

SOUTH PASADENA FINANCE COMMITTEE

REGULAR MEETING AGENDA

Wednesday, September 26, 2012

6:30pm

Burke Triolo Studio, 538 Mission St

1. ROLL CALL

Committee Chair Adrian, Members Anderson, Burke, Catania and Rusk, Finance Director Thai, Assistant Director Batt, City Treasurer Pia and City Council Liaison Putnam.

2. PUBLIC COMMENT

Time reserved for public input from those who wish to address the Committee. Public input will also be taken on all agenda items. Public input is limited to 5 minutes per speaker.

3. APPROVAL OF MINUTES

Review of minutes.

4. NEW BUSINESS

- a. Investment Policy – Investment Policy must be updated annually
- b. Update on Water Rates – Oral update from Finance Director
- c. Retiree Medical Insurance Liability – Oral update from Finance Director
- d. Business License Enforcement – Oral update from Finance Director
- e. New Meeting Schedule – 2nd Wednesday of Every Other Month
- f. Staffing – Chairperson Adrian wants to discuss Finance Department staffing

5. CONTINUING BUSINESS

- a. None

6. NEXT SCHEDULED MEETING – NOVEMBER 14, 2012

09/24/2012

Date



Signature

I declare under penalty of perjury that I am an employee of the City of South Pasadena and that I posted this Agenda on the bulletin board in the courtyard of the City Hall at 1414 Mission Street, South Pasadena, CA 91030, as required by law.

CITY OF SOUTH PASADENA
INVESTMENT POLICY
FY ~~2011/12~~2012/13

1. Introduction

The purpose of this document is to define the City's policy for investment and cash management. In accordance with California law and the public trust, it is the City's policy to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands.

There are new federally guaranteed investment programs being created in response to risks. These programs are intended to encourage investments.

2. Scope

This policy covers all financial assets and investment activities under the direct control of the City of South Pasadena.

3. Prudence

The City adheres to the guidance provided by the "prudent investor" standard, as codified in Government Code section 53600.3. This obligates a fiduciary to insure that:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. Accordingly, the overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

4. Objectives

The primary objectives of investment activity, in order of priority, are shown below, and shall be in conformity with California Government Code section 53600.5:

Safety - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Liquidity - The investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements as prescribed by state law and which might be reasonably anticipated. An adequate portion of the portfolio should be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. Since unanticipated cash requirements do, indeed, arise,

most investments will be in securities with active secondary or resale markets. Emphasis shall be on marketable securities with low sensitivity to market risk.

Yield - Yield should become a consideration only after the more basic requirements of safety and liquidity have been met. The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles commensurate with the City's investment risk restraints and the cash flow characteristics of the portfolio.

5. Delegation of Authority

Authority to manage the City's investment program is derived from California Government Code Sections 53600 *et seq.* By adoption of this policy, the City Council delegates investment authority to the City Treasurer. Such authority may be revoked by the City Council in writing at any time. The Treasurer shall establish procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. By adoption of this policy, the City Treasurer appoints the Finance Director and Assistant Finance Director as Deputy City Treasurer(s). The names of those persons to whom investment authority is delegated will be submitted to City Council for approval. No person may engage in an investment transaction except as provided under the terms of this policy and its related procedures. The Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the investment activities.

6. Reporting

The City Treasurer shall submit a monthly investment report to the City Council and copied to the Finance Committee based on summaries provided by the Finance Department. This report will include the following required elements:

- A. A report of investment activity for the month
 1. Maturities, withdrawals, sales and called investments
 2. New investments

- B. A statement of investment balances at month end
 1. Type of investment and par value, if applicable
 2. Issuing institution
 3. Date of maturity
 4. Amount of deposit or cost of security
 5. Current market value of securities with maturity in excess of twelve months
 6. Rate of interest or yield to maturity at purchase date
 7. Rate of interest or yield to maturity at the report date
 8. A representation certifying compliance of the City's investment activities to the City's Statement of Investment Policy.
 9. A representation as to the availability of cash to meet the City's expenditures over the next six months, as required in Section 53646 (2) (b) (3), based on cash flow projections provided by the Finance Department.

7. Authorized and Suitable Investment Instruments

Purchase of investments will be made with surplus funds available. The investments will be paid for, in full, as soon as practical after the time of trade. Purchases will not be made using leverage, margin accounts, reverse repurchase agreement, or other unfunded mechanisms. No investments shall conflict with Government Code section 53601.

Eligible vehicles for the investment of funds shall be limited to:

- a) The State of California Local Agency Investment Fund (LAIF).
- b) Bonds, notes, and similar securities issued by the United States Treasury. There will be no options or like instruments purchased.
- c) Bonds, notes and similar securities issued by United States government agencies. There will be no options or like instruments purchased.
- d) Notwithstanding the above limitations, purchase of callable bonds and notes is permissible.
- e) Non-negotiable certificates of deposit in insured or fully collateralized accounts in California banks which are insured by the Federal Deposit Insurance Corporation.
- f) Negotiable certificates of deposit which are fully insured by the Federal Deposit of Insurance Corporation (FDIC).
- g) Money market funds.
- h) Other investment instruments whose principal is guaranteed by the US government through programs such as the Temporary Liquidity Guarantee Program (TLGP). Thus, corporate bonds are allowable investments if they are insured by the federal government or FDIC.

8. Maturities

To the extent possible, the City of South Pasadena will attempt to match its investments with anticipated cash flow requirements. Securities shall not be purchased which have maturity dates of more than three and one-half years. At the time of purchase no more than one third of the investment portfolio shall have a maturity date in excess of two and half years into the future.

All investment instruments will be acquired with a view toward holding such instruments to their maturity, thereby avoiding risks to loss of principal due to market fluctuations.

9. Portfolio Adjustments

The moneys entrusted to the City Treasurer will be a passively managed portfolio. However, the City Treasurer will make best efforts to observe, review, and react to changing conditions that affect the portfolio. Should any investments exceed a percentage-of-portfolio limitation due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the Treasurer shall consider restructuring the portfolio basing his decision on the expected length of time the portfolio will be unbalanced. If this occurs, the City Council shall be notified by information contained in the next monthly report as required in Section 6 of this policy.

10. Authorized Banks and Security Dealers

In selecting financial institutions for the deposit or investment of City funds, the Treasurer shall consider the credit-worthiness of institutions, and utilize only those depositories that are qualified public depositories as established by state law. In addition, only broker-dealers that are authorized in the state of California will be utilized. The Treasurer shall continue to monitor financial institutions' credit characteristics and financial history throughout the period in which City funds are deposited or invested.

