



Beverly Hills City Council Liaison / Public Works Commission Committee will conduct a Special Meeting, at the following time and place, and will address the agenda listed below:

**CITY HALL
455 North Rexford Drive
4th Floor Conference Room A
Beverly Hills, CA 90210**

**Monday, July 31, 2017
10:30 a.m.**

AGENDA

- 1) Public Comment
 - a. Members of the public will be given the opportunity to directly address the Committee on any item listed on the agenda.
- 2) Discussion on Water & Wastewater Rates Noticing
- 3) Commission Request on Public Works Project Review
- 4) Adjournment

A handwritten signature in black ink, appearing to read "Byron Pope", written over a horizontal line.

Byron Pope, City Clerk

Posted: July 27, 2017

A DETAILED LIAISON AGENDA PACKET IS AVAILABLE FOR REVIEW IN THE LIBRARY AND CITY CLERK'S OFFICE.



In accordance with the Americans with Disabilities Act, Conference Room A is wheelchair accessible. If you need special assistance to attend this meeting, please call the City Manager's Office at (310) 285-1014 or TTY (310) 285-6881. Please notify the City Manager's Office at least twenty-four (24) hours prior to the meeting if you require captioning service so that reasonable arrangements can be made.

Attachment 1



CITY OF BEVERLY HILLS
PUBLIC WORKS SERVICES

MEMORANDUM

TO: Public Works Liaison

FROM: Shana Epstein, Public Works Director
Trish Rhay, Assistant Director of Public Works Services, Infrastructure
& Field Operations
Caitlin Sims, Senior Management Analyst

DATE: July 31, 2017

SUBJECT: Water & Wastewater Rates

ATTACHMENTS: 1. July 24, 2017 Water & Wastewater Rates Public Works
Commission Report

Staff presented the attached report to the Public Works Commission at its July 24, 2017, meeting. After significant discussion, by a 4-1 vote, the Commission recommended the City Council notice for five year rates not-to-exceed those identified in alternative 2 though the Commission also suggests looking closely at scenario 3c; recommend the City Council authorize allowable pass through charges; recommend the City Council adopt no rate increase for the Wastewater fund at this time; and recommend that the City Council proceed with the cost of service analysis and development of a water reliability unit charge that is tied to the Water Enterprise Plan.

Staff seeks direction from the Liaison regarding the Commission's recommendation and next steps.



CITY OF BEVERLY HILLS
PUBLIC WORKS SERVICES DEPARTMENT
MEMORANDUM

TO: Public Works Commission

FROM: Shana Epstein, Public Works Director
Trish Rhay, Assistant Director of Public Works Services, Infrastructure & Field Operations
Caitlin Sims, Senior Management Analyst

DATE: July 24, 2017

SUBJECT: Water & Wastewater Rates

ATTACHMENT: None

RECOMMENDATIONS

Staff recommends the Public Works Commission:

- 1) Recommend the City Council notice for rates not-to-exceed those identified in the 5-year Water Rate Proposal Scenario #2 as detailed in this report;
- 2) Recommend the City Council authorize pass-through charges for increase in wholesale charges for water, sewage treatment, or wastewater treatment (i.e. Metropolitan Water District, City of Los Angeles Bureau of Sanitation);
- 3) Recommend the City Council adopt no rate increase for the Wastewater fund at this time;
- 4) Recommend the City Council proceed with Cost of Service analysis and development of a water reliability unit charge and request staff to and return to the Public Works Commission and the City Council for consideration of this change in spring and summer 2018, as detailed in this report.

BACKGROUND

At the May 9, 2017, Public Works Liaison Committee Meeting, staff discussed the proposed water rate implementation schedule. Based on the presented schedule, the Liaison Committee recommended that staff move forward with a water rate adjustment as soon as possible in order to address the immediate revenue needs of the Water Fund. The Liaison also recommended that the costs of implementing the Water Enterprise Plan (WEP) be removed from the analysis. At that meeting, staff recommended that the costs of implementing the WEP be incorporated into a new water reliability per unit charge that would be presented to the Public Works Commission and City Council at a later date with a revised Cost of Service study.

With that direction, staff has developed a revised implementation plan in order to update the water model and bring new proposed rates forward as quickly as possible. The revised implementation plan includes a two-phase process:

1. Rate Adjustment to Address Five-Year Water & Wastewater Revenue Requirements; and
2. WEP Unit Capital Charge and Cost of Service Study.

