charges being proposed to be established beginning May 1, 2007 and the owners' rights to submit written protests to the proposed charges at a public hearing on February 21, 2007 at 7:00 P.M. in the Council Chambers, in accordance with Article XIID Section 6(a) of the California Constitution; and

WHEREAS, the number of written protests to the proposed water service charges properly submitted to the City before the closing of the public hearing on February 21, 2007 did not comprise a majority of the properties served by the City's water system; and

WHEREAS, the City wishes to impose the proposed water service charges following the adoption of an ordinance amending Chapter 13.04 of the Martinez Municipal Code to establish water service rates by adoption of resolution.

NOW, THEREFORE, BE IT RESOLVED that on February 21, 2007, at approximately 7:00 P.M. in the Council Chambers, a public hearing was held at which written protests submitted by property owners to the water service rates contained within the public notice attached hereto were received and counted and all objections to the proposed water service rates were heard. At which time, it was determined that the number of written protests did not comprise a majority of the properties served by the City's water system.

BE IT FURTHER RESOLVED, that the water service rates beginning May 1, 2007 that are contained within the attached notice shall be included within a resolution and considered for establishment by the City Council after Chapter 13.04 of the Martinez Municipal Code is amended to establish water service rates by adoption of resolution.

* * * * *

I HEREBY CERTIFY that the foregoing is a true and correct copy of a resolution duly adopted by the City Council of the City of Martinez at a Regular Meeting of said Council held on the day of , 2007, by the following vote:

AYES:

NOES:

ABSENT:

RICHARD G. HERNANDEZ, CITY CLERK
CITY OF MARTINEZ

PUBLIC NOTICE WATER RATE INCREASE

The City of Martinez City Council will hold a public hearing on **Wednesday, February 21, 2007** to consider whether the City's water rates should be increased effective beginning **May 1, 2007**.

The City's water rates generate the revenues necessary to operate the water system and deliver safe potable water to its customers. The accompanying tables shows the existing and proposed rates for all customers after the cost of service study adjustments are made. In addition to the water rates being proposed for those years shown by the table, the City of Martinez will be proposing an annual adjustment for inflation beginning January 1, 2010 by applying increases in the costs of source water to the rates being imposed. Typically these inflationary adjustment increases have been in the range of 2% to 3% per year. It is proposed that these potential annual increases be capped at an increase of 5% above the water rates in effect during the immediately preceding year, beginning January 1, 2010.

Changes to the City of Martinez Municipal Code and the Regulations Governing Water Service are proposed to include the annual inflationary adjustment described above and adoption of water rates by resolution, rather than by ordinance as is currently required under the Municipal Code. The reason for modifying the Municipal Code to allow adoption of water rates by resolution is to be consistent with other water agencies practices.

A recent court decision requires all California local water agencies to provide a mailed public notice 45 days before the public hearing at which water rate increases are proposed for approval. This document constitutes the public notice. The public hearing will be held during a regular City Council meeting, as follows:

Date: February 21, 2007
Time: Meeting starts 7:00 PM
Location: City Council Chambers,
525 Henrietta St.
Martinez, CA 94553

All persons receiving water service, property owners, and other interested persons are invited to attend and be heard at this public hearing. If you are an owner of a property receiving water service, you may file a written protest to the proposed rates with the City Clerk which must be received prior to the closing of the public hearing. The protest must be signed by the property owner and must include the name(s) of the property owner(s), water service address, and account number (if any). If owners of less than a majority of the properties receiving water service file written protests, under state law, the City may implement the proposed rates commencing May 1, 2007. Mailed protests must be addressed to the City Clerk, 525 Henrietta Street, Martinez, California 94553, and be received by the City on or before **February 21, 2007**.

If the City approves the application of an inflation formula, annual inflationary increases will begin on January 1, 2010 and continue until otherwise modified. During this time period they will not be subject to notice, hearing and majority protest requirements prior to being imposed. Cost of service studies will still be conducted and any adjustments recommended will still be subject to notice.

A written report has been prepared indicating the estimated cost to provide water service and the revenue sources anticipated to provide the service. A copy of this report is available at the office of the City Clerk in City Hall, 525 Henrietta St.

