

STAFF REPORT

City Council Discussion Item

DATE: May 6, 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 Updated Draft Proposed Water and Wastewater 5-year Rate Adjustments**

STAFF RECOMMENDATION:

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

EXECUTIVE SUMMARY:

At the April 15th regular City Council meeting staff presented a draft approach to adjusting water and wastewater user rates over the next five years, beginning July 1, 2024. The initial approach was developed focusing on larger initial year increases, largely to play ‘catch up’ due to the lack of rate adjustments over the past 13 years, with smaller inflationary-level adjustments in the later years. Among other criteria, the approach focused on maintaining \$3- and \$5-million dollars in the water and wastewater capital reserve funds, funds that could be used for unforeseen capital improvement needs over the planning timeline. The rate increase percentages presented at the April 15th meeting are shown in the Table below.

Table 1. Proposed rate increases presented at April 15th Council meeting.

Year	% Water Increase	% Sewer Increase
FY 24/25	60%	40%
FY 25/26	5%	25%
FY 26/27	5%	10%
FY 27/28	3%	3%
FY 28/29	3%	3%

After much discussion on the rates and the financial model assumptions, the Council directed staff to review the proposed rate adjustments and determine if a rate adjustment approach could be developed that distributed the cost increases more evenly over the five year planning timeline. Based on that direction, the resulting modified proposed rate increase percentages are shown in the Table below.

Table 2. Updated proposed rate increases.

Year	% Water Increase	% Sewer Increase
FY 24/25	20%	30%
FY 25/26	20%	22.5%
FY 26/27	20%	22.5%
FY 27/28	15%	10%
FY 28/29	5%	4%

As shown above, while not fully evenly distributed throughout the years, staff were able to spread the cost somewhat evenly through years 1-4. In the fifth year, planned projects have been completed or financed and the capital reserve targets are being met, so there is not a projected need or reason to spread the increases into year 5. To achieve the increases as shown above, staff made the following adjustments to the financial model:

1. Reduce the capital reserve target in water and wastewater from \$3- and \$5-million to \$2- and \$4-million, respectively;
2. Defer larger water system capital improvements projects by one year, including the 12th Street, Downtown, and Drake Hill water main replacement projects;
3. Defer the CCF Electrical and Meadow Lane water main replacement projects by two years.

It should be noted that the only mechanism that could be used at this point to further spread out the cost increases would be to further reduce the capital reserve fund target amounts, to remove projects from the City’s Capital Improvement Program (or further delay projects), or to debt-finance more projects. At this time, staff does not recommend any of these approaches.

Shown below are Figures 1 and 2, which depict current-year average and minimum monthly water and wastewater rates, in addition to the rates resulting from the proposed increases in Table 2.

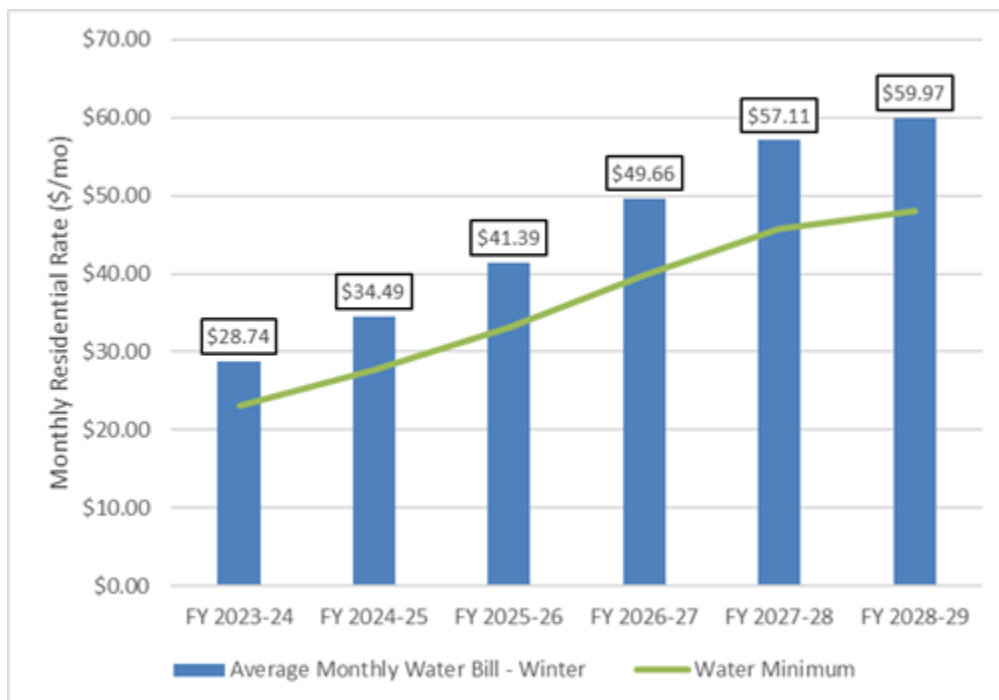


Figure 1. Average and minimum project monthly water bills.

