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NOTICE OF RESCHEDULED PUBLIC HEARING FOR WATER AND SEWER SERVICE RATE INCREASES

September 29, 2009

This notice is to inform you that the public hearing on the water and sewer rate increases originally scheduled for October 6, 2009 has been rescheduled. The new date is:

Tuesday, October 20, 2009 - 6:30 PM

The location of the public hearing, which has not changed is:

Manhattan Beach City Hall
City Council Chambers
1400 Highland Avenue
Manhattan Beach, CA 90266

The additional time will allow the public more time to review and comment on the proposed rates, as well as to ensure compliance with the state law governing the implementation of new water and sewer rates.

If approved, the new rates and charges will become effective for all water and sewer services billed on or after January 1, 2010.

You have the right to protest the proposed increases. If you choose to protest, you must submit such protest in writing prior to the public hearing on October 20, 2009 at 6:30 PM. All protests shall be submitted to:

City Clerk's Office
City of Manhattan Beach
1400 Highland Avenue
Manhattan Beach, CA 90266

If you previously submitted a protest you do not need to resubmit. Your protest was recorded and is on file with the City.

If you challenge the proposed fees in court, you may be limited to only the issues you or someone else raised at the Public Hearing described in this notice, or in a written correspondence delivered to the City Clerk by the date and time above.

These rate increases are necessary to offset rising wholesale water costs and replacement costs for aging infrastructure for both water and sewer systems. The new rates also include a tiered water rate structure whereby users may be able to partially offset rate increases by decreasing water consumption.

Due to the level of interest in the proposed changes, additional materials discussing the justification for the increases have been added to the City's website. Further, we have enclosed several Frequently Asked Questions with answers with this letter. Please see the enclosed materials for more information, or visit the City's website at www.citymb.info for detailed reports and information.

If you should have questions after reviewing the enclosed materials and/or the City's website, please contact one of the following staff members:

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Henry Mitzner, Controller
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Rate FAQ's

1. How are the Water and Sewer Utilities funded?

The Utilities are “stand alone”. By that, we mean that revenue collected through rates can only be spent on the individual water and sewer expenses incurred. Utility rates do not and cannot be used as revenue that supports the City’s General Fund that pays for services such as public safety, parks, and other general fund costs. Look at it just like Southern Cal Edison or your gas or phone services. You pay only for those services provided for by that utility.

2. Why is the Water Rate going up?

Two major reasons: the cost of wholesale water we buy from West Basin Municipal Water District has gone up 20% and is projected to do so in the future. Second, a major 2008/2009 Water Facility Master Plan identified an aging, undersized infrastructure that is in need of over \$126 million of improvements (pipe, fire hydrants, valves, reservoirs and wells) in the next 20 years. Essentially the bulk of the system is over 60 years old, with a significant amount of 80+ year pipe. Continued under funding will leave the City ill equipped to ever catch up to failed infrastructure if aggressive, immediate steps are not taken. Historically the City has budgeted about \$500,000/year for infrastructure replacement and the proposed rates will as a start increase that over five years to \$5,000,000/year. To accomplish this, overall revenue needs rise by 30% for next year.

3. Why is the sewer rate going up?

Two major reasons: The fund is currently running a deficit whereby revenues cannot keep up with operating costs (this means that no funding for replacing infrastructure is in the current rate). Revenue needs to be increased just to meet these daily costs. Second, and by far the driver of the proposed rates, is to replace aging infrastructure. Like the Water Utility, a similar major 2008/2009 Sewer Master Plan identified large deficiencies in the infrastructure in the order of \$39 million over the next 20 years. With sewer, the consultant was able to video inspect over 50% the sewer lines and visually observe deficiencies in our aging sewer lines. To address those needs, Council is proposing increasing infrastructure replacement from \$0 to \$2.5 million/year in the five year rate structure. The impact of the infrastructure expenditures is dramatic on rates, in that infrastructure costs are double what the current operating expenses are. The “one-part” operating and “two-parts” infrastructure spending lead to the threefold increase for sewer rates by the end of five years. To accomplish this, overall revenue needs rise by 100% for next year.

4. Does the City have a priority for the infrastructure improvements?

For sewer we know specific lines that need to be replaced/rehabilitated. For water, we know locations of undersized and aged pipelines throughout the City that need to be replaced. The priority will be determined in part by coordinating any street work in the same area as proposed utility work. Improvements to specific pump stations, wells and reservoirs are outlined by AKM consultants and are available for review on the City’s website.

5. What is the City Council policy for rate adjustments? When did they deliberate on the Master Plans and Rate Studies?

The City Council considered various factors when establishing new rates, such as: what would rates pay for; how they would be structured; and the likely impact of rates on users. The Council created several criteria for staff in designing rates, including: rates should aggressively begin to fund infrastructure replacement; to lessen rate impacts, final infrastructure replacement costs should be phased in, reaching their goal expenditure level in the fifth year of a program of five years of rate adjustments; rate structure should encourage users to use less water by pricing larger quantities at a

higher unit cost; the rate structure should give the user some control of their increased water bill by reducing their water use.

6. The rate increases are significant. Why didn't past rates increase at a steady rate to avoid such a large increase now?

