



Staff Report

City of Manhattan Beach

TO: Honorable Mayor Ward and Members of the City Council

THROUGH: Richard Thompson, Interim City Manager

FROM: Bruce Moe, Finance Director
Jim Arndt, Public Works Director
Steve Charelian, Revenue Services Manager

DATE: August 3, 2010

SUBJECT: Consideration of Resolution Approving an Additional Optional Water Rate Classification for Commercial Customer Accounts, and Approving a One Time Option for All Such Customers to Opt-In to the New Rate Plan

RECOMMENDATION:

The Finance Subcommittee and City Staff recommend that the City Council: a) approve an additional rate schedule to the water rate tables to provide for the option of a flat rate for commercial accounts that have residential-sized ($\frac{5}{8}$ " , $\frac{3}{4}$ " and 1") water meters; b) provide for a one-time option for those customers to select the alternative rate schedule; and c) adopt Resolution No. 6270.

FISCAL IMPLICATION:

Under the new water rates effective January, 2010, some commercial accounts, because of their meter size, were billed according to the increasing cost residential tiered rate system, rather than the stable commercial single tier rate structure. Staff met with the Finance Subcommittee, and the Subcommittee approved the creation of a new rate class (pending Council approval) for those commercial accounts with small meters, that are commensurate with the larger (1-1/2") commercial meters used by most businesses. Additionally, the Subcommittee approved that businesses be given a one-time option to select a rate plan based on their projected consumption patterns. Finally, the Subcommittee approved issuing credits to affected accounts opting for the new rate schedule back to January 2010 (when bills reflected the increased rates). Staff estimates those credits to total approximately \$15,000.

BACKGROUND:

On October 20, 2009, the City Council adopted new water and sewer rates effective January, 2010. The water rates established a progressively higher tiered rate structure (rates rise from \$2.00 to 2.77 to 4.48 per hundred cubic feet or CCF) for residential use and a single tiered rate (\$2.53/CCF) for the commercial structure (1/ 1/2" and larger meter).

<u>Size</u>	<u>Monthly Fixed Chg</u>	<u>Tier 1 0-7 CCF</u>	<u>Tier 2 8-30 CCF</u>	<u>Tier 3 31+ CCF</u>
5/8" or 3/4"	\$ 11.29	\$ 2.00	\$ 2.77	\$ 4.48
1"	\$ 21.46	\$ 2.00	\$ 2.77	\$ 4.48
1-1/2"	\$ 32.19	\$ 2.53	\$ 2.53	\$ 2.53

Approximately thirty businesses have small (residential sized) water meters being used for commercial purposes, that due to their usage patterns are being charged considerably more for their consumption than if they were correctly charged as a commercial account. It was Council's intent that commercial accounts not have tiered rates due to their inability to conserve water in the course of business. As a result, the adopted rate schedules place most commercial users (assumed to have 1-1/2" and larger meters) in a rate category that has a higher base rate along with a fixed cost (\$2.53/CCF) of consumption.

DISCUSSION:

The first water bills with the new rates were mailed in January, 2010. In March, we received inquiries from three businesses that were concerned over the large increases in their bills, and their inability to adapt to conservation and the new tiered rate structures. These three cases involved the following types of customers:

	<u>3-Tiered Rate (Residential)</u>	<u>Proposed 1-Tiered Rate (commercial)</u>
1. Laundry/Cleaners	\$ 600	\$ 500
2. Laundromat	\$2,500	\$1,750
3. Restaurant	\$ 750	\$ 560

In a review of water meter sizes for *commercial* accounts, we determined that there are 112 accounts with meters 1" or smaller in size. Within that group we have identified approximately 30 with water usage patterns that would benefit from installing a water meter of 1-1/2" in order to obtain flat usage rates (despite a higher fixed charge). While we can certainly suggest that those customers incur the expense of installing a larger meter in order to achieve savings, the Finance Subcommittee and staff believe that a better, more business-friendly solution is to simply offer the option to all commercial accounts with residential sized meters with the option of changing rate plans to the 1-1/2" (non-tiered) meter rates. We have estimated based on recent usage that approximately 30 customers may select this option, which would result in \$23,200 in reduced revenue in the water utility.

The Finance Subcommittee and staff further recommend that the option to change rate plans be offered on a one-time basis only, and that further changes cannot be made unless a change in business or use occurs at the location. This will avoid constant changes based on usage and will save staff time as a result. Exceptions may be granted at the discretion of the City's Finance Director. By way of process, if the City Council adopts the resolution this evening affected businesses will be notified of the optional rate plan and be given sixty days to opt-in if they determine the optional rates are beneficial. Once the sixty days expires, only those businesses that change ownership or use (subject to Community Development approval) will be able to change rate plans.

