



# City Council Report

**City Council Meeting: October 28, 2014**

**Agenda Item: 8-C**

To: Mayor and City Council  
From: Martin Pastucha, Director of Public Works  
Subject: Sustainable Water Master Plan Status Update, Presentation of Rate Analyses, and Discussion of Proposed Rate Options

## Recommended Action

Staff recommends that the City Council:

1. Review and comment on the proposed rates studies and recommendation.
2. Direct staff to proceed with rate structure Option 3 which provides full funding for proposed capital and conservation programs in support of the Sustainable Water Master Plan.
3. Direct staff to outreach to the community and proceed with steps necessary for rate consideration and adoption.
4. Adopt the Sustainable Water Master Plan pursuant to the categorical exemption at CEQA Guideline sections 15307 and 15308.

## Executive Summary

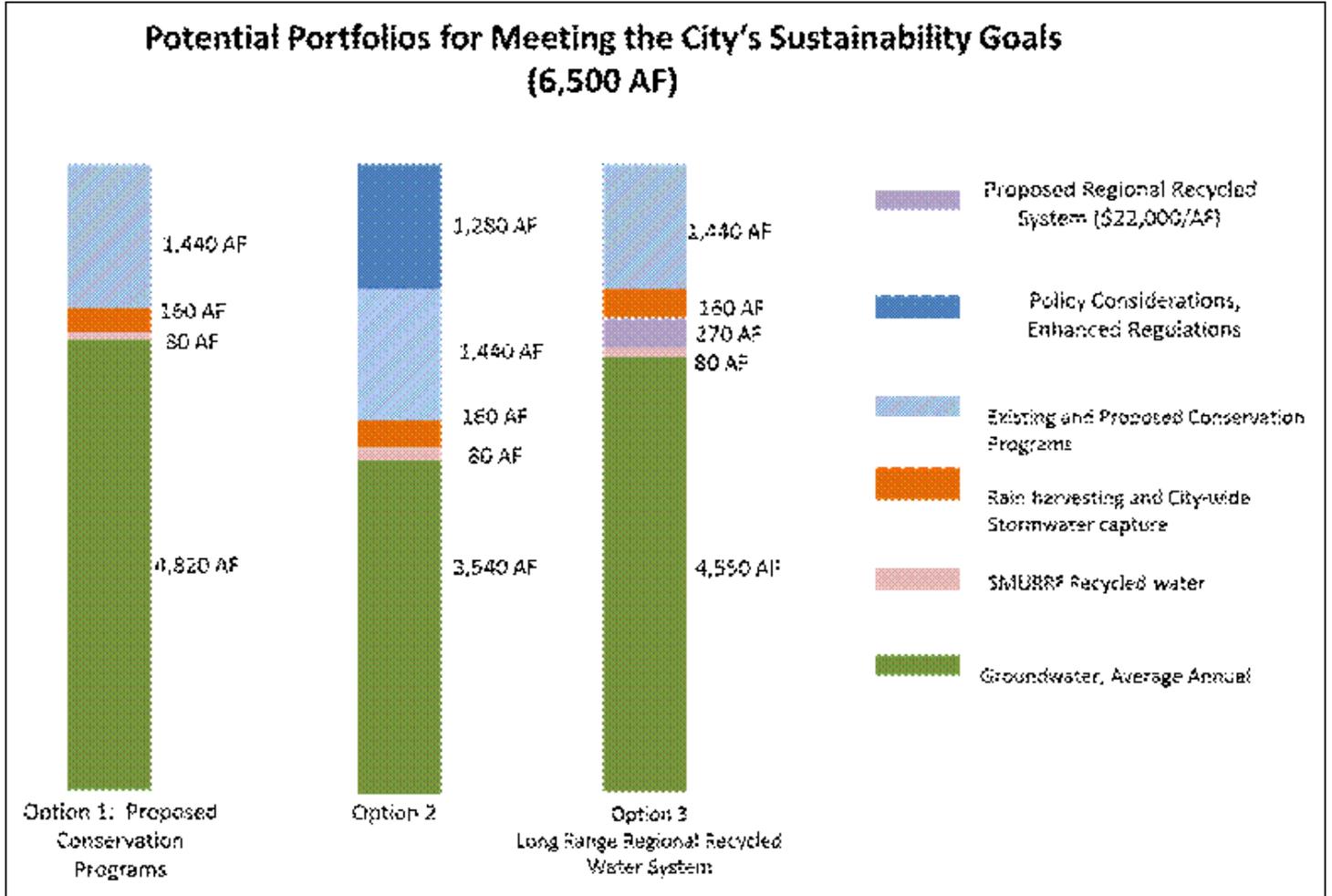
This report presents an update on the City's effort to achieve water self-sufficiency through the Sustainable Water Master Plan (SWMP), recent drought response measures, and the findings and analyses of recently conducted financial and rate studies prepared for the Water and Wastewater funds. The report addresses current water and wastewater rates and describes factors which lead to near-term revenue shortfalls in the water fund, and presents five-year rate adjustment options that will generate sufficient revenues to pay for projected operating and capital costs. The options presented include consideration of the impacts for Stage 2 water restrictions recently approved by Council. The cost impacts of the proposed rate adjustments and rate restructuring on various types of customers within each customer group are presented, as is a comparison of the proposed Santa Monica rates with various other comparison cities in the region. Staff recommends rate structure Option 3 which represents an increase in the unit price of water of 9% in year 1 and 13% in years 2 through 5. This increase would be applied at completion of successful rate approval process estimated to be in January 2015.