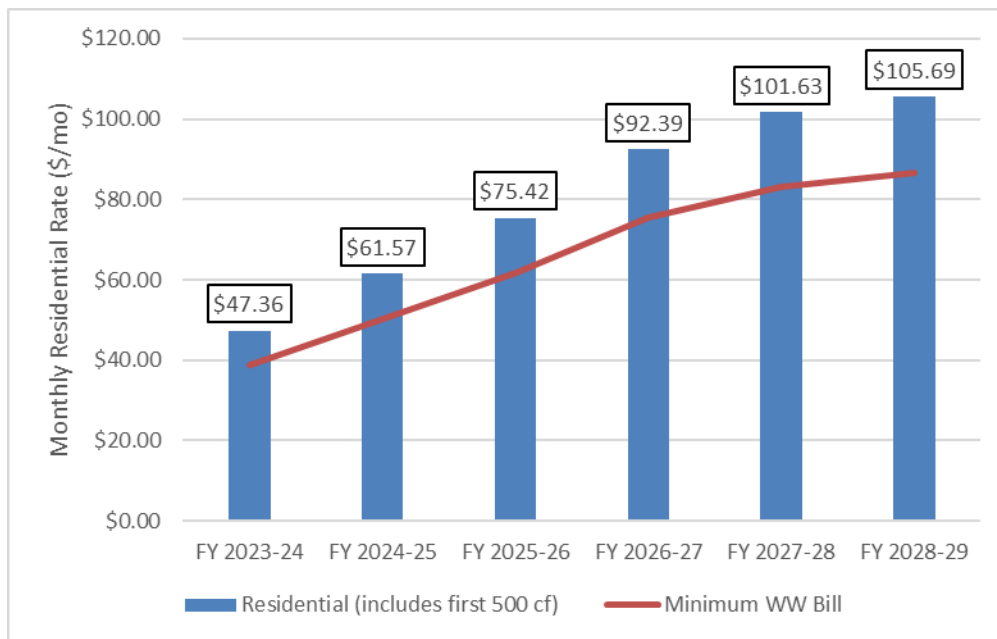


Figure 2. Average and minimum project monthly wastewater bills.

Table 3 below shows the average total user bill in the current year, and over the next 5 years of the proposed adjustments. Overall, as per the Council’s direction the annual increases are more uniform, and continue further into the planning period.

Table 3. Updated average monthly user bills for water and wastewater.

Year	Average Water Bill	Average Wastewater Bill	Average Total Bill
Current	\$28.74	\$47.36	\$76.10
FY 24/25	\$34.49	\$61.57	\$96.06
FY 25/26	\$41.39	\$75.42	\$116.81
FY 26/27	\$49.66	\$92.39	\$142.05
FY 27/28	\$57.11	\$101.63	\$158.74
FY 28/29	\$59.97	\$105.69	\$166.66

The other item that staff received direction from the Council on were the proposed increases to the water and wastewater capital connection fees. As presented at the April 15th meeting, staff proposed to adjust both the water and wastewater capital connection fees by the cumulative California Construction Cost Index since 2012, which would have been a 70% increase to connection fees. Staff also proposed to update the Living Unit Equivalent (LUE) values used by the City in the past, to better align with current American Waterworks Association (AWWA) standards. With the updated direction from Council, staff are now proposing to take the proposed total increase for each connection, and evenly phase in the increase annually over the five year planning period. Tables 4 and 5 below shows the updated proposed connection fees.

Table 4. Updated proposed annual water system connection fees.

Meter Size	Current	FY 24/25	FY 25/26	FY 26/27	FY 27/28	FY 28/29
5/8" by 3/4"	\$2,165.00	\$2,469.60	\$2,774.20	\$3,078.80	\$3,383.40	\$3,688.00
1"	\$5,542.00	\$6,277.40	\$7,012.80	\$7,748.20	\$8,483.60	\$9,219.00
1.5"	\$12,470.00	\$13,663.60	\$14,857.20	\$16,050.80	\$17,244.40	\$18,438.00
2"	\$22,170.00	\$23,636.20	\$25,102.40	\$26,568.60	\$28,034.80	\$29,501.00
3"	\$49,882.00	\$51,706.00	\$53,530.00	\$55,354.00	\$57,178.00	\$59,002.00
4"	\$88,678.00	\$89,380.60	\$90,083.20	\$90,785.80	\$91,488.40	\$92,191.00
6"	\$199,526.00	\$184,382.00	\$184,382.00	\$184,382.00	\$184,382.00	\$184,382.00

Table 5. Updated proposed annual wastewater system connection fees.

Meter Size	Current	FY 24/25	FY 25/26	FY 26/27	FY 27/28	FY 28/29
5/8" by 3/4"	\$4,445	\$5,070	\$5,695	\$6,321	\$6,946	\$7,571
Cost/Additional Fixture Unit	\$318	\$363	\$407	\$452	\$496	\$541

With this updated analysis, staff are seeking concurrence or further comments from the Council on how to move forward. If the Council concurs with the updated approach, staff would proceed to have Jacobs update and finalize the Rate Study, and produce the informational mailers that will be sent to residents and property owners as per the prop 218 process. With concurrence from the Council, staff believes that the mailers could be issued by mid-May, and staff could conduct the 218 hearing on July 1st. Should the Council have further comment requiring revisions to the proposed rate adjustments, the prop 218 hearing process would be further delayed into the coming fiscal year.

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 finalize the Water and Wastewater rate study with updated rate increase structure and perform the prop 218 process