All broker-dealers who desire to become qualified bidders for investment transactions must supply the treasurer with the following items: audited financial statements; Financial Industry Regulatory Authority (FINRA) certification; proof of state registration; and certification of awareness of, and familiarity with South Pasadena's investment policy.

From time to time, the Finance Director will review the broker-dealer relationships, fees and charges for reasonableness and competitiveness.

11. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any financial interests in financial institutions that conduct business within the City of South Pasadena, and they shall further disclose any large personal financial investment positions that could be related to the performance of the City, particularly with regard to the timing of purchases and sales.

12. Safekeeping and Custody

At a minimum, securities will be held in safekeeping in an account in the name of the City of South Pasadena at a broker which is adequately insured by Securities Investor Protection Corporation. Securities purchased from broker/dealers will be on a "delivery versus payment" basis and held in a third party custodian account in a manner that establishes the City's right of ownership.

13. Internal Control

The City Treasurer and Deputy City Treasurers are responsible for ensuring compliance with the City's Investment Policy as well as for establishing systems of internal control designed to prevent losses due to fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by City officers and employees. No investment personnel may engage in an investment transaction except as provided under the terms of this policy. No investment transaction, other than cash movements between Bank of America and LAIF, will occur without the authorization of the City Treasurer and one of the Deputy City Treasurers as defined in Section 5 of this policy. In the absence of the City Treasurer, the Mayor shall authorize investment transactions on his/her behalf.

To strengthen internal control there are specific limits set on the locations to which the Treasurer or his representative may make transfers of funds via telephone. The Treasurer

hereby has the limited authorization to make telephone transfers of funds *only* between the City's bank account, the City's investment accounts at the LAIF and the City's broker-dealer after an investment decision has been made. Telephone transfers can only be made among these three accounts. Any other transfers of funds must be executed through written means (such as a check or warrant) or normal electronic funds transfers with adequate written documentation and approval. The City's bank, broker-dealer, and the Local Agency Investment Fund are informed in writing of these limitations.

At the time of the annual audit of the City's financial statements, the audit program by the independent auditor will include an evaluation and report to the City Council regarding the compliance with the City's investment policy.

14. Statement of Investment Policy

The Statement of Investment Policy shall be updated annually in the month of August by the City Treasurer and Finance Committee, and submitted to the City Council for review and adoption.

CITY OF SOUTH PASADENA
COMMUNITY REDEVELOPMENT AGENCY REDEVELOPMENT SUCCESSOR
AGENCY
INVESTMENT POLICY
FY ~~2011/12~~2012/13

1. Introduction

The purpose of this document is to define the City of South Pasadena Redevelopment Successor Agency's (Agency) policy for investment and cash management. In accordance with California law and the public trust, it is the City's-Agency's policy to invest public funds in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands.

2. Scope

This policy covers all financial assets and investment activities under the direct control of the Community Redevelopment Agency of the City of South Pasadena Agency.

3. Prudence

The City-Agency adheres to the guidance provided by the "prudent investor" standard, as codified in Government Code section 53600.3. This obligates a fiduciary to insure that:

"When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.

All participants in the investment process shall act as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. Accordingly, the overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

4. Objectives

The primary objectives of investment activity, in order of priority, are shown below, and shall be in conformity with California Government Code section 53600.5:

Safety - Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.

Liquidity - The investment portfolio will remain sufficiently liquid to enable the City Agency to meet all operating requirements as prescribed by state law and which might be reasonably anticipated. An adequate portion of the portfolio should be maintained in liquid short-term securities that can be converted to cash if necessary to meet disbursement requirements. Since unanticipated cash requirements do,

indeed, arise, most investments will be in securities with active secondary or resale markets. Emphasis shall be on marketable securities with low sensitivity to market risk.

Yield - Yield should become a consideration only after the more basic requirements of safety and liquidity have been met. The investment portfolio shall be designed with the objective of attaining a rate of return throughout budgetary and economic cycles commensurate with the ~~City's~~ Agency's investment risk restraints and the cash flow characteristics of the portfolio.

5. Delegation of Authority

Authority to manage the ~~City~~ Agency's investment program is derived from California Government Code Sections 53600 *et seq.* By adoption of this policy, the Agency Board delegates investment authority to the Agency Treasurer. Such authority may be revoked by the Agency Board in writing at any time. The Agency Treasurer shall establish procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and its related procedures. The Agency Treasurer shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the investment activities.

6. Reporting

The Agency Treasurer shall submit a monthly investment report to the Agency Board ~~and copied to the Finance Committee~~ based on summaries provided by the Finance Department. This report will include the following required elements:

- A. A report of investment activity for the month
 1. Maturities, withdrawals, sales and called investments
 2. New investments

- B. A statement of investment balances at month end
 1. Type of investment and par value, if applicable
 2. Issuing institution
 3. Date of maturity
 4. Amount of deposit or cost of security
 5. Current market value of securities with maturity in excess of twelve months
 6. Rate of interest or yield to maturity at purchase date
 7. Rate of interest or yield to maturity at the report date
 8. A representation certifying compliance of the Agency's investment activities to the Agency's Statement of Investment Policy.
 9. A representation as to the availability of cash to meet the Agency's expenditures over the next 30 days' obligations.

7. Authorized and Suitable Investment Instruments

Purchase of investments will be made with surplus funds available. The investments will be paid for, in full, as soon as practical after the time of trade. Purchases will not be made using leverage, margin accounts, reverse repurchase agreement, or other unfunded mechanisms. No investments shall conflict with Government Code section 53601.

Eligible vehicles for the investment of funds shall be limited to:

- a) The State of California Local Agency Investment Fund (LAIF).
 - b) Bonds, notes, and similar securities issued by the United States Treasury. There will be no options or like instruments purchased.
 - c) Bonds, notes and similar securities issued by United States government agencies. There will be no options or like instruments purchased.
 - d) Notwithstanding the above limitations, purchase of callable bonds and notes is permissible.
 - e) Non-negotiable certificates of deposit in insured or fully collateralized accounts in California banks which are insured by the Federal Deposit Insurance Corporation.
 - f) Negotiable certificates of deposit which are fully insured by the Federal Deposit of Insurance Corporation (FDIC).
8. Maturities
To the extent possible, the Agency Treasurer will attempt to match its investments with anticipated cash flow requirements. Securities shall not be purchased which have maturity dates of more than three and one-half years. At the time of purchase no more than one third of the investment portfolio shall have a maturity date in excess of two and half years into the future.
- All investment instruments will be acquired with a view toward holding such instruments to their maturity, thereby avoiding risks to loss of principal due to market fluctuations.
9. Portfolio Adjustments
The moneys entrusted to the Agency Treasurer will be a passively managed portfolio. However, the Agency Treasurer will make best efforts to observe, review, and react to changing conditions that affect the portfolio. Should any investments exceed a percentage-of-portfolio limitation due to an incident such as fluctuation in portfolio size, the affected securities may be held to maturity to avoid losses. When no loss is indicated, the Agency Treasurer shall consider restructuring the portfolio basing his decision on the expected length of time the portfolio will be unbalanced. If this occurs, the Agency Board shall be notified by information contained in the next monthly report as required in Section 6 of this policy.
10. Authorized Banks and Security Dealers
In selecting financial institutions for the deposit or investment of Agency funds, the Agency Treasurer shall consider the credit-worthiness of institutions, and utilize only those depositories that are qualified public depositories as established by state law. In addition, only broker-dealers that are authorized in the state of California will be utilized. The Agency Treasurer shall continue to monitor financial institutions' credit characteristics and financial

