



Council Meeting: December 9, 2008

SUBJECT: Adoption of Proposed Mid-Year Changes to the Fiscal Year 2008/2009 Water Rates to Reflect Mobile Homes as a Separate Customer Classification

REPORT IN BRIEF

On October 7, 2008, Council directed staff (RTC 08-297) to move forward with changes to the City's mobile home water rate structure to treat them as a separate customer group with charges that reflect their demand on the system and are consistent with State requirements for sub-metering and related billing. This report presents an analysis of the current water utility rates, and the proposed changes to the structure of the rates to reflect Council direction.

The attached Schedule of Water Utility Service Rates reflects this change. Monthly costs associated with water service will not change as a result of this action for the current year. This change does allow for mobile home parks to individually meter units and charge a corresponding individual meter charge.

Staff recommends Council adopt the attached resolution, creating a new rate customer classification of Mobile Home User. The new classification will become effective upon adoption of the attached Utility Rate Resolution and begin appearing on utility bills immediately.

BACKGROUND

On July 15, 2008, Council adopted changes to the City's residential metering policy. As part of that action, Council directed that staff return with recommended rates for mobile home parks that treat them as a separate customer group, with charges that reflect their demand on the system and are consistent with State requirements for sub-metering and related billing.

Staff completed a study with help from a utility rate consultant. The study recommended that the City break out mobile homes as a separate group with the same rate structure as the current Apartment customer classification combined with meter charges consistent with the City's current meter charge schedule.

On October 7, 2008 Council directed staff to move forward with the recommended changes. A Proposition 218 utility rate notice was mailed to all mobile home customers in Sunnyvale the week of October 27, 2008 announcing the public hearing.

EXISTING POLICY

Sunnyvale Municipal Code section 12.24.010 authorizes the City Council to establish by resolution fees and charges based on cost influencing factors.

Policy 7.11.1a.5 of the General Plan's Fiscal Sub-Element states "The users fees established for each utility will be reviewed annually and set at a level that will support the total costs of the utility, including direct and indirect costs and contributions to reserves set by Council policy."

DISCUSSION

In its existing schedule of water rates, the city makes distinctions in different customer classes. Customers are placed into groups based upon their use of and demand on the City's water system. Currently, the water rate schedule has six distinct customer classifications: Apartment, Residential, Commercial, Institutional, Landscape, and Fire. Mobile homes are currently contained within the Apartment customer classification. This is because the water demand characteristics of mobile homes are similar to apartments. This is true in three key ways; they are master metered, they have a fairly flat demand pattern over the year, and their average usage per unit is similar to apartments.

Overall, the city's water rates are designed to achieve revenue sufficiency, but also send pricing signals to customers to encourage water conservation. There is a fixed and variable component to the rate structure. The variable (or volume based) rates are used to encourage conservation. This is by means of an inclining block tier structure which increases the unit cost of water as customers reach higher "tiers" of consumption.

The general cost of service justification for an inclining block rate structure is based on the fact that customers using more than average amounts of water require the City to provide a larger capacity system, acquire more supply, and use more energy in order to meet the higher peak demands of these customers. Therefore, those higher costs are loaded onto those users through higher per unit costs at higher usage rates.

The first tier for single family residential customers is set at a level that estimates basic indoor usage. For example, the single family home structure

allows for zero to six units of water (one unit is equal to 100 cubic feet or 748 gallons) at the first tier. This is approximately half of the average usage for single family homes in Sunnyvale. Beyond the first tier, customers are charged at a higher rate.

The tier breakpoints are determined by usage characteristics of a particular customer group and are a key point of discussion when developing inclining block rates. In the case of apartments and mobile homes, the first tier breaks at four units per month. For single family units, the first tier breaks at six units per month. This is reflective of the smaller lot sizes and lower average use characteristics of apartment and mobile homes compared to single family units.

The inclining block rates are coupled with a meter charge for each meter, with charges based on size. The intent of the meter charge is to capture the fixed monthly cost of service to each connection, plus the cost of sizing the water system capacity to meet the customer's potential demand on the water system, which is measured by meter size. In the case of master metered complexes, several large meters may service the property with corresponding meter charges. In the case of individually metered homes, each user receives an individual meter charge.

Staff recommends that the city handle mobile homes in two separate ways, as master metered mobile homes, and individually metered mobile homes. For master metered mobile homes, the City should continue to treat them the same as master metered apartments. This consists of a fixed monthly fee based on the size of the meter, and volume based charges that break at the same tiers as apartments. For individually metered mobile homes these customers would be charged using the same volume based rates and tiers currently used for apartments, and would pay a meter charge based on the size of each individual meter. These charges are recommended to be the same as the current apartment charges because review of use data confirmed that the usage per unit for mobile homes is most similar to that of apartment customers.