## Background

In a study session at the [March 8, 2011](#) Council meeting, staff presented the concepts and principles involved in achieving the goal of water self-sufficiency by the year 2020. Following the study session, staff embarked on the development of a Sustainable Water Master Plan (SWMP) in order to achieve this goal. In support of this effort at its [March 27, 2012](#) meeting, Council authorized Kennedy/Jenks Consultants (KJC) to prepare the Sustainable Water Master Plan. In an information item to Council dated [November 5, 2012](#), staff presented an update on the status of the development of a Sustainable Water Master Plan (SWMP).

At the [May 14, 2013](#) Council meeting, staff presented Council with options for proceeding with the SWMP as indicated in Figure 1 below.

Figure 1



Council directed staff to proceed with Option1, which would yield 1440 acre feet through conservation programs as indicated in Table 1 below.

Also at the May 14, 2013 meeting Council directed staff to proceed with the water and wastewater rate study. The current water and wastewater rates, which are based on commodity-only rate structures (so named to indicate the absence of a fixed service charge component), were adopted by Council on [May 13, 2008](#). The commodity-only rate structures were approved by Council to promote water efficiency and conservation.

On the demand management side of achieving self-sufficiency, the Council-approved water conservation programs as identified in Table 1 below are proceeding. As indicated in Table 1, the enhancement of existing water conservation programs and the development and implementation of new programs will save 1,443 acre feet of water per year as part of the Sustainable Water Master Plan (SWMP) in order to achieve water self-sufficiency.

Table 1

## Sample Water Conservation Program for the City of Santa Monica – April 2, 2013

Conservation Activity	Class	Total Number of Activities Implemented by 2020	Total Conservation in 2020 (AF)	Estimated Average Annual Cost	Estimated Total Cost Through 2020
Residential HE Clothes Washer Rebate	Single Family	880	30	\$24,100	\$216,600
Residential HET Rebate	Single Family	3568	77	\$14,400	\$129,700
Residential WBIC Rebate	Single Family	1920	79	\$29,300	\$263,800
City's Cash for Grass Rebate Program	Single Family	1,100,000 square feet	51	\$209,900	\$1,889,100
City's Drip Irrigation Rebate Program	Single Family	1,100,000 square feet	24	\$139,900	\$1,259,400
City's HE Nozzle Rebate Program	Single Family	550,000 square feet	7	\$52,500	\$472,300
Water Smart Software - 5% Reduction in Water Use (NEW)	Single Family	3,040 customers	8	\$26,600	\$239,300
0.8 gpf Toilets (Direct Installation) (NEW)	Multi Family	5,496	73	\$174,800	\$1,573,100
Residential HE Clothes Washer Rebate	Multi Family	544	19	\$9,800	\$88,600
Residential HET Rebate	Multi Family	4,000	13	\$16,200	\$145,400
Laminar Flow Restrictors for St. John's Medical Center (NEW)	Commercial	664	6	\$1,500	\$13,600
Commercial Dry Vacuum Pump Rebate	Commercial	40	3	\$1,400	\$12,600
Commercial Connectionless Food Steamer Rebate	Commercial	2	1	\$100	\$500
Commercial Zero Water Urinal Rebate	Commercial	4	0.1	\$25	\$200
Commercial Ultra-Low Volume Urinal Rebate	Commercial	544	8	\$3,500	\$31,100
Commercial Conductivity Controller Rebate	Commercial	2	4	\$0	\$0
Commercial HET Rebate	Commercial	200	5	\$2,500	\$22,900
CII Cooling Tower Treatment - Zero Blowdown (NEW)	Commercial	2	1	\$200	\$1,400
Coin-Operated Laundry Machine Retrofit (NEW)	Commercial	45	360	\$3,500	\$31,800
HETs for St. John's Medical Center (NEW)	Commercial	10	0.1	\$100	\$1,100
0.125 gpf Urinals for St. John's Medical Center (NEW)	Commercial	7	0.1	\$40	\$400
1.5 gpm Faucet Aerators for St. John's Medical Center (NEW)	Commercial	158	0.3	\$800	\$6,900
SMMUSD Audits & Retrofits - Assumes 5% Reduction in Total H2O Use (NEW)	Institutional	Maintained through 2020	5	\$94,400	\$849,400
<b>Total Active Water Savings (Programs Listed Above)</b>			<b>775</b>	<b>\$805,500</b>	<b>\$7,249,100</b>
Total Passive Savings (Codes and Laws)			418		
25% Reduction in System Leaks and Non-Revenue Water			250		
<b>Total Reduction in Demand</b>			<b>1443</b>		

