



Agenda Report

MEETING DATE: Tuesday, May 25, 2021

TO: City Council

FROM: PUBLIC WORKS & UTILITIES DIRECTOR PALMISANO
Christian Di Renzo, Assistant Director of Public Works & Utilities

SUBJECT: Public Hearing Adopting Proposed Water, Wastewater, and Solid Waste Utility Rates for Fiscal Years 2021/22 through 2025/26; and Adopting Resolution Amending the City's Rate and Fee Schedule

STATEMENT OF ISSUES:

The City operates three utility enterprise funds: Water, Wastewater and Solid Waste which are managed by the City in a "business-type" manner and the City charges customers for services provided through these enterprises. The last rate study that recommended utility rate increases was completed in 2015. The City, in conjunction with Raftelis Financial Consultants, Inc., has analyzed the adequacy of revenues to meet projected expenditures of the enterprise funds to determine whether revenues will be adequate to cover operating and maintenance costs as well as needed capital costs while supporting debt service obligations and achieving target reserve levels. Revenue requirements, as proposed by staff, were developed for the five-year period from FY 2021/22 through FY 2025/26.

RECOMMENDED ACTION:

- a) Conduct a public hearing on a proposed fees and charges for water, wastewater, and solid waste
- b) Adopt Resolution amending the City's Rate and Fee Schedule

DISCUSSION:

The City's water, wastewater and solid waste enterprise fund rates are intended to recover revenues sufficient to adequately fund utility operations, maintenance, and capital replacement expenditures, and meet debt service obligations, while keeping rates as competitive as possible and maintaining a prudent level of reserves.

EXECUTIVE SUMMARY

- Without a rate increase the Wastewater Enterprise Fund will begin to experience a structural deficit by FY 2024 and draw down on net working capital reserves until those are exhausted in FY 2026. Moreover, without a rate increase the Solid Waste Fund will exhaust its working capital reserves in FY 2023.

- Utility rates have not been considered since 2015.
- The suspension of utility rate increases which would have taken place on July 1, 2020, resulted in approximately a combined \$2 million revenue loss for the first year.
- A comprehensive independent utility rate study was completed and its findings presented to City Council the week of February 1, 2021. Per best management practices, and as part of the study, a cost-of-service analysis was performed for both the water and solid waste enterprise utilities, but not wastewater. Such analyses can typically be conducted more readily for water and solid waste utilities. Unlike these two utilities, a proper cost of service for wastewater would have required additional in-person efforts to ascertain flow and strength (i.e. BOD and SS) characteristics especially for the industrial user class and the sanitary districts that discharge to the City's treatment plant. Both the Covid travel and workplace restrictions that were in effect for the greater part of the last year precluded such an effort. Therefore, a cost of service analysis will be conducted as part of the next rate study.
- The average low-usage (up to 6 units of water consumption) Single-Family Residential (SFR) bill is projected to decrease by \$1.55 the first year; whereas the average typical (up to 8 units of water and with a 68-gallon garbage cart) SFR bill is projected to increase by \$2.10 in the first year.

The City engaged Raftelis to conduct a water, wastewater, and solid waste rate study to establish a proposed five-year schedule of rates for FY 2021/22 through FY 2025/26. Due to the impacts of the COVID-19 pandemic, the City decided to postpone any proposed rate changes until FY 2021/22. Therefore, the proposed rate schedule shown herein is for a five-year period from FY 2021/22 through FY 2025/26.

In summary, the major objectives of the study were to:

- Develop a five-year financial plan that sufficiently funds the City's water, wastewater, and solid waste operations and maintenance expenses, debt service payments, and capital expenditures while adequately funding reserves and achieving debt coverage requirements.
- Review the City's existing water, wastewater, and solid waste rate structures to ensure that proposed rates achieve the financial and policy objectives of the City and are consistent with industry standards.
- Develop a five-year schedule of water, wastewater, and solid waste rates that are fair, equitable, and compliant with Proposition 218 requirements.

