



STAFF REPORT – CITY COUNCIL MEETING

July 01, 2020

TO: Honorable Mayor and City Council Members

FROM: Mark Andre, Director of Environmental Services

PREPARER: Mark Andre, Director of Environmental Services

DATE: June 23, 2020

TITLE: **1) Receive a Report on the Status of the City's Water and Wastewater Utility Infrastructure Including Planned Capital Improvements and Proposed Rate Adjustments; 2) Conduct a Public Hearing to Receive Public Comments Regarding the Proposed Utility Rate Increases; and 3) Direct Staff to Include the Proposed Fee Increases in the Fiscal Years' 2020–2025 Resolutions Which Establish Various City-Wide Fees, Service Charges and Taxes.**

RECOMMENDATION:

It is recommended that the City Council:

1. Receive a report on the status of the City's water and wastewater utility infrastructure including planned capital improvements and proposed rate adjustments;
2. Conduct a public hearing to receive public comments regarding the proposed utility rate increases; and
3. Direct staff to include the proposed fee increases in the Fiscal Years' 2020–2025 resolutions which establish various city-wide fees, service charges and taxes.

INTRODUCTION:

On March 18, 2020, the City Council received a rate study report from Bartle Wells Associates and reviewed a proposed rate structure to determine the most equitable rate structure beginning in fiscal year 2020/2021 for both water and wastewater. On April 1, 2020 the City Council reviewed rate structure options; determined the effective dates for rates to take effect and scheduled May 6, 2020, to review the draft Notice of Proposed Rates Adjustments. On May 6, 2020, the City Council set a public hearing date of July 1, 2020, and directed staff to mail the notices to affected property owners and water/wastewater customers as required under the California Constitution (Proposition 218).

BACKGROUND:

The primary need for the rate study is to support the Wastewater Treatment Plant (WWTP) upgrade project that is estimated at \$55-\$64 million. The study and the attached Cost of Service Memo was based on a comprehensive review of the City's wastewater enterprise funds, historical statements of revenue and expense, current year budgets, customer counts and classes, historical usage data, planned future growth, and any other information deemed important. The results of the Bartle Wells

study and the resulting proposed rate structure provide the foundation for wastewater rates for the next five years. The rates and rate structures proposed meet Proposition 218 and all other legal requirements.

City of Arcata utility rates are based entirely on the City's costs for operating and maintaining its water and wastewater facilities and services. Each of the utilities is operated as an independent enterprise and all expenses and revenues for each service are accounted for in separate funds. In fact, state law requires that all fees collected by each utility be used within that utility and are not allowed to be used for unrelated services.

If approved the noticed rates are the maximum rates that can be implanted over the five-year period. The City can chose to implement lower rates if for example for major capital projects turned out to be less expensive as projected and or if the city managed to acquire significant grant funding to supplement customer rates.

DISCUSSION:

