



**AGENCY:** City Council  
**MEETING DATE:** January 25, 2021  
**DEPARTMENT:** Finance  
**PRESENTED BY:** Isaac Whippy  
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## AGENDA ITEM SUMMARY

**TITLE:**

**Receive Report and Consider Adoption of the FY 20/21 Water and Wastewater Rate Increase to Go into Effect January 1, 2021**

**BACKGROUND:**

User fees fully support the Water and Wastewater Enterprise. The financial revenue plans from the 2016 Rate Study are based on the premise that the Water and Wastewater Fund will be self-supporting, with revenues sufficient to address ongoing operations, upgrades, repairs to pipelines, treatment plants, sewers, and other water infrastructure. Infrastructure rehabilitation, replacement, and upgrade requirements are necessary to maintain an aging water distribution system. Ongoing Water and Wastewater main replacements funding, at a sufficient level to ensure reliability and long-term performance, is essential to system sustainability. In addition, other financial demands placed on the Water Fund arise from the need to fund capital programs to accomplish the City's self-sufficiency goals.

In June 2014, the City Council adopted a four-year rate increase based on the 2014 Utility Rate Study. In FY 2016/17, the adopted rate schedule established a rate increase, scheduled to take effect on July 1, 2016. Due to the City's new cost allocation plan, the water and wastewater enterprise received a lower allocation of shared administrative costs, which prompted the City Council to authorize a suspension of the July 1, 2016, rate increase. A new utility rate study was conducted in FY 2016/17 and presented to the Finance and Administration Committee. The rate study indicated that, due to the expectation of lower operating costs, it would be prudent to roll out the remaining two rate increases over four years. Thus the original four-year rollout becomes a seven-year rollout. The Committee recommended resumption of the previously adopted rate schedule, and FY 20/21 (July 1, 2020) would have been the last year for these scheduled rate increases.

However, the COVID-19 pandemic introduced significant uncertainty and, with the rate increase, could increase some immediate financial hardships for community members and businesses. In response to this unplanned disruption, staff recommended at the June 29, 2020, Special City Council meeting to postpone the utility rate increase set to take effect on July 1, 2020, until January 1, 2021.

In addition, the City also has offered financial relief to customers:

- Avoid shutting off water service for non-payment.
- Waive late charges and interest for past due water and wastewater bills from April through September of 2020.
- Offered interest-free, flexible payment plans for customers with delinquent accounts stemming from hardships associated with COVID-19. The payment plans' terms

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may be up to 1-3 months with flexible amortization schedules to best address customers' unique challenges.

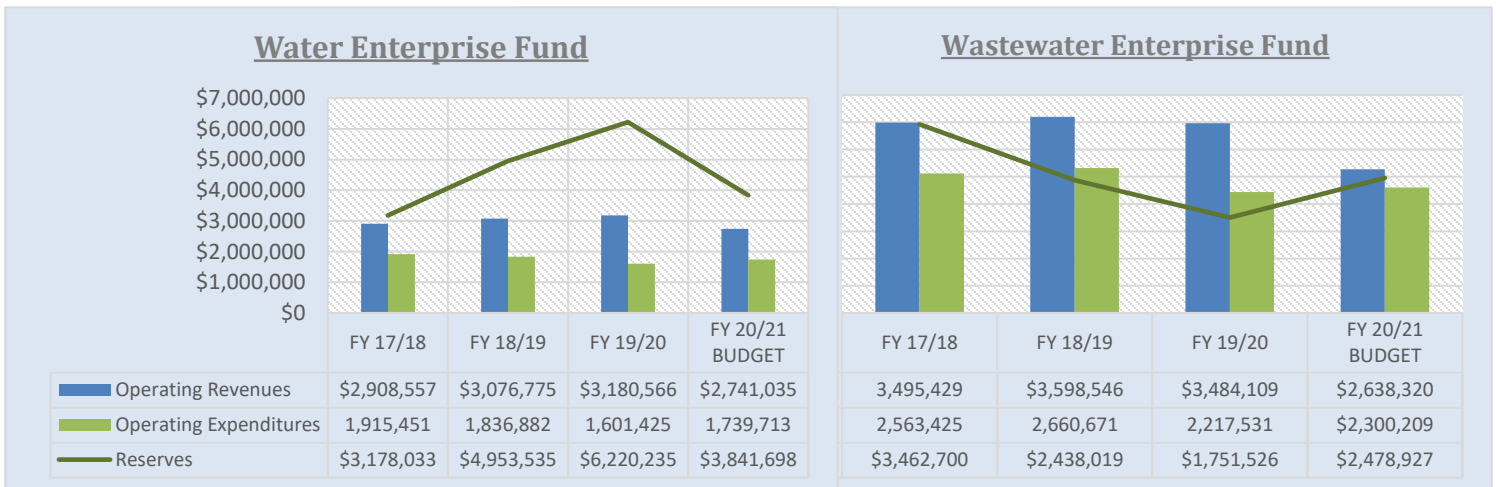
- Approved the temporary closure for commercial water accounts affected by hardship associated with COVID and waived the fee once they can reopen and conduct business.
- Staff is actively pursuing grants to assist customers with delinquent accounts.