FUNDING REQUIREMENTS:

Water Utility

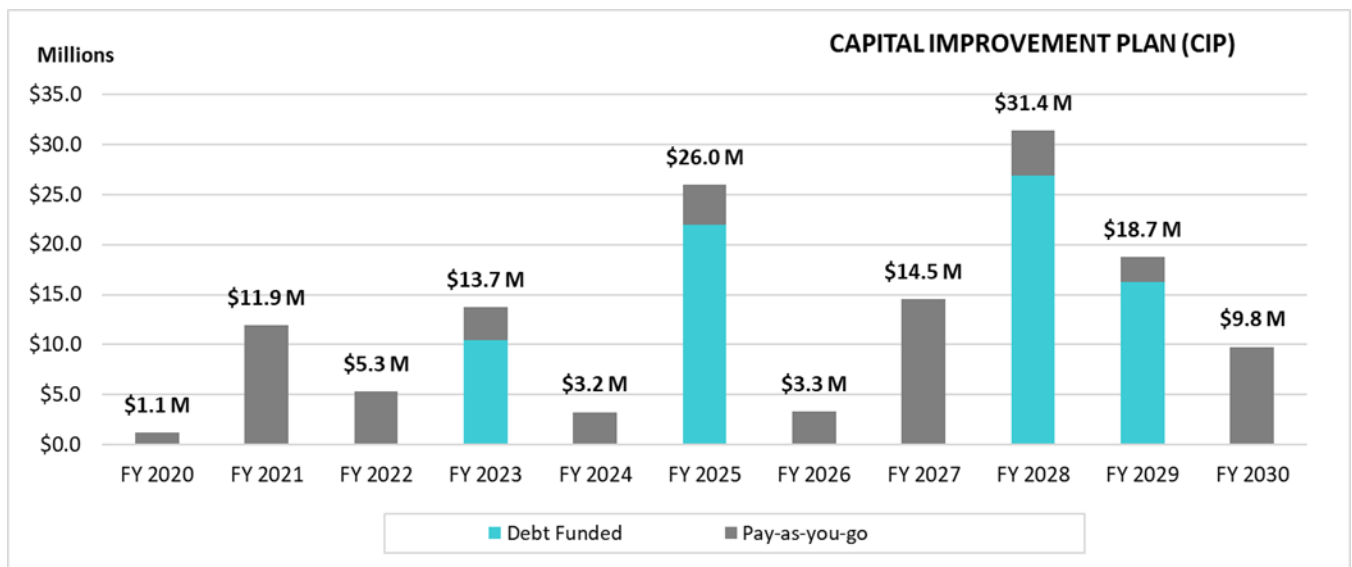
For the Water Utility, the proposed rate increase is of one percent annually each year over the study period. (see Table 0-1).

Table 0-1: Proposed Water Enterprise Revenue Adjustments

Fiscal Year	Effective Date	Revenue Adjustment
FY 2022	July 1, 2021	1.0%
FY 2023	July 1, 2022	1.0%
FY 2024	July 1, 2023	1.0%
FY 2025	July 1, 2024	1.0%
FY 2026	July 1, 2025	1.0%

The graph below shows the Water Enterprise's ten-year Capital Improvement Plan (CIP) by anticipated funding source. The most significant CIP project costs over the next ten years are associated with constructing a new reservoir at the Airport Booster Station (\$10.4 million in FY 2023), Chromium 6 treatment plant construction (\$22.0 million in FY 2025), and Freedom Reservoir site improvements (\$48.6 million between FY 2027-FY 2029). New revenue bonds or State Revolving Fund loans are assumed to be utilized to finance these three large CIP projects.

Water Enterprise CIP Summary



Raftelis conducted a water cost of service analysis to apportion costs to customers and provide a basis for proposed rates. Additionally, Raftelis worked with staff to evaluate potential changes to the existing water rate structure. Raftelis suggested the following revisions to the existing water rate structure:

1. **Eliminate Additional Unit Charges for Meter Size Availability Fees:** The City's current schedule of Meter Size Availability Fees includes an Additional Unit Charge per additional dwelling unit for multi-family residential customers. Raftelis recommended that the City eliminate the Additional Unit Charge to simplify its water rate structure and improve customer equity.
2. **Differentiate Meter Size Availability Fees based on AWWA meter capacity:** The current schedule of Meter Size Availability Fees is differentiated by meter size based on meter capacity ratios provided by City staff during the previous water rate study in 2015. Raftelis recommends that proposed Meter Size Availability Fees be differentiated based on meter capacity values from AWWA's *Manual M1*. This proposed change will better align the City's rate structure with current rate-setting norms in California.
3. **Implement a single schedule of Fire Service Availability Fees for Inside City and Outside City Customers:** The City's current schedule of Fire Service Availability Fees includes separate charges for Inside City and Outside City customers. Raftelis recommended consolidation of the Fire Service Availability Fee rate structure so that Inside City and Outside City customers are subject to the same schedule of charges in order to simplify the rate structure.
4. **Update Residential Tier Allotments:** Raftelis also recommended that the City update its current residential monthly tier allotments to account for changes in the City's water supply conditions and customer water use patterns since the last water rate study was conducted in 2015. It was recommended that the existing tier allotments be adjusted so that Tier 1 provides for average indoor water use, Tier 2 provides for average outdoor water use, and Tier 3 includes all additional water use. The current and proposed residential monthly tier allotments are shown below:

