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CITY OF LONG BEACH

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CITY CLERK
LONG BEACH, CALIF.

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Options for Energy Relief

DISCUSSION

At the February 6, 2001 City Council meeting, several proposals submitted by the Mayor and Councilmembers were discussed, designed to ameliorate the difficulties that many of our customers have experienced this winter due to unexpectedly and abnormally high utility bills. The City Council directed the City Manager to prepare a report summarizing the impacts of those proposals, including the estimated cost and viability of implementation. This report summarizes actions taken to date as well as the proposals discussed on February 6, 2001 and proposes a list of recommended actions to provide immediate relief to City gas customers. Attachment A lists those proposals and recommendations.

This matter was reviewed by City Attorney Robert E. Shannon and Budget Manager Annette Hough on February 9, 2001.

TIMING CONSIDERATIONS

The financial urgency of this matter requires immediate adoption of the recommended actions in order to lessen the financial strain on Long Beach residents and businesses.

FISCAL IMPACT

ACTIONS TAKEN TO DATE

- On January 9, 2001, the City Council adopted a Rate Resolution, which for a 90-day period, effective January 15, 2001 through April 30, 2001, provides a 25 percent discount on gas rates for low-income senior and low-income disabled customers, thereby providing some relief for these customers. This action will provide up to \$1 million of immediate relief for these low-income residents.

- On January 30, 2001, the City Council also approved a Level Pay Plan option for qualified residential customers to spread increased costs of City utility bills over a 12-month period rather than pay the bill in its entirety at the time it is received. At a 10 percent participation level, the estimated cost to the Gas Fund to carry the unpaid balance is \$450,000. However, the impact to the residential customer who opts for this program could be an immediate reduction in the required payment amount, which in many cases will be substantial.
- On February 6, 2001 the City Council requested the Port of Long Beach to reevaluate the option of identifying a five to ten acre site on which to construct a power plant and/or other related uses. Discussions are underway with the Port and energy providers, and a potential site is being evaluated.
- An Energy Ombudsman, Janice Bradley, was named by the City Manager to assist in resolving extraordinarily difficult utility issues. Ms. Bradley will report directly to the City Manager. She will organize the Utility Task Force for the City, work with the Long Beach Area Chamber of Commerce to better serve businesses and serve as a liaison with City Councilmembers on significant utility issues.
- An Energy Task Force is being established to immediately deal with the problems being experienced by residents, businesses, hospitals, senior living complexes and mobile home parks.
- On February 5, 2001 an interim decision from the State Lands Commission reduced the cost of Tidelands gas to the City by two-thirds. This is a source of 15 to 20 percent of the City's gas supply in the winter. The value to rate payers is approximately \$2.6 million for a one month period.

FEBRUARY 6, 2001 PROPOSALS

On February 6, 2001, the Mayor and several Councilmembers made proposals which included the following:

- Accelerate the UUT rate reduction to 8 percent by six months, effective April 1, 2001. The UUT rate for FY 02 would remain at 8 percent. The rate would go to 7 percent effective October 1, 2002. The estimated revenue impact is approximately \$3 million as shown below:

Utility	Adopted Budget @ 10%	Revised @ 9%	Projected @ 9%	Projected @ 9% and 8% for 6 mo	Loss from Projection @ 9%
Gas	\$ 7,245,000	\$6,520,500	\$10,378,557	\$ 9,877,612	(\$ 500,945)
Water	\$ 5,533,000	\$4,979,700	\$ 4,311,923	\$ 4,054,675	(\$ 257,248)
Electric	\$22,990,000	\$20,691,000	\$20,551,984	\$19,459,792	(\$1,092,192)
Telephone	\$22,536,000	\$20,282,400	\$19,736,004	\$18,633,476	(\$1,102,528)
TOTAL	\$58,304,000	\$52,473,600	\$54,978,468	\$52,025,555	(\$2,952,913)

Initial projections made in the fall estimated the Gas UUT, at the 9 percent rate, to be \$6.5 million. Current projections, which reflect the impact of the higher commodity prices, now estimate the Gas UUT at \$10.4 million, or \$3.8 million more than originally projected. The proposal to accelerate the next UUT rate reduction would clearly benefit all customers and would be permanent.

