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 OF BEVERLY HILLS
455 N. Rexford Drive
Municipal Gallery
Beverly Hills, CA 90210

IN-PERSON / TELEPHONIC / VIDEO CONFERENCE MEETING

Beverly Hills Liaison Meeting
https://beverlyhills-org.zoom.us/my/bhliaison
Meeting ID: 312 522 4461
Passcode: 90210

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+16699009128,,3125224461#,,,,*90210# US
+18887880099,,3125224461#,,,,*90210# Toll-Free

Thursday, September 29, 2022
10:00 AM

Please be advised that pre-entry metal detector screening requirements are now in place in City Hall. Members of the public are requested to plan visits accordingly.

In the interest of maintaining appropriate social distancing, members of the public can view this meeting through live webcast at www.beverlyhills.org/live and on BH Channel 10 or Channel 35 on Spectrum Cable, and can participate in the teleconference/video conference by using the link above. Written comments may be emailed to mayorandcitycouncil@beverlyhills.org and will also be taken during the meeting when the topic is being reviewed by the Beverly Hills City Council Liaison / Public Works Commission Committee. Beverly Hills Liaison meetings will be in-person at City Hall.

AGENDA

1) Public Comment
   a) Members of the public will be given the opportunity to directly address the Committee on any item not listed on the agenda.

2) Status Update for the Water and Wastewater Cost of Service Study

3) Adjournment

Huma Ahmed
Huma Ahmed
City Clerk

Posted: September 23, 2022

A DETAILED LIAISON AGENDA PACKET IS AVAILABLE FOR REVIEW AT WWW.BEVERLYHILLS.ORG

Pursuant to the Americans with Disabilities Act, the City of Beverly Hills will make reasonable efforts to accommodate persons with disabilities. If you require special assistance, please call (310) 285-1014 (voice) or (310) 285-6881 (TTY). Providing at least forty-eight (48) hours advance notice will help to ensure availability of services. City Hall, including the Municipal Gallery, is wheelchair accessible.

CITY OF BEVERLY HILLS

PUBLIC WORKS DEPARTMENT

MEMORANDUM

TO:	Vice Mayor Julian A. Gold, M.D. and Councilmember Sharona Nazarian PsyD
FROM:	Shana Epstein, Director of Public Works Robert Welch, P.E. Utilities General Manager Melissa Gomez, Senior Management Analyst
DATE:	September 29, 2022
SUBJECT:	Status Update for the Water and Wastewater Cost of Service Study
ATTACHMENTS:	1. 9/13/22 Agenda Report- Status Update for the Water and Wastewater Cost of Service Study

RECOMMENDATION

Staff recommends that the City Council Public Works Liaison Committee receive and provide direction on:

1. The proposed policy recommendations, which separate the residential wastewater customers (single-family and multi-family) and add a quantity (volumetric) charge for the single-family and multi-family classes;
2. The proposed sewer return factors based on a three-year average of the lowest month for each year;
3. The proposed change in the commercial wastewater customer classes to include a third class;
4. The proposed water CIP scenario 2 (full scale Cabrillo Reservoir project) recommend by the Public Works Commission;
5. The proposed fixed charge revenue ratio for water;
6. The proposed pass-through charges, outside city differential, water reliability charge, and water shortage revenue stabilization factors; and
7. Recommend that City Council begin the required Proposition 218 public notice process for rates based on the cost of service studies.

DISCUSSION

At the September 13, 2022 Public Works Liaison Committee, staff and consultants introduced the water and wastewater cost of service study. This item is a continuation of that discussion. The September 13, 2022 agenda report is included as reference.

CITY OF BEVERLY HILLS

PUBLIC WORKS DEPARTMENT

MEMORANDUM

TO:	Vice Mayor Julian A. Gold, M.D. and Councilmember Sharona Nazarian PsyD
FROM:	Shana Epstein, Director of Public Works Robert Welch, P.E. Utilities General Manager Melissa Gomez, Senior Management Analyst
DATE:	September 13, 2022
SUBJECT:	Status Update for the Water and Wastewater Cost of Service Study
ATTACHMENTS:	1. State Commercial User Strength Characteristics Table 2. Example Commercial Sewer Strength Classifications

RECOMMENDATION

Staff recommends that the City Council Public Works Liaison Committee receive and provide direction on:

1. The proposed policy recommendations, which separate the residential wastewater customers (single-family and multi-family) and add a quantity (volumetric) charge for the single-family and multi-family classes;
2. The proposed sewer return factors based on a three-year average of the lowest month for each year;
3. The proposed change in the commercial wastewater customer classes to include a third class;
4. The proposed water CIP scenario 2 (full scale Cabrillo Reservoir project) recommend by the Public Works Commission;
5. The proposed fixed charge revenue ratio for water;
6. The proposed pass-through charges, outside city differential, water reliability charge, and water shortage revenue stabilization factors; and
7. Recommend that City Council begin the required Proposition 218 public notice process for rates based on the cost of service studies.