Proposed Changes to Residential Tier Allotments

Residential Tier	Current Monthly Allotment (per Dwelling Unit)	Proposed Monthly Allotment (per Dwelling Unit)
Tier 1	0-5 CCF	0-6 CCF
Tier 2	6-10 CCF	7-12 CCF
Tier 3	>10 CCF	>12 CCF

Wastewater Utility

In the absence of any revenue adjustments (i.e., rate increases), Wastewater Enterprise reserves are projected to be fully depleted in FY 2024. Additionally, projected debt coverage is anticipated to fall below the requirement beginning in FY 2024. The status quo financial plan is clearly insufficient to meet the Wastewater Enterprise's financial needs over the study period given the number and size of some of its capital projects.

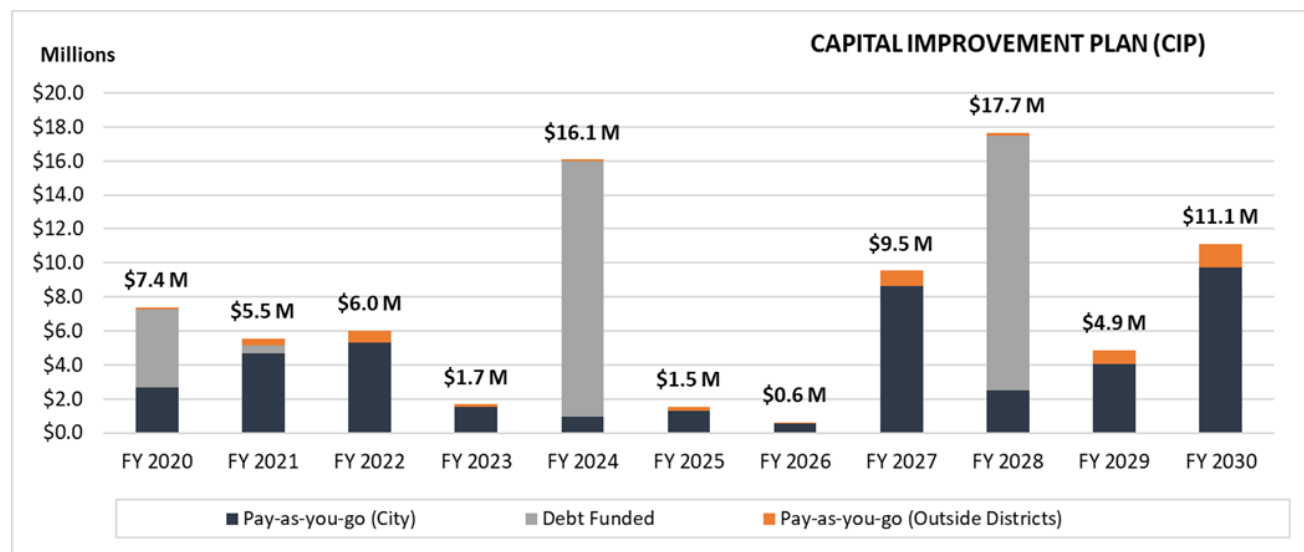
The Wastewater Enterprise must increase its revenues from wastewater rates over the study period to adequately fund its operating and capital expenditures, meet required debt coverage, and maintain sufficient reserve funding. Substantial capital needs over the next ten years will require increased rate revenues to ensure sufficient debt capacity and reserves to fund planned CIP projects. Raftelis and staff recommend that 7.5 percent revenue adjustments be implemented annually over the next five fiscal years (see below).

Proposed Wastewater Enterprise Revenue Adjustments

Fiscal Year	Effective Date	Revenue Adjustment
FY 2022	July 1, 2021	7.5%
FY 2023	July 1, 2022	7.5%
FY 2024	July 1, 2023	7.5%
FY 2025	July 1, 2024	7.5%
FY 2026	July 1, 2025	7.5%

The most significant Wastewater Treatment Plant (WWTP) CIP project costs over the next ten years are associated with main switchgear and energy recovery electrical system improvements (\$15.5 million in FY 2024) and headworks diversion structure replacement (\$15 million in FY 2028).

