April 19, 2010
Budget and Fiscal Affairs Committee

Recommendation for Rate Increase
Combined Utility System
Initial Recommendations and Discussions

- On April 6, 2010, presentation about rate study was made to Budget & Fiscal Affairs Committee
- Recommendations at that time were:
  - Set rates at Best Practices CIP rates to ensure long term health and sustainability of the system
  - Set all non-city rates at cost of service
  - Implement Water & Wastewater rate adjustment June 1st
  - Change annual automatic rate increase to be based on PPI, not to exceed annual CPI plus population index, in compliance with Proposition 1
- BFAC recommended moving the item to City Council accepting the recommendations, but requested the Administration further review the multi-family rates
Combined Utility System

Monthly Increases For Average User Were Projected

Cost of Service

Commercial 11.1%
Multi-Family 10.3%
Single Family 8.4%

Customer classes were at following cost of service

$550m annual to provide funds for "pay as you go"

CIP Annual Investment $370m

Best Practices Case - Key Measures April 6th Case
Combined Utility System

Principals Used For Long Range Plans and Rate Structure

- Retain the role of long range regional supplier of water to the region
  - A competitive advantage for all

- Utilize best practice investment program to sustain a viable and sustainable utility treatment and distribution system
  - Require $370m annual capital investment

- Maintain aggressive efficiency/procurement program
  - Currently have identified over $10m annual savings

- Move, whenever possible, customer classes to 100% cost of service

- Generate sufficient cash to satisfy all bond covenants
  - Move longer term towards some component of “pay as you go” capital financing

- Encourage conservation and responsible “re-use programs”
Single family rates below cost of service

Commercial rates above cost of service complex

High water consumption at older multi-family

Multi-family rates for HUD tax credit properties

Multi-family rates above cost of service

Issues raised at Committee and since

Combined utility system
Which range best describes the average monthly water usage PER UNIT at your property?

<table>
<thead>
<tr>
<th>Answer Options</th>
<th>A</th>
<th>B</th>
<th>C</th>
<th>D</th>
<th>Response Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 2,000 gallons</td>
<td>2</td>
<td>8</td>
<td>12</td>
<td>2</td>
<td>15.1%</td>
</tr>
<tr>
<td>2,000 – 3,000 gallons</td>
<td>15</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>18.2%</td>
</tr>
<tr>
<td>3,000 – 4,000 gallons</td>
<td>6</td>
<td>16</td>
<td>14</td>
<td>4</td>
<td>25.5%</td>
</tr>
<tr>
<td>4,000 – 5,000 gallons</td>
<td>4</td>
<td>3</td>
<td>12</td>
<td>2</td>
<td>13.2%</td>
</tr>
<tr>
<td>5,000 – 6,000 gallons</td>
<td>3</td>
<td>2</td>
<td>10</td>
<td>0</td>
<td>9.4%</td>
</tr>
<tr>
<td>6,000 – 7,000 gallons</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>3.1%</td>
</tr>
<tr>
<td>7,000 – 8,000 gallons</td>
<td>1</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>3.8%</td>
</tr>
<tr>
<td>8,000 – 9,000 gallons</td>
<td>2</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>5.7%</td>
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<tr>
<td>9,000 – 10,000 gallons</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>2.5%</td>
</tr>
<tr>
<td>More than 10,000 gallons</td>
<td>1</td>
<td>4</td>
<td>0</td>
<td>1</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Average 4000 gal/month
Current estimate of cost is $3m/will include in Council Presentation prior to June 1

Projects to allow for 3 years to get to full multi-family rates

Propose to also utilize this fund to control increases on HUD

Conservative plan will be to City Council by June 1 - 3 year program

Average consumption will be $52.74 per

Will design specifics with participation of HAA/initially targeted at complexes with >200%

Propose to create a $1.4m conservation rebate program

Memo (SF, P) $46.97
$52.74
$35.44
$26.34
$34.07
$7.73
$5.87

New Proposal

Current 1st Proposal

Equivalent monthly increase as follows

Will remove $8m revenue from April 6th case

Propose to bring multi-family rates to 100% cost of service

Multi-Family Rates

Combined Utility System
Proposed rates to commercial customer class considerations

- Commercial class to be reduced from 111.1% (in April 6th presentation) to 100%
- Overall rate increase to this class will be 8.1%
<table>
<thead>
<tr>
<th>Service</th>
<th>60.00</th>
<th>46.87</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed average monthly bill</td>
<td>13.13</td>
<td>52.74</td>
</tr>
<tr>
<td>Current average monthly bill</td>
<td>46.87</td>
<td>52.74</td>
</tr>
<tr>
<td>Theoretical full cost recovery case</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Alternate case considered to restore desirable "pay as you go" |  | |

| Revenue short of full cost of service by $44M |  | |

| Currently have single family residents at 84.8% cost of service |  | |

| Single Family Residents |  | |

| Combined Utility System |  | |
Financial Implications

- Remove $50m “pay as you go” $50m
- Costs for changes identified
  - Multi family to 100% cost of service ($8.2m)
  - Multi family conservation/HUD related program ($14.0m)
  - Commercial class to 100% cost of service ($23.3m)
  - Additional Cost of Debt Service ($4.0m)

Total: $49.5m
Comparison of Monthly Multifamily 4" Utility Bills

- Water Bill: 200 Kgals
- Sewer Bill: 200 Kgals

SAWS - Existing
SAWS - Proposed
Oakland
Dallas
Miami
Houston - Existing
Fort Worth
Houston - Proposed
New Orleans
Los Angeles
St. Petersburg
Austin
San Diego
Comparison of Monthly Commercial Water Bills

San Diego  Austin  New Orleans  Fort Worth  Oakland  Miami  Dallas

Monthly Bill

$0  $20  $40  $60  $80  $100  $120  $140  $160

Water Bill: 10 Kgs  $0  Sewer Bill: 10 Kgs  $1000

Water & Wastewater Rate Comparison Commercial 10,000 Gallons
Combined Utility System

Conclusions/Recommendations

- In order to retain viable and sustainable long term utility system adopt best practices case ($370m/year CIP)

- Move multi family and commercial to 100% cost of services
  - Create $14m conservation/HUD “rebate pool” for 3 years and include requirement in ordinance
  - Return to Council for specifics of this program prior to June 1

- Retain single family residents at 84.8% of cost of service
  - Removes “pay as you go” financing component

- Develop longer term strategies to move single family residential pricing to cost of service and increase “pay as you go”