HE: High Efficiency; HET: High Efficiency Toilet; WBIC: Weather Based Irrigation Controller

On January 17, 2014 California Governor Jerry Brown proclaimed a Drought State of Emergency, finding under the provisions of section 8558(b) of the California Government Code that conditions of extreme peril to the safety of persons and property exist in California due to water shortage and drought conditions. Among other stipulations in the Governor's proclamation, all citizens of California were asked to achieve a 20 percent reduction in water consumption. In an information item to Council dated [January 29, 2014](#), staff presented an update to the Water Shortage Advisory in effect since 2009, as well as enhanced conservation efforts aimed at achieving the Governor's call for a 20 percent reduction in water use.

On July 15, 2014, the State Water Resources Control Board (SWRCB) adopted an Emergency Regulation for Statewide Urban Water Conservation which requires urban retail water agencies, like Santa Monica, to implement all requirements and actions of their water shortage contingency plans that impose mandatory outdoor irrigation restrictions. On [August 12, 2014](#), Council adopted a resolution declaring a Stage 2 Water Supply Shortage requiring mandatory water conservation to achieve a 20% reduction in water use compared to 2013.

This staff report presents water and wastewater rate studies in support of achieving the objectives of the SWMP, and updated information about the status of the Sustainable Water Master Plan and recent drought response activities.

Pursuant to the City's Water Shortage Response Plan Stage 2 adopted by Council in August 2014, single-family, multi-family, and non-residential water customers will be given a water allowance, also called a water budget, for each billing cycle. Customers that exceed their allowance will be subject to surcharges for each hundred cubic feet of excess water used in a billing period. This sends a strong message to conserve water.

Because of the recent adoption of the 20% reduction, staff has estimated a cost of \$862,000 in the first year and \$592,000 in the second year for implementation and management of drought response efforts. Variances and relief from compliance from water allowances may be granted under certain conditions. Detailed implementation plans for the Stage 2 response of mandatory 20% conservation measures and associated costs will be presented to Council on October 28, 2014.

## **Discussion**

The City provides water service to three customer types: single-family, multi-family and non-residential. The current water rate structure was adopted in [July 2008](#) to provide equity between customer types and among customers within a class. The rate structure adopted in 2008 eliminated the bi-monthly fixed service charge so that the water bill became entirely based on actual water usage, thereby improving the water conservation incentive at all levels. For residential customers, the previously existing three tier structure was replaced with a four tier structure. For non-residential customers, a uniform commodity rate was established, applicable to nearly all water use. A second tier for non-residential customers applied at the high end of consumption, in order to provide a strong disincentive for excessive water use. In 1999, a resolution to annually increase rates by the actual Consumer Price Index (CPI) increase was adopted and has been implemented with each annual budget.

A water rate study was initiated for the city by Kennedy Jenks Consultants as part of its contract with the City to prepare the SWMP. The objectives of the analysis include development of a strategy for meeting the utility's financial obligations for the five year planning period (FY 2014-15 through FY 2019-20) and to assess changes to the rate structure in keeping with the city's self-sufficiency goals to encourage water conservation and sustainability.

## Water Rate Analysis

The analysis indicates that the cost to operate the system, replace and upgrade existing facilities, and fund the SWMP conservation and supply augmentation programs will exceed current and projected revenues. Infrastructure rehabilitation, replacement, and upgrade requirements are necessary to maintain an aging water distribution system wherein certain parts are approaching 100 years in age. Ongoing funding of water main replacements at the level necessary to ensure reliability and long term performance are essential to system sustainability. In addition, demands placed on the Water Fund by the need to fund capital programs to accomplish the City's water self-sufficiency goals, and the reduction in water sales that reduces annual revenues are major components driving the need for a rate adjustment.

Capital projects located in the Olympic sub-basin, including the proposed Olympic basin treatment facility and any new wells proposed in the Olympic sub-basin, would be funded from the Gillette/ Boeing Settlement agreements and are therefore not included in the funding requirements to be supported by water rate revenue.

Prior to implementation of the Stage 2 water restrictions, 9% annual rate increases over a five year planning period were envisioned as necessary to meet the goal of maintaining financial reserves at minimally acceptable levels throughout the planning period, meeting the capital and operational needs as required to meet the City’s self-sufficiency goals, and funding the appropriate level of infrastructure replacement and rehabilitation. This included new debt issuance (bonding) in FY 2018-19 in the financial plan to maintain water fund solvency throughout the planning period. These initial revenue projections assumed a 10% reduction in water sales at that time.