Wastewater Enterprise Capital Improvement Plan



Solid Waste Utility

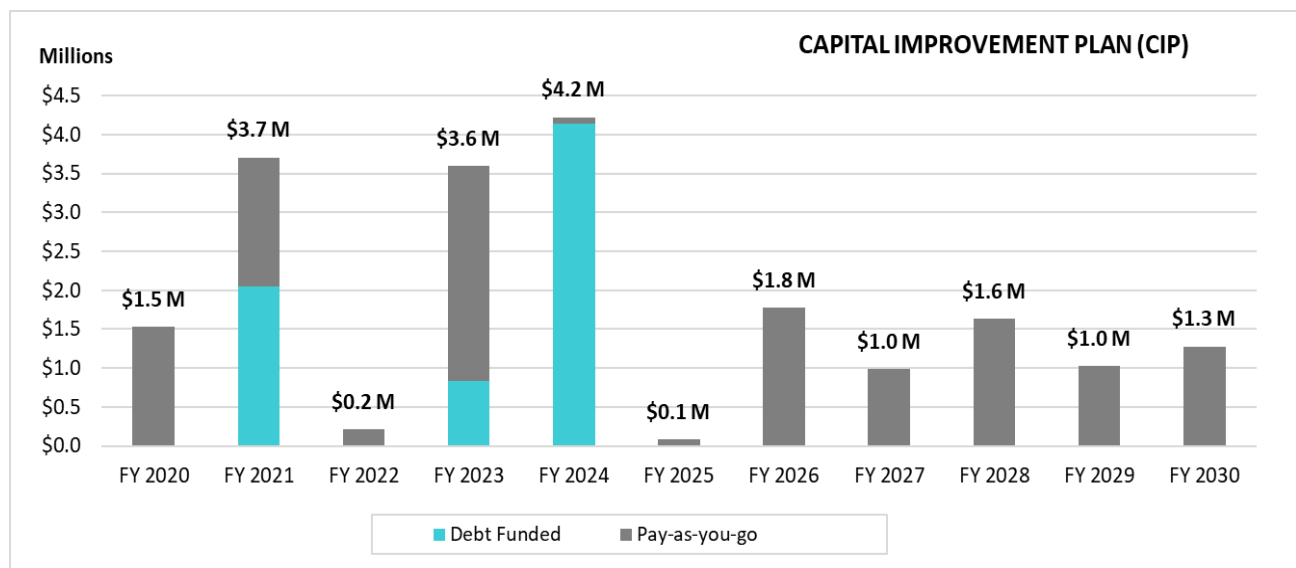
In the absence of any revenue adjustments (i.e., rate increases), Solid Waste Enterprise reserves are projected to be fully depleted in FY 2024. More critically, net revenues are projected to be negative in all years throughout the study period. This means that Solid Waste Enterprise O&M expenses would exceed revenues in all years, indicating a serious operating deficit. The status quo financial plan is insufficient to meet the Solid Waste Enterprise's financial needs over the study period. Raftelis and staff recommend that 7.5 percent revenue adjustments be implemented annually over the next three fiscal years, followed by 5 percent annual revenue adjustments in the final two fiscal years of the study period (see below).

Proposed Solid Waste Enterprise Revenue Adjustments

Fiscal Year	Effective Date	Revenue Adjustment
FY 2022	July 1, 2021	7.5%
FY 2023	July 1, 2022	7.5%
FY 2024	July 1, 2023	7.5%
FY 2025	July 1, 2024	5.0%
FY 2026	July 1, 2025	5.0%

The most significant CIP project costs over the next ten years are associated with replacing collection vehicles (\$7.5 million through FY 2030), closure of Phase III of the City's landfill (\$2.6 million in FY 2023), and opening Phase IV of the City's landfill (\$4.1 million in FY 2024).

Solid Waste Enterprise CIP Summary



Bill Impacts to Rate Payers:

The financial study estimates that due to the new, expanded tier bands, 63% of residential bills will reflect Tier 1 water consumption, up from 46% in 2019. Additionally, with the adoption of AWWA's meter capacity ratios, the fixed charge for 5/8" or 3/4" meters will decrease by \$4.78 per month in the first year resulting in a decrease of \$1.55 to the overall bill for a low impact single-family customer – these two meter sizes represent 79% of the City's meters.

Due to the changes, a low impact single-family household will see no increase to their overall bill in the first year despite the proposed rate increases (see below). The typical single-family residential household, on the other hand, should experience a modest \$2.10 increase in the overall bill in the first year.