The intent of this implementation plan is to move forward with a rate adjustment as quickly as possible while also effectively communicating the revenue needs for water reliability and independence investment decisions of the City Council, especially those related to specific capital improvement programs. Staff is presenting the rate adjustment to address the five-year revenue requirements at this time and anticipates that these rates will be presented to the City Council for its consideration to initiate the Proposition 218-required public noticing process at the August 15, 2017, City Council Study Session, with a public hearing on November 7, 2017, and rates to be effective on January 1, 2018. The Cost of Service analysis for the WEP and associated service charge would be presented in late spring and early summer 2018, for implementation in November 2018.

Staff and the City's financial consultants have reviewed and revised the water rates model developed over the last year. Cost assumptions and funding policies, such as new WEP cost estimates and capital funding policies, were reviewed and revised to better represent current cost projections and expenditures. Three expenditure options were then evaluated to determine the five-year revenue requirement to support each option: (1) the revenue requirement to operate the water utility without producing any water; (2) the revenue requirement to operate the water utility and produce water at the six existing wells; and (3) the revenue requirement to operate the water utility and produce water at the six existing wells and increase water production in the La Brea Sub-Basin. Additionally, within these options, alternative funding sources were considered, such as General Fund contributions and bond issuances.

DISCUSSION

Water Rates

Phase 1 - Revenue Requirement

This phase presents the 5-year base revenue requirement for the water rate package for Commission review. Staff evaluated base operating and capital program revenue requirements for the Water and Wastewater Enterprise Funds. Initial cost estimates were also added for the newly identified Hollywood Basin rehabilitation needs. Based on Liaison direction, this phase does not include future investments needed to implement the WEP. One scenario was developed that evaluated the cost of the WEP with different levels of General Fund contributions as reference for future discussions.

The first step in the rate analysis for the Water Enterprise was to evaluate the City's anticipated expenses and revenues over the next five years. These expenses include the following:

- The cost of purchasing water from the Metropolitan Water District ("MWD");
- The fixed costs of operating the water system, including distribution lines, staff needed to operate and maintain the water system, materials and supplies (which may decrease as water purchases decrease but only minimally) and debt service payments; and
- Budgeted capital projects such as water main and hydrant replacements, water meter replacements, water treatment plant maintenance, and reservoir replacement.

All base financial assumptions were also evaluated. For example, the current practice within the rate model is to fund all capital projects for 100% accomplishment of all expenditures forecasted in each year. However, analysis of actual performance found that the accomplishment rate was less. This finding is common across capital programs in most utility

organizations. Dynamic processes such as internal review, contracting requirements and contractor performance often change throughout development, design and construction. Many organizations have adjusted their funding strategy to ensure rates are not set higher than needed to meet actual expenditures. Staff and our consultants have adjusted the rate model to fund an 80% capital project accomplishment rate. In the future, the City will still need to collect the remaining 20% of funds through future rate setting processes.

Recently, the performance of the Hollywood Basin wells has declined. As the Commission is aware, changes in our Hollywood Basin well water quality will require additional treatment and well rehabilitation. The planning level cost for this work is \$14 million. This cost estimate is incorporated into Scenario 2.

Staff also developed a Scenario 3 that included the anticipated cost of the Water Enterprise Plan with no contribution from the General Fund, a \$10 million from the General Fund, and an \$18 million contribution from the General Fund. The cost estimate for the Hollywood Basin wells is also included in Scenario 3.

Three scenarios and their associated proposed rate adjustments were developed for the Commission's consideration:

- 1) Step-Back: Necessary rate adjustments to fulfill the base operating and capital revenue requirements if the City were to purchase all of its water from MWD and not pump or treat any groundwater.
- 2) Base: Necessary rate adjustments to fulfill the revenue requirement if the City were to continue to pump from the Hollywood Basin and treat water at the existing Water Treatment Plant. The estimated \$14 million needed to address the issues at the existing wells is included in this scenario. The base costs do not include the cost of purchasing the former Coffee Bean and Tea Leaf property on La Cienega Boulevard in Los Angeles.
- 3) Water Enterprise Plan Enhancements: Necessary rate adjustments to fulfill the revenue requirement if the City were to continue to pump from the Hollywood Basin and were to implement the WEP and expand pumping into the Central Basin. This scenario includes the estimated \$14 million to rehabilitate the Hollywood Basin wells and the current estimated WEP costs. These scenarios also incorporate the rate adjustment impacts of additional General Fund contributions and modified bond issuances. The base costs do not include the cost of purchasing the former Coffee Bean and Tea Leaf property on La Cienega Boulevard in Los Angeles.

