THE CITY OF SAN DIEGO

MANAGER'S REPORT

DATE ISSUED: March 27, 2002 REPORT NO. 02-064

ATTENTION: Natural Resources & Culture Committee
Docket of April 3, 2002

SUBJECT: Possible Change to a Monthly Water/Sewer Billing

SUMMARY

Issue - Should the frequency of water/sewer customer meter reading and/or billing be increased from bi-monthly to monthly?

At the City Council=s budget hearing of May 15, 2001 Mayor Murphy requested Aa cost-benefit study from the Water Department on billing customers monthly versus bimonthly ....@

The consulting firm of Black and Veatch, Inc conducted the cost-benefit study. Black and Veatch=s report is included as Attachment A.

Manager=s Recommendation B

- Do not implement any of the three options provided by the Black and Veatch report in Fiscal Year 2003
- Designate Black and Veatch option #3Cmonthly meter reading and billingCas the preferred option for implementation when feasible
- Direct the Water Department, in collaboration with the Public Utilities Advisory Commission, to develop a plan for a transition (ATransition Plan@) from the current bi-monthly billing to monthly billing as a part of the Water Department=s strategic business planning process
- Consider the Transition Plan in the context of the Fiscal Year 2004 budget process

The rationale for this recommendation is explained more fully in the DISCUSSION section of this report.

Other Recommendations - None

Fiscal Impact B Changing the meter reading and billing frequency to a monthly basis would have a net recurring annual cost in excess of $2.0M and an initial one-time cost of about $1.0M. The manager=s recommendation to not change the frequency would have no cost in Fiscal Year 2003.

BACKGROUND

Black and Veatch Analysis:

Black and Veatch evaluated three billing frequency options in addition to the existing bi-monthly meter reading, billing and payment processing method:

Option 1: Bi-monthly meter reading with monthly billing and monthly payment processing. Under this option, meters would continue to be read bi-monthly, but billing would be generated and mailed every month. On those months that meters are not read, water charges would be based on estimated water usage and the difference between the actual reading and the usage already billed (in the first month) will be billed in the second month of the bi-monthly meter reading cycle. Users would make monthly payments.

Option 2: Bi-monthly meter reading with bi-monthly billing and optional monthly payment processing. Users would continue to receive bi-monthly bills, but with two payment stubs instead of a single stub. The two payment stubs with two equal payments would provide the users the option to make either two monthly payments or one bi-monthly payment.

Option 3: Monthly meter reading with monthly billing and monthly payment processing for all users.

In evaluating each of the above options, Black and Veatch made a number of assumptions regarding staffing and operating costs based upon their judgment and experience. These assumptions included:

- At least a one-half percent reduction in annual delinquency rate will occur with monthly billing and/or monthly payment processing since the combined monthly water and sewer bills will be much lower than the current bi-monthly bill.

- Under Option 2, only 50 percent of the existing bi-monthly read customers will choose the monthly payment option.

- Under Option 1 and 3, the annual uncollectible revenues will decrease by 20 percent from the current levels and in Option 2, a five percent decrease in annual uncollectible revenues is assumed.

- An annual interest rate of 6 percent is assumed on the interest calculations on monthly revenues.

It is important to note that in completing their analysis, the Black and Veatch team did not include the one-time costs for office equipment/furniture for additional staff, additional meter reading devices, and programming changes to the meter reading system Asince the focus of this study is the recurring annual costs.@ In addition, costs associated with customer billing system programming changes were not included Asince it is likely to be similar for all the three options examined.@

Based upon their analysis, Black and Veatch estimated a net increase/(decrease) in annual costs (i.e., additional operating costs less additional revenues) for each bill payment option as follows:

Option 1:	$704,479
Option 2:	($119,000)
Option 3:	$1,521,279

Black and Veatch Recommendation:

The Black and Veatch report proposes that the Department implement monthly meter reading and monthly billing practices (Option 3) which they estimate would increase operating costs by $1.5M, but which would result in benefits to the customer. Foremost, according to the team, with monthly billing a majority of the users will receive a combined water/sewer bill that would be under $70 as opposed to the existing average bi-monthly bill of almost $130. Monthly bills would also provide the users better information on water usage trends, which in turn would send timely pricing signals for enhanced water conservation. Based upon their experience, the Black and Veatch team also feels the department would benefit from improved cash flow, experience a decrease in delinquent collection efforts and achieve an overall better customer service image.

