



REPORT TO COUNCIL

City of Sacramento

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Staff Report
October 23, 2007

**Honorable Mayor and
Members of the City Council**

Title: Utilities Rate Advisory Committee

Location/Council District: All

Recommendation: Staff recommends that City Council approve the proposal for creation of a Utilities Rate Advisory Committee comprised of seven members with the following requirements. All members must be City residents and represent one or more of the Utilities' customer classifications (single family residential, multifamily residential and commercial). Five of the members must have leadership and expertise in one of the following areas: finance, law, engineering, or solid waste, water, sewer, or drainage operations. Two members would be at-large not subject to the specialized expertise requirements. Members would serve two-year terms. The Committee would hold rate hearings and present its recommendations to City Council. City Council would continue to approve all rate increases and set levels of service for the Department. If this recommendation is approved, staff will return with an ordinance to create the Rate Advisory Committee.

Contact: Gary Reents (916) 808-1433, Jessica Hess, (916) 808-8260

Presenters: Gary Reents, Director

Department: Utilities

Division: Administration

Organization No: 3311

Description/Analysis

Issue: At the June 5, 2007 Department of Utilities Rate Hearing, City Council directed staff to return with a proposal for creation of a Rate Advisory Committee to advise City Council regarding proposed utility rate increases. The Utilities staff has researched and reviewed several options for this type of committee and is recommending the creation of a seven-member committee, of which 5 members are selected based upon specified criteria and 2 members are appointed at-large. Members would be appointed by the Mayor and City Council. Staff also considered the option of a larger, strictly advisory panel that would not hold rate hearings, but instead provide an advisory opinion to City Council.

Policy Considerations: The proposed Utilities Rate Advisory Committee will

provide community input and recommendations on and promote better understanding of Department of Utilities' rates and proposed rate increases.

Environmental Considerations: None

Commission/Committee Action: N/A

Rationale for Recommendation: Staff has developed this committee scope based on research of other utilities and communities throughout the state and nation and taking into account the direction from City Council and the needs of the Utilities' Department. A table detailing the findings of other utilities and communities is included as Attachment 3.

The recommended approach to the Committee will provide representation from the community and will also provide City Council with an advisory panel with relevant expertise regarding the rate structure for water, sewer, drainage and solid waste services in Sacramento. It is anticipated that members can be appointed and the Committee can commence operations by February, 2008. Although staff is recommending that the Committee be empowered to hold the hearings required for utility rate increases, instead of the City Council, it is recommended that this responsibility not be transferred from the City Council to the Committee until 2009. This will provide adequate time for the Committee members to review and educate themselves regarding the Department, its rates and fee structures and committed levels of service.

Financial Considerations: The formation of an advisory committee will have not impact on the Department's operating budget

Emerging Small Business Development (ESBD): None

Respectfully Submitted by:  Gary Reents, Director

Recommendation Approved:



Ray Kerridge
City Manager

Table of Contents:

Report	pg. 1-2
Attachments	
1 Background	pg. 3-4
2 Proposed Timeline for RAC	pg. 5
3 Comparison Table: RACs	pg. 6-10

Attachment 1**Background**

At the June 5, 2007 Department of Utilities Rate Hearing, the City Council directed Utilities' staff to report back on the creation of a Rate Advisory Committee (RAC).

Staff has researched several other communities and utilities with RACs and has found that there are several variations of this type of committee. SMUD, for instance, has a rate advisory committee that convenes only for a brief period of time and reports to the SMUD General Manager, who will then report the committee's findings to the Board of Directors. Other communities, such as San Diego and Riverside, turn over supervisory control of the Utilities Department to an independent board or committee. These entities not only set the levels of service for the Department to provide to the community, but also the rates that they may charge while they provide those services, subject to approval by the community's governing body. Members of these entities are appointed by and report to the governing body.

Additionally, staff has researched how communities determine who sits on a committee and how many community members sit on the committee. Most communities or utilities have some criteria for membership, such as experience or customer classification (such as residential customer, commercial customer or industrial customer) to ensure that the committee represents the majority of their customer base. San Diego for instance, requires that the each of their four rate payer classes (single family residential, multifamily residential, commercial and industrial) be represented on their 11-member Independent Rates Oversight Committee and that the majority of their committee possess expertise in one or more of the following areas: accounting, auditing, engineering, biology or environmental science, finance or municipal finance, law and construction management.

The number of members on these committees also varies. Most communities or utilities with permanent advisory committees have an average of 10 committee members, and typically have terms for their members. The average length of a member's term is three years. Committees that are more of an ad hoc nature, such as those convened by SMUD or San Juan Water District, tended to be larger and averaged approximately 20-30 members. These committees met temporarily and were disbanded after they made a recommendation regarding the rate and fee structure.

A table detailing the findings of Utilities' staff research can be found in Attachment 3 on page 7.