With the implementation of the Stage 2 water restrictions and the projects required to implement the SWMP, however, a 20% reduction in water use is expected to occur, requiring a rate increase to cover the fixed and increased costs of producing, distributing, and conserving this reduced volume of water. The decrease in water use translates to an increase in the recommended rate increase to 13%. The financial forecast over the five year planning period includes a cash infusion in FY 2018-19.

Financial Strategy Options

As an enterprise fund, the City’s water utility is expected to be financially self-sufficient; revenues must match annual expenditures. Three options are presented in Table 1 and further discussed below in consideration of addressing alternate rate scenarios.

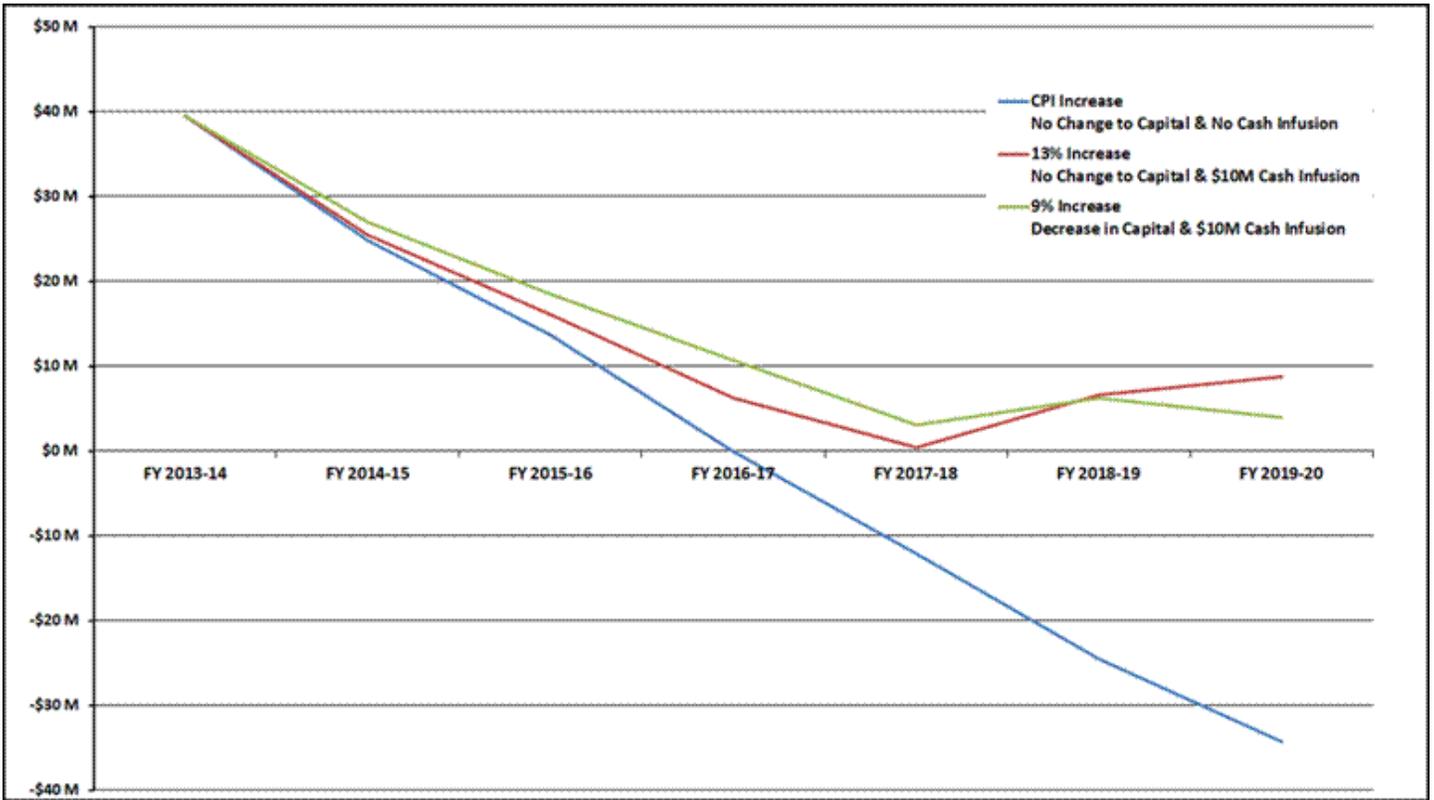
Table 1 – Rate Adjustment Options

	2015	2016	2017	2018	2019
Option 1	2.5%	2.5%	2.5%	2.5%	2.5%
Option 2	9%	9%	9%	9%	9%
Option 3	9%	13%	13%	13%	13%

Note: Proposed adjustments applied in January of each year

The Fund Balance trends corresponding to the three options are presented in Figure 2 below.