DISCUSSION

The concept of moving to monthly billing is a change that will enhance customer service and, therefore, should be pursued. **However, it is our recommendation not to change the billing frequency at this time, for a variety of factors.** Rather, we recommend retaining the current billing frequency during Fiscal Year 2003, during which time the Water Department, in conjunction with the Public Utilities Advisory Commission, can

develop and assess a Transition Plan for changing from the current bi-monthly billing system to a system of monthly meter reading and billing. The Transition Plan can then be considered by the City Council in the context of the Fiscal Year 2004 budget process.

The change from the current system to one of monthly billing not only imposes additional costs, but also poses significant risks to the current billing and collections system. The transition must be carefully analyzed and planned to avoid customer confusion and catastrophic information systems failures. We have outlined below significant issues that would be addressed in the development of a Transition Plan.

First, the present customer billing system is a mainframe legacy system and making changes is expensive (for reprogramming) and risky (because the system is unique and not a common, industry-supported application). It would be far more prudent to wait until a new, more flexible Customer Information System can be acquired. Such billing systems allow changes in process, such as modified billing practices, to be made far more easily and cheaply, and with minimal risks or customer confusion. Acquiring a new CIS is a long-term, expensive projectCalthough absolutely necessary in the long run.

The Transition Plan would analyze the costs, benefits, risks and timing of billing changes using the existing CIS versus integrating billing changes into the acquisition of a new CIS. The cost and timing of acquiring a new CIS will be a major element of the development of a strategic business plan for the Water Department.

Second, the Water Department Customer Services Office is already undergoing significant changes to its existing system with the scheduled implementation of the electronic bill payment and presentment initiative. Integrating this change simultaneously with a move to monthly billing would introduce additional potential for disruption to the payment process and confusion to our customers.

Third, not all the costs of all three options are included in the Black and Veatch analysisCas noted above, Black and Veatch states they did not include the cost of reprogramming computers because that cost is common to all three of their options. However, that cost is not incurred at all if no change is made. Black and Veatch made no estimate of that cost; however, the San Diego Data Processing Corporation has estimated the cost of converting the present system at between $877,000 and $1,067,000, with annual maintenance and program support cost increases in the range of $422,020 to $571,655 above current levels. Other indirect costs such as revising collection procedures, retraining existing staff, and public outreach to our customers would increase this amount.

Adding these costs to the costs identified in the Black and Veatch analysis increases the total net cost of Option 3 to:

- $877,000 to $1,067,000 in initial, one-time costs
- Approximately $2,000,000 in recurring annual costs

The Water Department is currently reducing operating expenditures in Fiscal Years 2002 and 2003 to meet critical Capital needs. We cannot justify the expenditure of the Water Department=s share of the additional cost (approximately one-half of the cost, with the other share coming from the Metropolitan Wastewater Department) as a more critical need at this time.

In addition, the increased revenue estimates used by Black and Veatch may be optimistic, and cannot be guaranteed. Therefore, if the new revenues were not as great as assumed, the net costs of the changes would be significantly larger than projected.

In conclusion, while there are potential advantages to increasing billing frequency, those advantages are outweighed by the costs and risks involved in making such a change in the coming fiscal year. The development of a Transition Plan, in the context of the development of a Water Department Strategic Business Plan, can provide a sound analysis for City Council consideration in the Fiscal Year 2004 budget process.

ALTERNATIVES

The alternatives to the Manager=s recommendation would be to implement one of the three options for change presented by Black and Veatch for Fiscal Year 2003. These alternatives are not recommended.

Respectfully submitted,

Approved,

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Larry Gardner
Director, Water Department

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Richard Mendes
Utilities General Manager

Note: The attachment is not available in electronic format. A copy is available for review in the Office of the City Clerk.

Attachment: Report from Black and Veatch