BACKGROUND

The City's Water and Wastewater Utilities provide services to residential and commercial customers. In return, the City collects a charge for the service. Establishing cost-based rates, fees, and charges is essential in a well-managed and operated utility. Cost-based rates provide sufficient funding to allow communities such as Beverly Hills to build, operate, maintain, and reinvest in the water and wastewater systems that provide the community with safe and reliable drinking water, fire protection, and wastewater service. Rates are reviewed periodically to ensure revenue requirements are being met. The City is responsible for setting rates in compliance with California law requiring that fees and charges for water and wastewater services do not exceed the proportional cost of service.

On December 19, 2017, the Beverly Hills City Council adopted a five-year water rate adjustment through January 1, 2022. The ordinance adopted by City Council also allowed pass-through of Metropolitan Water District (MWD) rate increases with notice. On February 5, 2019, the Beverly Hills City Council approved restructured water rate adjustments based on a cost-of-service study conducted by HF&H Consultants, LLC (HF&H). The restructured rate adjustments accounted for changes to the existing consumption and fixed service charges, implemented a water reliability charge, and adopted water shortage revenue stabilization factors. As for wastewater, present rates have not been updated since FY 2009-10. Although at the time, staff recommended automatic consumer price index (CPI) rate increases for future years, the CPI rate increase was never included in the adopted rates. HF&H evaluated the current rates in 2017 and found that revenue was sufficient to continue the enterprise's strong financial position through FY 2021-22, without any need for a rate increase.

DISCUSSION

The City is responsible for setting rates in compliance with California law. In November 1996, voters passed Proposition 218, which enacted Article XIII D of the California Constitution, requiring that fees and charges for water and wastewater services not exceed the proportional cost of service. A local government, such as the City of Beverly Hills, which provides water and wastewater services, may also adopt a schedule of fees or charges authorizing automatic adjustments that pass through increases in wholesale charges for water, sewage treatment, or wastewater treatment or adjustments for inflation. State law requires that a local government comply with certain procedures before imposing or increasing property-related fees or charges. Those procedures include:

- Identify the parcels upon which a fee or charge is proposed for imposition;
- Calculate the amount of the fee proposed to be imposed on each parcel;
- Provide written notice by mail to the record owner of each identified parcel;
- Conduct a public hearing on the proposed fee not less than 45 days after the mailing;
- Consider all protests against the proposed fee or charge submitted before the closing of the public hearing;
- If written protests against the fee are presented by a majority of owners of the identified parcels, the fee cannot be imposed; and
- The proposed rates need a 2/3 majority vote or greater from City Council to pass.

In 2021, the City contracted with HF&H to conduct a cost-of-service study for the water and wastewater enterprises. Similar to past rate cycles, staff met with the Public Works Commission (Commission) Water and Wastewater Rates Ad-Hoc Committee (Ad-Hoc) made up of Vice Chair Wendy Nystrom and Commissioner Joshua Greer on May 23, 2022 and July 12, 2022 seeking input on assumptions and policies affecting the City's water and wastewater rates. Staff also presented to the entire Commission on June 9, 2022, July 21, 2022, August 11, 2022, August 31, 2022, and September 8, 2022 seeking feedback. During the meetings, the Commissioners provided input on assumptions that drive the cost-of-service studies. Areas of discussion for the wastewater enterprise included financial projection assumptions, wastewater capital projects, cost and revenue projections, projected fund balance, and most importantly restructuring wastewater rates and possible alternatives. Areas of discussion for the water enterprise included financial projection assumptions, water purchases, water capital projects, including three options to fund the Cabrillo reservoir project, revenue requirements for each capital improvement projects option, and lastly, service charge policies. Because of the direction received from the Commission, staff would like to present the findings to the Public Works Liaison for further direction.

Wastewater

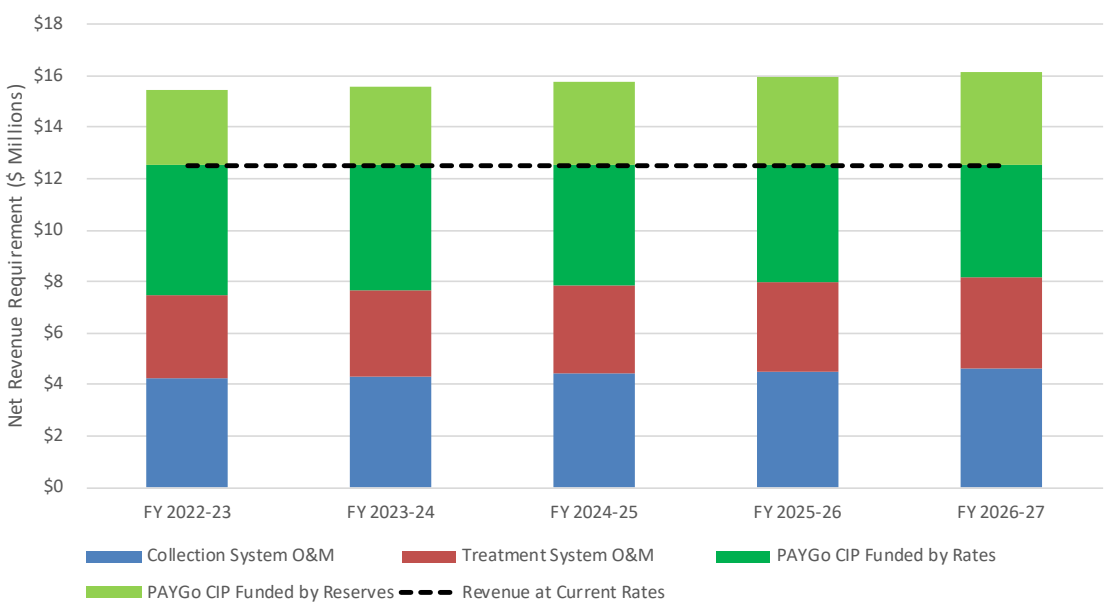
The wastewater cost of service study concluded the following:

1. **Revenue requirement projections**
    - No additional revenue from rates is necessary during the next five-year period.
2. **Cost-of-service analysis**
    - Based on the cost-of-service analysis, single-family customers are contributing less than their share of the cost of service, and all other customer classes are contributing more.
    - The shift in cost from multi-family to single-family is the result of the current cost of service analysis, which takes into account the difference in flow between multi-family and single-family customers.
    - Irrigation is the principal non-sewered water use so water meter readings during the winter season provide the most accurate proxy for sewered residential water use. The winter season flow is used to allocate costs to each customer class and would be used in the calculation of customers' bills if a flow-based component is introduced for residential customers.
    - Installing a wastewater meter is not practical. Wastewater flows for residential customers, in particular, cannot be metered accurately because the flow is typically not pressurized and contains solids and other organic and inorganic constituents that will quickly clog meters.
3. **Rate structure design**
    - Introduce a flow-based quantity charge for residential customers. Currently, low and high single-family and multi-family water users pay the same fixed rate.
    - Many neighboring jurisdictions charge a fixed charge and flow-based quantity charge to their residential customers (e.g., Glendale, San Diego, Santa Monica, and Ventura).
    - Expand the number of commercial customer classes from two (i.e., domestic strength and excess strength) to three (i.e., low, medium, and high strength).
4. **Customer bill impacts**
    - Bill impacts will vary by customer class and actual water use from billing period to billing period.

Five-year Financial Model

HF&H and staff developed a five-year financial projection of operational and maintenance (O&M) and capital costs based on the Council-approved FY 2022-23 budget. As noted in Table 1 below, the average annual expenses amount to $15.8 million. Revenue at current rates amounts to $12.5 million. Therefore, an annual average of $3.3 million of capital expenses will be funded using reserve funds, which have accumulated over the years from sewer rate revenue exceeding expenses. As a result, no additional revenue from rates is necessary during the next five-year period to cover costs and maintain a reasonable reserve fund balance.

Table 1: Revenue Requirements



	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Collection System O&M	$4,238,395	$4,315,594	$4,434,281	$4,527,779	$4,635,228
Treatment System O&M	$3,234,500	$3,331,535	$3,398,166	$3,466,129	$3,535,452
PAYGo CIP Funded by Rates	$5,036,134	$4,861,901	$4,676,583	$4,515,121	$4,338,349
PAYGo CIP Funded by Reserves	$2,920,865	$3,095,098	$3,280,416	$3,441,878	$3,618,649
Total Revenue Requirement	$15,429,894	$15,604,127	$15,789,445	$15,950,907	$16,127,678

Although no additional rate revenue is needed to fund wastewater operations, this cost-of-service study determines if each of the customer classes' rates contributes revenue in proportion to their cost of service. Table 2 below outlines the current revenue collected per customer class and what the cost-of-service study determined to be the actual revenue that should be collected. The shift in cost from multi-family to single-family is the result of the current rate structure, which charges multi-family dwellings the same bi-monthly rate as single-family residents even though the average multi-family dwelling is estimated to discharge 104 gallons per day, while single-family residents are estimated to discharge an average of 354 gallons per day.

Table 2: Cost of Service Allocations

	Current Revenue	Cost-of-Service	Difference
Single Family Residential	$3,187,622	$5,881,504	$2,693,882
Multi Family Residential	$5,304,141	$3,505,726	($1,798,415)
Commercial Domestic Strength	$2,739,728	$2,002,049	($737,680)
Commercial Excess Strength	$1,277,538	$1,119,750	($157,788)
Total	**$12,509,029**	**$12,509,029**	**$0**

Fixed and Quantity Charge Types

Currently, residential customers (single-family and multi-family) are charged only a fixed rate per dwelling unit, which is the same for both classes. Commercial customers pay a fixed rate per account, a flow charge based on actual water use, and some excess strength customers pay an additional water quality surcharge. Commercial customers with higher strength wastewater (e.g., restaurants, grocery stores), which requires greater treatment to meet discharge requirements, are charged a higher flow charge than those customers with average strength wastewater. Due to the disparity between revenues and the cost-of-service for each customer class, HF&H and staff are exploring alternative rate structures to better align revenue from each class with their respective cost of service. Introducing a flow-based quantity charge for residential customers would help address the concern.