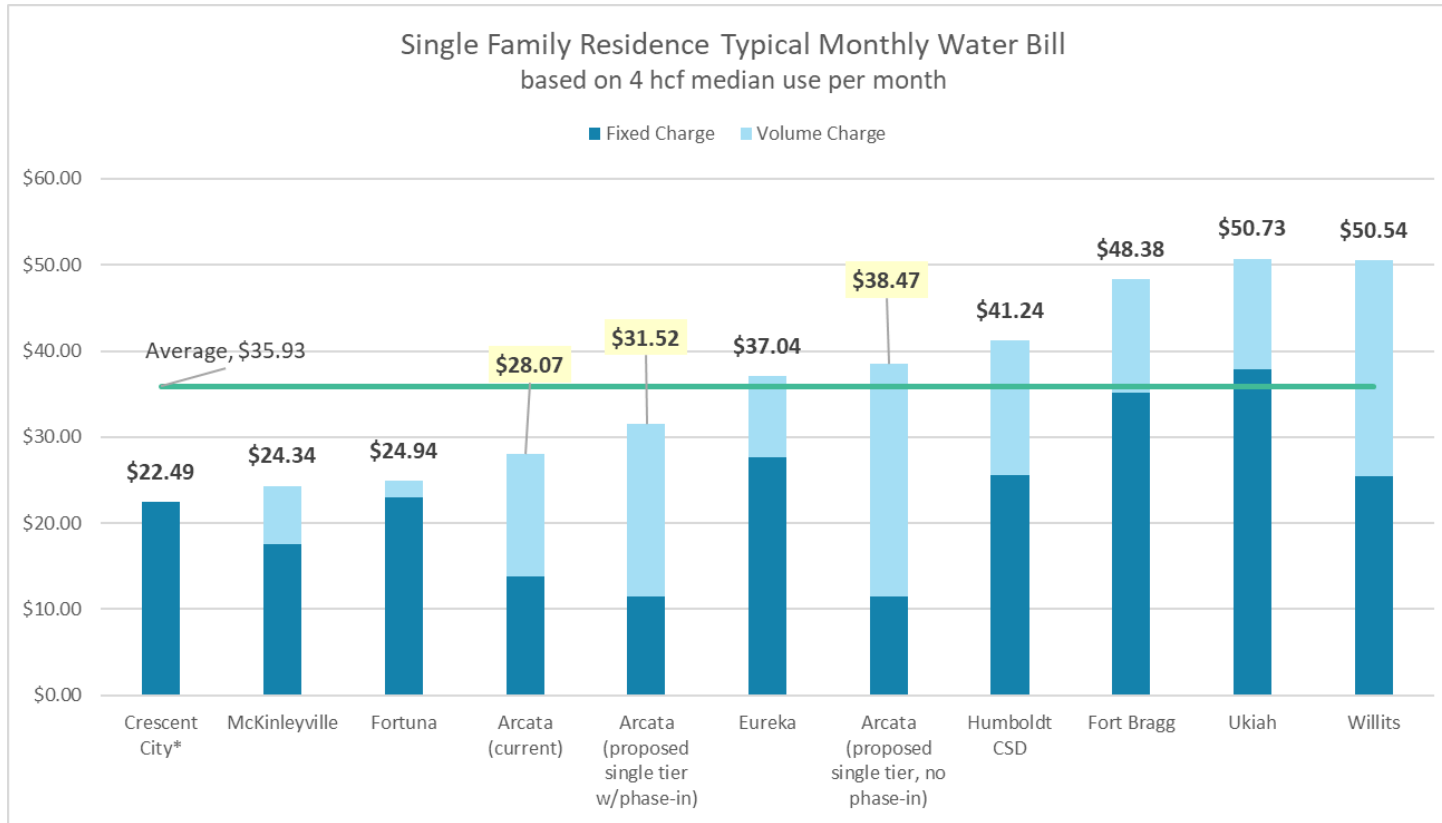
Public Notices were mailed to all affected properties and utility customers 45 days in advance of the July 1, 2020 hearing date. Staff held two public workshops via Zoom webinar on May 28th, 2020 and June 2, 2020 for customers to learn about the proposed rates, purpose and need and how rate increases and adjustments were developed.

Questions received at these workshops were used to develop a Q&A report that was posted on the City's website along with other pertinent rate related documents such as the Bartle Wells Associates Rate Study.

Water

Proposed rates for a five-year period have been developed that include a 3% annual operational cost increase built into the rate structure to cover inflation. The recommendations include proposed rate structure adjustments and a multi-year phase-in of rate increases.

Water rates are proposed to be adjusted to single volumetric rate aligned with cost of service and Proposition 218 requirements. This will equalize the volume charges for all customer classes and all water use. This will cause rates to go up for some customers and down for others as the rates are recalibrated.