Staff would recommend based on this research that the City utilize an open application process to select members for the Utilities Rate Advisory Committee. Applicants from all areas of the City would be appointed by the Mayor based on Council-approved membership criteria and each member's appointment would be approved by City Council.

Staff recommends that the City's Utilities Rate Advisory Committee members be appointed for staggered two year terms. Four of the initial appointees would serve two-year terms and three would initially serve three-year terms. Members would be eligible for re-appointment and could serve up to three consecutive terms on the RAC.

Staff would also propose that the City Council retain the responsibility for setting the levels of service to be provided by the Department of Utilities. The Department of Utilities recommends that the proposed RAC would meet to review and comment (prior to the issuance of the Proposition 218 Notification of

Public Hearing) on staff proposals for rate increases to achieve or maintain the levels of service set by the City Council. The Department also proposes that the proposed RAC hold the rate hearing as required by Proposition 218 and then present its recommendation to the City Council and the community. City Council would retain the responsibility for approving the rate increase. However, given the limited timeframe that the RAC would be in place prior to the 2008/2009 budget cycle, it is recommended that City Council hold the 2008/2009 Rate hearing. The RAC would hold the 2009/2010 Rate Hearing, to provide adequate time during the end of 2007/2008 and during 2008/2009 for the RAC to learn how the Department of Utilities works, how it collects its funds and how it sets its rates.

Staff has evaluated the various ways for the RAC to be created and operate and recommends the creation of a seven member Committee, consisting of five members with expertise and two at-large members. Members must be City residents and represent one or more of the Utilities' customer classifications (single family residential, multifamily residential and commercial). Five members must have leadership and expertise in one of the following areas: finance, law, engineering, or solid waste, water, sewer, or drainage operations.

Staff recommends this option for the following reasons: Having expertise in the fields of finance, law, engineering, or solid waste, water, sewer or drainage operations will allow RAC members to understand the complexities of how the Department provides services and provide professional insight when determining its rate structure. The two at-large members would allow the Committee to have members that could represent the average community members concerns. Additionally, the size of the group (7 members) is very manageable from an administrative standpoint. This group, given its requirements for a representative of each customer classification, its City residency requirement and its expertise requirement would provide the City Council and the community with a panel that will be able to represent City residents well and deeply probe the issues surrounding rate setting to provide educated recommendations to City Council.

Staff also closely considered the option of an advisory panel that would report to the Department Director and that would not be delegated the ability to hold rate hearings.

Option: Advisory Group- Members of this larger group would be leaders of community organizations throughout the City. Membership of this group would be limited to twenty-one members. All members must be City residents and a member in a leadership position in a community organization registered with Neighborhood Services.

This group would report to the Department Head and advise as to what to present to City Council regarding a proposed rate increase. They would not have the authority to hold the rate hearing and they would not report to the City Council.

Staff would not recommend this alternative because the size of the committee would be very large and could be difficult to organize and educate. Additionally, the larger group would not allow members of the community who may not typically participate in the local government process to participate as it will require that members have a leadership role in a community organization recognized by Neighborhood Services. Members of community groups outside of the Neighborhood Services database would also be excluded, as we would be unable to verify the existence of the group and its role in the community.

Attachment 2

Utilities Rate Advisory Committee (RAC) Proposed Timeline

October 23, 2007: RAC proposal to City Council

November 6, 2007: RAC Ordinance to Law and Legislation Committee

November 13, 2007: RAC Ordinance Pass for Publication

November 27, 2007: RAC Ordinance to City Council for approval

November 28, 2007: Begin Recruitment- Applications available

December 28, 2007: Application Period Closes

January 15, 2008: P&PE Committee reviews applications and forwards recommendations to Mayor*

January 29 to February 5, 2008: Mayor appoints members in open Council Meeting (date at Mayor's discretion)

February 19, 2008: Council confirms appointments via Clerk's Report

February 22, 2008: Appointment letters, oaths of office, ethics training and conflict of interest form transmittals prepared and sent to appointees.

April 2008: Prop 218 Rate Hearing Notification must be mailed 45 business days prior to Rate Hearing

June 2008: Prop 218 Rate Hearing must take place for rates to go into effect for 2008/2009 budget cycle

* Assumes P&PE Committee meets on January 15, 2008. Other possible dates include February 5th and February 19th, 2008

Attachment 3

RAC Information

City Name/ Committee Name	Permanent/ Temporary	Formation	Reports To	Meets	Works on	Staff Participation
Sacramento Municipal Utilities District (SMUD)	Temporary Committee formed when necessary (2 in the past 20 years)	98/99- 20 member committee, Board allowed to submit names of representative s of each customer group (Gov't, Residential, Commercial, etc). Staff selected participants. 2007- Staff recommended and selected participants.	General Manager (incorporates in budget and presents to Board)	As needed. Disbanded after recommen- dation made.	98/99- Long term strategies. Rate projections 2007- Looking at specific topics, such as viable solutions to issues, long-term impacts of rates, and how District will look 10 years from now.	Led by a group of staff. Educated by staff. Little if any, third-party involvement. Hold workshops to bring Advisory group up to date. Disbands group from service after Board adopts.
San Juan Water District	Temporary	1999. Solicited volunteers and recruited more "vocal" community members	General Manager (who presented information to the Board)	Monthly	Metered rate development	Staff participated in the group to provide information. Third- party facilitator and independent rate consultant helped to lead the group.
City of Fresno/Utility Commission	Temporary	July, 2006. Mayor nominated 4 representative s, one additional from each Council District (11 total)	Mayor/Council	2 hrs/week for 4 mos.	5 year rate structure	Led group, contracted a third- party facilitator. Provided data from rate analysis and information about what the Dept. does and how it does it. Provided staff support in terms of Admin.