The proposed single-family and multi-family bi-monthly fixed service charges (both currently $87.38) would decrease with the introduction of a flow-based quantity charge as noted in Table 3 below. Quantity charges would be based on estimated sewered flow by factoring down each customer's actual water use by a Sewer Return Factor, which reflects the fact that not all water use (e.g., irrigation) returns to the sewer system. Sewer Return Factors were derived for each customer class and are applied to all customers in each class (see Table 4). At the September 8, 2022 Commission meeting, the Commission supported the use of Sewer Return Factors based on a three-year average of the lowest month for each year.

Table 3: Proposed Cost-of-Service Bi-Monthly Rates

Customer Class	Current Bi-Monthly	Cost of Service
Single Family		
Service Charge per dwelling unit	$87.38	$58.16
Quantity Charge	n/a	$3.58
Multi Family		
Service Charge per dwelling unit	$87.38	$27.51
Quantity Charge	n/a	$3.58
Commercial/Municipal		
Service Charge per account	$34.20	$58.16
Quantity Charges (option 1 - existing classes)		
Domestic Strength	$4.74	$3.58
Excess Strength	$7.08	$6.95
Quantity Charges (option 2 - proposed classes)		
Low Strength	n/a	$3.58
Med Strength	n/a	$5.24
High Strength	n/a	$6.95

Table 4: Sewer Return Factors

Customer Class	Annual Flow [1] hcf	Sewered Flow [2] hcf	Return to Sewer
	a	b	c = b/a
Single Family Residential			
Without Irrigation meter	2,017,021	1,049,980	52%
With Irrigation meter			100%
Irrigation meter			0%
Multiple Family Residence	572,457	512,609	90%
Low Strength Non Residential			
Commercial	547,737	455,544	83%
Municipal	41,207	20,523	50%
	588,944	476,067	
High Strength Non Residential			
Commercial	186,436	155,056	83%
Municipal	1,844	918	50%
	188,279	155,974	
	3,366,701	2,194,630	65%

1. Average of CYs 2017, 2018, 2019 annual metered flow
2. Average of lowest month for each year

The proposed Commercial bi-monthly fixed service charge would increase from $34.20 to $58.16. Proposed quantity charges for low strength customers would decrease from $4.74 to $3.58, and for high strength, customers would decrease from $7.08 to $6.95. Table 3 demonstrates the current rate schedule and the proposed rates based on the cost-of-service study. There is currently no medium strength class. However, the Commission recommends adding a third commercial strength category for multi-use and other "medium" strength properties. Some commercial accounts are comprised of multiple businesses with a mix of domestic (e.g., retail) and excess strength (e.g., restaurants) wastewater and are served by the same meter. Introducing a third commercial class in-between domestic and excess strength is a common industry practice and will recognize mixed-use properties, which are not 100% domestic or 100% excess strength, as well as other medium strength businesses. Introducing a medium strength class would require the evaluation of each commercial property and business licenses to identify the medium strength customers. Medium strength customers and unassigned commercial customers would remain in their current strength classes until staff evaluates the properties and determines if there should be a change in their strength class. In addition, staff will address any misassigned commercial customers. In order to work effectively with each customer, staff anticipates the process would take approximately a year.

A California State Commercial User Strength Characteristics table is included as Attachment 1. This table will help identify low, medium, and high strength classes. For purposes of the current cost-of-service study, we would define each strength level as the following:

1. Low (Domestic) = If BOD **and** TSS are less than 250 ppm (parts per million)
2. Medium = If BOD **or** TSS is greater than 250 ppm but less than 700 ppm
3. High (Excess) = If BOD **or** TSS is greater than 700 ppm

Additionally, staff is including a detailed list of commercial business types and their respective strength classification as Attachment 2. The reclassification of commercial accounts from the current two classes to three classes would occur over the next year in conjunction with another ongoing review of commercial customers.

