



M E M O R A N D U M
F i n a n c e D e p a r t m e n t

DATE: October 13, 2009

TO: City Council

FROM: Dave Warren, Director of Finance

SUBJECT: WATER AND WASTEWATER USER RATE ADOPTION

RECOMMENDATION

That the City Council adopt a Resolution approving new water and wastewater user rates to become effective October 16, 2009.

BACKGROUND

At its regularly scheduled meeting held August 12, 2008, the City Council entered into a professional consulting agreement with Bartle Wells Associates (BWA) to study the City's water and wastewater Capital Improvement Charges (CICs) and user rates. The City Council adopted new water and wastewater CICs at its regularly scheduled meeting held June 23, 2009, and the new CICs became effective August 24th. Based on BWA's study results, development is now paying its fair share of the cost for each new connection to the City's water and wastewater systems.

At a special workshop held on August 25, 2009, BWA presented its initial water and wastewater user rate study results and gathered input from the City Council. At the workshop, staff was directed to prepare a Proposition 218 notice that advertised a second rate workshop on September 29, 2009 and a public hearing on October 13, 2009. Staff mailed the Proposition 218 notice to all ratepayers and interested parties on Friday, August 28, 2009. The City Council held the second rate workshop on September 29, 2009 and both the Council and community members provided additional input to BWA for further consideration. Tonight, BWA will present their most recent rate analysis based upon input received from the September 29th workshop including multiple rate scenarios for the Council's consideration. Staff is requesting the Council to select one of the water rate schedules and one of the wastewater rate schedules and adopt a Resolution approving the new rates effective October 16, 2009.

ANALYSIS

September 29th User Rate Workshop Overview

At the rate workshop held on September 29th, both the community and the City Council provided additional input to BWA in how to further minimize the proposed rate increases and make the proposed water and wastewater charges more affordable. The follow key suggestions were made:

- Continue to negotiate with the State favorable modifications to the \$35.8 million SRF loan
- Phase-in the water capital replacement costs over a longer period of time
- Consider reducing the wastewater base charge to lesson the rate impact to customers with lower consumption
- Defer the filling of some of the vacant Maintenance Worker positions
- Consider transitioning the billing period from bi-monthly to monthly

Both BWA and staff have been working feverishly in calculating and analyzing these suggestions and more. Tonight, BWA will present their latest analysis and two new water rate schedules and three new wastewater rate schedules for the Council's consideration.

Water User Rate Update

As an overview, the budget assumptions used as a basis for the proposed Fiscal Year 2009/2010 water rates included maintaining the current level of staffing and leaving unfilled positions vacant. The budget assumptions used as a basis for the water rates from Fiscal Year 2010/2011 through Fiscal Year 2014/2015 assumed all positions being filled. Currently, there are seven Council authorized Maintenance Worker class positions that are vacant. The cost of four of the seven positions are allocated between the Water Enterprise Fund (water distribution line maintenance and operation), Sewer Enterprise Fund (sewer collection line maintenance and operation), and the General Fund (street maintenance and operation). It's no secret the City's General Fund is currently experiencing significant budgetary challenges at this time, and staff anticipates the budgetary tribulations will continue through Fiscal Year 2010/2011. With that said, it's staff's opinion it will be difficult, if not impossible for the General Fund absorb the cost of its allocated share of the four vacant Maintenance Worker positions in Fiscal Year 2010/2011. BWA has revised the Water Enterprise Fund budget assumptions by removing the \$87,744 annual cost of the four vacant positions thereby providing some water rate relief in Fiscal Year 2010/2011.

BWA's initial water rate findings assumed \$300,000, \$499,700, and \$607,900 for capital replacement expenditures in Fiscal Years 2009/2010, 2010/2011, and 2011/2012 respectively. Staff analyzed the capital replacement needs in the first three Fiscal Years and concluded that capital replacement expenditures could be phased in further without compromising its construction schedule. BWA has reduced the capital replacement assumptions for the first three years to \$100,000, \$255,500, and \$542,400 in Fiscal Years 2009/2010, 2010/2011, and 2011/2012 respectively to provide additional water rate relief.