- Rebate the 9 percent gas UUT by one-half to two-thirds for 90 days, effective immediately.

The estimated impact is a \$1.5 million revenue decrease for a rebate equal to one-half the Gas UUT rate, and \$2.0 million for a rebate of two-thirds. The rebate could be shown on customers' bills as a credit for the period January 1, 2001 through March 30, 2001, thereby reducing the amount due from the customer. A projected increase in gas pipeline franchise fees would offset this cost.

- Freeze any additional profit in the Gas Fund from this year compared to last year, and set up an emergency fund to reduce gas bills.

After the budgeted transfer to the General Fund, the Gas Fund is expected to incur a net loss of \$1.4 million in FY 01. The average net earnings over the last ten years, after the transfer to the General Fund, are only \$650,000. The net earnings were negative in four of the last five years. Attachment B illustrates the ten-year history of the Gas Fund.

- Reduce gas rates by at least 5 percent retroactive from January 1, 2001 to April 1, 2001 to be offset with excess earnings or profit.

The excess earnings on the Gas UUT would be returned to the customer should the City Council approve the accelerated decrease in the UUT rate. There is no

expectation of positive net earnings in the Gas Fund in FY 01. The estimated impact of this proposal is \$1.8 million.

- Cap gas bills at no more than 20 percent over the previous month's bill and defer the balance to the next bill.

This proposal would accomplish relief by enabling the customer to predict and plan for their utility bill. The objective of the proposal is encompassed within the Level Pay Plan previously approved by City Council and the proposed expansion to Schedule 2 and 3 commercial gas customers. Further, the utility billing system will be programmed to alert a customer about an option to subscribe to the Level Pay Plan, when the bill exceeds normal parameters.

- Raise the low-income threshold for qualifying for utility bill discounts and payment options.

This item was also discussed at the February 6, 2001 City Council meeting. However, on January 9, 2001, the City Council asked that the maximum allowable income levels eligible for utility exemptions and discounts be reviewed for a possible increase to levels reflective of today's economy, thus making more residents eligible to benefit from the program. Staff has completed its research and recommends that the income thresholds be increased to the levels currently used by the Southern California Edison Company and Southern California Gas Company.

Staff has analyzed the fiscal impact of increasing the thresholds and estimates that the impact to the Gas, Refuse, Water, Sewer, and General Fund to be approximately \$1 million at the current participation level, and \$1.1 million for every 10 percent increase in participation. The General Fund's portion of the revenue decrease would be offset by a projected increase in gas pipeline fee revenue. A complete staff report on this issue is attached for your review.

- Residents, businesses, and the city facilities should be encouraged to conserve energy. Governor Davis has requested all cities and counties to reduce electricity use in 2001, compared to 2000, by a minimum of 10 percent. The League of California Cities has recommended 7 percent as a starting point across the board. Key activities include turning off or reducing lighting, shutting down computers and cycling heating systems.

As requested on February 6, 2001 the City Attorney has prepared the attached Resolution urging the City and all residents and businesses to reduce electrical usage by 7 percent.

- Expansion of the Level Pay Plan to business.

Since the increase in natural gas prices has also adversely impacted many businesses, the City Council requested an analysis of extending the Level Pay Plan to commercial and industrial users. Although the analysis is complex and is in progress, staff recommends that the City Council request the City Attorney to prepare a Resolution for the February 27, 2001 agenda and direct the City Manager to implement a Level Pay Plan for remaining Schedule 1 customers (master metered residential buildings; e.g., apartment buildings) and all of Schedule 2 and 3 commercial customers.

Staff will submit a complete report to the City Council on February 27, 2001 addressing the remaining customers. At this time, we anticipate that the expansion to businesses can be implemented immediately following approval by the City Council. However, since Commercial Services Bureau staff is currently overwhelmed with customer calls, there may be delays for individual customers wishing to sign up for level pay plans. The estimated cash flow deficit is estimated to be up to \$1 million. However, there are sufficient funds in the Gas Fund to cover the temporary shortfalls.