Effect on Mobile Home Park Management and Residents

While making this initial change in structure will not immediately change how mobile home customers are charged, or change the amount they are charged, there are several potential future impacts on park management and residents.

First, to address water conservation concerns, several mobile home parks in the City have expressed interest in sub-metering their properties. The Santa Clara Valley Water District, which has a policy and financial interest in encouraging conservation, has offered to pay approximately 63% of the initial capital cost of sub-metering the parks, with the park picking up the remaining

costs. In order to pay the debt from the investment in sub-metering, mobile home parks would like the option to charge a fixed service charge plus a commodity charge, much like the City charges its single family homes.

Under the California Public Utilities Code, mobile home parks must charge the same rates to their residents as would be charged to the park by the water utility if it were billing the units directly. Currently, all mobile home parks in Sunnyvale are billed through a master meter (or meters) at the public right of way. They then pass their costs on to their customers. The City does not currently directly bill any mobile home residents, nor does it have a rate to do so. This makes it less clear to mobile home park management as to what they may or may not pass on to their customers after they install sub-meters. Changing the City's water rates to treat mobile homes as a separate customer group allows for clarity in what parks may pass on to their residents.

It should be noted that if a park chooses to sub-meter, the cost of the meter service charge may result in an overall increase in cost to each individual water bill in the park. For example, a master metered mobile home park with a six inch meter and 188 units would pay a monthly meter service charge of approximately \$92, which would then be split amongst the 188 units, at about \$0.50 per unit. As individually metered customers, they would each pay approximately \$4.74 per meter. One mobile home park management company has communicated to staff that there would be no net impact on residents from sub-metering outside of each individual paying for what they actually use, as the space rent would be reduced by the amount charged for the meter.

The second potential impact of this change in classification structure is that it allows the City to evaluate mobile homes as a separate customer group. This could result in charges for mobile homes that diverge from other groups in the future should a future cost of service analysis find that the cost burden of either mobile homes or other customer groups on the system has changed from its current status.

Both of these impacts have the benefit of the City more accurately capturing the costs, and therefore recovering adequate revenue. Additionally, as the City plans for future water demand, staff has made assumptions about how much conservation is likely to occur over time. This small change to pricing will help the city maintain reliable supply, and encourage water conservation for this customer group, and meet our long term supply needs.

Staff is recommending adoption of the attached resolution adjusting water rates to reflect the proposed change in customer classification structure.

FISCAL IMPACT

As the staff recommendation simply separates mobile homes as a new customer group, there is no fiscal impact to the Water Supply and Distribution Fund with adopting new rates. Revenue to the Water Supply and Distribution Fund from mobile home parks in FY 2007/2008 was approximately \$638,000. This accounted for 2.6% of total revenue to the fund.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, in the Council Chambers lobby, in the Office of the City Clerk, at the Library, Senior Center, Community Center and Department of Public Safety; posting the agenda and report on the City's Web site; and making the report available at the Library and the Office of the City Clerk.

A notice complying with Proposition 218 announcing the date of the Utility Rate Hearing and including details of the proposed changes was sent directly to mobile home residents and park management.

ALTERNATIVES

1. Adopt the attached resolution changing water rates for FY 2008/2009 to establish mobile homes as a separate customer classification.
2. Do not adopt the attached resolution.
3. Continue the hearing to a future date to consider an alternative, which may require additional Proposition 218 noticing.

RECOMMENDATION

Staff recommends Alternative 1, adopt the attached resolution changing water rates for FY 2008/2009 to establish mobile homes as a separate customer classification. Taking this action is consistent with the City's policy on water rate setting and will help the City encourage conservation and maintain its long term water supply.

Reviewed by:

Mary J. Bradley Director of Finance

Prepared by: Timothy J. Kirby, Revenue Systems Supervisor

Approved by:

Gary M. Luebbers

City Manager

Attachments

A. Proposed Resolution

RESOLUTION NO. _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SUNNYVALE ESTABLISHING RATES AND CHARGES FOR WATER SERVICE FOR FISCAL YEAR 2008/2009 AND REPEALING ALL RESOLUTIONS OR PORTIONS THEREOF INCONSISTENT HEREWITH

WHEREAS, the City Council is empowered to impose reasonable rates and charges for municipal services;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SUNNYVALE that:

SECTION 1. WATER SERVICES WITHIN CITY LIMITS (Sunnyvale Municipal Code Chapters 12.16 and 12.24.) Water service sold to consumers within the corporate limits of the City of Sunnyvale shall be sold at the rates specified in the spreadsheet attached hereto as EXHIBIT A.