Figure 2 – Water Fund Revenue Requirements, Fund balance trends



Option 1 – Status Quo

Without an adjustment in the current rates, applying an inflation-only (Consumer Price Index, CPI) rate increase annually over the next five years would result in a negative cash balance (fund balance) in FY 2016-17. Even complete elimination of capital expenditure programs would not prevent the negative fund balance from occurring in a few years. This trend is displayed graphically in Figure 2.

Option 2, 9% annual increases years 1-5, modified capital program

In Option 2, 9% increases are applied to the unit prices in the present tiers of the pricing structure. These increases would occur in January in each year of the five year planning period (2015 – 2019). As this does not represent the full cost recovery for the reduced projected revenue generated as a result of the Stage 2 Water Shortage Response Plan, some reduction in expenditures from capital improvements and conservation programs will be necessary. Applying a reduction of approximately \$1 million per year in expenditures, the Water Fund cash balance trend is included in Figure 2. Among the reductions included in the expenditure reductions would be a reduced main replacement program and cutbacks in the ability to fund certain conservation programs. It is also possible that some capital projects envisioned to support the 2020 self-sufficiency goal may be reduced or delayed, resulting in a delay in reaching the self-sufficiency goal by 2020.

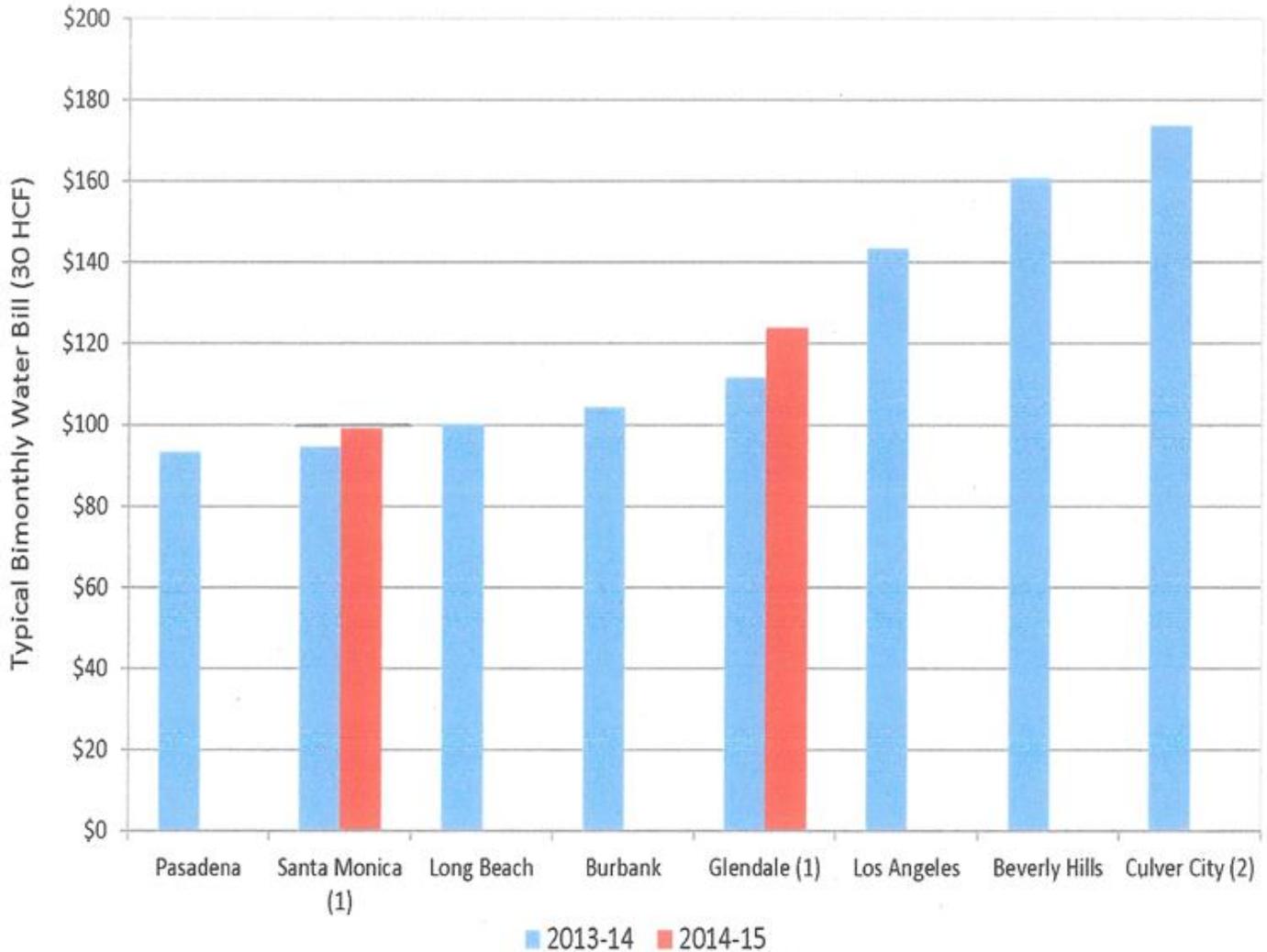
Option 3 – 9% year 1, 13% rate increases annually years 2-5;