Phase-In of Quantity Charge Rate Adjustments

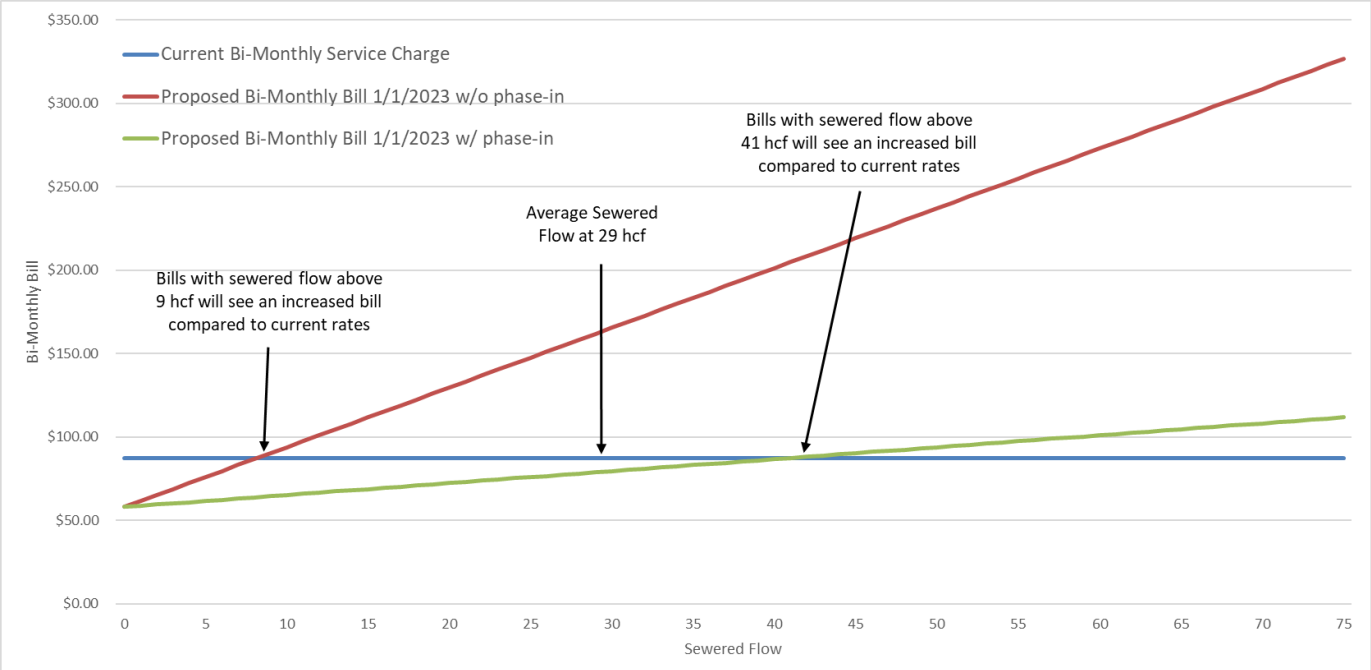
The proposed rate adjustments for service charges for all classes will be made immediately without phasing in. However, the Commission recommends phasing in single-family quantity charges over five years to ease quantity charge adjustments. The proposed quantity charge rate of $3.58 would be set at 20% in year one, or $0.72, and increases approximately $0.72 each year over the five-year phase-in (see Table 5). The quantity charge rates for multi-family and commercial customers will be made immediately and will not be phased in. While the single-family quantity charge rates are phased in, the Wastewater Enterprise reserves will supplement the revenue shortfall of $7.7 million over five years. The Wastewater Enterprise reserves have sufficient funding to cover the revenue shortfall while maintaining funding above the City's financial policy. The fund balance is projected to be $22.4 million at the end of FY 2026-27 with the phased in single-family rate.

Table 5: Phase-In of Quantity Charge Rates for Single-Family Customers

	1/1/2023	1/1/2024	1/1/2025	1/1/2026	1/1/2027
Proposed Rate per hcf	$3.58	$3.58	$3.58	$3.58	$3.58
Phase-in Increase	20%	40%	60%	80%	100%
Phased-in Rate per hcf	**$0.72**	**$1.43**	**$2.15**	**$2.86**	**$3.58**
Bi-monthly water use	55	55	55	55	55
Sewer return factor	52.1%	52.1%	52.1%	52.1%	52.1%
Sewered flow (rounded)	29	29	29	29	29
Quantity charge	$20.77	$41.54	$62.31	$83.08	$103.85
Service charge	$58.16	$58.16	$58.16	$58.16	$58.16
Proposed bill	$78.93	$99.70	$120.47	$141.24	$162.00
Bill under current rates	$87.38	$87.38	$87.38	$87.38	$87.38
Difference	($8.45)	$12.32	$33.09	$53.86	$74.62

Table 6 provides a single-family customer bill comparison across a range of sewered water use, comparing the bills at current rates, year one of the phase-in, and if rates are not phased in. If the residential quantity rate is not phased-in, customer bills with sewered flow above 9 hcf would see a bill decrease and customer bills with sewered flow above 9 hcf would see a bill increase. If the phase-in approach is selected, the point at which customer bills transition from a decrease to an increase is 41 hcf.

Table 6: Residential Bills by Consumption (With and Without Phase-In)



Water

On June 9, 2022, staff presented to the Commission and discussed the Water Enterprise that included the financial projection assumptions, water purchases, water capital projects, including three options to fund the Cabrillo reservoir project, revenue requirements for each capital improvement projects option, and lastly, service charge policies. Staff returned to the Commission on August 11, 2022 and August 31, 2022, continued the discussion, and asked for direction on a preferred CIP option, fixed charge revenue, and the outside city rate differential. Additionally, staff presented on previously adopted water charges, which include pass-through adjustments, water reliability charges, and water shortage revenue stabilization factors.

