



## **Frequently Asked Questions**

### **Water and Wastewater Rate Adjustment**

#### **1. Who reviews and recommends rate adjustments?**

Redlands rate payers do. The Redlands Municipal Code requires establishment of a Council approved seven-member volunteer committee made up of a representative cross section of utility rate payers called the Utility Advisory Committee (UAC). Every two years the City advertises openings for the committee in local newspapers and on the City's website soliciting public participation on the UAC. Staff presents information to committee members on the utility program details and the committee recommends adjustments in these programs to develop a rate recommendation for City Council's consideration and possible adoption.

#### **2. Why was the Utility Advisory Committee formed?**

The Utility Advisory Committee was created to ensure the public has ample opportunity to participate in developing City utility rates that provide for adequate revenues to maintain and invest in the City's utility assets. It was also established to allow for frequent review and rate correction to provide the lowest possible incremental rate adjustment possible.

#### **3. Are utility rate increases necessary every year?**

Rate increases are not required every year. The determination of whether a rate increase is necessary is based on the detailed review performed by the Utility Advisory Committee of revenue and program expenditures. The City uses a 10-year forecast of revenues and expenditures to design incremental rate adjustments rather than implement large rate increases. This provides rate stability and results in lower overall increases.

#### **4. What does my bill pay for?**

##### **WATER PROGRAM:**

- Purchase of water
- Payment of electricity bills
- Treatment of water to ensure it is safe to drink
- Delivery of water to your home or business
- Frequent water quality testing to ensure the water is high quality and safe
- Regulatory reporting (monthly, quarterly, annually)
- Regulatory permits
- Water meter reading, billing, and customer service
- Daily maintenance and repairs of the system

Equipment, materials, and staff to perform daily operations  
Annual reinvestment for replacement/rehabilitation/upgrade of old pipelines, water storage tanks, water wells, and treatment plants  
Payment for existing loans

#### **SEWER PROGRAM:**

Collection of domestic and industrial wastewater  
Payment of electricity bills  
Treatment of sewage and proper disposal of treated wastewater and solids  
Daily maintenance and repairs of the system  
Equipment, materials, and staff to perform daily operations  
Testing of treated sewage to meet discharge quality standards  
Regulatory reporting (monthly, quarterly, annually)  
Regulatory permits  
Commercial and industrial pre-treatment program  
Payment for existing loans

### **5. What are the improvements that are being funded through 2013?**

The City's Water Capital Improvement Program includes significant projects such as the following:

- \$13 million Hinckley Water Treatment Plant (\$10,476,100 SRF Loan with \$668,930 per year loan payments). Construction is estimated to be complete the end of 2012
- \$4 million to replace old leaking water distribution mains (~5.4 miles total)
- \$3.3 million large diameter 80-year old transmission main (~2.5 miles)
- \$2.5 million Dearborn 10.5 million gallon water storage facility roof replacement, construction slated to begin in 2013
- \$250,000 water well rehabilitations

The City's Sewer Capital Improvement Program is minimal, and includes the following:

- \$1.9 million to replace deficient/damaged sewer mains (~2.4 miles total)

### **6. Why can't the City defer utility defer the cost of utility improvements?**

Many replacements and improvements have already been deferred beyond what is recommended or prudent. The City's water and sewer system continues to age and deteriorate. Of the City's 400 miles of water pipelines, currently 95 miles are at least 60 years old, and because of this the City responds and makes repairs nearly 750 leaks each year. Ongoing replacement, rehabilitation, and upgrading of the system maintains service reliability and a lower operational cost. Deferring improvements pushes the need to future years and results in higher costs to the ratepayer. Routine reinvestment is the most equitable and responsible way to manage the utility assets.

### **7. How large is the City's water system?**

The City water system distributes water to 21,500 customers. It is comprised of 400 miles of pipelines varying in size from 2 inch to 36 inch. In addition there are 3,000 fire hydrants, 18 water storage tanks, two surface water treatment plants, one perchlorate treatment plant, 21 active potable and non-potable water wells, and 14 booster stations. The water system replacement value is worth approximately \$500 million. The capital reinvestment to perform maintenance and upgrades is approximately 2% of the replacement value.

**8. Why must the Hinckley Water Treatment Plant upgrades be constructed? Isn't the water safe to drink now?**

The water provided to the public is safe to drink and meets all the requirements under the current Environmental Protection Agency (EPA) Safe Drinking Act. However, upgrades to the Hinckley Water Treatment Plant are necessary to meet new stricter EPA Stage Two Disinfections By-Product Rule requirements, which consist of a new method for calculating compliance. These new compliance requirements become effective in October 2012. Plant improvements are necessary to meet these new regulatory standards and will improve plant efficiency.

**9. Didn't the last rate adjustments cover the cost for Hinckley Water Treatment Plant upgrades?**

The 2008 UAC recommended rate adjustments adopted by the City Council provided for planning and design costs of approximately \$1.6 million for the Hinckley Water Treatment Plant; however, these rate adjustments did not provide for the construction of the facility estimated at nearly \$13 million. The City was successful in securing a low interest (2.5017%) State Revolving Fund (SRF) loan in the amount of \$10,476,100 to be used for the construction of the improvements. The loan payments will be approximately \$668,930 per year (3.8% of the rate increase). Funding this capital project by the SRF loan avoids a significant rate increase.