Option 3 comprises a 9% increase in January 2015 and 13% increases each January thereafter through 2019. These percentage increases are applied to the unit prices in the present tiers of the pricing structure. A 13% increase represents the full recovery of the revenue decreases projected to result from the decreased water sales inherent in the mandatory conservation plan. Current capital and conservation programs remain intact. The 2020 self-sufficiency goal remains on target, and infrastructure investment continues in a manner which supports the continued reliability of the water system.

**Rate Comparison**

It is worth noting that Santa Monica has experienced the same pressure for increased water efficiency and conservation over recent years due to drought and climate effects as other regional water agencies. Nevertheless, Santa Monica single family residential rates remain in the lower third of neighboring comparison agencies. Figure 3 provides a comparison of proposed Santa Monica Single family Residential (SFR) water rates, including a 13% increase over current rates, with neighboring agency SFR water rates. This 13% increase represents the proposed year 2 increase, following the 9% increase in year 1, as in option 3. The bill comparison is based on a ¾” water meter and 24 HCF of bi-monthly water usage. This represents the water allowance in the Stage 2 Water shortage plan for single family residences. The proposed bi-monthly average charge of \$89.30 for Option 3 (13% increase) in year 2 reflects a monetary increase of \$16.80 (bi-monthly) over the existing charge of \$72.50. Even with the proposed 13% increase, residential water bills in Santa Monica will compare favorably with the current average rate of the other communities surveyed. Table 3 provides a summary of average water bills under the presented options for average water use.

Figure 3 – Proposed Water Rate Comparison with Neighboring Agencies



(1.) Increases proposed for FY 2014-15

(2.) Culver City serviced by Golden State Water Company, a CPUC regulated utility

A summary of potential bi-monthly water bill impacts for select customer classes at average consumption rates is presented in Tables 3, 4, and 5.

**Table 3**

Example of Proposed **Bi-Monthly Bill – No Surcharge Included**  
**Single Family Residential, 3/4-inch meter, 30 HCF current average use**

	Year 1	Year 2	Year 3	Year 4	Year 5 <sup>(1)</sup>
Current Bill, without conservation	\$90.63				
Option 1 <sup>(1.)</sup> Current Rates, with 20% conservation(24HCF)	\$72.50	\$74.31	\$76.17	\$78.07	\$80.03 <sup>(2)</sup>
Option 2 <sup>(2.)</sup> , 9% increase in unit prices, with 20% conservation	\$79.03	\$86.14	\$93.90	\$102.35	\$111.56 <sup>(3)</sup>
Option 3 <sup>(3.)</sup> , 13% increase in unit prices, with 20% conservation	\$79.03	\$89.30	\$100.91	\$114.03	\$128.86

(1) CPI Increase only in all years, effective January 1  
 (2) 9% increase effective January 1 each year  
 (3) 13% increase effective years 2 through 5, 9% increase year 1

**Table 4**

Example of Proposed **Bi-Monthly Bill – No Surcharge Included**  
**Multi-Family Residential, 1 1/2 - inch meter, 77 HCF current average use**

	Year 1	Year 2	Year 3	Year 4	Year 5
Current Bill, without conservation	\$342.30				
Option 1 <sup>(1.)</sup> Current Rates, with 20% conservation (62HCF)	\$273.84	\$280.69	\$287.70	\$294.90	\$302.27
Option 2 <sup>(2.)</sup> , 9% increase in unit prices, with 20% conservation	\$298.49	\$325.35	\$354.64	\$386.55	\$421.34
Option 3 <sup>(3.)</sup> , 13% increase in unit prices, with 20% conservation	\$298.49	\$337.29	\$381.14	\$430.69	\$486.68

- (1.) CPI Increase only in all years, effective January 1
- (2.) 9% increase effective January 1 each year
- (3.) 13% increase effective years 2 through 5, 9% increase year 1

**Table 5**

Example of Proposed **Bi-Monthly Bill – No Surcharge Included**  
**Non- Residential, 2- inch meter, 192 HCF current average use**

	Year 1	Year 2	Year 3	Year 4	Year 5
Current Bill, without conservation	\$687.23				
Option 1 <sup>(1.)</sup> Current Rates, with 20% conservation (154 HCF)	\$549.78	\$563.52	\$577.61	\$592.05	\$606.85
Option 2 <sup>(2.)</sup> , 9% increase in unit prices, with 20% conservation	\$599.26	\$653.19	\$711.98	\$776.07	\$845.90
Option 3 <sup>(3.)</sup> , 13% increase in unit prices, with 20% conservation	\$599.26	\$677.16	\$765.20	\$864.67	\$977.08