**ANALYSIS:**

COVID-19 has also impacted the enterprise funds revenues. Water consumption has declined significantly due to worsening economic output driven by COVID-19. For example, residential and multi-family housing units have consumed slightly more Water as people increasingly work from home or are unemployed due to the SIP orders and business closures. In comparison, commercial accounts such as restaurants and breweries are using less Water due to closures or restrictions on the number of customers they can serve.

As anticipated, the largest impact on the Enterprise Fund from COVID-19 has been reduced rate revenue in the commercial customer class. This drop in commercial demand in the last quarter (April-June) of FY 19/20 led to a budget shortfall of \$102k. For FY 20/21, the revenue Budget was reduced by \$600k for Water and \$900k for Wasterwater due to the suspension of rate increases and a reduction in demand.

The projected reserve balance at the end of FY 20/21 is \$3.8M and \$2.4M, respectively, without the scheduled rate increase.



### Capital Requirements

By nature, water and wastewater systems are capital intensive operations. Staff has evaluated the enterprise funds' infrastructure needs to ensure system capacity, long-range water supply reliability, and conservation programs. This is supported by the City's Capital Improvement Program (CIP). Details of the five-year \$18 million CIP for Water and \$19 million for Wastewater are provided in the Adopted Budget FY 20/21 page 23-24, with selected projects and cost projections.

Water Capital Improvements Projects scheduled for FY 20/21 include:

- Water Treatment Plant Overhaul \$1.9M
- Raw Water Line Engineering \$680k
- Water Meter Replacement Project (Applied for Grant Funding-CDBG) \$3M
- Pudding Creek water main (design) \$210k

Wastewater Capital Improvements Projects scheduled for FY 20/21 include:

- Sewer Lift Station Rehab \$1.4M (completed)
- Wastewater Treatment Plant \$18.1M (completed)
- Collection System Condition Assessment \$300k
- Sewer Main Rehab \$245k

### Enterprise Revenue Update

More recently, water revenue from the first and second quarter of FY 2021 has shown some rebounding to pre-COVID levels, but staff continues to watch this closely as the long-term financial effects from COVID-19 are still unclear. As of December 31, 2020, water revenues were \$1.5M, 57% of the Budget, and the Wastewater was at \$1.8M, 67% of the FY 20/21 Budget.

Depicted below are the current rates and the scheduled utility rate increase. The proposed utility rate increase would increase customers' water bill by 5% and Wastewater by 3%. The **average** bill for a single-family residential account is \$110/month, multi-family residential is \$310/month, and commercial charges are \$490/month.