history throughout the period in which Agency funds are deposited or invested.

All broker-dealers who desire to become qualified bidders for investment transactions must supply the Agency Treasurer with the following items: audited financial statements; Financial Industry Regulatory Authority (FINRA) certification; proof of state registration; and certification of awareness of, and familiarity with South Pasadena's investment policies.

From time to time, the ~~Finance Director~~ Agency Treasurer will review the broker-dealer relationships, fees and charges for reasonableness and competitiveness.

11. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the ~~Agency Executive Director~~ City Manager any financial interests in financial institutions that conduct business within the City of South Pasadena, and they shall further disclose any large personal financial investment positions that could be related to the performance of the ~~City~~ Agency, particularly with regard to the timing of purchases and sales. From time to time, the ~~Finance Director~~ Agency Treasurer will review the broker-dealer relationships, fees and charges for reasonableness and competitiveness.

12. Safekeeping and Custody

At a minimum, securities will be held in safekeeping in an account in the name of the ~~Community Redevelopment Agency of the~~ City of South Pasadena Redevelopment Successor Agency at a broker which is adequately insured by Securities Investor Protection Corporation. Securities purchased from broker/dealers will be on a "delivery versus payment" basis and held in a third party custodian account in a manner that establishes the Agency's right of ownership.

13. Internal Control

The Agency Treasurer is responsible for ensuring compliance with the Agency's Investment Policy as well as for establishing systems of internal control designed to prevent losses due to fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets or imprudent actions by City and Agency officers and employees. No investment personnel may engage in an investment transaction except as provided under the terms of this policy. No investment transaction, other than cash movements between Bank of America and LAIF, will occur without the authorization of the Agency Treasurer. In the absence of the Agency Treasurer, the Agency Chair shall authorize investment transactions on his/her behalf.

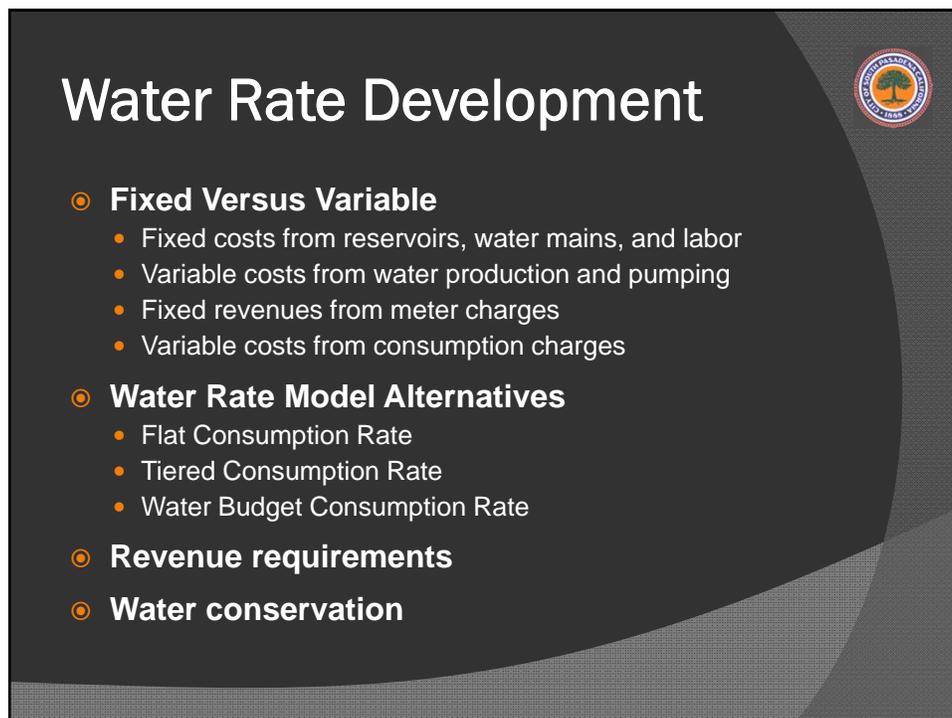
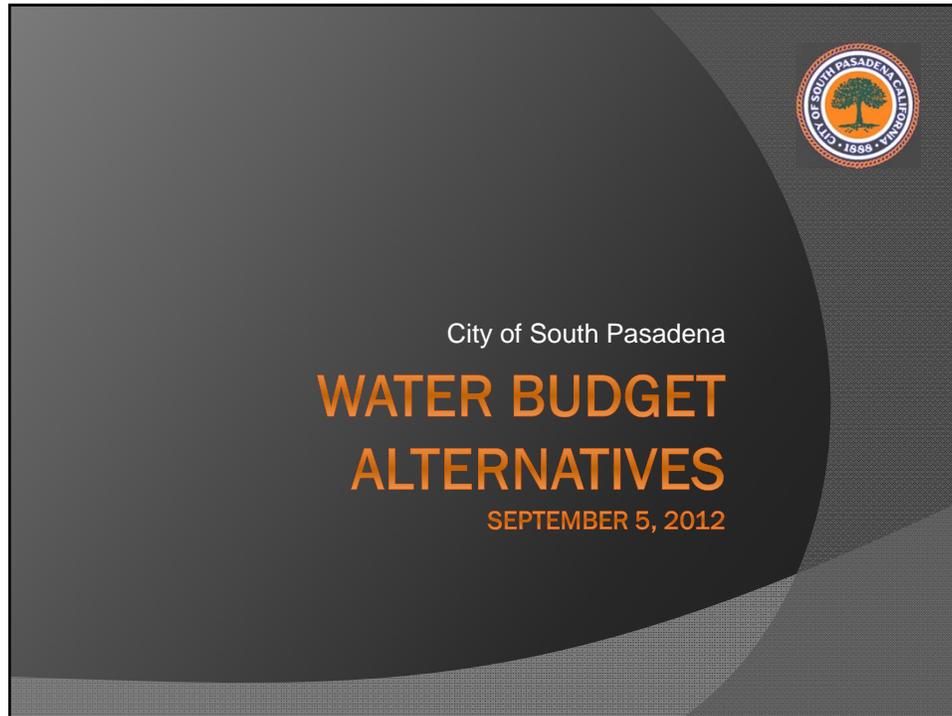
To strengthen internal control there are specific limits set on the locations to which the Agency Treasurer or his representative may make transfers of funds via telephone. The Agency Treasurer hereby has the limited authorization to make telephone transfers of funds *only* between the Agency's bank account, the Agency's investment accounts at the LAIF and the ~~City's~~ Agency's broker-dealer after an investment decision has been made.