Water Rates - Summary

Water Charges 2020-2025 <i>FY 2020/21 to be implemented September 1, 2020</i>	2019/2020 Current Bill	2020/2021 Proposed Bill	2021/2022 Proposed Bill	2022/2023 Proposed Bill	2023/2024 Proposed Bill	2024/2025 Proposed Bill
Average Monthly Water	\$ 28.07	\$38.48	\$39.06	\$39.63	\$40.25	\$40.83
Avg. Outside City Water	\$ 41.54	\$44.25	\$44.90	\$45.57	\$46.28	\$46.95

Proposed bills are estimated for the 5-year period for an average household using 400 cu.ft. per month

Water Rate Details: proposed implementation date of September 1, 2020

Meter Size or Description	2019/2020 Current	2020/2021 Proposed	2021/2022 Proposed	2022/2023 Proposed	2023/2024 Proposed	2024/2025 Proposed
Water Rates for meters Inside the City of Arcata Limits - monthly						
5/8" and 3/4"	\$13.76	\$11.52	\$11.70	\$11.87	\$12.05	\$12.23
1"	\$30.09	\$19.24	\$19.53	\$19.83	\$20.12	\$20.43
1 1/2"	\$41.47	\$38.37	\$38.95	\$39.53	\$40.13	\$40.73
2"	\$51.74	\$61.42	\$62.34	\$63.28	\$64.23	\$65.19
3"	\$298.57	\$115.24	\$116.97	\$118.72	\$120.50	\$122.31
4"	\$377.07	\$192.10	\$194.98	\$197.91	\$200.87	\$203.89
6"	\$530.88	\$384.08	\$389.85	\$395.69	\$401.63	\$407.65
8"	\$741.79	\$614.56	\$623.78	\$633.13	\$642.63	\$652.27
10"	\$889.81	\$883.52	\$896.77	\$910.22	\$923.88	\$937.74

Water Rates- Consumption, Inside the City of Arcata Limits per 100 cu.ft.						
0-300 cubic feet	\$3.51	\$6.74	\$6.84	\$6.94	\$7.05	\$7.15
301-400 cubic feet	\$3.78	\$6.74	\$6.84	\$6.94	\$7.05	\$7.15
401 & up: cubic feet	\$7.40	\$6.74	\$6.84	\$6.94	\$7.05	\$7.15
Non-Residential	\$7.40	\$6.74	\$6.84	\$6.94	\$7.05	\$7.15
Water Rates for Meters Outside the City of Arcata Limits - monthly						
5/8" and 3/4"	\$26.50	\$17.29	\$17.54	\$17.81	\$18.08	\$18.35
1"	\$46.54	\$28.87	\$29.30	\$29.74	\$30.19	\$30.64
1 1/2"	\$59.46	\$57.56	\$58.42	\$59.30	\$60.19	\$61.09
2"	\$78.23	\$92.13	\$93.51	\$94.92	\$96.34	\$97.79
3"	\$398.09	\$172.86	\$175.45	\$178.08	\$180.75	\$183.46
4"	\$530.88	\$288.15	\$292.47	\$296.86	\$301.31	\$305.83
6"	\$716.69	\$576.13	\$584.77	\$593.54	\$602.44	\$611.48
8"	\$941.49	\$921.84	\$935.66	\$949.70	\$963.94	\$978.40
10"	\$1,084.50	\$1,325.28	\$1,345.16	\$1,365.34	\$1,385.82	\$1,406.60
Water Rates - Consumption, Outside the City of Arcata Limits						
0-300 cubic feet	\$3.69	\$6.74	\$6.84	\$6.94	\$7.05	\$7.15
301-400 cubic feet	\$3.97	\$6.74	\$6.84	\$6.94	\$7.05	\$7.15
401 & up: cubic feet	\$7.78	\$6.74	\$6.84	\$6.94	\$7.05	\$7.15
Non-Residential	\$9.25	\$6.74	\$6.84	\$6.94	\$7.05	\$7.15

Wastewater

The wastewater capital improvement plan totals \$75.2 million over the 5-year period, including \$64.4 million for necessary improvements to the Wastewater Treatment Plant. The City expects \$6.1 million in grants and \$55.2 million in low-interest State Revolving Fund loans to offset capital costs. The City's current wastewater rate revenue is not sufficient to fund wastewater enterprise costs over the next five years. Without rate revenue increases, the City is projected to face a negative wastewater cash fund balance and insufficient debt service.