- (1.) CPI Increase only in all years, effective January 1
- (2.) 9% increase effective January 1 each year
- (3.) 13% increase effective years 2 through 5, 9% increase year 1

Summary and Recommended Option

Prior to the mandatory water reductions in the Stage 2 water restrictions, the rate analyses initially suggested a water rate increase of approximately 9% per year for each year of the five year planning period based on projected water sales reflective of the water self-sufficiency and Urban Water Management Plan targets. This 9% increase includes the annual CPI adjustment. When taking into account the added water conservation resulting from the Stage 2 restrictions and the SWMP, and the added loss of revenue, a revenue increase of 13% would be required in order to keep the Water Fund balance positive throughout the five year planning period and fund

necessary capital improvements and conservation programs. Rate increases are driven equally by the need to fund capital programs to accomplish the City's water self-sufficiency goals, the need to invest in infrastructure rehabilitation and replacement, and the reduction in water sales that reduces annual revenues.

Option 1 is presented as an indication of the status quo, or the result of non-action relative to rates, other than an annual CPI increase. This option is unsustainable, as continuing on this course would result in a negative fund balance by FY 2016-17.

Option 2 includes an across-the-board 9% increase on all tiers of the existing unit prices. This option is included to indicate the effect of utilizing a single digit rate increase. As might be expected, a lower percentage rate increase results in lower revenue generation. Accordingly, expenditure reductions are required to accommodate the lower rate increase. This may be achieved through modifications in capital programs such as main replacements, valve rehabilitation, automatic meter infrastructure development, or some conservation programs. The consequence of cuts to these programs may result in a delay in reaching the self-sufficiency goal by 2020.

Staff recommends Option 3, which fully funds the projected capital programs, infrastructure investments, and conservation programs over the five year planning period. Because the first rate increase in the five year planning period is proposed to take effect in January 2015 only a 9% increase is required for the first year (i.e., half of FY 2014/2015 would be subject to the rate increase). In subsequent fiscal years, a 13% increase would take effect July 1. This approach keeps progress on track toward achieving the City's 2020 self-sufficiency goal. Due to the conservation effect of the water budget rate structure inherent in the Stage 2 water shortage plan, water bill increases are somewhat offset by the reduction in water use which is anticipated from each customer. As indicated in Figure 3, residential water bills remain competitive with comparison cities after a 13% rate increase.

#### Proposition 218 Compliance

Proposition 218 requires a public notice of proposed changes to rates be made to all property owners in the affected area. A 45 day notice/ response period will be in effect from the date of approval of new rates (with a few days allowance for mailing). The notices to be mailed to all property owners will include a description of the need for a rate adjustment, and explain the protest process for the public to follow if they wish to oppose the proposed rates. Absent a majority protest, City Council may then approve the final adoption of the rates at a public hearing.

As indicated in Council staff report item 8B on the October 28, 2014 Council agenda, a drought surcharge is proposed for customers that exceed their bi-monthly Water Use Allowance. The proposed drought surcharge is intended to recover the cost of service associated with the implementation of measures to address the Stage 2 Water Supply Shortage, including but not limited to costs of water conservation rebates, enforcement of water conservation ordinances, and outreach. These proposed measures are not recovered through the City's existing and proposed water rate structure. These drought surcharges are subject to Prop 218 requirements and would be noticed in conjunction with the appropriate notice given for the rate adjustments.

#### Community Outreach

Pending the direction provided by Council regarding the information provided in this report, outreach efforts will commence to engage the community in discussions relative to proposed rate adjustments, the Sustainable Water Master Plan (SWMP), and the Water Shortage Response Plan (item 8B on this agenda). Staff from Public Works and the Office of Sustainability and the Environment (OSE) will schedule and at least 2 community forums, in addition to meetings with the Chamber of Commerce, apartment owners, hotel management staff, and school district and SMC staff. This would commence in November following the direction provided by Council relative to this report and continue through formal adoption of rates in January. Staff will provide at that time a summary of comments received during these sessions as well as a summary of correspondence received from the Proposition 218 notices.

### Wastewater Rate Analysis

Present day wastewater rates were established in 2008, concurrent with the last water rate adjustments. Consistent with the adopted water rates at the time, wastewater rates were also established as a commodity-only rate structure, based upon estimated wastewater flows during the bi-monthly billing period. A discharge factor is applied to the metered water consumption to represent the portion of water usage returned to the wastewater system. The discharge factors range from 51% for single family residential accounts, to 95% for multi-family residential accounts with more than 4 units. All non-residential customers are assigned a discharge factor of 89%. Commodity charges for non-residential customers vary depending on sewage strength (as represented by biochemical oxygen demand and suspended solids) for each class.