CIP Options

There were three CIP options considered as part of this study. All options include funding for three Reservoir Management Systems (RMS) totaling approximately $3M. With the addition of the new RMS at Greystone (19.4MG), Coldwater (8.3MG), and Sunset (6MG) reservoirs, which make up 77% of the total storage within the City, we will be increasing operational storage by 25% (8.5MG).

- **Option 1** includes funding for the Cabrillo Forebay project. This option would provide added resilience to existing LADWP interconnect and the Montecielo pump station. The improvements for Option 1 include a new pump station for the hillside along with a forebay storage area of approximately 300,000 gallons, new transmission line and backup power.
- **Option 2** includes funding for the full-scale Cabrillo Reservoir project, which includes a new pump station for the hillside, a reservoir with a capacity of 4.3MG, new transmission line and backup power.
- **Option 3** includes funding for the Cabrillo Forebay project and the Reservoir 4C project. The improvements associated with Option 3 include at Cabrillo, a pump station and forebay storage area of 300,000 gallons and a 1MG reservoir at the existing Reservoir 4C site. The Commission discussed the various CIP options and voted in recommendation

of CIP Option 2, the full-scale Cabrillo Reservoir project. Table 7 below shows each CIP Option and the total 5-year spending.

Table 7: Water CIP Options

	Water Capital Project Schedule Options	Option 1	Option 2	Option 3
1	Cabrillo Reservoir Project[1]	$4,180,937	**$21,270,460**	$4,180,937
2	Reservoir Repl. & Pump Station Rehab Project[1]	$2,969,633	$2,969,633	**$9,508,941**
3	All Other Capital Projects[1]	$45,274,713	$45,274,713	$45,274,713
4	**Total 5-Year CIP Spending[1]**	**$52,425,283**	**$69,514,806**	**$58,964,591**
5				
6	Average Annual Increase for Bi-Monthly Bill (2022-2027)			
7	Single-Family/Duplex	$9.02	$10.37	$8.86
8	Multi-Family[2]	$32.34	$49.81	$40.21
9	Commercial/Municipal	$53.62	$90.06	$70.18

[1]All CIP Figures are escalated and assume CIP Completion Factor of 80% due to project timing.

[2]Multi-Family bill impact assume a 10-unit complex.

Table 8 below demonstrates the proposed cost-of-service bi-monthly rates for Water CIP Option 2. It is important to note that inside and outside City customers pay the same fixed water and fire service charges. However, the quantity charge differs between inside and outside City customers. The difference is explained later in this report. As part of the cost-of-service analysis, the tier structure was reviewed and updated to reflect current customer demand patterns. Accordingly, the size of the tiers were adjusted to reflect changing customer demands and aligns the level of service with the cost of providing that service within each tier.

Table 8: Proposed Cost-of-Service Bi-Monthly Rates

	Current Quantity Charge Rates		COS Quantity Charge Rates	
	Tier Size	$/HCF	Tier Size	$/HCF
Inside City				
Single-Family/Duplex				
Tier 1	0-26 HCF	$3.54	0-32 HCF	$4.30
Tier 2	27-48 HCF	$6.91	33-48 HCF	$7.19
Tier 3	49-86 HCF	$10.17	49-83 HCF	$10.01
Tier 4	86+ HCF	$14.44	84+ HCF	$12.51
Multi-Family				
Tier 1	0-8 HCF	$4.52	0-8 HCF	$5.79
Tier 2	9+ HCF	$12.92	9+ HCF	$14.98
Commercial		$7.03		$7.93
Water Reliability (all customers)		$0.26		$0.27
Outside City				
Single-Family/Duplex				
Tier 1	0-26 HCF	$4.41	0-32 HCF	$4.96
Tier 2	27-48 HCF	$7.78	33-48 HCF	$7.85
Tier 3	49-86 HCF	$11.03	49-83 HCF	$10.67
Tier 4	86+ HCF	$15.31	84+ HCF	$13.17
Multi-Family				
Tier 1	0-8 HCF	$5.39	0-8 HCF	$6.45
Tier 2	9+ HCF	$13.78	9+ HCF	$15.64
Commercial		$7.90		$8.59
Water Reliability (all customers)		$0.41		$0.42

Service Size	Current Charge	COS Charges
Fixed Service Charges		
1"	$53.51	$58.05
1-1/2"	$93.84	$100.46
2"	$142.24	$151.35
3"	$271.30	$287.06
4"	$416.50	$439.74
6"	$819.82	$863.84
8"	$1,311.71	$1,372.76
10"	$1,967.57	$3,578.07
Fire Service Charges		
<= 2"	$29.73	$31.23
2 1/2"	$44.32	$46.55
3"	$64.56	$67.81
4"	$124.69	$130.96
6"	$340.52	$357.65
8"	$712.74	$748.59
10"	$1,272.63	$1,336.64
12"	$1,654.42	$1,737.63

Fixed Charge Revenue

HF&H and staff recommend maintaining the current fixed charge revenue balance (16% from fixed service plus fire service charges and 84% from variable quantity charges). Even though the majority of the Water Enterprise fund's costs are fixed, this ratio has allowed customers to manage their bills through consumption. At the same time, the Water Enterprise fund has maintained revenue stability. The Commission agreed to maintain the fixed charge revenue balance.