The existing \$5.00 per month "sewer repair fee" debt service charge will continue until January 1, 2023, and from that point forward it will no longer be billed with the wastewater charges. Customers will see a reduction in the monthly bills of \$5.00 per month beginning in January 2023.

Wastewater Rates - Summary

Wastewater Bills 2020-2025	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024	2024/2025
<i>2020/21 increase to be implemented January 1, 2021</i>	Current¹ Rate	10% Rate Increase	10% Rate Increase	10% Rate Increase	8% Rate Increase	8% Rate Increase
Average	\$49.62	\$54.99	\$60.49	\$66.54	\$71.86	\$77.61

Bills are estimated for the 5-year period for an average household using 400 cu.ft. per month

Wastewater Rate Details: proposed implementation date of January 1, 2021

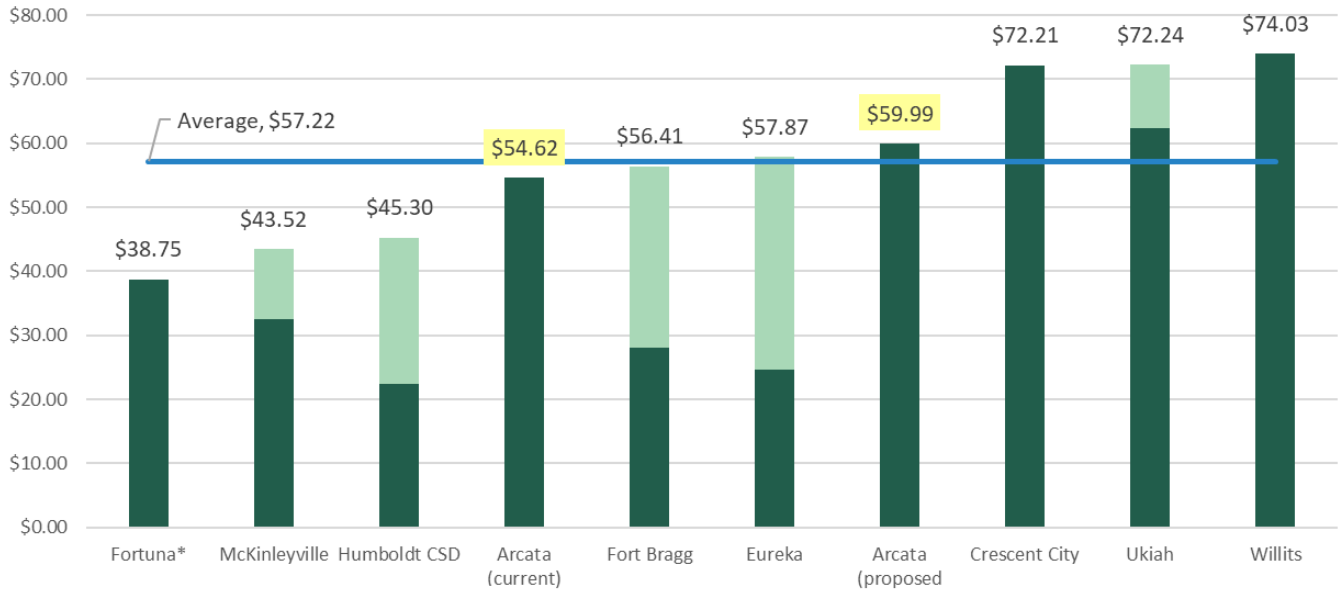
¹Existing sewer repair fee of \$5.00 per month per account concludes January 1, 2023.

