

STAFF REPORT

City Council Presentation Item

DATE: April 15, 2024

TO: Honorable Mayor and Council Members

FROM: Brendan Byrd, Public Works Director/City Engineer
Aaron Felmlee, Finance Director

THROUGH: Merritt Perry, City Manager

SUBJECT: Presentation of Draft Proposed Water and Wastewater 5-year Rate Adjustments

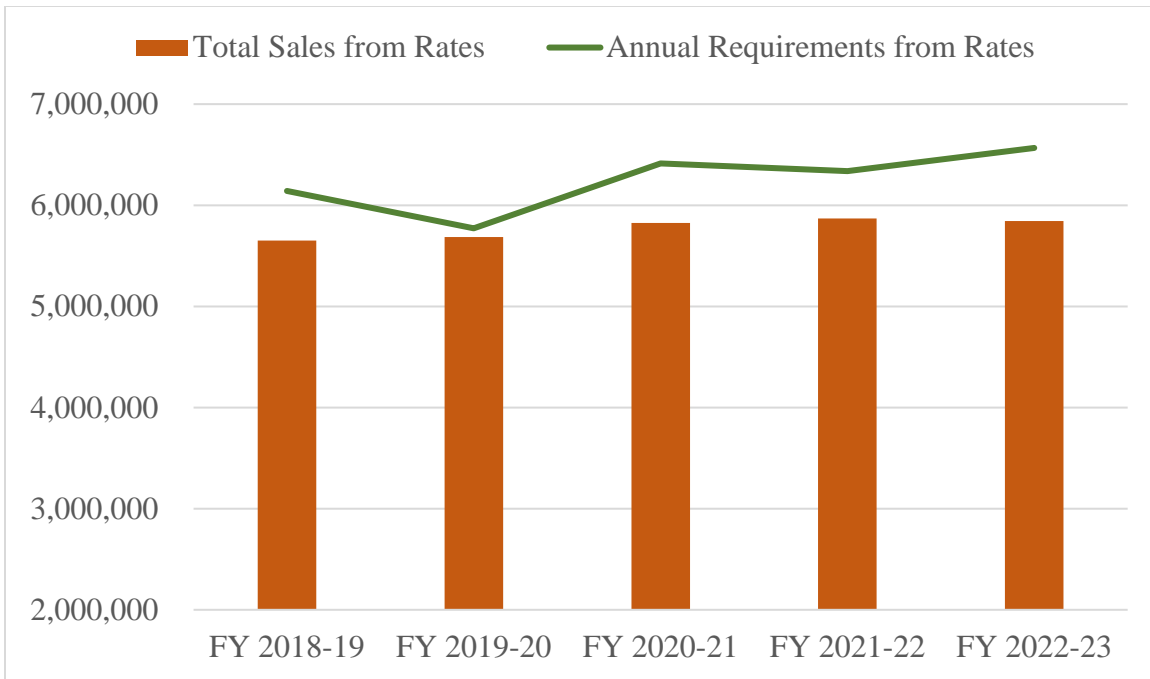
STAFF RECOMMENDATION:

Present draft recommended water and wastewater 5-year rate adjustments and seek council direction prior to beginning Proposition 218 noticing.

EXECUTIVE SUMMARY:

The City of Fortuna operates a municipal potable water and wastewater collection and treatment system. In total, the system includes a potable water production and treatment facility, four water storage tanks/reservoirs, a wastewater treatment plant, numerous water and wastewater pump stations, and collectively over 100-miles of water and sanitary sewer piping. This system is owned by the citizens of Fortuna, and is managed/operated/maintained by approximately 20-full time positions within the public works department (in addition to staff contributions from many other City departments).