SECTION 2. EFFECTIVE DATES. This resolution shall be effective upon adoption and all rates will become effective upon adoption by the City Council.

SECTION 3. ENVIRONMENTAL FINDINGS. The City Council finds that adoption of this resolution is exempt from the requirements of the California Environmental Quality Act pursuant to Public Resources Code Section 21080(b)(8) and further advises that the modifications of the rates contained herein are for the purposes of (1) meeting operating expenses, including employee wage rates and fringe benefits; (2) purchasing or leasing supplies, equipment or materials; (3) meeting financial reserve needs and requirements; (4) obtaining funds for capital projects necessary to maintain current service levels; and (5) obtaining funds necessary to maintain intra-city transfers.

Adopted by the City Council at a regular meeting held on _____, 2008, by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

ATTEST:

APPROVED:

City Clerk

Mayor

(SEAL)

APPROVED AS TO FORM AND LEGALITY:

David E. Kahn, City Attorney

**DRAFT SCHEDULE OF WATER UTILITY SERVICE RATES
FISCAL YEAR 2008/2009**

WATER RATES – Within City Limits

All potable water users billed monthly and bi-monthly, except landscape, agricultural and institutional users, shall pay a water charge for each one hundred (100) cubic feet, or part thereof, of water as follows:

Apartment Users¹ (Per Hundred Cubic Feet)	Billed Monthly	Billed Bi-Monthly	Rate
	0 – 4 CCF	0 – 8 CCF	\$ 1.4200
	5 – 23 CCF	9 – 46 CCF	\$ 2.7502
	24 – 35 CCF	47 – 70 CCF	\$ 2.9293
	36+ CCF	71+ CCF	\$ 3.0175

Mobile Home Users¹ (Per Hundred Cubic Feet)	Billed Monthly	Billed Bi-Monthly	Rate
	0 – 4 CCF	0 – 8 CCF	\$ 1.4200
	5 – 23 CCF	9 – 46 CCF	\$ 2.7502
	24 – 35 CCF	47 – 70 CCF	\$ 2.9293
	36+ CCF	71+ CCF	\$ 3.0175

Residential Users (other than Apartments) (Per Hundred Cubic Feet)	Billed Monthly	Billed Bi-Monthly	Rate
	0 – 6 CCF	0 – 12 CCF	\$ 1.4200
	7 – 33 CCF	13 – 66 CCF	\$ 2.7502
	34 – 50 CCF	67 – 100 CCF	\$ 2.9293
	51 + CCF	101 + CCF	\$ 3.0175

¹In residential developments where two (2) or more dwelling units are served by a common meter, the upper limit (in cubic feet) of each rate block shall be multiplied by the dwelling units served by the common meter in calculating the rates to be applied to water usage monitored by the common meter. In such case, the lower limit of each rate block shall be one (1) cubic foot over the upper limit of the next lower rate block.

Commercial, Industrial, Fire Line, and New Construction Users (Per Hundred Cubic Feet)	Billed Monthly	Billed Bi-Monthly	Rate
	0 – 6 CCF	0 – 12 CCF	\$ 1.4200
	7 – 20 CCF	13 – 40 CCF	\$ 2.7502
	21 – 50 CCF	41 – 100 CCF	\$ 2.9293
	51 – 500 CCF	101 – 1000 CCF	\$ 3.0175
	501 – 1250 CCF	1001 – 2500 CCF	\$ 3.0958
	1251 – 2500 CCF	2501 – 5000 CCF	\$ 3.1799
	2501+ CCF	5001+ CCF	\$ 3.2547

Landscape, Agricultural, Institutional and Recycled Water Users (Per Hundred Cubic Feet)	Rate
Landscape Users	\$ 2.9889
Agricultural and Institutional Users	\$ 1.4200
Recycled Water – Landscape Users	\$ 2.6919
Recycled Water – Agricultural and Institutional Users	\$ 1.2780

WATER SERVICE FEES (by meter size)

In addition to water use as noted above, all users who are billed monthly and bi-monthly shall pay service charges based on meter size as follows:

Meter Size	Monthly Rate	Bi-Monthly Rate
5/8" x 3/4"	\$ 4.74	\$ 9.48
3/4"	\$ 5.41	\$ 10.82
1"	\$ 9.00	\$ 18.00
1-1/2"	\$ 14.23	\$ 28.46
2"	\$ 23.57	\$ 47.14
3"	\$ 42.38	\$ 84.76
4"	\$ 54.23	\$ 108.46
6"	\$ 91.52	\$ 183.04
8"	\$ 179.64	\$ 359.28
10"	\$ 233.88	\$ 467.76
12"	\$ 303.37	\$ 606.74