Meter Size or Description	2019/2020 Current	2020/2021 Proposed 10% Increase	2021/2022 Proposed 10% Increase	2022/2023 Proposed 10% Increase	2023/2024 Proposed 8% Increase	2024/2025 Proposed 8% Increase
Residential Wastewater - Base	\$49.62	\$54.99	\$60.49	\$66.54	\$71.86	\$77.61
Residential Wastewater - Consumption per 100cu.ft in excess of 400 cu.ft.	\$7.62	\$8.04	\$8.84	\$9.73	\$10.50	\$11.34
Low Strength Commercial WW- Base	\$51.40	\$57.43	\$63.17	\$69.49	\$75.05	\$81.05
Low Strength Commercial WW - per 100cu.ft in excess of 400 cu.ft.	\$7.08	\$7.00	\$7.70	\$8.47	\$9.15	\$9.88
Medium Strength Comm. WW- Base	\$51.40	\$57.43	\$63.17	\$69.49	\$75.05	\$81.05
Medium Strength Commercial WW - Consumption per 100cu.ft in excess of 400 cu.ft.	\$8.33	\$8.51	\$9.36	\$10.30	\$11.12	\$12.01
High Strength Commercial WW- Base	\$51.40	\$57.43	\$63.17	\$69.49	\$75.05	\$81.05
High Strength Commercial WW - Consumption per 100cu.ft in excess of 400 cu.ft.	\$13.74	\$14.27	\$15.70	\$17.27	\$18.65	\$20.14
Significant Commercial Unit Rate* per 100 cu.ft. sewer flow		\$2.27	\$2.50	\$2.75	\$2.97	\$3.21
Significant Commercial Unit Rate* per lb. bio oxygen demand		\$1.33	\$1.46	\$1.61	\$1.74	\$1.88
Significant Commercial Unit Rate* per lb. total suspended solids		\$1.33	\$1.46	\$1.61	\$1.74	\$1.88