OTHER

Long Beach citizens have been overwhelmed by the unexpected and rapid increase in gas commodity prices reflected on their utility bills. In response, the Mayor and City Council have taken action to mitigate those higher utility costs where it was possible to provide immediate relief, while continuing to explore long-term options, such as legislative support. Across the state, natural gas and electric issues are expected to remain areas of concern for months to come.

City staff has also responded to the crisis. For example, customer service representatives have agreed to work extended hours in order to service the overwhelming number of calls and customer visits to City Hall. City Hall customer service representatives have been augmented by employees from other departments who have volunteered to help. Additionally, City employees are aggressively seeking ways to further reduce energy usage throughout City facilities.

I am very proud of our City employees, those on the "front line" who are the City's first, and many times only, contact with our citizens. Their efforts are greatly appreciated. In addition, I would like to thank the City Attorney, Gas, Water, Technology Services, and other departments who have made response to the current crisis their top priority and enabled the presentation of the recommended actions that are before you.

IT IS RECOMMENDED THAT THE CITY COUNCIL:

- (1) Declare the Ordinance amending Long Beach Municipal Code Section 3.68.010 to decrease the Utility Users Tax to 8 percent effective April 1, 2001 read the first time and laid over to the next regular meeting of the City Council for final reading.
- (2) Request the City Attorney to prepare a Resolution and direct the City Manager to rebate an equivalent of one-half of the 9 percent Gas UUT for 90 days, effective January 1, 2001 through March 30, 2001.
- (3) Declare an emergency to exist.
- (4) Declare the Ordinance amending Long Beach Municipal Code Section 3.68.080 to increase the maximum allowable income for exemption from paying Utility Users Taxes for low-income senior and disabled customers to be read as an emergency ordinance and adopted as read.
- (5) Adopt the Resolution urging residents and businesses within the City of Long Beach and City facilities to enhance conservation efforts and reduce utility use by 7 percent.
- (6) Request the City Attorney to prepare a Resolution for the February 27, 2001 agenda and direct the City Manager to implement a Level Pay Plan for remaining Schedule 1 customers and all of Schedule 2 and 3 commercial customers.

