



**CITY OF FORT BRAGG**

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**COUNCIL COMMITTEE ITEM SUMMARY REPORT**

**MEETING DATE:** May 28, 2014  
**TO:** Finance and Administration Committee  
**FROM:** Rosana Cimolino, Finance Director  
Linda Ruffing, City Manager  
**AGENDA ITEM TITLE:** **Receive Report and Make Recommendation to City Council  
Regarding Amended Water Rates**

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**ISSUE:**

Earlier this year, staff discovered that the projected year-end Water Enterprise revenues for fiscal year (FY) 2013/14 are lower than expected. We believe there will be a \$124,000 shortfall. Upon investigation, staff determined that the utility rate study that was prepared in 2013 relied on data from the utility billing system that was inaccurate and over-estimated the number of commercial and multi-family accounts. Since the cost of service analysis allocates costs based on the number of accounts and the amount of water consumed in each customer class, the rates for commercial and multi-family classes were too low.

Our utility rate study consultant, Greg Clumpner of NBS, bears no responsibility for the erroneous data which led to the under-collection of water rate revenue. Mr. Clumpner has been very generous with his time in helping staff to troubleshoot the problem and evaluate solutions. He has adjusted inputs and rerun the model countless times.

On April 28, 2014, the Finance & Administration Committee reviewed revised rate structures to address the problem and requested that an additional alternative be developed to:

1. Leave the residential rate structure as adopted, or even slightly increase the fixed rates.
2. Slightly increase future rate increases to recoup the net loss of \$124,000 expected in FY 2013/14.
3. Modify the rate structure to ensure that sufficient revenues are generated to cover costs. It was understood that this would involve higher fixed charges for commercial and multi-family accounts. However, the Committee expressed its concerns about the widening gap between residential and commercial fixed charges and, therefore, supported a trade-off that resulted in lower fixed charges combined with higher volumetric rates with the understanding that this may increase rate volatility.
4. The Committee agreed that it is prudent to assume a 5% reduction in water consumption (even if that was not realized this year) as the higher rates, and drought conditions, may result in future conservation efforts.

## **SUMMARY:**

Exhibit A shows the new alternative rate structure that was prepared based on the Committee's April 28<sup>th</sup> instructions. As a point of comparison, Exhibit B shows the five-year rate structure that was approved on June 10, 2013.

Staff notes that the following changes were incorporated into the rate model in order to improve its accuracy while keeping the "rate shock" as low as possible:

1. The number, customer class, and size of accounts were corrected in the model.
2. Water consumption by customer class was adjusted based on current data.
3. FY 2013/14 revenue projections were updated based on the projections in the Water Enterprise Fund draft FY 2014/15 budget. The projected net revenue deficit for FY 2013/14 is now estimated at \$124,000.
4. FY 2014/15 expenditures were updated based on the draft FY 2014/15 budget.
5. In an effort to maintain adequate coverage for bonded indebtedness and to keep the rate increases in check, the Financial Plan was modified to reduce the projected 2015/16 bond issuance from \$5 million to \$3 million. Based on the City's 5-year Capital Improvement Plan, staff believes this amount will be sufficient to fund necessary capital projects in the Water Enterprise.
6. From FY 2015/16 onward, the revenue requirements assume that rate-funded capital expenses (i.e., pay-as-you-go capital projects) will be limited to \$150,000 per year which is reasonable assuming that bond funding will be available in FY 2015/16.
7. Adjust rates to recover the \$124,000 net deficit in FY 2013/14 over a four-year period starting in FY 2015/16.
8. Add one year (FY 2018/19) to the water rate schedule.

Mr. Clumpner will be available during the May 28, 2014 Finance and Administration Committee meeting to explain the changes to the rate model and respond to questions. If the Committee recommends the new rate structure, it will be brought forward to the City Council for consideration on June 9, 2014.

If the Council directs staff to proceed with the Proposition 218 process for increasing the water rates, all property owners and customers will be notified in writing of the proposed rate increases at least 45 days prior to a mandatory protest hearing and the Council's action on the rates. Assuming the protest hearing is held in August, the new rates would take effect on September 1, 2014.

## **RECOMMENDATION:**

Receive report and provide direction to staff regarding the rate structure to be recommended to the Council.

## **ATTACHMENTS:**

**Exhibit A:** Table showing revised water rates for FY 2014/15 through FY 2018/19, recovering net loss of \$124,000

**Exhibit B:** Table showing FY 2013/14 – FY 2018/19 water rates approved on June 10, 2013