



AGENCY: City Council
MEETING DATE: June 26, 2017
DEPARTMENT: Finance
PRESENTED BY: V. Damiani
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AGENDA ITEM SUMMARY

TITLE:

RECEIVE REPORT AND CONSIDER ADOPTION OF RESOLUTION APPROVING RESUMPTION OF APPROVED UTILITY RATE INCREASES EFFECTIVE JULY 1, 2017

ISSUE:

The Fort Bragg City Council approved the City's current water rate restructure for Fiscal Year 2014-2015 through Fiscal Year 2017-2018. The rate structure became effective July 1, 2013 and was amended in 2014. The rate schedule as amended in 2014 is attached to this report.

While developing the FY 2016-17 Budget, an accounting error was discovered that in prior years resulted in an over-allocation of non-personnel overhead costs to the Water and Wastewater Enterprises. At a budget workshop held on May 25, 2016, Council directed staff to determine the extent of the over-allocation with the intent that the General Fund repay the Enterprise Funds.

One of several steps taken by Council to remedy the cost allocation error included suspension of the previously approved and scheduled FY 2016-17 utility rate increases. At the time rates were suspended, staff was further directed to solicit new utility rate studies to ensure the prudent timing for resumption of approved rate increases.

Staff solicited new utility rate studies, both of which are attached to this report. In the case of the Wastewater Enterprise, a full study was conducted by Rural Communities Assistance Corporation. In the case of the Water Enterprise, only the Financial Plan and Summary of Revenue Requirements was updated. The Water Enterprise update was completed by NBS, the company which conducted the original rate study.

ANALYSIS:

The result of both the Water and Wastewater utility rate studies is a recommendation that rate increases resume in FY 2017-18. Both studies modeled the suspended increase which was originally scheduled for FY 2016-17 resuming in FY 2017-18 and remaining in effect for two years through FY 2018-2019 (10% in the case of Water and 6% in the case of Wastewater). The rate studies then show the final approved rate increase which was originally scheduled for FY 2018-19 taking effect in FY 2019-20 and remaining in effect for two years through FY 2020-21. In this scenario, the original four-year schedule is implemented across seven years.

The studies demonstrate both utilities generating sufficient revenue to pay all operating expenses and debt payments as well as building capital reserves. In the event the revised schedule is adopted, the Water Enterprise is expected to end FY 2021 with a capital reserve balance of \$1.7M while the Wastewater Enterprise is expected to end FY 2021 with a capital reserve balance of \$1.4M. The City's five-year Capital Improvement Program identifies \$8M in Water Enterprise capital projects and \$12M in Wastewater Enterprise capital projects.

On April 5, 2017, the Council's Finance and Administration Committee reviewed the updated Utility Rate Studies and recommended an alternative implementation plan. The Committee recommends that the remaining two rate increases be rolled out evenly across a four-year span rather than following a biennial schedule. In the case of the Water Enterprise, rates are proposed to increase

roughly 5% each year across a four-year period. In the case of the Wastewater Enterprise, rates are proposed to increase roughly 3% each year across a four-year period. This scenario likewise increases the original four-year schedule to a seven-year schedule. In no event will the rates increase above the Council and ratepayer approved rates.

RECOMMENDED ACTION:

Adopt resolution approving resumption of Water and Wastewater Utility rates to be implemented evenly across four years as recommended by the Council's Finance and Administration Committee.

ALTERNATIVE ACTION(S):

1. Implement biennial increases as modeled in the updated Utility Rate Studies.

FISCAL IMPACT:

The Water Enterprise and the Wastewater Enterprise will generate sufficient revenue to pay all operating expenses and debt payments as well as building capital reserves. The Water Enterprise is expected to end FY2021 with a capital reserve balance of \$1.7M while the Wastewater Enterprise is expected to end FY2021 with a capital reserve balance of \$1.4M.

IMPLEMENTATION/TIMEFRAMES:

Resumption of rate increases is proposed for July 1, 2017. In the case of the FAC recommended implementation plan, smaller increases will take effect at the start of each fiscal year through July 1, 2020.

ATTACHMENTS:

1. Resolution Approving Resumption of Approved Utility Rate Increases Effective July 1, 2017
 - 1a. Resolution Exhibit A: Proposed Rate Schedule 2014-2021
2. Updated Water Utility Financial Plan and Summary of Revenue Requirements
3. Updated Wastewater Utility Rate Study
4. Current Rate Schedule

NOTIFICATION:

None.

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Agency Action	<input type="checkbox"/> Approved	<input type="checkbox"/> Denied	<input type="checkbox"/> Approved as Amended
Resolution No.:	_____	Ordinance No.:	_____
Moved by:	_____	Seconded by:	_____
Vote:	_____		
<input type="checkbox"/> Deferred/Continued to meeting of:	_____		
<input type="checkbox"/> Referred to:	_____		