WATER RATES		
Customer Classes/Meter Sizes	Current Rates	Proposed New Rates
<b>Fixed Charges: Residential Customers:</b>		
5/8 & 3/4 inch	\$ 36.86	\$ 38.61
1 inch	\$ 52.42	\$ 54.92
1.5 inch	\$ 62.80	\$ 65.79
2 inch	\$ 109.16	\$ 114.36
3 inch	\$ 157.76	\$ 165.27
4 inch	\$ 206.38	\$ 216.20
6 inch	\$ 498.01	\$ 521.72
<b>Fixed Charges: Non-Residential Customers:</b>		
5/8 & 3/4 inch	\$ 74.98	\$ 78.55
1 inch	\$ 115.09	\$ 120.57
1.5 inch	\$ 141.83	\$ 148.59
2 inch	\$ 275.53	\$ 288.66
3 inch	\$ 409.24	\$ 428.74
4 inch	\$ 542.94	\$ 568.82
6 inch	\$ 1,234.61	\$ 1,293.40
<b>Commercial Low-Usage Customers:</b>		
5/8 & 3/4 inch	\$ 36.86	\$ 38.61
<b>Variable Charges:</b>		
<u>Single Family Residential Rates per HCF</u>		
Tier 1: 1-5 HCF	\$ 3.49	\$ 3.65
Tier 2: 6-10 HCF	\$ 5.23	\$ 5.47
Tier 3: 11+ HCF	\$ 7.84	\$ 8.21
Non-Single Family Residential	\$ -	
Rate per HCF	\$ 6.01	\$ 6.30

SEWER RATES		
Customer Class	Current Rates	Proposed New Rates
<b>Fixed Charges:</b>		
<u>Residential:</u>		
Single Family Residential	\$ 28.89	\$ 29.73
Mult-Family Residential	\$ 28.89	\$ 29.73
Mobile Home Parks	\$ 28.89	\$ 29.73
<u>Commercial:</u>		
Low Strength	\$ 28.89	\$ 29.73
Medium Strength	\$ 28.89	\$ 29.73
High Strength	\$ 28.89	\$ 29.73
<b>Variable Charges:</b>		
<u>Residential:</u>		
Single Family Residential	\$ 7.31	\$ 7.52
Mult-Family Residential	\$ 3.28	\$ 3.38
Mobile Home Parks	\$ 0.23	\$ 0.24
<u>Commercial:</u>		
Low Strength	\$ 9.90	\$ 10.19
Medium Strength	\$ 10.19	\$ 10.48
High Strength	\$ 25.38	\$ 26.12

As of January 5, 2021, the total past due amount owed by customers amounted to \$128,726, which is more than double the amount compared to the same period last year. The Finance Department has avoided sending delinquent accounts to collection and instead is actively working with customers to set up a payment plan.

WATER AND SEWER PAST DUE BALANCE					
	Total Balance b/f	0-30 days	30-60 days	60-90 days	90+ days
As of Jan 5, 2021	\$128,726	\$63,638	\$3,553	\$25,574	\$35,961
As of Jan 5, 2020	\$58,763	-	\$58,332	\$5	\$377

**RECOMMENDED ACTION:**

Staff is recommending that the City forgo an anticipated rate increase for the rest of Fiscal Year 2021. Recent adjustments to the Utility's capital improvement plan deferring some of the projects to the next fiscal year and sufficient revenue and reserves to cover operating costs have afforded the opportunity to provide financial relief to the community by forgoing water rate increases FY 20/21.

However, staff recommends that the City await the 2021 Utility Rate Study results to be published in February/March 2021 to ensure that the enterprise funds will sufficiently fund operations and maintenance costs, capital improvements, mandated standards of treatment, and debt contributions reserves, and other financial obligations. In the short term, the Water and Wastewater Fund has sufficient reserves that may be used to supplement a gap in revenue from a one-year pause on rate increases.

**ALTERNATIVE ACTION(S):**

- Implement rate increases to the January bills.
- Reschedule approval of the rate increases pending further input from another City Council meeting and/or Finance and Administration Committee meeting and be brought back to the City Council for consideration.

**FISCAL IMPACT:**

The Utility rate increase would generate an additional \$75k for the Water and \$49k for the Wastewater enterprise for quarters three and four of FY 20/21.

**GREENHOUSE GAS EMISSIONS IMPACT:**

None.

**CONSISTENCY:**

Approval of the rate increase is consistent with the FY 2016/17 approved four-year rate increase.

**IMPLEMENTATION/TIMEFRAMES:**

If approved, the rate increases will be applied to the January 2021 utility bills generated in February. The department would notify customers of the rate increase via mail inserts, email, and text messages. For more information, please visit the City's website.

**ATTACHMENTS:**

N/A

**NOTIFICATION:**

None.