**10. If the water is safe, why did Environmental Protection Agency (EPA) impose new requirements for drinking water?**

EPA is required under the Federal Safe Drinking Water Act to continue to evaluate health data, and perform population risk assessments and adjust new drinking water quality regulations when necessary. EPA is required by the federal government to continually evaluate and develop new drinking water standards where necessary. These newly adopted regulations require water providers to assess their water supplies and implement improvements to meet these new standards. New federal requirements continue to increase treatment costs and overall cost of water to the public.

**11. Isn't increasing utility rates just a way for the City to pay for other non-utility related programs?**

No. All the money that is collected from water and sewer rates is separately deposited and used for utility program needs. These funds are accounted for, tracked, and independent annual audits are performed by consultant financial auditing firms to validate that utility funds collected are only used for utility program requirements.

**12. Didn't the City borrow money from the water fund last year to pay for general fund debt payments? Does that demonstrate the City is using funds inappropriately?**

During the last budget review a loan of \$150,000 was made by the Water fund to the Public Facilities Development Fund account to assist in making a bond payment for the construction of library, fire, and police facilities. The bonds are to be paid back from revenue generated from development impact fees. However, due to a reduction in new development insufficient revenues were collected to make the bond payment. The loan from the Water Fund will be paid back with interest when development activity increases and money is available in the Public Facilities Development Fund. This interfund loan is an acceptable and legal mechanism to cover financial obligations.

### **13. What about automated meter reading? Would that reduce costs and save money?**

No. The capital investment required to convert to an automated meter reading system is expensive. In addition, the useful life of the equipment is limited and compared to the current practice of manually reading meters, costs to the customer would actually increase significantly to complete the conversion to an automated reading system. Nonetheless, staff continues to evaluate technologies within the utility arena and looks for implementation of proven technologies that will result in savings.

### **14. What is the City doing to keep rates low?**

Water is heavy, weighing 8.34 pounds per gallon, and because of this, moving it throughout the City to customer homes and businesses consumes a lot of electricity. Electricity is a major cost associated with operating any utility. In 2008, the City began participating in a Southern California Edison electricity demand management program. Under this program the City receives rebates for reducing its electrical demands during times when SCE is experiencing difficulties meeting customer electrical needs. Since inception, the City has received \$193,016 in rebate money. This money is deposited into the utility revenues to offset other utility costs.

The City maintains and rehabilitates its pumps and motors to keep the cost of operating this equipment as low as possible.

The City also replaces old and leaking pipelines which minimize the loss of water through leaking pipelines. This reduces maintenance expenses and maintains service reliability. In addition, pipeline replacement reduces related costs to the City from damaged roads and lost productivity due to road closures.

### **15. How does development pay for improvements required to support their added demands on the water and wastewater system?**

The City's adopted General Plan provides guidelines for development within the City. New development is required to fund improvements necessary to meet the needs of development. Often backbone improvements are constructed ahead of development to allow for orderly development and to meet future community needs. When this occurs, developers are required to pay for the portion of the facility that benefits their project. This method ensures existing customers are not funding development activities.

Some of the improvements required to meet existing and new development needs are financed. The cost attributed to development is included in the loan payments. Developers pay their

proportional share of these facilities through the payment of development impact fees at the time of development.

As a result of the economic downturn, development has slowed and the anticipated revenue associated with development has significantly diminished. The reduced development activity has resulted in a reduction in development impact fee revenue, which is needed to pay a portion of the outstanding loan payment for improvements constructed. Regardless of the developer impact fees collected, the water and wastewater utilities are still responsible for making the loan payments. As a result additional revenues must be collected from the rate payer to meet the loan payment obligation.

Currently the development portion of payments for the construction of facilities is being funded by the existing customers through an interfund loan. This loan will be repaid with interest when development activity resumes and impact fees are collected.

**16. Why does the City finance some capital improvements versus implementing a policy of pay as you go?**

Financing large capital projects allows the City to soften the impact of rates, because these expenses are paid over time. Financing is not a mechanism recommended for annual capital improvements such as pipeline replacements. The annual pipeline replacement program is imbedded in the rates to provide a routine method for addressing these yearly investments. Annual investments in pipeline replacements, well rehabilitations, water storage rehabilitations, and water and wastewater treatment plant equipment maintenance replacements are necessary to ensure the system continues to provide reliable and safe water and sewer service.

**17. How big is the City's Sewer System?**

The City sewer system collects sewage waste from 18,000 customers. It is composed of 240 miles of pipelines, a lift station, a wastewater treatment plant, and several percolation ponds. The wastewater system replacement value is approximately \$290 million. The capital reinvestment to perform maintenance and upgrades is approximately 1% of the replacement value of the wastewater utility.

