



AGENCY: City Council
MEETING DATE: August 11, 2014
DEPARTMENT: Administration
PRESENTED BY: L. Ruffing/C. VanWormer

AGENDA ITEM SUMMARY

TITLE:

RECEIVE REPORT, CONDUCT PUBLIC HEARING, AND CONSIDER ADOPTION OF CITY COUNCIL RESOLUTION AMENDING WATER RATES FOR THE FORT BRAGG WATER WORKS

ISSUE:

Earlier this year, staff discovered that the projected year-end Water Enterprise revenues for fiscal year (FY) 2013/14 were considerably lower than expected. Upon investigation, staff determined that the utility rate study that was prepared in 2013 relied on data from the City's utility billing system that was inaccurate and over-stated the number of commercial and multi-family accounts. Since the cost of service analysis used to establish the water rates 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.

RECOMMENDED ACTION:

1. Conduct public hearing.
2. Adopt City Council resolution amending the water rates.

ALTERNATIVE ACTION(S):

1. Receive report, conduct public hearing and modify the proposed resolution before adopting it.
2. Receive report, conduct public hearing and reschedule approval of the proposed resolution pending further input from the public, City Council, staff, or the consultants.

ANALYSIS:

On April 28, 2014 and May 28, 2014, the Finance & Administration Committee reviewed alternative rate structures and provided direction to the City's utility rate study consultant, Greg Clumpner of NBS, who revised the model per their direction. (It should be noted that Mr. Clumpner bears no responsibility for the erroneous data which led to the under-collection of water rate revenue.) On June 9, 2014 the City Council considered the Finance & Administration Committee's recommendations regarding changes to the water rates and directed staff to proceed with the Proposition 218 process for noticing customers of the proposed rate changes.

The following modifications were incorporated into the revised rate model (see attached):

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 amended to the original projected annual revenue for FY 2013/14 of \$2,300,655. The projected net revenue deficit for FY 2013/14 is now estimated at \$84,418.
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. Rates were adjusted to recover the \$84,418 net deficit in FY 2013/14 over a three-year period starting in FY 2015/16.
8. Rate structure includes higher volumetric rates with the understanding that this may increase revenue volatility.
9. Rate structure continues to assume a 5% reduction in water consumption based on possibility that higher rates and drought conditions may result in future conservation efforts.

The City's principal mandate for providing water services is to provide customers with a safe and reliable water supply. There are also other important objectives considered in the rate study such as: providing services at a fair and cost-effective price, providing revenues that are sufficient and stable, developing rates that are equitable and fair to customers, adequately funding repair and replacement and capital improvement projects, and managing adequate financial health, including reserves, meeting debt service coverage ratios, and observing appropriate financial management policies.

Under Proposition 218 adopted by the voters of the State of California in 1996, and subsequent court rulings, water and wastewater fee calculations must reflect the actual costs of providing the services. The rationale for the fees must be clearly designed and distributed equitably across applicable user classes. The revenue requirements and expenditures used in setting the water rates provide the rationale needed for compliance with Proposition 218 requirements.

Proposition 218 requires that, if there is a majority protest of the utility customers, the amended rates cannot go into effect. There are currently 2,843 utility customers so 1,422 ($\frac{1}{2}$ of 2,843 + 1) protests would be required. As of the date of the agenda packet distribution the City has received 333 protests. The City Clerk will update these numbers at the close of the public hearing.

FISCAL IMPACT:

The proposed water rates were designed to increase the Water Enterprises revenue in order to meet rising operating costs, to enhance the financial conditions of the Enterprises, and to provide funds for needed capital improvements.

The water rates will be reviewed annually and adjusted, if necessary, to reflect operational and capital cost increases, maintain bond covenant instructions and minimize future potential for large rate increases. In addition, an updated rate study will be prepared in 3-4 years to ensure the financial viability of the Enterprise and to ensure that cost of service principles are met. In the event that there are excess fund balances, they will be used to offset future rate increases, fund approved capital improvement projects, and/or meet unexpected or emergency cost demands of the Water Enterprises.

CONSISTENCY:

Implementation of the proposed water rate structure is consistent with City policies that support the provision of adequate infrastructure and services to support community needs.

IMPLEMENTATION/TIMEFRAMES:

If approved, the amended water rates will become effective September 1, 2014. While charges for services using the new rates would begin in September, they would first appear on the October billing statement.

ATTACHMENTS:

1. Proposed City Council resolution amending water rates.
2. Notice to utility customers.
3. Public Hearing notice published in newspaper.

NOTIFICATION:

1. Greg Clumpner, NBS

City Clerk's Office Use Only

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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: | _____ | | |