



CITY OF NEWPORT BEACH

OFFICE OF THE MAYOR

August 13, 2008

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The Honorable Nancy Wieben Stock
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, California 92701

RE: Response to the Grand Jury Report on "Water Budgets, Not Water Rationing."

Honorable Judge Wieben Stock:

This letter is submitted in response to the May 20, 2008 Grand Jury report entitled "Water Budgets, Not Water Rationing." As mandated by Penal Code 933.05 (a) and (b), the following responses address the findings and recommendations of the Grand Jury.

In accordance with your report, the City of Newport Beach was requested to respond to Findings F-1, F-2 and Recommendations R-1, R-2a, R-2b and R-2c. Our responses are provided below:

Grand Jury Finding F-1:

Opportunities for further water conservation exist especially with regard to landscape watering.

RESPONSE: The City of Newport Beach agrees with the finding.

Grand Jury Finding F-2:

Conservation pricing, or tiered pricing, with a fair and reasonable base allotment, followed by tiers of higher rates, can be an effective tool to motivate further conservation.

RESPONSE: The City of Newport Beach agrees with the finding.

Grand Jury Recommendation R-1:

Continue to emphasize methods and availability of tools that assist the customers in understanding weather-based irrigation practices by:

- Providing a hotline for assisting the public with landscape irrigation information
- Providing a countywide soil texture map on the MWDOC website
- Developing an Orange County specific water calculator on the MWDOC website

RESPONSE: Municipal Water District of Orange County (MWDOC) notes that the recommendation has not yet been implemented, but will be implemented by November 20, 2008.

MWDOC Comments and the Cost of Implementation

MWDOC staff believes that the second and third recommendation bullets (soil texture map and water calculator) would require a minimal amount of cost and effort to implement, maybe on the order of \$2,000 total per year. The recommendation on the landscape irrigation hotline could be implemented in a number of ways. MWDOC staff is currently working with the Master Gardener's Association to see if any working relationships can be developed to have them provide the hotline services. Other options include getting Metropolitan Water District of Southern California to establish a hotline for their entire service area. MWDOC could also allocate a certain number of hours to host a hotline out of our office. It may be possible to contract with the Resource Conservation Districts to provide such a service. There may be funding opportunities for implementation of the hotline. To put an implementation cost not to exceed on it at this time, if we assume the hotline can be staffed by an administrative position or intern position at no more than 4 hours per day, the maximum annual cost would not exceed \$15,000 per year. It is likely that it can be done at a much lower cost. The total cost of implementation of the Grand Jury Recommendations is not expected to exceed \$17,000 per year.

Grand Jury Recommendation R-2a:

Develop monthly water allocations for each customer based on both of the following:

- A per person indoor water allotment that satisfies basic needs.
- An outdoor water allotment that applies the weather-based method over the customers' landscaped area

RESPONSE: The recommendation requires further analysis. In March 2008, the City of Newport Beach retained a consultant to analyze the feasibility of a tiered rate/water budget based rate structure billing system as part of a comprehensive rate study. The following rate structures will be explored to identify feasibility and estimated implementation costs:

- High Uniform Volumetric Rate (current system)
- Inclining-Block Rate Structure
- Water Budget – Indoor/Outdoor Allocation
- Water Budget – Historical Evapotranspiration (ET) weather-based
- Water Budget – Dynamic Evapotranspiration (ET) weather-based

The scope of the rate study is to identify legal concerns associated with Proposition 218 and conservation rate structures, develop a ten year financial plan, evaluate customer classes, develop a cost of service analysis, develop a rate design, and present the financial plan and proposed rate structure(s) to City Council for selection and approval. Staff along with the consultant plan on presenting the proposed rate structure(s) to Council at a scheduled meeting in the October - November 2008 timeframe.

Grand Jury Recommendation R-2b:

Develop a tiered-pricing structure with the first tier based on individual customer water allocation priced at a commodity rate, and subsequent tiers priced significantly higher to encourage conservation. The pricing shall be structured in a manner that will preclude the necessity of price increases as a result of reduced water use.

RESPONSE: The recommendation requires further analysis. As with recommendation R-2a, the City of Newport Beach is currently analyzing the feasibility of implementing a tiered rate/water budget based rate structure billing system as part of a comprehensive rate study. The City is hoping to be completed with this phase of the study by December 2008.

Grand Jury Recommendation: R2c:

Modify water bills to clearly explain customer monthly allotment and monthly water usage.

RESPONSE: The recommendation requires further analysis. In conjunction with the rate study, City staff is currently looking at modifying the existing municipal services statement that includes water and wastewater service and consumption fees. The intent is to provide customers with historical usage and allocations should the City Council decide to implement a new billing system. The study to modify the existing bill or create a new one will be completed by December 2008.

Other Discussion: The City of Newport Beach received a MWD grant to pursue the development of a tiered rate billing system in 2007. The \$125,000 funding would be applied for studying the City's current billing software and determining if we could utilize tiered rates with our current system framework. The study would also evaluate existing hardware and software and determine changes or replacements that would

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need to be in place to implement a tiered rate structure. In July 2008 the City of Newport Beach submitted a proposal in response to a Proposal Solicitation Package from the Department of Water Resources for an Urban Drought Assistance Grant Program. Under the proposal, the City of Newport Beach requested \$211,334.

If you have any questions regarding the current rate study please contact George Murdoch, Utilities Operations Manager, at (949) 718-3401 or gmurdoch@city.newport-beach.ca.us

Sincerely,

A handwritten signature in black ink, appearing to read "Edward D. Selich". The signature is stylized with a large initial "E" and a long horizontal stroke at the end.

EDWARD D. SELICH
Mayor