Telephone transfers can only be made among these three accounts. Any other transfers of funds must be executed through written means (such as a check or warrant) or normal electronic funds transfers with adequate written documentation and approval. The Agency's bank, broker-dealer, and the Local Agency Investment Fund are informed in writing of these limitations.

At the time of the annual audit of the ~~City's~~ Agency's financial statements, the audit program by the independent auditor will include an evaluation and report to the City Council and Agency Board regarding the compliance with the Agency's investment policy.

14. Statement of Investment Policy

The Statement of Investment Policy shall be updated annually in the month of August by the Agency Treasurer, and submitted to the Agency Board for review and adoption.



Water Rate Adjustments



Approved Rate Adjustments	Proposed Rate Adjustments
July 2009 – 15%	
July 2010 – 15%	
March 2011 – 30%	
April 2012 – 16%	
	January 2013 – 18%
	January 2014 – 18%
	January 2015 – 4%

Water Fund Debt Service



Fiscal Year Ending June 30	Water Fund Debt Service
2010	\$ 621,800
2011	623,050
2012	1,645,075
2013	2,665,425
2014	3,371,575
2015	\$3,371,000
2016 to 2040	Approximately \$3.4 million each year

Projected Timeline



Date	Rate Development
September 5, 2012	City Council consider alternative water budget rates
September 2012	Begin public information to promote water budget model
October 3, 2012 Council Meeting	Council considers final proposed water budget rate and approve public hearing notice (63 days before December 5)
December 5, 2012 Council Meeting	Public Hearing. Approve Water Budget Rates
January 1, 2013	New Water Budget Rate Structure goes into effect
January 2013	Continue public information about water rate change and change in service
Feb – Mar 2013	Follow-up with water budget implementation

City Council Decision Tonight



- Recognize the need to adjust rates
- Consider best water rate model for the future
- Staff will coordinate all work with consultants: Global Water, Tom Ash and Associates, Raftelis Financial Consulting, Capitalist Group
- Prop 218 Public Hearing Notice is crucial
- Pre-Rate implementation and follow-up is crucial

City of South Pasadena Agenda Report

FINANCE COMMITTEE
Michael A. Caccioppo, Mayor 15 of 32
Philip C. Putnam, Mayor Pro Tem
Robert S. Joe, Councilmember
Marina Khubesrian, M.D., Councilmember
Richard D. Schneider, M.D., Councilmember

Sally Kilby, City Clerk
Gary E. Pia, City Treasurer

COUNCIL AGENDA: September 19, 2012
TO: Honorable Mayor and City Council
VIA: Sergio Gonzalez, City Manager 
FROM: Chu Thai, Finance Director 
SUBJECT: **Consideration of Alternative Water Budget Rate Models for Water Services Effective January 2013**

Recommendation

It is recommended that the City Council provide direction on a water rate model to implement effective January 2013.

Fiscal Impact

The cost to implement is approximately \$100,000 for the use of a project manager, water rate consultant and water budget implementation consultant. This also includes some future costs to properly inform the public about the change in water rates. The City may consider allocating additional resources (not to exceed \$50,000) to finalize the analysis, increase public information and monitor the program implementation after the water rates take effect.

Commission Review and Recommendation

The City Council Water Budget Subcommittee comprised of Mayor Pro-Tem Putnam and Councilmember Schneider has been informed on this issue. On Monday, September 10, members of the Finance Committee, Natural Resources and Environment Commission (NREC) and City Council Water Budget Subcommittee met. Their input and comments are included in this report.

Background

Since 2009, the City of South Pasadena has approved water and sewer rate increases to repair its aging infrastructure. Water rates have been adjusted numerous times to meet the revenue requirements to pay off the \$43.4 million 2009 Water Revenue Bond. Rates have also been adjusted to accommodate the unpredictable Upper San Gabriel Watermaster overdraft rates.

Starting in 2010, the City Council and community has expressed interest in evaluating water rate models. At the April 20, 2011 and March 3, 2012 meetings, the City Council provided direction to staff and allocated resources towards implementing a water budget rate model.

Consideration of Alternative Water Budget Rate Models
September 19, 2012
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Staff is using Tom Ash & Associates (TAA) to assist the City with developing policies and communications regarding the water budget. TAA has successfully assisted Irvine Ranch Water District and Moulton Niguel Water District with the implementation of the water budget. Staff continues to utilize Raftelis Financial Consultants to properly develop the rate structures. South Pasadena has utilized Raftelis in the past water and sewer rate increases.

At the August 15, 2012 regular meeting, the City Council approved the agreement with Global Water to provide utility billing and customer service for the City's water, sewer and refuse customers. Global Water will be instrumental in implementing a water budget rate model, as their software supports the rate structure and their staffing level can provide the necessary customer care to answer questions about the changes in the customer's utility bills. There are approximately 6,200 water customers.

At the September 5, 2012 regular meeting, staff presented several water budget rate models, and discussed the need to adjust rates. At that meeting, the City Council directed staff to meet with NREC and Finance Committee to continue to evaluate which options would best serve the City..

Analysis

The last water rate increase was effective April 2012. The next proposed rate increase is January 2013. Figure 1 shows a history of water rate adjustments.

Figure 1. Water Rate Adjustments

Approved Rate Adjustments	Proposed Rate Adjustments
Jul 2009 – 15%	
Jul 2010 – 15%	
Mar 2011 – 30%	
Apr 2012 – 16%	
	Jan 2013 – 18%
	Jan 2014 – 18%
	Jan 2015 – 4%

The proposed 18% rate increase effective January 2013, will generate approximately \$600,000 in additional revenues. This is needed to offset the increase in debt payment for the water bonds and meet debt coverage requirements. Please note that past and future rate adjustments also take into consideration changes in operating costs. Figure 2 shows the installment payment schedule for the City's water bonds.

