TO: HONORABLE CITY COUNCIL
ATTENTION: FINANCE COMMITTEE
FROM: CITY MANAGER DEPARTMENT: UTILITIES
DATE: MARCH 15, 2005 CMR:189:05
SUBJECT: APPROVAL OF A RESOLUTION ADOPTING AN INCREASE IN UTILITY SERVICE CALL AND CONNECTION FEES

RECOMMENDATION
Staff and the Utilities Advisory Commission (UAC) recommend that the City Council adopt the attached resolution to increase fees for Utility connections and Utility service calls; and implement a capacity fee effective July 1, 2005.

DISCUSSION
The Utilities Department provides service connections to its distribution network in order to meet new and existing customer needs for electric, gas, water, and sewer services. Connection fee rates schedules are designed to recover the costs that the Utilities Department incurs for installation, connection, and inspection of these new connections. A cost of service study is periodically performed in order to determine whether the Utility continues to fully recover those cost components.

A recent review of connection costs has been completed, and the results indicate that current fees are not fully recovering costs. In addition, some connections, which were subject to engineering estimates, have now been standardized. As such new fees have been added to cover these standardized services.

The Service Calls Rate Schedule has been updated to reflect the increase in labor rates. These labor rates have continued to rise since the last time this rate schedule has been updated due to contract increases. Therefore, staff is proposing to increase connection fees and service call rates as of July 1, 2005.

In addition, in conformance with the Government Code 66000, staff is proposing implementing a Utility Capacity Fee. The capacity fees will cover the proportionate cost of system improvements required to serve the new customer and would become effective July 1, 2005.
UTILITIES ADVISORY COMMISSION REVIEW

On March 9, 2005, the UAC split the staff recommendation into two separate motions: the first motion was that the UAC recommend to the City Council that it approve Utility Connection Fee Rate Schedules E-15, W-5, G-5, S-5 and Utility Service Call Rate Schedule C-1 to be effective July 1, 2005. This was passed unanimously (Dahlen absent).

The second motion was that City Council approve and authorize staff to impose a Utility Capacity Fee in conformance with Government Code Section 6600 on new service demands or service upgrades in the Water and Wastewater Utilities and direct staff to place the revenue from the collection of Water and Wastewater Collection system capacity fees in special Capital Improvement Program accounts for capacity improvements in the Water and Wastewater funds as set in Government Code 66000.

Commissioner Rosenbaum expressed that since Palo Alto is one of the few Bay Area cities that do not impose a capacity fee, this is not a business friendly action. This motion passed: 3-1 (Rosenbaum opposed and Dahlen absent). The Commission also recommended staff provide to Council a list of similar fees at neighboring communities.

RESOURCE IMPACT

The estimated increase in annual connection fee revenues is approximately $50,000, $80,000, and $40,000, for the Water, Gas, and Wastewater Collection Funds respectively. In spite of the modest increase in electric connection fees, overall electric connection fee revenue is expected to remain unchanged due to lower connection activity.

POLICY IMPLICATIONS

This proposal meets the following Utilities Strategic Plan objectives: to invest in utility infrastructure to deliver reliable service and to provide superior financial service to the City and competitive rates to customers. Utilities is in the process of estimating revenue from sources cited. These recommendations do not represent a change in current City policies.

ENVIRONMENTAL REVIEW

The adoption of the resolution does not constitute a project under the California Environmental Air Quality Act; therefore, no environmental assessment is required.

ATTACHMENTS

A. Resolution
B. Utility Rate Schedules E-15, W-5, G-5, S-5 and C-1
C. Utilities Advisory Commission Report dated March 9, 2005
D. Tables 1,2, and 3, detailing existing and recommended service connection charges.
E. Minutes Excerpt from UAC March 9, 2005

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