Outside City Rate Differential

The City provides water services to a portion of the City of West Hollywood. During the previous cost of service study, it was determined that Beverly Hills customers (Inside City customers) and West Hollywood customers (Outside City customers) should pay different quantity charges mainly due to the contribution by the services provided by the City of Beverly Hills' General Fund to the Water Enterprise. These services include public safety from police and fire, use of government facilities such as City Hall and corporation yards, and right-of-way maintenance. Inside City customers pay for these services through property taxes. Outside City, customers do not contribute to property taxes, so their rates reflect an increase over Inside City rates to account for these costs and reimburse the General Fund. As part of the 2018 cost-of-service analysis, HF&H determined that the City's General Fund was projected to incur approximately $2,440,000 in costs to provide public safety, government facilities, and right-of-way maintenance to the Water Enterprise. Of the total $2,440,000, the General Fund incurs $2,015,000 per year to serve Inside City customers and $425,000 per year to serve Outside City customers. For Inside City customers, these costs are covered by property taxes paid to the City; therefore, no adjustment to the quantity charge rates was made to the Inside City customers. Outside City customers do not contribute property taxes to the City; therefore, an adjustment was made to the Outside City quantity charges rates so the General Fund can recuperate the cost of these services. The reimbursement by Outside City customers (through the quantity charge rate adjustment) for public safety services, government facilities, and right-of-way maintenance was required to maintain parity with Inside City customers, which pay the entire cost through property tax revenue. It was determined that the entire $425,000 cost was recoverable by adding $0.82 per HCF to the Outside City quantity charges for its single-family, multi-family, and commercial customers. The service charges to both Inside City and Outside City customers remained the same. For the current cost of service study, it was determined that the Outside City rate differential should be $0.66 per HCF due to the decrease in Outside City flow. The Commission agreed to maintain the outside city rate differential.

Previously Adopted Water Charges

In addition to the last water rate adjustments, Beverly Hills City Council adopted pass-through charges, water reliability charges, and water shortage revenue stabilization factors. As part of the current cost-of-service study, the pass-through adjustments, water reliability charge, and revenue stabilization factors need to be re-noticed to the community to allow the charges to be implemented for an additional five years.

Pass-Through Adjustments

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, or wastewater treatment. City Council adopted pass-through adjustments that would allow increases in wholesale water charges for purchasing water from MWD to be passed through directly to customers if they are higher than the adopted budgeted costs. If future MWD rates are more than what was projected in the cost of service

study, then the incremental difference will be passed through to customers. Customers will be notified prior to the effective date of adjustment. Since the pass-through adoption, the City has not exercised the adjustments. Every five years, this provision needs to be included in the Proposition 218 notification. The Commission agreed to maintain the pass-through adjustments.

Water Reliability Charge

The water reliability charge provides dedicated funding for the expansion of the water system to the La Brea subarea. Developing the La Brea basin will increase local groundwater production and reduce the City's dependence on MWD for water supply. Estimated project costs for the calculation of the water reliability charge were derived from the La Brea Subarea Wells, Water Treatment and Transmission Main Project Preliminary Design Report from May 2017. The water reliability charge is in addition to the quantity and service charges. A customer's water reliability charge is the product of the water reliability charge rate multiplied by the customer's water consumption during the billing period. The water reliability charge will be billed to both inside and outside City customers over 30 years to cover the cost of the project. The 30-year projection of this rate in the last cost of service will be retained for this study and the next five years are recommended to be included in the upcoming cost-of-service study. The Commission agreed to maintain the water reliability charge.

Water Shortage Revenue Stabilization Factors

The State of California has experienced intense periods of drought, resulting in mandatory water restrictions. In extreme cases, restrictions could negatively affect water utility revenues. To prepare, the City adopted a schedule of revenue stabilization factors to be implemented during water shortages with City Council approval and thirty days' notice to water customers. The factors are correlated with reductions in each customer class's required level of conservation for each Stage. The factors are lowest for multi-family customers because their water use has less irrigation than, for example, single-family customers. (During water shortages, irrigation water use is restricted more than indoor water uses). The revenue stabilization factors act as a multiplier to the customers' existing quantity charge rates. Once the water shortage is over, rates will return to the normal rate schedule. The revenue stabilization rates replaced the drought surcharge implemented in prior years. Since the adoption of the revenue stabilization factors, the City has not exercised the charges. The revised water shortage revenue stabilization factors are included in Table 9 below. The Commission agreed to the water shortage revenue stabilization factors.