Consideration of Alternative Water Budget Rate Models
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Figure 2. Water Fund Debt Service

Fiscal Year Ending June 30	Water Fund Debt Service
2010	\$ 621,800
2011	623,050
2012	1,645,075
2013	2,665,425
2014	3,371,575
2015	3,371,000
2016 to 2040	Approximately \$3.4 million each year

Implementation of the water budget rate model will require a significant education program. Staff has begun to work with Tom Ash and Global Water about the available options to inform policy makers, the general public and City staff about the transition.

Upcoming Schedule to Implement Water Budget Model

Date	Rate Development
September 5, 2012	City Council consider alternative water budget rates
September 2012	Begin public information to promote water budget model
October 3, 2012 Council Meeting	Council considers final proposed water budget rate and approve public hearing notice (63 days before December 5)
December 5, 2012 Council Meeting	Public Hearing. Approve Water Budget Rates
January 1, 2013	New Water Budget Rate Structure goes into effect
January 2013	Continue public information about water rate change and change in service
Feb – Mar 2013	Follow-up with water budget implementation

On Monday, September 10, members of the Finance Committee, Natural Resources and Environment Commission (NREC) and City Council Water Budget Subcommittee met. After a brief presentation by Tom Ash, the group discussed the following issues:

- What is the proper ratio of fixed costs versus variable costs? – Collecting less revenues from fixed costs reduces the total costs for low consumers and places more burden on high consumers’ variable costs. However, higher fixed costs reduces the water fund’s revenue risk and appropriately puts the fixed cost burdens on the fixed charges.
- What is the best water rate model? – The current tiered by meter size rate model is considered an “absolute” system where all high consumers will pay a higher bill. The proposed water budget rate model is a “relative” system, as it recognizes everyone’s different water needs, and promotes conservation to meet those individual needs.

Consideration of Alternative Water Budget Rate Models
September 19, 2012
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- What is the best implementation strategy? – Many believe that implementing this on January 2013 is aggressive, and that the City may not have the resources to execute it properly. Staff has been preparing for this transition since 2010, and will make the best effort to implement water budget successfully. However, the group would be more comfortable if the water budget rate model was implemented on January 2014.
- What about a pass-thru charge or low income rate? – Staff, the consultants and legal counsel has stated that a low-income rate is not legal within the water fund. If the City wishes to establish some sort of low-income discount or subsidy, it would have to come from another funding source, such as the General Fund. Staff is working with the consultant to include a pass-thru rate into the rate model. The pass-thru would help the water fund better manage annual spikes in water purchase costs or inflation. Please note that the Raftelis rate study has already taken into consideration all water purchase costs and inflationary factors through December 2015.

Staff Recommendation

Staff recommends implementing a three year-rate increase, with the water budget rate model starting in the second year.

Year 1 – 18% increase, tiered by meter size, effective January 2013

Year 2 – 18% increase, water budget, effective January 2014

Year 3 – 4% increase, water budget, effective January 2015

The group recognized that delaying the water budget implementation by one year provides staff more time to collect accurate indoor and outdoor use variables. It would also allow for the City to better compare consumption before and after the implementation of a water budget rate model.

Staff request that the City Council decide between a 60% and 75% fixed cost rate model (for the water budget). The 75% fixed cost would reduce the “revenue risk” for the City, but would make the meter charges higher.

Staff also requests implementing a pass-thru for the water budget rate model.

Furthermore, staff recommends moving from a bi-monthly to a monthly billing cycle. This improves the City’s efforts to monitor water conservation, reduces our revenue risk, and makes it easier for our customers to manage their utility bills. All analysis has been based on a bi-monthly billing. If Council approves moving to a monthly billing cycle, all information from this point on would be presented accordingly, including the Prop 218 notice.

Consideration of Alternative Water Budget Rate Models
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Legal Review

The City Attorney has not reviewed this item.

Public Notification of Agenda Item

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.

Attachment: September 5, 2012 City Council Report on Water Budget Alternatives

Michael A. Caccioppo, Mayor of 32
 Philip C. Putnam, Mayor Pro Tem
 Robert S. Joe, Councilmember
 Marina Khubesrian, M.D., Councilmember
 Richard D. Schneider, M.D., Councilmember

City of South Pasadena Agenda Report

Sally Kilby, City Clerk
 Gary E. Pia, City Treasurer

COUNCIL AGENDA: September 5, 2012
 TO: Honorable Mayor and City Council
 VIA: Sergio Gonzalez, City Manager *SG*
 FROM: Chu Thai, Finance Director *CS*
 SUBJECT: **Consideration of Alternative Water Budget Rate Models for Water Services Effective January 2013**

Recommendation

It is recommended that the City Council provide direction regarding implementing a water budget rate model for water services.

Fiscal Impact

The cost to implement a water budget rate model is approximately \$100,000 for the use of a project manager, water rate consultant and water budget implementation consultant. This also includes costs for outreach to properly inform the public about the change in water rates.

Commission Review and Recommendation

The City Council Water Budget Subcommittee comprised of Mayor Pro-Tem Putnam and Councilmember Schneider has been informed on this issue.

Background

Since 2009, the City of South Pasadena has supported water and sewer rate increases to repair its aging infrastructure. Water rates have been adjusted numerous times to meet the revenue requirements to pay off the \$43.4 million 2009 Water Revenue Bond. Rates have also been adjusted to accommodate the unpredictable Upper San Gabriel Watermaster overdraft rates.

Starting in 2010, the City Council and community has expressed interest in evaluating water rate models. At the April 20, 2011, and March 3, 2012 meetings, the City Council provided direction to staff and allocated resources towards implementing a water budget rate model.

Staff is using Tom Ash & Associates (TAA) to assist the City with developing policies and communications regarding the water budget. TAA has successfully assisted Irvine Ranch Water District and Moulton Niguel Water District with the implementation of the water budget. Staff continues to utilize Raftelis Financial Consultants to properly develop the rate structures. South Pasadena has utilized Raftelis in the past water and sewer rate increases.

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At the August 15, 2012 regular meeting, the City Council approved the agreement with Global Water to provide utility billing and customer service for the City's water, sewer and refuse customers. Global Water will be instrumental in implementing a water budget rate model, as their software supports the rate structure and their staffing level can provide the necessary customer care to answer questions about the changes in the customer's utility bills. There are approximately 6,200 water customers.

Analysis

The last water rate increase was effective April 2012. The next proposed rate increase is January 2013. Below is a history of water rate adjustments.