City Name/ Committee Name	Permanent/ Temporary	Formation	Reports To	Meets	Works on	Staff Participation
Seattle/City Lights Advisory Board (similar committees for its Solid Waste and Water Utilities)	Temporary by ordinance. Exp. 1/31/2006. New ordinance written for re- establishe nt. Not yet passed	6 members, 3 appointed by City Council, 3 appointed by Mayor. All approved by City Council.	Mayor/Council	Monthly	Advises Mayor/Council/ Superintendent on policies, strategies, and performance oversight of the Utility's finance, power supply, power marketing, risk management, environmental protection, energy conservation, and other areas as deemed appropriate by Mayor/Council. Board is technical experts.	Provided logistical support, scheduling meetings, organization of materials, recording minutes, prep of agendas. Staff was to be available to assist in deliberations or analysis.
City of Riverside/Bo ard of Public Utilities	Permanent	Nine member board appointed by City Council (4 year terms)	Mayor/Council	2x/mon.	Acts as Public Utilities' Governing Board. In terms of rates, holds hearings on rates and then forwards its recommendation to City Council for approval. Is part of the City Charter. Holds extensive public workshops as part of its process.	General Manager's assistant coordinates staff reports and responses to the BPU as well as facilitate public noticing and administrative operation of the Committee.

City Name/ Committee Name	Permanent/ Temporary	Formation	Reports To	Meets	Works on	Staff Participation
City of Olympia, WA/ Utilities Advisory Committee	Permanent	Est. 1998, 11 members, apply and appointed by City Council. 3- year terms	Mayor/Council	Monthly	Principal policy advisory to City Council, CMO, and Public works RE: Utility Matters. Conducts research and analysis and prepares reports RE: Utility rates and fees, plans, levels of service, capital facilities. Fosters opportunities for expanding public involvement in the planning and delivery of services. Provides advice on management strategies and presents annual work plan and reports to City Council.	Provides administrative support. Provides information and technical expertise- all members of the Committee are residents or business owners.

City Name/ Committee Name	Permanent/ Temporary	Formation	Reports To	Meets	Works on	Staff Participation
City of San Diego/ Independent Rate Oversight Committee (IROC)	Permanent	<p>2007- 11 members, 3 year staggered terms. 1 member from each of the following groups: single-family residential, multi-family residential, commercial and industrial, temporary irrigation and construction. Other seven members are chosen by experience in one of the following areas Accounting, Auditor, Engineering, Science, Environmental, Finance, Law, and Construction Management. Majority of members should be residents of San Diego.</p> <p>Citizen volunteers and Council/Mayor nominations. Mayor selects committee and City Council approves.</p>	Council/Mayor	Every other month at minimum w/ additional meetings as necessary by Chair.	Reviews reports on rate and bond proceed expenditures, review audits of system, provide advice on efficiency and performance of systems on a regular basis, provide advice on future cost allocation models, oversee departmental savings efforts and deposits to the reserve fund, assist Mayor and CFO to select and retain the independent firm to conduct the annual financial audit of the Dept. budget, assist Mayor and Deputy COO to select and retain the independent firm to conduct the annual performance audit for the Dept. Provide an annual report to Mayor/Council. Review policies and proposals and advice sought by dept on finance, budget, environmental issues, technology innovations, public outreach and education efforts.	Executive staff member who reports to Public Work and coordinates staff reports and responses to the IROC as well as facilitate public noticing and administrative operation of the Committee.

City Name/ Committee Name	Permanent/ Temporary	Formation	Reports To	Meets	Works on	Staff Participation
City of Tucson/Citizen's Water Advisory Committee	Permanent	15 members, 8 selected by CMO and 1 by the Mayor (4 year terms), 1 per City Council District (6, coterminous with City Council member) It is suggested that appointed members have professional or technical competence in one (1) of the following areas: (1) Utility rate making; (2) Water resource planning; (3) Business management; (4) Accounting; (5) Financial analysis; (6) Public health; (7) Water system engineering; (8) Resource economics; (9) Hydrology; (10) Landscape architecture; (11) Water law.	Governing Body	Monthly	Act as the official advisory body on Water Capital Improvement Program planning and rate structure formulation to City Government.	Provides administrative support. Provides information and technical expertise if needed.