Scenario	Key Cost Assumptions	Additional GF Contribution	Total Bond Issuance	Rate Adjustments				
				1/1/2018	1/1/2019	1/1/2020	1/1/2021	1/1/2022
1	Step-Back	\$0	\$0	1.0%	1.0%	1.0%	1.0%	1.0%
2	Base	\$0	\$0	3.0%	2.0%	2.0%	2.0%	2.0%
3a	WEP Enhancements	\$0	\$20,000,000	10.0%	10.0%	2.0%	2.0%	2.0%
3b	WEP Enhancements	\$10,000,000	\$20,000,000	9.0%	3.0%	3.0%	3.0%	3.0%
3c	WEP Enhancements	\$18,000,000	\$20,000,000	3.0%	3.0%	3.0%	3.0%	3.0%

[1] All scenarios assume 80% of CIP budget for rate setting purposes

[2] All scenarios assume contribution from General Fund assumed to be made during 2017

[3] All scenarios assume bond to be issued during FY 2019/20

Based on the direction from the Public Works Liaison to remove the WEP from the current analysis, staff recommends that the Commission recommend Scenario 2 at this time. As indicated above, the analysis shows that a 3% rate increase would be needed beginning on January 1, 2018, followed by 2% rate increases in 2019, 2020, 2021, and 2022, to support both our base capital and operating expenses and the \$14 million for the Hollywood rehabilitation project. Continuing rate increases would be needed in years 6 through 10 to maintain the base revenue requirements for Scenario 2.

The net revenue requirement increases for Scenario 2 are shown below:

	Budgeted		Projected			
	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Net Revenue Requirement	\$30,158,066	\$38,071,853	\$39,323,036	\$34,882,367	\$35,551,007	\$36,582,405

Wastewater Rates

The same analysis was completed for the Wastewater Enterprise. Expenses include the following:

- Forecasted payments to City of Los Angeles Bureau of Sanitation for wastewater treatment and capital improvement investments to the Hyperion Treatment Facility;
- Costs for maintaining, operating and rehabilitating the City's collection system.

Analysis shows that the Wastewater Enterprise does not require any rate increase for the next 5 years. The current revenue streams are sufficient to support all projected expenditures.

Estimated Bill Impacts

Based on the rate proposal for Scenario 2 and the proposed wastewater rates, below are customer impacts for single-family residential, multi-family residential, and commercial customers.

Single-Family Residential Customer

Usage	Water				Wastewater		Total (Water + Wastewater)	
	Current		Proposed		Current	Proposed	Current	Proposed
	Service	Volumetric	Service	Volumetric				
10 HCF	\$43.36*	\$39.00	\$44.66*	\$40.17	\$87.38	\$87.38	\$169.74	\$172.21
55 HCF	\$43.36*	\$270.75	\$44.66*	\$278.87	\$87.38	\$87.38	\$401.49	\$410.91
120 HCF	\$75.16**	\$798.55	\$77.41**	\$822.51	\$87.38	\$87.38	\$961.09	\$987.30
150 HCF	\$75.16**	\$1,268.95	\$77.41**	\$1,307.02	\$87.38	\$87.38	\$1,431.49	\$1,471.81

*Assumes 1" Meter

**Assumes 1 1/2" Meter

Multi-Family Residential Customer (5 Unit Complex)

Usage	Water				Wastewater		Total (Water + Wastewater)	
	Current		Proposed		Current	Proposed	Current	Proposed
	Service	Volumetric	Service	Volumetric				
4 HCF/Unit	\$43.36*	\$78.00	\$44.66*	\$80.34	\$436.90	\$436.90	\$558.26	\$561.90
9 HCF/Unit	\$43.36*	\$206.75	\$44.66*	\$212.95	\$436.90	\$436.90	\$687.01	\$694.51
16 HCF/Unit	\$75.16**	\$490.95	\$77.41**	\$505.68	\$436.90	\$436.90	\$1,003.01	\$1,019.99
21 HCF/Unit	\$75.16**	\$882.95	\$77.41	\$909.44	\$436.90	\$436.90	\$1,395.01	\$1,423.75