**18. The City has recently seen rate increases, where has the money generated from those increases gone?**

Revenues from recent rate increases have paid for infrastructure improvements. These improvements include the following:

<b>Water Improvement Program</b>	Status	Cost
Reservoir Rehab., South and Smiley Reservoirs	Completed 2009	\$1,095,644
Retaining wall at South Reservoir Site	Completed 2009	\$44,960
Reservoir Rehab., Sand Canyon Reservoir	Completed 2010	\$541,937
Agate Well Rehabilitation	Completed 2010	\$45,268
Orange Street Well Rehabilitation	Completed 2010	\$49,750
FY 09/10 Pavement Repairs for water Projects	Completed 2010	\$107,500
Mentone Acres Well Rehabilitation	Completed 2010	\$236,400
Highline Water Main replacement Project (7,500 Feet)	Completed 2010	\$1,741,606
Mill Creek Well Rehabilitation	Completed 2010	\$33,650
Design of 2010 Water CIP	Completed 2011	\$211,813
Hinckley Improvements Design and Modeling	Complete/Current	\$1,607,899
SCADA Design and Programming	Complete/Current	\$739,050
Country Club Reservoir No. 1 Replacement	Current	\$864,000
CIP Pipeline	Current	\$2,600,000
	Total	\$9,919,477

<b>Sewer Improvement Program</b>	Status	Cost
Peak Pond	Completed 2009	\$520,800
Sewer Main Replacement 2009	Completed 2009	\$1,007,870
Design of 2010 Sewer CIP	Completed 2010	\$150,000
Nevada Street Sewer Trench pavement Repair	Completed 2010	\$51,579
Brookside Avenue Sewer main Replacement	Completed 2010	\$61,913
2010 Sewer CIP Project	Completed 2010	\$881,400
Centrifuge Construction	Completed 2010	\$798,302
Sewer Main Replacement 2010	Completed 2010	\$881,400
	Total	\$4,353,264

In addition to these projects, the water utility has seen reduced revenues in its developer impact fee fund. When revenues generated are insufficient to pay for the debt service payments associated with infrastructure improvements associated with development, funds from the utility must be borrowed to pay the required debt service payments. When development impact fees are received they are used to repay the funds borrowed with interest.

**19. Did the City sell its water rights to Metropolitan Water District, or any other agency?**

No. The City owns water rights on the Santa Ana River and Mill Creek, and continues to acquire water rights when they become available. The City has not sold any water rights to the Metropolitan Water District, or any other agency.

However, the City has sold stock in a pipeline which had no foreseeable use for to increase capital for customers.

**20. Are City staff receiving a pay increase as a result of the rate increase?**

No. Staff salaries and benefits are not dependent on rate adjustments. When employee bargaining unit MOUs expire, employees in these units negotiate future compensation packages, which are taken to City Council for approval.

Additional revenues are needed to pay for non-wage components such as medical/dental/life/disability/workers compensation insurance premiums.

**21. How do the City’s water rates compare to neighboring jurisdictions?**

The City’s water rates compare favorably to its neighboring jurisdictions. The average City water customer uses 24 units (17,952 gallons) per month through a ¾ inch meter and bills its customers on a bi-monthly basis. Using the average city water user as a baseline, the water rate for the City’s customers and surrounding jurisdictions is as follows:

<b>WATER</b>	2011	2012	2013
<b>Redlands</b>	\$45.60	\$48.38	\$51.40
Yucaipa	\$43.72		
Loma Linda	\$47.16		
Colton	\$50.46	\$55.34	
East Valley Water District	\$51.46	\$56.19	
San Bernardino	\$54.99	\$58.63	

*\*Blank spaces in the table are representative of information not currently available*

It is important to note that the water rates include water charges as well as water meter charges. Additionally, when making a comparison to other rates, it is necessary to ensure that the comparison uses equivalent units. For example, whereas 1 unit in the City is 748 gallons and 1 unit in Yucaipa is 1000 gallons. In addition, it is important to consider the billing cycle for each utility as some utilities bill on a monthly basis, however the City bills on a bi-monthly basis, so when making comparisons the water service charge should be adjusted to reflect the same time period. The table reflects this conversion.

**22. How does the City’s sewer rates compare to neighboring jurisdictions?**

Much like the water rates, the City’s sewer rates compare favorably to surrounding jurisdictions even after the proposed rate adjustment. The following table shows what the average single family residence will pay monthly for sewer rates in the City and the surrounding jurisdictions from 2011 to 2013:

<b>SEWER</b>	2011	2012	2013
<b>Redlands</b>	\$20.88	\$21.92	\$23.24
San Bernardino	\$21.00	\$22.50	
Loma Linda	\$25.67	\$27.17	
East Valley Water District	\$28.93	\$30.00	\$31.36
Colton	\$32.78		
Yucaipa	\$38.43		

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In addition, it is important to consider the billing cycle for each utility as some utilities bill on a monthly basis; however, the City bills on a bi-monthly basis, so when making comparisons the sewer service charge should be adjusted to reflect the same time period. The table reflects this conversion.