The initial water user rates presented to the Council on August 25th assumed a 66.7% increase effective in Fiscal Year 2009/2010. By reducing the assumed level of capital replacement from \$300,000 to \$100,000, the effective increase in water rates is 43% as follows:

| | Current Rates 2009/2010 | 66.7% Increase Scenario 2009/2010 | 43.0% Increase Scenario 2009/2010 |
|----------------------------------------------------|----------------------------------------|------------------------------------------------------|------------------------------------------------------|
| <i>Single Family Residential</i> | | | |
| Base Charge | \$18.57 | \$30.96 | \$26.56 |
| 0 to 2,500 cubic feet | \$1.98 per ccf | \$3.30 per ccf | \$2.83 per ccf |
| 2,501 to 20,000 cubic feet | \$2.37 per ccf | \$3.95 per ccf | \$3.39 per ccf |
| Over 20,000 cubic feet | \$2.57 per ccf | \$4.28 per ccf | \$3.68 per ccf |
| <i>Single Family Residential (Lifeline)</i> | | | |
| Base Charge | \$13.93 | \$23.22 per ccf | \$19.92 |
| 0 to 2,500 cubic feet | \$1.49 per ccf | \$2.48 per ccf | \$2.13 per ccf |
| 2,501 to 20,000 cubic feet | \$1.78 per ccf | \$2.97 per ccf | \$2.55 per ccf |
| Over 20,000 cubic feet | \$1.93 per ccf | \$3.22 per ccf | \$2.76 per ccf |
| <i>All Other</i> | | | |
| Base Charge | \$18.57 | \$30.96 | \$26.56 |
| 0 to 7,500 cubic feet | \$1.98 per ccf | \$3.30 per ccf | \$2.83 per ccf |
| 7,501 to 50,000 cubic feet | \$2.37 per ccf | \$3.95 per ccf | \$3.39 per ccf |
| Over 50,000 cubic feet | \$2.57 per ccf | \$4.28 per ccf | \$3.68 per ccf |

The median water consumption for bi-monthly single-family residential accounts is 1,800 cubic feet. Currently, the bi-monthly water charge for a single-family residential account is \$54.21 (\$18.57 base charge + \$1.98 x 18 ccf). The bi-monthly water charge for a single-family residential account assuming the 66.7% increase for Fiscal Year 2009/2010 would be \$90.37 (\$30.96 base charge + \$3.30 x 18 ccf) which is \$36.16 more every two-months or \$18.08 more monthly. The bi-monthly water charge for a single-family residential account based on the 43% increase for Fiscal Year 2009/2010 would be \$77.52 (\$26.56 base charge + \$2.83 x 18 ccf) which is \$23.31 more every two-months or \$11.66 more monthly. BWA's rate schedules include the City's lifeline program whereby low-income customers who qualify for discounted utility rates with AT&T and/or PG&E can receive a 25% discount on their City water bill.

Wastewater User Rate Update

As a review, the new WRF was financed with a blend of a \$35.8 million SRF loan and \$8.5 million in proceeds from the 2006 Wastewater System Refinancing and Improvement Project Revenue Bonds which both hold attractive interest rates. Over the past two weeks, staff has continued to negotiate in good faith with the State Water Resources (SWR) staff for favorable modifications to the City existing \$35.8 million SRF loan which currently has a 20-Year repayment term. City staff had requested the loan term be amortized over 30 years with the first payment being due in September 1, 2010. The City has received tentative written approval from the SWR for the extension of loan repayment period from 20 to 30 years. However, the first payment would be based on a 20 year amortization and due in February 2010. SWR staff stated that it would not make a decision to defer nor reduce the first payment based upon a 30 year amortization until the outcome of tonight's rate hearing is known. Based on this information, staff is recommending the Council adopt wastewater rates based on the assumption that the \$35.8 million will be based on a true 30 year amortization schedule with the first payment being due in September 1, 2010.