Figure 1. Water Rate Adjustments

Approved Rate Adjustments	Proposed Rate Adjustments
Jul 2009 – 15%	
Jul 2010 – 15%	
Mar 2011 – 30%	
Apr 2012 – 16%	
	Jan 2013 – 18%
	Jan 2014 – 18%
	Jan 2015 – 4%

The proposed 18% rate increase effective January 2013, will generate approximately \$600,000 in additional revenues. This is needed to offset the increase in debt payment for the water bonds and meet debt coverage requirements. Please note that past and future rate adjustments also take into consideration changes in operating costs. Below is the installment payment schedule for the City's water bonds.

Figure 2. Water Fund Debt Service

Fiscal Year Ending June 30	Water Fund Debt Service
2010	\$ 621,800
2011	623,050
2012	1,645,075
2013	2,665,425
2014	3,371,575
2015	3,371,000
2016 to 2040	Approximately \$3.4 million each year

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Implementation of the water budget rate model will require a significant education program. Staff has begun to work with Tom Ash & Associates and Global Water on how to inform policy makers, the general public and City staff about the transition.

Upcoming Schedule to Implement Water Budget Model

Date	Rate Development
September 5, 2012 Council Meeting	City Council considers alternative water budget rates
September 2012	Begin to provide public information to promote water budget model
October 3, 2012 Council Meeting	Council considers final proposed water budget rate and approves public hearing notice (63 days before December 5)
December 5, 2012 Council Meeting	Public Hearing: Approve Water Budget Rates
January 1, 2013	New Water Budget Rate Structure goes into effect
January 2013	Continue to provide public information about water rate change and change in billing services
Feb – Mar 2013	Follow-up with water budget implementation

Staff and consultants continue to work with the City Council Water Budget Subcommittee to discuss various options for a water budget rate model, and the impact it would have on the community and water resources. A summary of the effort, is further discussed in the attached report by Tom Ash and Associates, are highlighted below.

- The rate structure study used a random sampling of 600 homes and businesses, which is approximately 10% of the City customer base, to test different rate structure scenarios. The study found that most, 60% to 70% of customers are efficient water users, based on State legislation guidelines.
- While water use has declined in recent years, the current rate design does not identify which customers are efficient and which waste water. Customers (residential and commercial) who are larger water users, especially if they are efficient, may be subsidizing smaller water users. More equity can be achieved by (1) adjusting fixed charges and (2) moving to individualized water budget allocations as compared to the current fixed tier structure.
- Risk in recovering the necessary revenues to pay for operations and maintenance of the water infrastructure is higher with the current rate design than with water budget.
- Rates need to be increased, regardless of a rate design style, to adequately cover debt service.
- All rate design scenarios were tested with the goal of recovering only the costs of water and water service necessary (cost of service or revenue neutrality).
- The current rate design can be maintained with an additional 18% increase over 3 years

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to cover debt service. There would be no change for customers or staff with maintaining the current rate structure.

- Water budget rate designs, Scenarios 2 and 3, improve revenue stability, reduce City revenue risk, improve customer equity and will result in more customer water use efficiency. However, changing the rate design will require time (staff training, data collection and billing system modification, etc.), customer outreach and education, translating into some additional costs to implement the more sophisticated water budget rate design.
- Rates in all tiers are based on the actual costs of the multiple potential sources of water to the City, and as required by Proposition 218.
- Time is a concern. Any rate change requires Proposition 218 noticing and public hearing. The City timeline to implement any rate increase, as per Proposition 218, is scheduled for January or February 2013. A water budget rate design change would suggest adding community outreach workshops and educational information on what the rate structure change is and why it is being proposed.

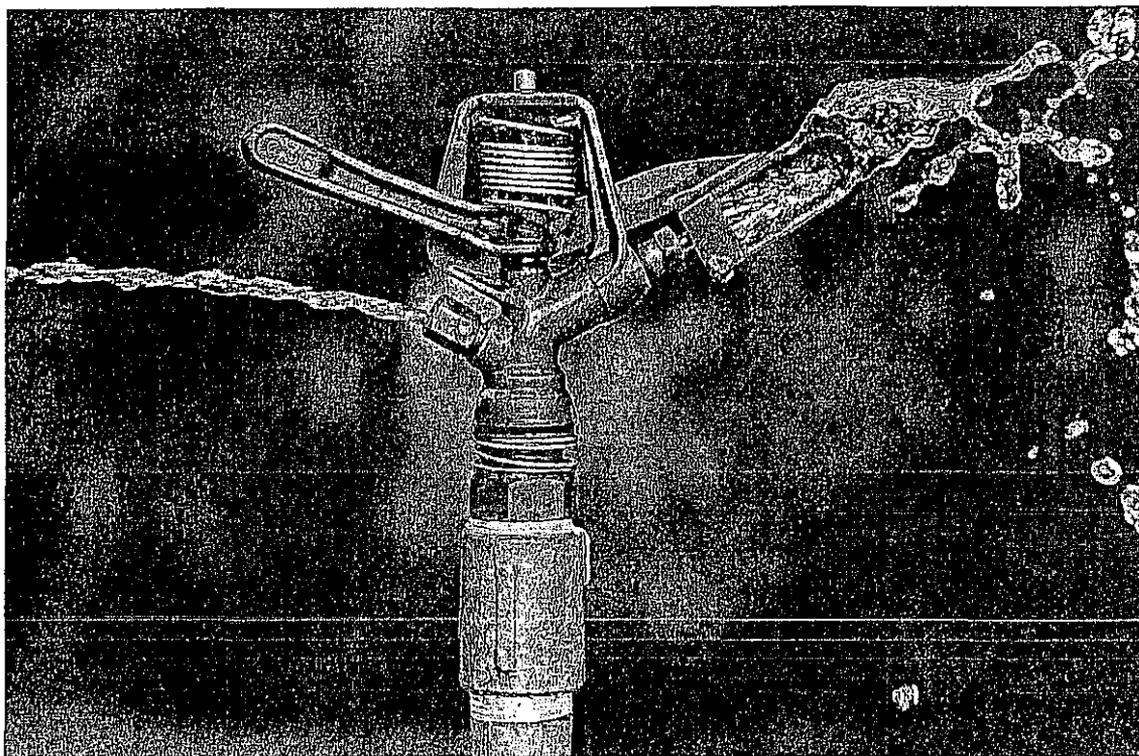
Legal Review

The City Attorney has not reviewed this item.