Adopting the industry standard and more understandable meter capacity ratios, while a boon to the smaller 5/8" and 3/4" inch meters, shifts additional capacity quotient onto meters that are 1" and larger. Because the flat meter charge is based on meter size (which is a proxy for the potential demand a customer can place on the system), transitioning to the AWWA ratios manifests in a one-time correction that results in an increase to the water bill component that is disproportionately greater than the 1% rate increase. The third table below summarizes this impact for a low impact single-family household with a 1" meter and a 32 gallon trash cart – this meter size represents close to 16% of all meters.

Low Impact Single Family Customer (1–2 person household) – 5/8" or 3/4" meter

Utility Service	Current Monthly Bill (FY 2020)	Proposed Monthly Bill (FY 2022)	Proposed Monthly Bill (FY 2023)	Proposed Monthly Bill (FY 2024)	Proposed Monthly Bill (FY 2025)	Proposed Monthly Bill (FY 2026)
Water	\$57.27	\$52.46	\$52.99	\$53.52	\$54.05	\$54.59
Wastewater	\$42.84	\$46.06	\$49.51	\$53.22	\$57.22	\$61.51
Solid Waste	\$35.60	\$35.64	\$38.31	\$41.19	\$43.25	\$45.41
Total	\$135.71	\$134.16	\$140.81	\$147.93	\$154.52	\$161.51

**Reflects 6 units of water use*

**Reflects a 32 gallon trash cart*

Typical Single Family Residential Household – 5/8" or 3/4" meter

Utility Service	Current Monthly Bill (FY 2020)	Proposed Monthly Bill (FY 2022)	Proposed Monthly Bill (FY 2023)	Proposed Monthly Bill (FY 2024)	Proposed Monthly Bill (FY 2025)	Proposed Monthly Bill (FY 2026)
Water	\$66.33	\$62.80	\$63.43	\$64.06	\$64.69	\$65.35
Wastewater	\$42.84	\$46.06	\$49.51	\$53.22	\$57.22	\$61.51
Solid Waste	\$57.41	\$59.82	\$64.30	\$69.13	\$72.58	\$76.21
Total	\$166.58	\$168.68	\$177.24	\$186.41	\$194.49	\$203.07

**Reflects 8 units of water use*
**Reflects a 68 gallon trash cart*

Low Impact Single Family Customer (1–2 person household) – 1” meter

Utility Service	Current Monthly Bill (FY 2020)	Proposed Monthly Bill (FY 2022)	Proposed Monthly Bill (FY 2023)	Proposed Monthly Bill (FY 2024)	Proposed Monthly Bill (FY 2025)	Proposed Monthly Bill (FY 2026)
Water	\$89.41	\$98.33	\$99.07	\$100.07	\$101.07	\$102.08
Wastewater	\$42.84	\$46.06	\$49.51	\$53.22	\$57.22	\$61.51
Solid Waste	\$35.60	\$35.64	\$38.31	\$41.19	\$43.25	\$45.41
Total	\$167.85	\$180.03	\$187.89	\$195.48	\$205.54	\$209.00

**Reflects 6 units of water use*
**Reflects a fixed Fire Service charge*
**Reflects a 32 gallon trash cart*

Proposition 218 Requirements:

As required by Article XIID of the State Constitution (added by Proposition 218), the City mailed a Notice of Public Hearing to property owners and customers on April 3, 2021 regarding the proposed water, wastewater, and solid waste collection rate changes. This 45-day notice informed the public that the proposed rate changes would be considered for Council adoption at a Public Hearing on May 25, 2021 at 5:30 pm, and outlined the process for submitting written or oral testimony and written protests to any or all of the proposed rate increases. Council may consider and adopt the proposed water, wastewater, and solid waste rates unless written protests are filed by a majority of the affected customers. Any approved utility rates changes will become effective on July 1, 2021 and for every year thereafter with the final adjustment occurring July 1, 2025.

STRATEGIC PLAN:

This project is consistent with the City Council's Strategic Goals:

02-Fiscal Health

03-Infrastructure & Environment

FINANCIAL IMPACT:

The proposed financial plan and associated rate increases will enable the City's three Enterprise Utilities to meet their current and future fiscal obligations, to properly operate and maintain critical infrastructure, to fund capital projects and meet future debt service obligations, and to comply with new regulations. There is no impact to the General Fund.

ALTERNATIVE ACTION:

No alternative action is recommended. The proposed utility rate increases are deemed those necessary by staff to ensure the fiscal viability of the three enterprise utilities.

ATTACHMENTS AND/OR REFERENCES (If any):

- 1) Water, Wastewater, and Solid Waste Study Report by Raftelis Financial Consultants Inc.