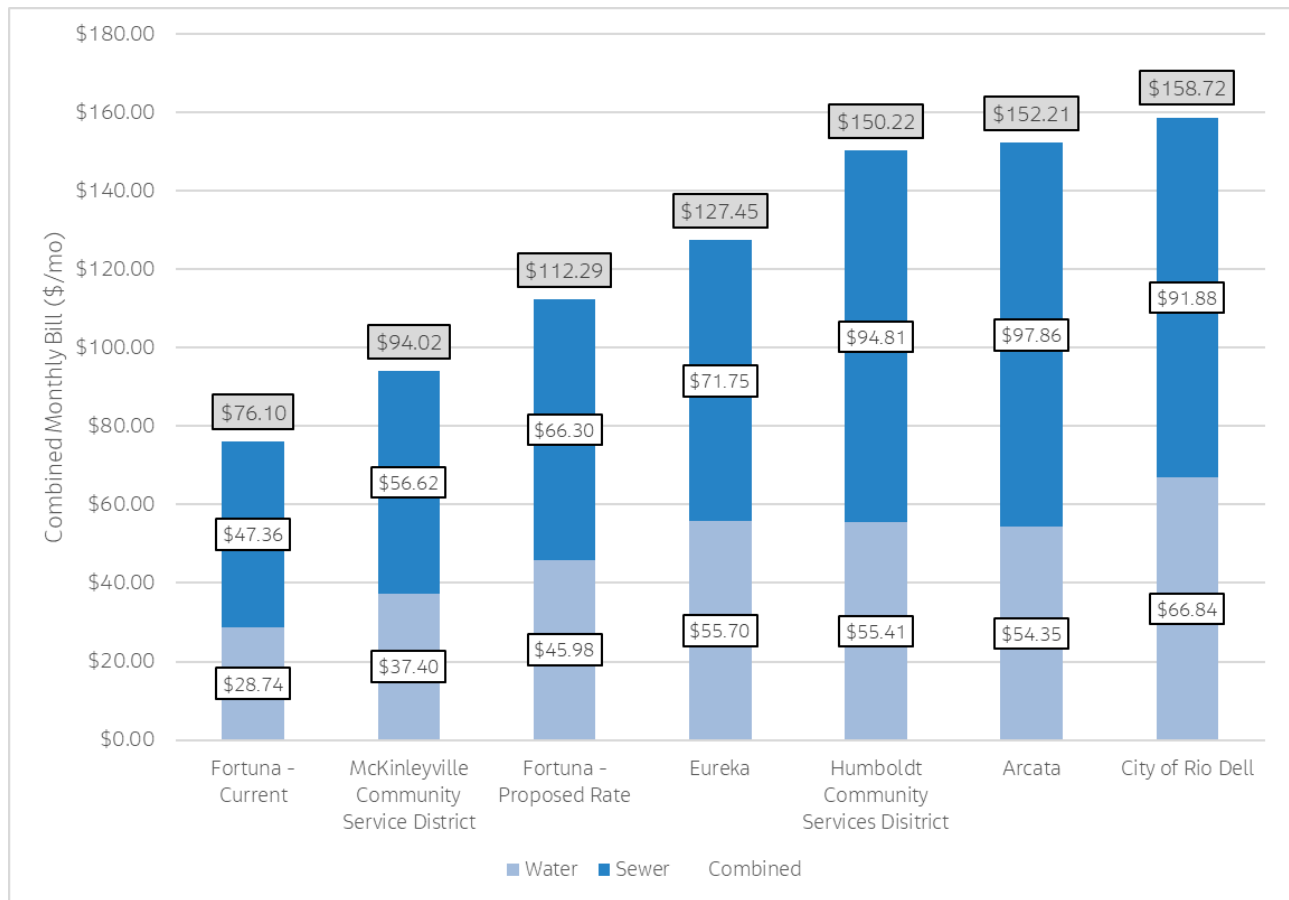
The City funds the operation, maintenance, and capital improvement of these assets through user rates collected through monthly water and wastewater bills. The City's current rate structure was last updated in 2012, and although at that time the user rates were sufficient to cover costs, in recent years the City has been operating at or below revenues, as shown in the figure below. Over the past 12 years, the cumulative change in the California Construction Cost Index (CCI) and Consumer Price Index (CPI) has been 70% and 39%, respectively. Some of the largest contributing factors in cost escalation have included personal costs (wages, benefits and insurance), construction and material costs, and utility/chemical costs.



With the City’s revenue falling short of expenditures, this has required filling the gap using capital and operating reserves. Additionally, the difference between revenue and expenditures is projected to make the City out of compliance with the City’s 2017 Revenue Bond, which requires that annual net revenue be at least 125% of annual debt service. Lastly, in the coming years staff are planning for or otherwise projecting a host of additional costs to service, including the City’s long-planned wastewater plant upgrade project, a number of sanitary sewer and water distribution rehabilitation projects, and continued rising personnel costs.

With these circumstances in mind, in late 2023 staff began planning for a water and wastewater rate study and rate adjustment, to be implemented as part of the new fiscal year budget starting July 1, 2024. In November staff solicited for proposals from several professional firms, and in December selected Jacobs Engineering, the same consultant that is currently working on the design of the City’s wastewater treatment plant upgrade project. In early April, Jacobs completed the draft rate study, which is included as Attachment A, and the draft connection fee update, which is included as Attachment B.

In summary, staff are anticipating recommended user bill increases of approximately 50% in the first year, with smaller incremental increases occurring each year after, totaling a span of 5-years. The graph from the draft report showing Fortuna’s average monthly customer bill relative to current, and other local communities, is shown below.



It should be noted that the plot above depicts ‘average’ bills, not minimum bills. For customers currently paying the City’s minimum rate (approximately \$62), the anticipated recommended user bill would be approximately \$93. As shown in the figure above, average monthly user bills would be expected to increase from approximately \$76 to \$112. Even with the proposed rate increases in the first year, the City’s utility bill cost would be significantly lower than all of the surrounding communities that provide water and sewer services, with the sole exception being McKinleyville Community Services District.

The Attachments provide further detail on the recommended proposed adjustments to rates, including the recommended rate adjustments in future years (which are significantly smaller than proposed year-one adjustments). The findings of the Draft Rate Study and Connection Fee Update will be presented in detail at the April 15th Council Meeting.

As noted above, the rate adjustments presented in this report and in the Attachments currently are draft, and are the recommendations by staff and the City’s consultant (Jacobs). Jacobs is currently working on finalizing the details of the rate study, in addition to the cost of service analysis, neither of which are anticipated to appreciably change the results presented in the current draft materials. With this presentation, staff are seeking direction/concurrence from the Council on how to proceed with the rate adjustment process, which would lead into the City entering the Proposition 218 process. For the Prop 218 process staff will finalize the recommendations of the rate study taking into account Council input, and produce mailers to be sent to all property owners within the City. The mailers will be sent with instructions on how a property owner can oppose the proposed adjustment to rates. After a noticing period of 45-days, the City will hold a hearing, currently planned for June 17th, where oppositional ballots will be counted. The proposed rate increases would be made official if the opposing ballots total less than 50% plus one vote.

RECOMMENDED COUNCIL ACTION:

1. Receive staff presentation and review Council questions with staff
2. Open Public Comment
3. Close Public Comment
4. Provide direction to staff to perform the prop 218 process for the Water and Wastewater rates as presented in the draft Water and Wastewater user rate study and authorize the City Manager to make minor changes to the proposed rates and structure based on the outcome of the cost of service analysis

Attachments:

- Attachment A – Draft Water and Wastewater User Rate Study
- Attachment B – Draft Water and Wastewater Connection Fee Update