Respectfully submitted,



HENRY TABOADA
CITY MANAGER

Attachments

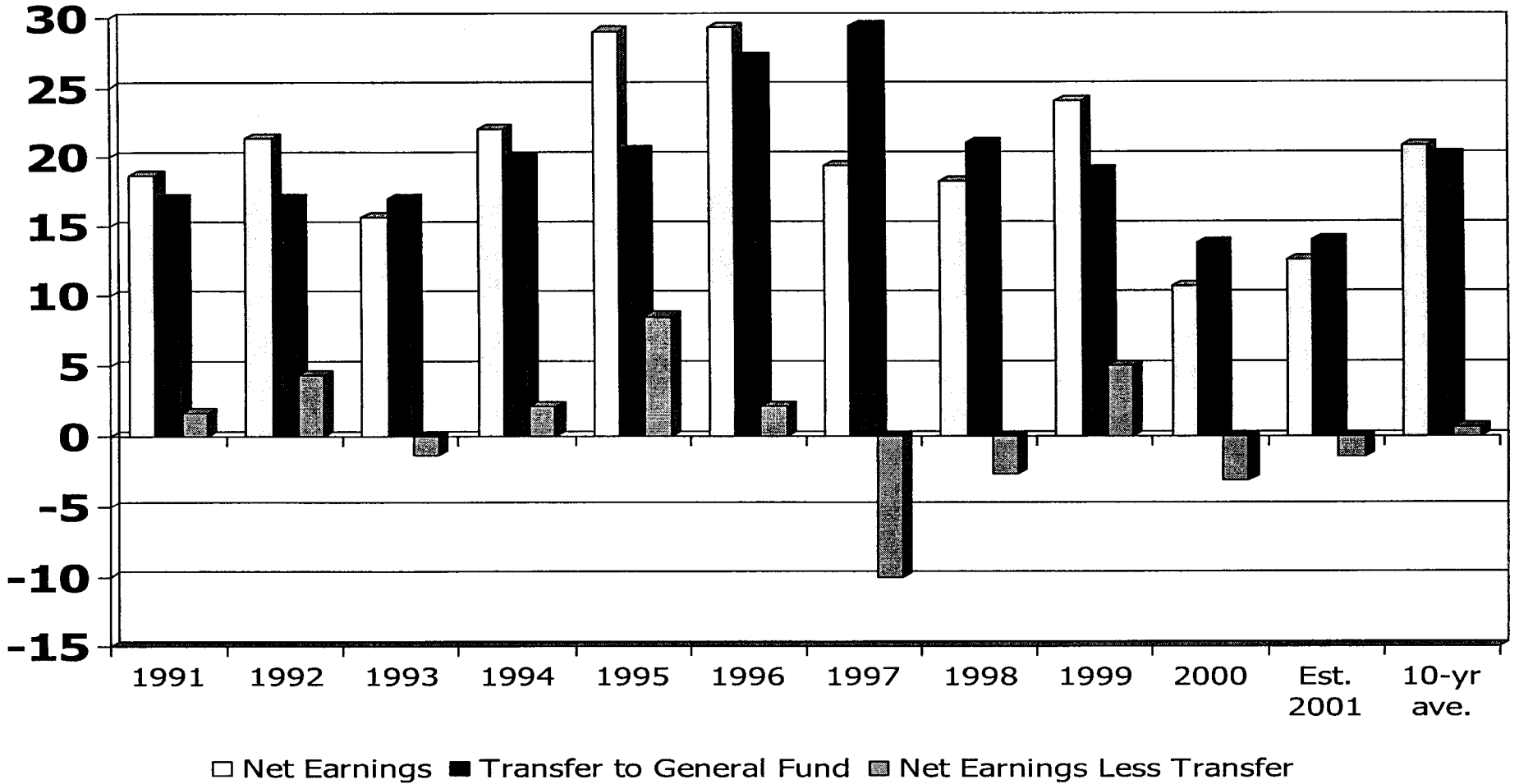
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SUMMARY OF ENERGY RELIEF PROPOSALS

ITEM	Fiscal Impact	Source of Funds	Recommended Relief	Additional City Expenses
Accelerate UUT Reduction to 8% rate	\$3.0 M	Gas UUT greater than budget	\$3.0 M	
Rebate Gas UUT ½ to 2/3 for 90 days as credit on bill	\$1.5 M - \$2.0 M	Gas pipeline franchise fees greater than budget	\$1.5 M 4.5% rate 1/1/01-3/30/01	
25% temporary gas discount for Low Income	\$1.0 M	Gas Fund	\$1.0 M <i>Implemented</i>	
Cap gas bills at 20% over previous month	<i>undetermined</i>	Gas Fund	<i>Level Pay Plan addresses issue</i>	
Level Pay Plan – Residential	\$0.45 M <i>cash flow deficit</i>	Gas Fund	\$0.45 M	
Level Pay Plan – Business, categories 2 and 3	\$1.0 M <i>cash flow deficit</i>	Gas Fund	\$1.0 M	
5% Gas Relief from excess profit	\$1.8 M	Gas Fund	<i>No expected profit*</i>	
<i>State Action on Long Beach Gas Field</i>	\$2.6 M	<i>Savings to Gas Fund</i>	\$2.6 M	
Revised Low Income threshold	\$1.1 M	Gas , Water, Refuse, Sewer	\$1.1 M	
Cost of UUT Utility Billing changes by outside utilities		Gas, Water UUT greater than budget		\$0.8 M
Increased Electric costs to City		All Funds to absorb in budget		\$1.8 M
Increased Gas costs to City		All Funds to absorb in budget		\$0.45 M
TOTAL IMPACT – ALL ITEMS	\$12.95 M		\$10.65 M	\$3.05 M
TOTAL IMPACT OF RECOMMENDATIONS			\$10.65 M	\$3.05 M
				\$13.70 M

* See Attachment B

GAS FUND EARNINGS/LOSS



Cash Basis - In Millions