Explanation of Water Rates

There are three types of user fees on your water bill. They are a quantity charge, a service charge, and an elevation or zone charge, as shown by the accompanying table. The total monthly charge being proposed for your water services include all three types of fees. City charges are based on the costs to the City of providing water service. Since the last rate adjustment in July 1, 2004, the costs of such services has increased and are expected to continue due to increases in costs to the City for source water, water system improvements and escalating energy

costs. The increase in rates being proposed is proportionate to the anticipated increase in these costs from May 1, 2007 through December 31, 2009. Thereafter, the rates under this proposal will be adjusted annually by increases in the costs of source water. Rate increases due to increases in the costs of source water beginning January 1, 2010 will not exceed 5% of the water rate imposed during the immediately preceding year.

The Quantity Charge is based on the amount of water used and pays a share of the City's operating costs, debt service, and capital costs for water system infrastructure and improvements.

The service charge is a fixed fee based on the capacity of the meter used and pays for the costs for reading meters and billing customers, as well as infrastructure required to meet peak demands.

Zone charges are based on the elevation of the water service and pays for the cost for pumping water to a higher elevation. The various zone elevations above mean sea level are approximately as follows. Zone I is 0-150 ft.; Zone II is 150 ft. to 300 ft.; Zone III is 300 ft. to 450 ft.; Zone IV and 450 ft. to 600 ft..

Water System Needs

The City recently completed a Water System Master Plan. The Plan identified \$15,000,000 of improvements over the next fifteen years needed to meet the needs of our customers.

Improvements include:

- Replace 60-year old steel main water supply pipe between reservoir and Water Treatment Plant
- Replace, enlarge and lower Harbor View Reservoir.
- St. Mary's pump system upgrades
- Howe Road Pump Station improvements
- Webster Drive Pump station replacement
- Muir Oaks tank replacement
- Various new and upgraded pipelines

Proposed Rates

Rates during the time period from May 1, 2007 through December 31, 2009 are proposed to be set **at or below** those indicated below. **Rates were last adjusted July 1, 2004.**

Backflow Prevention Program Charges are proposed to be **reduced** between 25% and 65%, depending on meter size.

Private Fire Protection Service Charges are proposed to be **reduced** between 10% and 15%, depending on meter size.

Monthly Service Charge:

| Meter Size | Current | 5/1/07 | 1/1/08 | 1/1/09 |
|----------------------|-----------|-----------|-----------|-----------|
| 5/8-inch Lifeline | \$5.72 | \$8.01 | \$9.57 | \$11.25 |
| 5/8-inch | \$19.05 | \$20.03 | \$21.25 | \$22.50 |
| 5/8-inch w/sprinkler | \$26.78 | \$25.50 | \$27.72 | \$28.97 |
| 1-inch | \$44.79 | \$44.72 | \$47.62 | \$50.58 |
| 1 1/2-inch | \$87.69 | \$85.87 | \$91.57 | \$97.39 |
| 2-inch | \$139.16 | \$135.26 | \$144.31 | \$153.55 |
| 3-inch | \$276.43 | \$266.95 | \$284.95 | \$303.31 |
| 4-inch | \$430.85 | \$415.11 | \$443.17 | \$471.80 |
| 6-inch | \$859.80 | \$826.66 | \$882.66 | \$939.82 |
| 8-inch | \$1546.13 | \$1485.13 | \$1585.86 | \$1688.65 |
| 10-inch | \$2489.83 | \$2390.53 | \$2552.75 | \$2718.30 |

The following quantity charge is multiplied by the amount of water used by a customer in determining the monthly amount billed.

Quantity Charge, \$/hundred cubic feet (HCF)

| Current | 5/1/07 | 1/1/08 | 1/1/09 |
|---------|--------|--------|--------|
| \$2.40 | \$2.55 | \$2.72 | \$2.89 |

Elevation Charges, \$/hundred cubic feet (HCF)

| Zone | Current | 5/1/07 | 1/1/08 | 1/1/09 |
|------|---------|--------|--------|--------|
| I | \$0.25 | \$0.27 | \$0.27 | \$0.28 |
| II | \$0.41 | \$0.44 | \$0.45 | \$0.46 |
| III | \$0.60 | \$0.56 | \$0.58 | \$0.60 |
| IV | \$0.93 | \$0.75 | \$0.77 | \$0.79 |

Typical bill calculation

The following is a typical water bill calculation that would demonstrate your monthly charges under the proposed rates when assuming a 10 HCF usage for a customer in Zone II. The City of Martinez bills for water on a bi-monthly basis. See your past water bills for the calculation that would apply to you.