Primarily because of the detailed level of information that was made available to the Council that clearly lays out the upcoming infrastructure crisis. The level of need demonstrated in the Master Plans, the order of magnitude of that need, and their responsibility of providing reliable, continued service for a basic public service prompted the Council to provide the needed revenue by establishing long term rate increases. In past years, focus on revenue needs was based more on meeting day to day operating demands and less on meeting the costs of a depreciating infrastructure system. To address infrastructure needs, Council is significantly raising infrastructure expenditures (see #2) As noted, the large wholesale water costs also significantly impact water rates.

7. How will my conservation affect my water rate? What about impacts to overall City revenue?

It will help you buffer your rate increase! It is projected that low volume water users will limit their water rates to less than 10% for next year, compared to more than 30% for larger users. Overall, the impact of collective reduction of water use means less revenue...but also less purchase of expensive West Basin wholesale water and associated pumping and chemical costs. The rates proposed include an allowance for a 10 % reduction of water use. If residents conserve more than 10%, there is a projected loss of revenue of about \$250,000 (reduced revenue minus – reduced expenditures). For the Water Utility with an expected revenue budget of ~\$10,000,000, this represents about a 2-3% shortage for next year if users would conserve at 15% over past usage. Within the rate policies recommended is the creation of a Rate Stabilization Reserve that would buffer revenue shortfalls to avoid having to immediately raise rates as conservation takes hold. Multi year conservation efforts would have an impact to rates, however it is not expected to have impacts in the first several years.

8. What is the “tiered rate” structure that is being implemented?

The tiered rate simply applies different (increasing) unit costs for various levels of usage. In 2010, the tier 1 cost rises from \$2.00/unit (0 up to 15 units) to \$2.77(tier 2, 15 up to 31 units) to \$4.48 for tier 3 (31+ units) for bimonthly water usage (Unit refers to the price of a defined amount of water...in our case a unit represents 100 cubic feet of water, which is 748 gallons of water. Therefore, if you are paying for water in Tier 1 at \$2.00/unit, your cost is 0.0026 cents per gallon!.

In Manhattan Beach, the median usage (half the users are below and half the users are above) is 16 units per two month billing cycle. This closely aligns to tier 1 water usage ...thus without any conservation effort about one half of Manhattan Beach customers will fall in tier one unit rates charges. Currently the rate structure has no variation in the amount charged regardless of the amount of water used.

9. What other alternatives did the City Council consider before selecting the rate schedule now before us? Was their any review of rate or infrastructure information prior to the letter to users announcing proposed rate increases?

The City Council considered five options for rates that funded various levels of infrastructure reinvestment with varying timeframes. They also studied the tiered rate structure, and the setting of the tiers based on different water use within tiers. Ultimately the rate structure recommended and the revenue generated most closely aligns with Council goals for establishing rates (see 5 above).

Following is a list of various reviews actions by the Council regarding both rates and infrastructure discussions:

- a. August, 2008...Council approve AKM contract for Water/Sewer Master Plans
- b. June 4, 2009...FCS (rate consultant) present to ETF water subcommittee information on developing rates
- c. June 25, 2009... Rate consultant meet with City Finance Committee to discuss potential rate impacts
- d. July 28, 2009...City Council Study session to discuss Infrastructure study results and Rate Scenario considerations
- e. September 1, 2009... Council adopts 5 year rate and proceeds with 218 vote process
- f. October 20, 2009...Public Hearing on proposed water and sewer rates

10. Why does the smaller meter size have three tiers, but the large meter (1 ¼” meter and larger) only have one tier?

Generally the 5/8”-3/4” -1” meters are residential and those larger meters are commercial. By their nature, residential meters include not only indoor use, but also more of the discretionary use such as irrigation. Residential users have more ability to control use based on that discretionary use and hence, have increasing unit costs in tiers 2 and 3. Generally, commercial users don’t have much ability to change their operations to save water, therefore it becomes a penalty to further increase their unit cost where they have little control of their use. Their tier rate does reflect a 30-35% water rate increase for next year, consistent with higher residential users.

11. Why not bond for the large infrastructure program rather than try to pay cash as you go?

It is not uncommon to bond for large investments...and the City may in the future. The Council will look at building utility rates to construct infrastructure on a cash basis initially, but could convert the cash strategy to revenue bonds if greater infrastructure replacement becomes necessary. The Council clearly does not want to commit long term revenue to repayment of bonds and limit their ability to respond to other funding needs in 5+ years.

The tool of bonding spreads the cost to future residents who receive the benefit of new construction and reduces the rate for current user. However, in our case where there has been little investment in infrastructure over the last 50 years, current rate payers of the past 50 years have not kept pace with paying for their use of the system, and in some way have benefited for the low level of investment through lower rates.

12. What is the Approval process for the new rates?

Under State law, approval of new water and sewer rates is subject to a majority protest, meaning 50%, plus one, of the rate payers must formally protest the rates in order to block an increase. If less than the majority of rate payers protest, the City Council can adopt the new rates after conducting a public hearing. The public hearing on the new rates must be held at least 45 days after the mailing date of the notice of the new rates. In this case, the notice was mailed on Friday, September 4, 2009, therefore, the public hearing may be held on or after October 19, 2009. The public hearing is scheduled for Tuesday, October 20, 2009 at 6:30 PM, which complies with State law.