The Subcommittee also approved issuing credit back to the January 2010 billing to any business exercising the option to change rates. We estimate that total to be \$15,000. Only businesses exercising the option and locking in the new rate plan within the sixty day period will qualify for such credit.

If this rate plan is approved, staff anticipates issuing notification to the affected utility customers by the middle of August, with all requested changes due by the end of October.

Attachment: Resolution No. 6270

RESOLUTION NO. 6270

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
MANHATTAN BEACH, CALIFORNIA, APPROVING AN OPTIONAL
WATER RATE SCHEDULE FOR COMMERCIAL ACCOUNTS WITH 1"
OR SMALLER WATER METERS

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MANHATTAN BEACH,
CALIFORNIA, HEREBY RESOLVES AS FOLLOWS:

SECTION 1. The City Council of the City of Manhattan Beach hereby
makes the following findings:

- (a). the City of Manhattan Beach operates its own water and wastewater utilities;
- (b). Effective with utility bills issued on or after January 1, 2010, new water and wastewater rates were implemented in order to promote water conservation as well as generate revenues sufficient to provide for proper operation and maintenance of these utilities;
- (c). those new charges provided for tiered, consumption-based water rates for customers with water meters of 1" or smaller size, which are generally residential customers, while larger meter sizes (1-1/2" and larger), generally used by commercial accounts, received a flat rate for consumption;
- (d). the flat rate charges for commercial accounts with meters of 1-1/2" and larger were implemented in recognition of the inelastic nature of consumption by businesses;
- (e). there are a number of commercial accounts operating within facilities with 5/8", 3/4" and 1" (residential) sized water meters that, under the new rates effective January 1, 2010, are being charged on a tiered basis causing higher water bills for commercial accounts than would be generated under the flat rates for commercial accounts with 1-1/2" sized water meters;
- (f). It is the City Council's desire to provide for equitable water consumption rates for all accounts based on classification and usage;
- (g). the Manhattan Beach City Council has determined that it is appropriate to provide an optional water rate schedule for commercial accounts utilizing 1" or smaller water meters that equates to those rates charged to other commercial accounts with 1-1/2" water meters;
- (h). the provision of this optional rate schedule is exempt from the requirements of the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines 15061 (b)(3) in that it can be seen with certainty that they do not have the potential for causing a significant effect on the environment;

SECTION 2. Commercial accounts with water meters of 5/8", 3/4" and 1" are hereby provided with a one-time option of selecting the alternative (1-1/2" meter size) rate schedule herein. Eligible customers are to be notified via U.S. Postal Service of the availability of the alternative rate schedule, and must select the alternative rate schedule within sixty (60) days of the date of notification. Any further changes will be permitted only upon the transfer of the utility account to a new customer, or a change in facility use that is subject to approval by the City Community Development department. The Finance Director shall have the discretion to waive the one-time requirement.

SECTION 3. All rates remain subject to the five year service charge rate increase schedules identified in Resolution No. 6225 adopted on October 20, 2009, which is incorporated herein by this reference.

SECTION 4. If an eligible commercial account selects the optional rate within the timeframe listed in Section 2, the City Council hereby authorizes the application of the new rate to the affected customer's utility bills retroactively to the bills issued on or after January 1, 2010. The City Council authorizes the issuance of account credit for the difference between the original utility bills and the revised utility bills. Any authorized changes in rate plans subsequent to the date established in Section 2 will not be eligible for account credit.

SECTION 5. If any subsection, sentence, clause, phrase or word of this Resolution is for any reason held to be invalid by a court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of the Resolution. The City Council hereby declares that it would have passed and adopted this Resolution and each and all of the provisions thereof irrespective of the fact that any one or more of said provisions may be declared invalid.

SECTION 6. The City Clerk shall certify to the passage and adoption of this resolution; shall cause the same to be entered among the original resolutions of said City; and shall make a minute of the passage and adoption thereof in the records of the proceedings of the City Council of said City in the minutes of the meeting at which the same is passed and adopted.

PASSED, APPROVED and ADOPTED this 3rd day of August, 2010.

AYES:
NOES:
ABSENT:
ABSTAIN:

Mayor, City of Manhattan Beach, California

ATTEST:

City Clerk

APPROVED AS TO FORM:

By 

City Attorney