Public Notification of Agenda Item

The public was made aware that this item was to be considered this evening by virtue of its inclusion on the legally publicly noticed agenda, posting of the same agenda and reports on the City's website and/or notice in the *South Pasadena Review* and/or the *Pasadena Star-News*.

Attachment: City of South Pasadena Rate Structure Analysis



City of South Pasadena Rate Structure Analysis

September 5, 2012
Tom Ash & Associates

Background:

At the request of council, city staff has conducted a study of current water rates, the need to cover the debt service required for upgrading infrastructure, and examine water rates in the context of limits to our water sources, both groundwater and imported water. It is the City of South Pasadena policy maker's responsibility to (1) accurately recover the costs of water and water service, (2) manage water in the context of our water sources, regional and State requirements, and (3) meet the needs and expectations of their residents. This rate study is attempting to look at all three of those situations, costs / revenues, conservation and customer service.

The first order of business for City water rates is to cover the costs of service and now to recover the additional debt needed to upgrade the aging infrastructure. Regardless of what rate structure style used, overall water rates will have to go up to reflect the costs of financing those system upgrades.

Analysis conducted jointly by Tom Ash and Associates, Raftelis Financial Consulting, and the City of South Pasadena shows that we can continue with the current rate design and add the cost of covering our debt service by approximately 18% for each of the next 3 years. This would present no change in rate styles, but would amount to a percentage increase for all customers.

The second task for a rate structure is to help manage limited water supplies. The State has adopted legislation that calls for and requires the efficient use of water. Each water provider is expected to meet those water efficiency standards, or they would not be eligible for State grants and loans. At the same time, the lowest cost water for South Pasadena customers is the groundwater in the San Gabriel Valley basin. South Pasadena has a fixed allocation for reliable with-drawls of water from the basin. The groundwater allocation does not fully meet the customers demand for water. South Pasadena purchases additional water from other regional agencies. Successful water rates would help send a message of the value of water, the costs to deliver water and the need to conserve water to customers. The current rate structure does have inclining tiers with price increases in each tier. However, the current rate design does not identify water waste or water efficiency. It must be noted that water use has declined significantly in the last 4 years in the City.

The third task of a rate structure is to meet the expectations of residents and businesses, particularly with respect to equity. The current rate structure, though commonly used by water agencies, may not provide equity across the different customer characteristics found in the city. The rate study tested a more sophisticated rate design, called a water budget or "efficiency-based" tiered rate design, for the revenue and bill impacts for the City and customers. This report outlines findings of the rate study.

Findings:

1. The current rate design, with an 18% rate increase for 3 years, can meet the City revenue requirements, is considered a modest "conservation rate structure" and would require no change to how the City bills customers for water. There is a moderate risk with the current rate design to fully recovering costs, particularly fixed costs. There would be no need to add staff or change operations if the current rate structure continues to be in effect.

Scenario #1 Findings:

Using the current rate structure with an 18% increase to cover debt service for infrastructure upgrades would result in the following:

	Existing Rates	Existing +18%
Bi-monthly Base Charge		
3/4 inch	\$54.41	\$64.20
1 inch	\$82.01	\$96.77
1 1/2 inch	\$151.01	\$178.19
2 inch	\$233.82	\$275.91
3 inch	\$427.02	\$503.88
4 inch	\$703.04	\$829.59
6 inch	\$1,393.05	\$1,643.80
8 inch	\$2,497.10	\$2,946.58
Volume Charge (per hcf)		
Tier 1	\$1.60	\$1.89
Tier 2	\$2.63	\$3.10
Tier 3	\$4.16	\$4.91

Meter charges would increase to more accurately reflect the size of the meter and the impact on overall water system. Meter charges would be aligned with AWWA standards for system demands.

The variable charges for water would increase as depicted. These increases increase the "conservation message" to customers to use water efficiently.

This current rate structure, based on the financial study modeling, has a revenue risk of approximately \$717,400 (9% of total cost). The risk involves selling less water (customer conservation) and recovering less of the "fixed costs" associated with the City cost to deliver water.

2. Two scenarios of efficiency-based rate design were tested in the rate study. The first scenario sought to reduce revenue risk to the City and to apply water budgets to each individual customer in order to gain equity and increase conservation. The main features of this rate structure scenario include:
- a. Recovering a higher percentage of fixed costs in a fixed fee. The current fixed cost recovery is 50%. The first water budget scenario tests recovering 60% of fixed costs in the service charge (fixed fee). A second water budget scenario tested recovering 75% of fixed costs on the fixed fee.
 - b. Calculating individual water budgets based on number of residents and size of the irrigated landscape area. This feature passes through to customers the State legislation seeking per capita water use reductions.

Scenario #2 Findings:

A water budget rate design was tested with 60% of fixed costs recovered on the fixed service charge fee, with the remaining fixed costs imbedded in the variable charges in tiers 1 and 2 (efficiency tiers), and individualized water budgets for each customer. The resulting rates are:

	Existing Rates	Scenario 2
Bi-monthly Base Charge		
3/4 inch	\$54.41	\$75.48
1 inch	\$82.01	\$115.23
1 1/2 inch	\$151.01	\$214.62
2 inch	\$233.82	\$333.88
3 inch	\$427.02	\$612.15
4 inch	\$703.04	\$1,009.68
6 inch	\$1,393.05	\$2,003.52
8 inch	\$2,497.10	\$3,593.65

		Existing Rates	Scenario 2
Volume Charge (per hcf)			
SFR Customers			
Tier 1	IWB	\$1.60	\$1.70
Tier 2	OWB	\$2.63	\$2.99
Tier 3	100% to 125%	\$4.16	\$4.12
Tier 4	125% to 150%		\$4.67
Tier 5	over 150%		\$5.20
All Other Customers			
Tier 1	up to 50%	\$1.60	\$1.70
Tier 2	50% to 100%	\$2.63	\$2.99
Tier 3	100% to 125%	\$4.16	\$4.12
Tier 4	125% to 150%		\$4.67
Tier 5	over 150%		\$5.20
Based on previous 3-year average water usage			

Scenario #2 shows a 5 tiered structure (compared to the existing 3 tier structure). The resulting rates and charges include the necessary debt coverage increase, the same as included in Scenario #1 (current rate design plus 18% increase). Scenario #2 also shows the rate structure for non-residential customers. The increase in fixed charges improves revenue stability (regardless of the amount of water sold). The increase in variable charges is approximately ½ of the increase in variable charges in Scenario #1 to meet City revenue needs and revenue neutrality.

This water budget rate design increases the conservation message, is able to treat each customer individually, recognizing size of family, size of irrigated landscape area, and weather. With this rate design customers who are efficient pay the lowest variable rates (tiers 1 & 2). Only customers who use water over their allocation pay increasing tiered prices.