On [May 13, 2014](#), Council approved redemption of all outstanding Wastewater Enterprise Revenue Bonds. This action will save the Wastewater Fund approximately \$600,000 over the next four years (bond maturity was January 1, 2018). Coupled with a remaining healthy fund balance, an increase in wastewater rates, other than an annual CPI adjustment, will not be required over the five year planning period considered in this analysis.

### Reserve Fund Levels

A review of the reserve fund policies for both water and wastewater, adopted in 2008, conducted in conjunction with the Finance Department indicates an adjustment is appropriate to reflect more modest funding of these reserves and reduce pressure on rates. Council approved the revised reserve levels as part of the FY 2014-15 operating budget.

#### *Water Fund (Fund 25)*

The revised reserve levels include the following:

- An Operating reserve equivalent to 50% of the MWD purchases (3 year running average) budget, with a minimum level of \$3 million.
- A Capital reserve of 50% of annual capital program expenditure, with a minimum level of \$3 million.
- A Rate Stabilization reserve of \$1 million (unchanged).

#### *Wastewater Fund (Fund 31)*

As with the Water Fund, a change in the Wastewater Fund reserve policy is recommended as below:

- An Operating reserve equivalent to 50% of the Hyperion treatment expenses (3 year running average) budget, with a minimum level of \$3 million.
- A Capital reserve of 50% of annual capital program expenditures except Hyperion Capital Payment, with a minimum of \$3 million.
- A Rate Stabilization reserve of \$1 million (unchanged).

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### Sustainable Water Master Plan

The Sustainable Water Master Plan has been defined as to its content and objectives to meet water self-sufficiency by the year 2020. The executive summary of the report is attached herewith. Staff recommends Council approve the SWMP.

Based on the approach approved by Council on [May 14, 2013](#), conservation and supply augmentation programs are underway. Furthermore, given the drought response required to meet the State's call for a mandatory 20% conservation level, some programs described in Table 1 of this report are being accelerated in order to meet the mandate. These include the high-efficiency toilet direct install program, Laundromat retrofit rebate, landscape rebate, SMMUSD water audit and retrofit program, adding funds to Metropolitan Water District's rebate program, St. John's retrofit program. On the supply side, testing to determine the operating parameters and design criteria for the new Olympic Basin Treatment Facility has begun, and planning for a new well in the Olympic basin has been initiated. As a longer term approach to augmenting supplies, staff is investigating grant funding opportunities for a potential Santa Monica Urban Runoff Recycling Facility (SMURRF) rehabilitation/expansion for the addition of reverse osmosis treatment capability. This would potentially allow for the treatment of other sources of water, such as captured stormwater, and increase supply to the plant.

Staff continues to work in partnership with the SWMP Advisory Committee to further develop and implement these programs. Communications with the committee have occurred over the last year via group meetings, emails and conference calls. The advisory committee comprises Mark Gold, Chair of the City's Environmental Task Force, Associate Director UCLA Institute of the Environment and Sustainability; Andy Lipkis, Tree People Founder and President; Conner Everts, Southern California Watershed Alliance Executive Director; Ed Osann, Natural Resources Defense Council Senior Policy Analyst, Water Program; Judy Abdo, Santa Monica representative on the MWD Board of Directors, former Santa Monica Mayor and Councilmember; Caryn Mandelbaum, Environment Now Freshwater Program Director, Staff Attorney; and Tracy Quinn, Natural Resources Defense Council Policy Analyst, Water Program. The committee members have provided valuable input and counsel during the course of developing the SWMP.

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### CEQA Compliance

The Sustainable Water Master Plan qualifies for a categorical exemption from the provisions of the California Environmental Quality Act pursuant to CEQA Guideline Sections 15307 (Actions by Regulatory Agencies for Protection of Natural Resources) and 15308 (Actions by Regulatory Agencies for Protection of the Environment). To the extent specific demand management, water supply augmentation or other projects identified in the SWMP are pursued in the future, additional CEQA review will occur in compliance with CEQA.

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**Next Steps**

Following direction from Council regarding a preferred rate alternative, staff will continue with community outreach to discuss drought actions and financial planning efforts. Staff will return to Council with a recommendation of formal approval of rate adjustments in November 2014, after which the Proposition 218 public notices will be mailed to every property owner in the City. Following the required 45 day notice period, staff will return to Council with a summary of community responses and a formal recommendation to adopt new rates. Final adoption of rates can be made at a meeting in January 2015. It should be noted that delaying action on rates beyond this time frame will result in adverse impacts on the financial forecasts and rates.

**Financial Impacts & Budget Actions**

Future budget and financial impact will be contingent upon Council direction. Impacts will be reflected in a future rates adoption staff report.

**Prepared by:** Gil Borboa, P.E., Water Resources Manager

**Approved:**

**Forwarded to Council:**

\_\_\_\_\_  
Martin Pastucha  
Director of Public Works

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Rod Gould  
City Manager

**Attachment:**

A – [Sustainable Water Master Plan Executive Summary](#)