* Significant Commercial User = Discharges above 700 ppm/ BOD and/or TSS

Single Family Residence Typical Monthly Sewer Bill based on 4 hcf flow per month

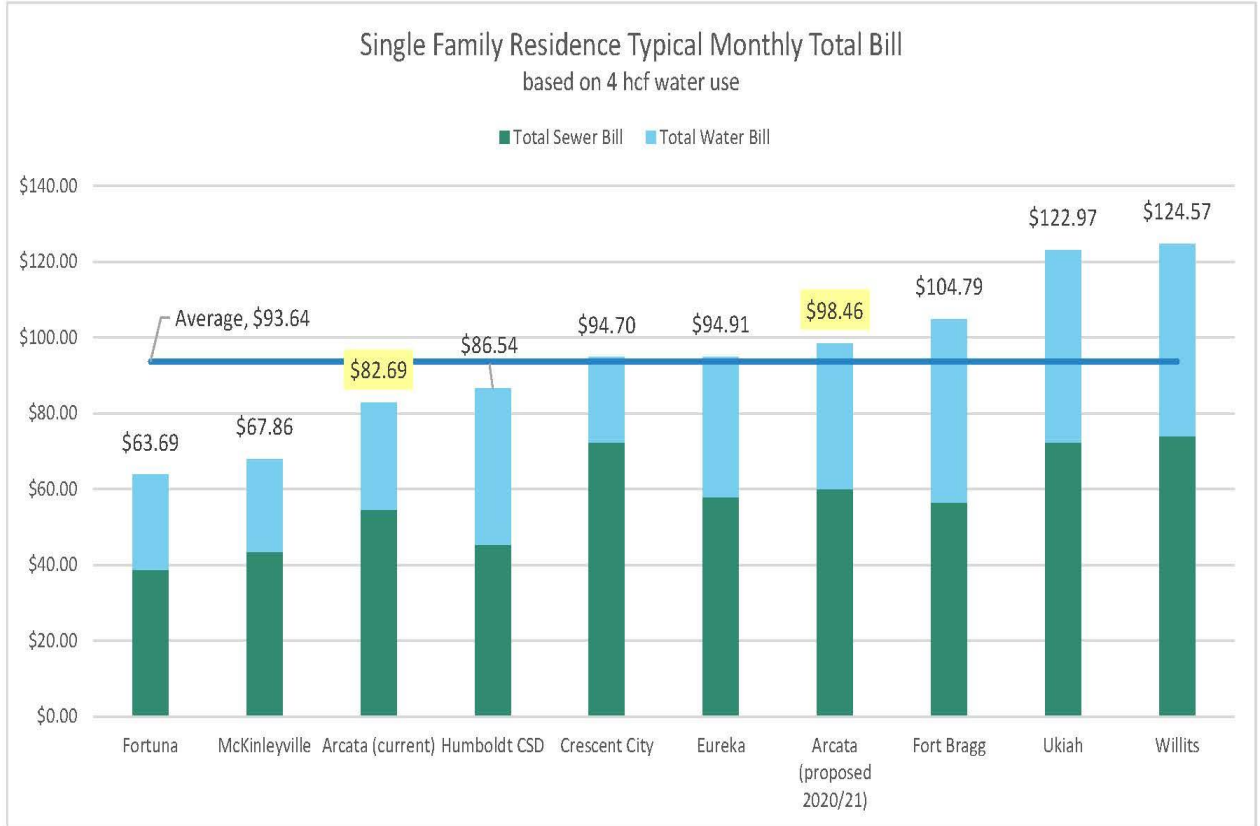
■ Fixed Charge ■ Volume Charge



* - \$8.61/hcf after 5 hcf winter use

Table 18: Combined Bill Survey
City of Arcata
Wastewater COS Rate Study 2020

Combined Bill Survey



How Arcata's Proposed Water and Sewer Bills Compare (Average \$93.64)

Water /Sewer Combined Inside City for four (4) units of water	
*Arcata current	\$82.69
Arcata proposed	\$98.46
Crescent City	\$94.70
Eureka	\$94.91
Fortuna	\$63.69
Fort Bragg	\$104.79
Humboldt CSD	\$86.54
McKinleyville	\$67.86
Ukiah	\$122.97
Willits	\$124.57

The proposed rates adjustments are scheduled to take effect on September 2, 2020 for water and January 1, 2021 for wastewater.

As of 6-24-20, the city has received 20 protest letters from property owners and or utility customers.

POLICY IMPLICATIONS:

Arcata Municipal Code section 7410 (Sewers), and 7920 (Water), authorize the City Council to establish by resolution fees and charges based on cost influencing factors. Water and sewer services are operated as an enterprise fund which means revenues to support operations and capital improvements must be supported by the rate payer.

ENVIRONMENTAL REVIEW (CEQA):

Public Resource Code Section 21080(b)(8) of the California Environmental Quality Act (CEQA) and CEQA Guidelines Section 15273 provide that CEQA does not apply to the establishment, modification, structuring, or approval of rates, tolls, fares and other charges by public agencies which the public agency finds are for the purposes of (1) meeting operating expenses, including employee wage rates and fringe benefits; (2) purchasing or leasing supplies, equipment or materials; (3) meeting financial reserve needs and requirements; and (4) obtaining funds for capital projects necessary to maintain current service levels.

BUDGET/FISCAL IMPACT:

The increase in revenues will enable the City to maintain the City's water and wastewater infrastructure and will allow for emergency reserve to facilitate the repair or replacement of necessary components. The wastewater rate increase will enable the City to implement the wastewater treatment plant upgrade project and service debt for that project. The proposed utility rate changes are necessary to maintain the City's utilities in a sound financial and operational condition.

ATTACHMENTS:

- A. BWA WW Cost of Service Memo 6-11-20 (PDF)
- B. Protest compilation 2020-2025 - 2020-06-24 (PDF)

C. City of Arcata WW Rate Study Model 6-1-20 (2) (PDF)

D. City of Arcata Water Rate Study model 3-10-20 (PDF)