| | | |
|----------------------|----------------|-----------------|
| Per month: | <u>Current</u> | <u>5/1/2007</u> |
| Service Charge (5/8) | \$19.05 | \$20.03 |
| Quantity charge | \$2.40 | \$2.55 |
| Elevation Charge | <u>\$0.41</u> | <u>\$0.44</u> |
| Pump Zone II | \$2.81 | \$2.99 |
| Usage (HCF) | x 10 | x 10 |
| Qty. Charge | \$28.10 | \$29.90 |
| Monthly total | \$47.15 | \$49.90 |

The average residential homeowner bill is anticipated to increase by approximately 6% on May 1, 2007 under this proposal.

Visit our web site at www.cityofmartinez.org, "City Services", "Water" or call (925) 372-3562 for more information.



City of Martinez
 City Clerk
 525 Henrietta Street
 Martinez, CA 94553

ORDINANCE NO. C.S.

AMENDING THE MARTINEZ MUNICIPAL CODE TITLE 13, UTILITIES,
CHAPTER 13.04 WATER RATES AND REGULATIONS

WHEREAS, Section 13.04.010, Establishment of rates and regulations, Martinez Municipal Code, requires that water rates be established by ordinance, approved by a two-thirds votes of the City Council; and

WHEREAS, the Courts have determined that certain water rate increases are subject Proposition 218 process, which among other things, require a public notice be mailed to each property owner and a public hearing be held; and

WHEREAS, the City of Martinez determines there is no longer a need to establish rates by ordinance and that by raising rates by resolution and that following the Proposition 218 notification process provides a higher level of public notification; and

WHEREAS, the current City Council structure is comprised of five members, that a "two-thirds" (67%) vote is not possible, and that a majority (60%) vote is more appropriate.

NOW, THEREFORE, the City Council of the City of Martinez does ordain as follows:

CHAPTER 13.04

WATER RATES AND REGULATIONS

SECTION 1. 13.04.010 Established.

- A. The rates of the Martinez Water System shall be such as adopted by ~~ordinance~~**resolution** approved by a ~~two-thirds~~**majority** vote of the City Council.
- B. The regulations of the Martinez Water System shall be fixed from time to time by resolution of the City Council. (Ord. 1126 C.S. § I, 1989: Prior Code § 7100.)

C. Any increase in rates for water service provided by the Martinez Water system shall comply with all existing applicable laws of the State.

13.04.020 Fluoridation of Water Supply.

Fluoride compounds shall be added to the public water supply of the City in such a manner and to such an extent as may be approved by the State Department of Public Health. (Prior code § 7101.)

13.04.030 Approved Water Supply Systems.

Chapter 414-4 (Approved Water Supply Systems) as set forth in the Ordinance Code of Contra Costa County is hereby adopted by reference with those changes, additions and deletions made from time to time by the Contra Costa Board of Supervisors. (ord. 972 C.S. § 2, 1982.)

13.04.040 Unauthorized Use of Water.

Water shall not be used or taken from the City of Martinez Water System without a water meter and authorization from the City of Martinez. (Ord. 1186 C.S. § I, 1992.)

SECTION 2. Severability. If any section, subsection, sentence, clause, phrase or portion of this ordinance is for any reason held invalid or unconstitutional, such decision shall not affect the validity of the remaining portions of this ordinance.

The City Council hereby declares that it would have passed this and each section, subsection, phrase or clause thereof irrespective of the fact that any one or more sections, subsections, phrase or clauses be declared unconstitutional on their face or as applied.

SECTION 3. Effective date. This ordinance shall become effective 30 days after the date of adoption.

SECTION 4. Posting. The City Clerk shall cause this ordinance to be published within fifteen days after its adoption, at least once, with the names of those city council members voting for or against the ordinance, in a newspaper of general circulation published and circulated in the City of Martinez.

APPROVED: _____
Rob Schroder, Mayor

ATTEST: _____
Deputy City Clerk

* * * * *

I HEREBY CERTIFY that the foregoing ordinance was duly and regularly introduced at a Regular Meeting of the City Council of the City of Martinez, held on the day of _____, 2007, and duly passed and adopted at a Regular Meeting of said City Council held on the day of _____, 2007, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

RICHARD G. HERNANDEZ, CITY CLERK
CITY OF MARTINEZ