This rate structure design, based on the financial study modeling, has a revenue risk of approximately \$401,500 (5% of total cost). The risk involves selling less water (customer conservation) and recovering less of the “fixed costs” associated with the City cost to deliver water. The revenue risk to the City is cut approximately 44% from the current rate design due to more fixed costs recovered independent of water sales.

Scenario #3 Findings:

A water budget rate design was tested with 75% of fixed costs recovered on the fixed service charge fee, with the remaining fixed costs imbedded in the variable charges in tiers 1 and 2 (efficiency tiers), and individualized water budgets for each customer. The resulting rates are:

	Existing Rates	Scenario 3
Bi-monthly Base Charge		
3/4 inch	\$54.41	\$89.83
1 inch	\$82.01	\$139.15
1 1/2 inch	\$151.01	\$262.45
2 inch	\$233.82	\$410.41
3 inch	\$427.02	\$755.65
4 inch	\$703.04	\$1,248.85
6 inch	\$1,393.05	\$2,481.85
8 inch	\$2,497.10	\$4,454.65

	Existing Rates	Scenario 3	
Volume Charge (per hcf)			
SFR Customers			
Tier 1	IWB	\$1.60	\$1.66
Tier 2	OWB	\$2.63	\$2.20
Tier 3	100% to 125%	\$4.16	\$2.78
Tier 4	125% to 150%		\$3.23
Tier 5	over 150%		\$4.94
All Other Customers			
Tier 1	up to 50%	\$1.60	\$1.66
Tier 2	50% to 100%	\$2.63	\$2.20
Tier 3	100% to 125%	\$4.16	\$2.78
Tier 4	125% to 150%		\$3.23
Tier 5	over 150%		\$4.94
Based on previous 3-year average water usage			

Scenario #3 shows a 5 tiered structure (compared to the existing 3 tier structure). The resulting rates and charges include the necessary debt coverage increase, the same as included in Scenario #1 (current rate design plus 18% increase). Scenario #3 also shows the rate structure for non-residential customers.

The increase in fixed charges to 75% of fixed cost coverage improves revenue stability for the City regardless of the amount of water sold. The increase in variable charges is slight in tier 1, compared to both the current rate design and water budget Scenario #2.

This water budget rate design maintains the conservation message that wasted water is expensive water, is able to treat each customer individually, recognizing size of family, size of irrigated landscape area, and weather. With this rate design customers who are efficient pay the lowest variable rates (tiers 1 & 2). The variable

rates in tiers 3 and 4 are lower than the current tiered rates (tiers 2 & 3). Only customers who use water over their allocation pay increasing tiered prices.

This rate structure design, based on the financial study modeling, has a revenue risk of approximately \$43,400 (0.5% of total cost). The risk is slight and involves selling less water (customer conservation) and recovering less of the “fixed costs” associated with the City cost to deliver water. The revenue risk to the City is cut approximately 44% from Scenario #2 and 94% from Scenario #1, the current rate design, due to more fixed costs recovered independent of water sales.

Summary of Rate Study Findings:

- The rate structure study used a random sampling of 600 homes and businesses, 10% of the City customer base, to test different rate structure scenarios. The study found that most, 60% to 70% of customers are efficient water users, based on State legislation guidelines.
- While water use has declined in recent years, the current rate design does not identify which customers are efficient and which waste water. Customers (residential and commercial) who are larger water users, especially if they are efficient, may be subsidizing smaller water users. More equity can be achieved by (1) adjusting fixed charges and (2) moving to individualized water budget allocations as compared to the current fixed tier structure.
- Risk, in recovering necessary revenues to pay for operations and maintenance of the water infrastructure, is higher with the current rate design than with water budget rate designs.
- Rates need to be increased, regardless of a rate design style, to adequately cover debt service.
- All rate design scenarios were tested with the goal of recovering only the costs of water and water service necessary (cost of service or revenue neutrality).
- The current rate design can be maintained with an additional 18% increase over 3 years to cover debt service. There would be no change for customers or staff with maintaining the current rate structure.
- Water budget rate designs, Scenarios 2 and 3, improve revenue stability, reduce City revenue risk, improve customer equity and will result in more customer water use efficiency. However, changing the rate design will require time (staff training, data collection and billing system modification, etc.), customer outreach and education, translating into some additional costs to implement the more sophisticated water budget rate design.

- Rates in all tiers are based on the actual costs of the multiple potential sources of water to the City, and as required by Proposition 218.
- Time is a concern. Any rate change requires Proposition 218 noticing and public hearing. The City timeline to implement any rate increase, as per Proposition 218, is scheduled for January or February 2013. A water budget rate design change would suggest adding community outreach workshops and educational information on what the rate structure change is and why it is being proposed.
- Accomplishing a successful “change” in water rate design involves at least the following:
 - o Notifying customers of the need to verify individual site data
 - o Collecting site by site data
 - o Data input into a new billing module
 - o Working with Global Water on data input and proper software programming for calculating individual water budgets
 - o Testing the billing system for water budget calculations
 - o Hosting information sessions with residents, commercial customers and institutional customers
 - o Utilize existing City public relations staff or consider hiring outside PR expertise for Proposition 218 process and customer outreach
 - o Training staff on details of the new rate structure and how to assist customers
 - o Upgrade the City website to reflect the new rate structure
 - o Providing council with more detailed rate structure information in order to answer customer questions
 - o Developing basic billing system reports to inform the council and customers on how the rate structure is impacting customers (revenues and efficiency levels)

The question outstanding is does the City continue with the current rate design or move to a more sophisticated rate design? Maintaining the current rate design incurs a standard Proposition 218 process describing a rate increase. Choosing to move to “efficiency-based” rates would involve the same Proposition 218 process but would take more time, money and customer outreach to highlight changes to the existing rate design. Therefore, a **commitment** to a new rate design should be high, starting with Council and spread across all affected City staff, with the expectation that some customers will complain (Note: *customers will likely complain of a standard rate increase within the existing rate design as well*), customer calls will slightly increase, customer assistance to those in the “over-allocation” tiers (tiers 3-5) would increase in order to help customers eliminate water waste and move into the more efficient and lower priced tiers.

Agencies with water budget rates acknowledge the effort to implement such rates. The same agencies find that the costs of implementing are largely recovered within a short pay-back period (paid by tier 3-5 over-allocation charges), and that customers increase the efficient use of water. The end result is a more sustainable rate design for the City in terms of meeting current revenue and water supply goals, being flexible to meet future water issues, including drought and recognizing individual customer water needs.