*Assumes 1" Meter

**Assumes 1 1/2" Meter

Commercial Customer

Usage	Water				Wastewater		Total (Water + Wastewater)	
	Current		Proposed		Current	Proposed	Current	Proposed
	Service	Volumetric	Service	Volumetric				
25 HCF	\$43.36*	\$166.50	\$44.66*	\$171.50	\$211.20	\$211.20	\$421.06	\$427.36
90 HCF	\$43.36*	\$599.40	\$44.66*	\$617.38	\$671.40	\$671.40	\$1,314.16	\$1,333.44

*Assumes 1" Meter

Government Code Section 53736 allows an agency that provides water, wastewater, or sewer service to adopt a schedule of fees or charges authorizing automatic adjustments that pass through increases in wholesale charges for water, sewage treatment, or wastewater treatment. Customers must be notified not less than thirty (30) days prior to the effective date of the adjustment. For Beverly Hills, these charges would be levied by MWD and the City of Los Angeles Bureau of Sanitation. Staff is recommending that the Commission recommend the City Council include language authorizing the City to pass-through the allowable charges.

Phase 2 – Cost of Service Study with WEP

The WEP will be one of the largest water investments the City of Beverly Hills has undertaken since the establishment of the original water utility. Expansion of our local water supply brings many benefits to the City’s water supply future, including drought resiliency and supply independence. However, it is important to weigh these benefits against the costs. Completion of the Preliminary Design Report is the ideal time to complete this evaluation.

Phase 2 would include two elements: completion of a Cost of Service study for the Water Enterprise Fund to ensure that each customer is paying the appropriate amount for his/her water and development of a capital charge for WEP implementation. This study would include review of the base model assumptions, including the updated WEP costs and schedule based on completed Preliminary Design Report and the customer class allocations.

At this time, staff anticipates that the cost of service study and the water reliability unit charge will be presented to the Public Works Commission in April or May 2018, for a public hearing to be held in September 2018, with the rates effective in November 2018.

NEXT STEPS

Should the Commission accept the staff recommendation to recommend the City Council direct staff to issue the public hearing notice not-to-exceed those identified in Scenario 2, staff will present to the Public Works Liaison at the end of July and present at the City Council Study

Session on August 15, 2017. At the August 15, 2017, Study Session, staff is seeking direction from the City Council to issue the public hearing notice for rates not-to-exceed those presented. Staff is also developing a robust public outreach process that will include a rates calculator through which customers can calculate their estimated future rates, meetings with community organizations and homeowners groups, social media posts, and a town hall meeting. The anticipated schedule is found below:

Presentation/Discussion at Public Works Commission	July 24, 2017
Presentation to City Council (with notice)	August 8, 2017
Public Notice Distributed	September 22, 2017
Community Outreach <ul style="list-style-type: none"> • Town Hall Meeting • Community Meetings • Chamber of Commerce • Social Media (Facebook, Twitter) • Newsletter • Newspaper 	September/October 2017
Water Rate Consideration at Public Works Commission	October 12, 2017
Public Hearing (1 st Reading)	November 7, 2017
Public Hearing (2 nd reading)	November 21, 2017
Rates Effective	January 1, 2018

Attachment 2



CITY OF BEVERLY HILLS
PUBLIC WORKS SERVICES

MEMORANDUM

TO: Public Works Liaison
FROM: Shana Epstein, Public Works Director
DATE: July 31, 2017
SUBJECT: Commission Role
ATTACHMENTS: None

At its meeting on July 24, 2017, the Public Works Commission requested a discussion on its role with the Public Works Liaison.

The Beverly Hills Municipal Code (Section 2-2-1102) reads as follows:

The public works commission shall perform the following functions:

- A. Act as an advisory body to the city council on matters which relate to public works facilities, infrastructure and programs.
- B. Advise and make recommendations to the director of public services or other staff on the planning, evaluation and delivery of public works systems and programs. Such public works systems may include the city's water, wastewater, storm drain, street lighting, refuse management and other infrastructure systems. Traffic engineering associated with street and signalization systems shall be within the jurisdiction of the traffic and parking commission. The public works commission also shall act in an advisory capacity concerning public outreach programs relating to the above systems, including, but not limited to, water conservation, refuse recycling, graffiti removal, and other such programs.
- C. Provide recommendations on proposed utility rate structure changes.
- D. Advise the city council and staff regarding capital improvement program budgetary items relating to public works improvements.
- E. Assist in communicating with the community concerning public works programs.
- F. Perform such other duties relating to public works matters as may be referred to it by the city council, the director of public services, or their representatives. (Ord. 90-O-2099, eff. 9-13-1990; amd. Ord. 09-O-2576, eff. 1-15-2010)