As mentioned above, there are currently seven Council authorized Maintenance Worker class positions that are vacant. The cost of four of the seven positions are allocated partially to the Sewer Enterprise Fund for sewer collection line maintenance and operation at an annual cost of \$140,239. BWA has removed the four positions from the Fiscal Year 2010/2011 wastewater budget assumptions to provide additional rate relief.

BWA has also created two new rate schedules with reduced base charges as a way of providing rate relief for those customers with lower water consumption. The current wastewater base charge accounts for the first 1,000 ccf of water consumption. BWA has created a rate schedule with a base charge accounting for the first 500 ccf and another rate schedule that has a base charge that accounts for the first 750 ccf.

| Rate Category/Subcategory | | | 1,000 ccf Base Charge 2009/2010 | 750 ccf Base Charge 2009/2010 | | 500 ccf Base Charge 2009/2010 | | |
|----------------------------------------|-----------------------------------------------|-----------------------------------------|-----------------------------------------------|-----------------------------------------|-----------------------------------------------|--------------------------------------|-----------------------------------------------|--------------------------------------|
| | Base Charge - First 1,000 Cubic Feet | Per 100 cf (ccf) over 1,000 cf | Base Charge - First 1,000 Cubic Feet | Per 100 cf (ccf) over 1,000 cf | Base Charge - First 1,000 Cubic Feet | Per 100 cf (ccf) over 1,000 cf | Base Charge - First 1,000 Cubic Feet | Per 100 cf (ccf) over 1,000 cf |
| Consumption Based - Per 100 Cubic Feet | | | | | | | | |
| Residential: | | | | | | | | |
| Single Family | \$83.17 | \$3.48 | \$156.36 | \$6.54 | \$143.88 | \$6.54 | \$133.90 | \$6.54 |
| Lifeline | \$62.38 | \$2.61 | \$117.27 | \$4.91 | \$107.92 | \$4.91 | \$100.43 | \$4.91 |
| Apartment Units | \$74.86 | \$3.48 | \$140.74 | \$6.54 | \$129.51 | \$6.54 | \$120.52 | \$6.54 |
| Non-Residential: | | | | | | | | |
| Retail Stores and Offices | \$73.87 | \$6.98 | \$138.88 | \$13.12 | \$127.80 | \$13.12 | \$118.93 | \$13.12 |
| Service Stations | \$87.99 | \$8.39 | \$165.42 | \$15.77 | \$152.22 | \$15.77 | \$141.66 | \$15.77 |
| Motel - Hotel Rooms (w/o kitchens) | \$87.74 | \$5.93 | \$164.95 | \$11.15 | \$151.79 | \$11.15 | \$141.26 | \$11.15 |
| Restaurants | \$167.98 | \$16.46 | \$315.80 | \$16.82 | \$290.61 | \$16.82 | \$270.45 | \$16.82 |
| Fast Food Service | \$144.47 | \$12.51 | \$271.60 | \$13.80 | \$249.93 | \$13.80 | \$232.60 | \$13.80 |
| Laundromats / Laundry | \$70.36 | \$7.11 | \$132.28 | \$13.37 | \$121.72 | \$13.37 | \$113.28 | \$13.37 |
| Hospitals | \$81.14 | \$7.71 | \$152.54 | \$14.49 | \$140.37 | \$14.49 | \$130.64 | \$14.49 |
| Resthomes | \$78.10 | \$7.47 | \$146.83 | \$14.04 | \$135.11 | \$14.04 | \$125.74 | \$14.04 |
| Markets | \$91.39 | \$8.62 | \$171.81 | \$16.21 | \$158.10 | \$16.21 | \$147.14 | \$16.21 |
| Churches | \$65.96 | \$6.06 | \$124.00 | \$11.39 | \$114.11 | \$11.39 | \$106.20 | \$11.39 |
| Car Wash | \$62.41 | \$6.01 | \$117.33 | \$11.30 | \$107.97 | \$11.30 | \$100.48 | \$11.30 |
| Bars | \$95.01 | \$7.36 | \$178.62 | \$13.84 | \$164.37 | \$13.84 | \$152.97 | \$13.84 |
| Mortuaries | \$107.16 | \$11.27 | \$201.46 | \$21.19 | \$185.39 | \$21.19 | \$172.53 | \$21.19 |
| Halls | \$65.98 | \$4.96 | \$124.04 | \$9.32 | \$114.15 | \$9.32 | \$106.23 | \$9.32 |
| Fire Station | \$77.92 | \$7.32 | \$146.49 | \$13.76 | \$134.80 | \$13.76 | \$125.45 | \$13.76 |
| Fair Grounds | \$83.94 | \$8.12 | \$157.81 | \$15.27 | \$145.22 | \$15.27 | \$135.14 | \$15.27 |
| Consumption Based - Per Unit | | | | | | | | |
| Movie Theatre (per seat) | n/a | \$0.40 | n/a | \$0.75 | n/a | \$0.77 | \$0.80 | \$0.80 |
| Schools (per student) | n/a | \$3.82 | n/a | \$7.18 | n/a | \$7.34 | \$7.60 | \$7.60 |