Table 9: Water Shortage Revenue Stabilization Factors

Revenue Stabilization Factors by Customer Class					
Class	Stage A Up to (5% Reduction)	Stage B Up to (10% Reduction)	Stage C Up to (20% Reduction)	Stage D Up to (30% Reduction)	Stage E Up to (50% Reduction)
Single Family	1.043	1.093	1.217	1.390	1.878
Multi-Family	1.019	1.040	1.085	1.137	1.388
Commercial	1.027	1.057	1.124	1.206	1.511

Water Shortage Reductions by Customer Class					
Class	Stage A Up to (5% Reduction)	Stage B Up to (10% Reduction)	Stage C Up to (20% Reduction)	Stage D Up to (30% Reduction)	Stage E Up to (50% Reduction)
Single Family	6%	12%	25%	37%	57%
Multi-Family	3%	6%	11%	17%	37%
Commercial	4%	8%	16%	24%	44%

NEXT STEPS

If the Liaison decides to move forward, staff will present the final recommendation and public notice to the full City Council at the October 11, 2022, City Council Study Session. If Council wishes to move forward with the proposed rate restructuring, staff will distribute the public notice to customers and implement the proposed community engagement plan detailed below. Following community engagement and in the absence of a majority protest, the revised Water and Wastewater Rates Ordinance will be introduced at a public hearing at the December 6, 2022, City Council meeting. Pending support from a majority of the City Council, the ordinance will be adopted at the December 13, 2022, City Council meeting. If the ordinance is adopted, the adjusted rates will take effect in mid-January 2023.

Community Outreach

Staff will host two town hall meetings to present the proposed rates, the impact on customers' bills, and how the rate adjustments will allow the Water and Wastewater Enterprises to continue serving the community. Since each customer will be impacted differently, a bill impact calculator will be provided on the City's website. Customers will be able to input their water use data and compare their bill under the current and proposed rates. Staff will also provide ample time to respond to questions and concerns from the public. The date, time, and location of the town hall meetings will be advertised in local newspapers, on the City's website, and through multiple social media channels, including Instagram, Facebook and Twitter. In addition, staff will attend community meetings in October and November. Staff will present the proposed rate adjustment to the Chamber of Commerce to address concerns from the business community. Staff will also include information on the water and wastewater rate adjustments in the Public Works newsletter, The Backbone, and the City's social media accounts.

Meeting/Action	Date
Presentation to City Council (with Prop 218 notice)	October 11, 2022
Public Notice Distributed	October 21, 2022
Presentation/Discussion at the Public Works Commission	November 10, 2022
Community Outreach • Town Hall Meetings • Commission Meeting Presentations • Community Presentations • Presentation to the Chamber of Commerce	October-December 2022

• Article on the Backbone Newsletter • Newspaper Ads • Social Media Posts • Website • Bill Impact Calculator	
Public Hearing (1st Reading)	December 6, 2022
Public Hearing (2nd Reading)	December 13, 2022
Rates Effective	Mid-January 2023

Attachment 1

COMMERCIAL USER STRENGTH CHARACTERISTICS

STANDARD CLASSIFICATIONS	BOD_5(ppm)	SS(ppm)
Residential (average varies depending on average water usage per capita)	175 to 250	175 to 250
Auto Steam Cleaning	1,150	1,250
Bakery, wholesale	1,000	600
Bars without dining facilities	200	200
Car Wash	20	150
Department and Retail Store	150	150
Hospital and Convalescent	250	100
Hotel with dining facilities	500	600
Hotel/Motel without dining	310	120
Industrial Laundry	670	680
Laundromat	150	110
Laundry, commercial	450	240
Market with garbage grinders	800	800
Mortuary	800	800
Professional Office	130	80
Repair Shop and Service Station	180	280
Restaurant	1,000	600
School and College	130	100
Septage	5,400	12,000
Soft Water Service	3	55

Attachment 2

Example Commercial Sewer Strength Classifications

Low Strength

- Banks & Financial Institutions
- Barber Shops/Hair Salons (Hair Cutting Only)
- Post Offices/Government
- Retail Stores
- Libraries
- Schools
- Religious Buildings, Halls & Lodges
- Offices (Business and Professional)

Medium Strength

- Bars & Taverns (w/o Dining)
- Appliance Repair
- Barber Shops/Hair Salons (Haircutting w/Add'l Treatments)
- Dry Cleaners
- Nail Salons
- Pet Groomers
- Commercial Laundromats
- Tasting Rooms
- Medical Offices/Hospitals (General, Cosmetic, Dental, Convalescent & Veterinarian)
- Hotels, Motels, or Bed &Breakfast
- Pools with Restrooms (Clubhouse)
- Theaters
- Warehouses
- Car Washes
- Gym or Health Club
- Service Stations, Garages, Auto Repair Shops
- Car Rental/Car Service
- Mini Marts (w/o Dish Washer or Garbage Disposal)
- Mini Mart with Gas Pumps – (w/o Dish Washer or Garbage Disposal)
- Spa

High Strength

- Restaurants
- Coffee Shops
- Ice Cream Parlors
- Catering
- Eatery
- Juice Bars
- Bakeries Butcher Shops
- Bars & Taverns (w/ Dining)
- Grocery Stores or Markets
- Mini Marts (w/ Dish Washer or Garbage Disposal)
- Delicatessens