Single-family residential wastewater charges are based upon winter water consumption. The median bi-monthly winter water consumption for single-family residential accounts is 1,316. Based on the median winter water consumption, the bi-monthly single-family residential wastewater charge is currently \$94.17 (\$83.17 + \$3.48 x 3.16 ccf). Based on BWA's first scenario with an 88% rate increase and 1,000 ccf base charge, the Fiscal Year 2009/2010 bi-monthly wastewater charge for a single family residential account would be \$177.03 (\$156.36 + \$6.54 x 3.16 ccf) or \$82.86 more every

two-months or \$41.43 more monthly. Based BWA's second scenario with an 88% rate increase and a 750 ccf base charge, the Fiscal Year 2009/2010 bi-monthly wastewater charge for a single family residential account would be \$179.87 (\$143.88 + \$6.54 x 5.50 ccf) or \$85.70 more every two-months or \$42.85 more monthly. Based BWA's second scenario with an 88% rate increase and a 500 ccf base charge, the Fiscal Year 2009/2010 bi-monthly wastewater charge for a single family residential account would be \$186.24 (\$133.90 + \$6.54 x 8.00 ccf) or \$92.07 more every two-months or \$46.04 more monthly. BWA's proposals includes the City's lifeline program whereby low-income customers who qualify for discounted utility rates with AT&T and/or PG&E can receive a 25% discount on their City sewer bill.

Although the second and third scenarios (with the reduced base charges) have slightly higher wastewater charges at the median consumption level, they do provide rate relief for customers who's consumption is below 1,000 ccf.

The Next Step

In working with the City's financial software firm, Sungard HTE, staff has determined that the City could potentially transition from a bi-monthly to some form of monthly billing by the January 10, 2010 billing date. Staff is currently analyzing both the one-time and ongoing costs associated with this change. Staff will be returning to the Council in late October or early November with water and wastewater user rate related Ordinance changes. Staff will provide a full report on the monthly utility billing option in tandem with the Ordinance revisions.

Tonight, staff is requesting the Council to adopt one of the two water rate schedules and one of the three wastewater schedules. If adopted, the new rates would become effective October 16, 2009, and the first utility bills with the proposed rates would be issued in January 10, 2010.

FISCAL IMPACT

Currently, both the water and wastewater revenue programs are inadequate in meeting the operating and capital replacement needs of the water and wastewater systems. As mentioned above, the Water Enterprise Fund has critical infrastructure replacement needs that can no longer be deferred. The City has contractual obligations to make annual debt service payments from the Sewer Enterprise Fund and the existing rate structure does not generate enough revenue accommodate these liabilities. Also, the City must adhere to the 120% net revenue covenant made with the 2006 Wastewater Revenue Bond holder.

Tonight, staff respectfully requests the City Council to adopt new water and wastewater user rates to become effective October 16, 2009.

Dave Warren
Director of Finance

Reviewed and Approved:

John Driscoll
City Manager / City Attorney