



MEMORANDUM

TO: City Council

FROM: Bill Robeson, Assistant City Manager/Public Works Director
Nicole Valentine, Administrative Services Director
Shane Taylor, Utilities Manager

SUBJECT: Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218

DATE: January 11, 2022

SUMMARY OF ACTION:

Adopt a Resolution (Attachment 1) approving the Water and Wastewater Rate Study (Study), setting the public hearing for March 8, 2022, to consider adoption of adjusted water and wastewater rates for Fiscal Years 2021 through 2026, and directing staff to prepare and distribute a Proposition 218 notice for the proposed water and wastewater rate increase and public hearing.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The Study proposed water rate increases of 6.4% on April 19, 2022, and each January 1 through 2026. A wastewater rate increase of 8.3% annually over the next 5 years is also proposed. Approving the proposed water rate schedule will provide additional revenues above the current rate revenue received, ranging from \$35,816 to \$2,158,850 from FY 2022 to FY 2026, to support the Water Enterprise Fund, related water operations, critical capital improvement projects, the Central Coast Blue project, and appropriate reserves. Approving the proposed wastewater rate schedule will provide additional revenues above the current rate revenue received, ranging from \$6,548 to \$407,352 from FY 2022 to FY 2026, to support the Wastewater Enterprise Fund and related critical capital improvement projects, maintaining wastewater operations, and supporting reserves.

RECOMMENDATION:

1) Adopt a Resolution approving the Water and Wastewater Rate Study; 2) Set a public hearing for March 8, 2022, to consider adjusting the water and wastewater rates for Fiscal Years 2021 through 2026; and 3) Direct staff to prepare and distribute a Proposition 218 notice for the proposed water and wastewater rate increases.

Item 10.a.

City Council

Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218

January 11, 2022

Page 2

BACKGROUND:

On December 14, 2021, the City Council reviewed the Study (Attachment 2) and received a presentation from Tuckfield & Associates, the City's rate consultant which prepared the Study. The staff report for the December 14, 2021 consideration of the Study is provided as Attachment 3. The major objectives of the Study were:

- Review the current and future financial status of each of the water and wastewater enterprises;
- Evaluate and propose adjustments to the revenue being received to ensure that the enterprises' financial obligations are met now, and in the future, including adequate reserves and debt service coverage; and
- Design water and wastewater rates that generate the required revenue for the cost of service while being proportionate and equitable for customers.

The City's current water rates are based on a rate study approved in 2014. Water rates have not increased since 2019, whereas wastewater rates have not increased since 2009. A water and wastewater rate study was near completion in 2020 but delayed due to the impacts of the COVID-19 pandemic on rate payers. The City Council's prior decisions to allocate \$1,899,550 in one-time funding received from the Federal government under the American Rescue Plan Act to water and sewer capital improvement projects helped to reduce the overall funding needed to continue operating the City's water and wastewater systems. However, rate increases were recommended in the Study to ensure the City's ability to provide water and wastewater service to the City's customers and to address increased operating and material costs.

Water Rate Discussion

The December 14, 2021 discussion included a description of the City's water rate structure, which includes two components - fixed monthly and variable (water consumption-based) charges – charged to four different customer classes. Customer classes are groups of customers with similar use characteristics and include Single-Family Residential (SFR), Multifamily Residential (MFR), non-residential, and irrigation.

As explained during the December 14, 2021 report, the Study's recommended water rate structure includes maintaining the fixed charge and three-tier variable charge structures, but would modify the variable charge to revise the tier break points for residential customers. The restructuring of the tiers is based on a decline in overall consumption, resulting in a reduction of water sold in all tiers. For SFR and MFR customers, Tier 1 is defined as consumption to provide basic indoor water use and is based on 2.39 persons per household (pph) using 55 gallons per capita per day (gcpd), utilizing the standards recommended by the California Department of Finance and the California Water Board. These criteria result in a Tier 1 breakpoint of 10 Hundred Cubic Feet (HCF) per billing period. Tier 2 is defined as consumption related to outdoor water use up to the average

Item 10.a.

City Council

Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218

January 11, 2022

Page 3

SFR summer peak demand, which was determined from billing information to be 22 HCF. Tier 3 is defined as water use above Tier 2.

Single-family Residential Current and Proposed Tiers

Tier	Current SFR Tiers	Current MFR Tiers	Proposed SFR and MFR Tiers
Tier 1	0 - 18 HCF	0 - 18 HCF	0 - 10 HCF
Tier 2	19 - 36 HCF	11 - 27 HCF	11 - 22 HCF
Tier 3	Over 36 HCF	Over 27 HCF	Over 22 HCF

The Study presented four different water rate options for consideration, including rates with and without the costs of participation in the Central Coast Blue Project (CCB) and drought rates with and without CCB that account for the potential impacts of a sustained drought and the City's current Stage 1 Water Shortage Emergency Declaration. Following discussion on December 14, 2021, Council directed staff to move forward with the rates presented with the CCB project but without drought rates. The recommended water rate structure and rates with CCB would increase rates by an average of 6.4% beginning on April 19, 2022, and another 6.4% each year beginning on January 1 through 2026, as provided in table 1 below:

Table 1
Proposed Water Fixed and Variable Charges with Central Coast Blue

City Council

Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218

January 11, 2022

Page 4

	Current Rate	April 19, FY 21-22	January 1, FY 22-23	January 1, FY 23-24	January 1, FY 24-25	January 1, FY 25-26
Meter Size		Fixed Charge (\$ per month)				
5/8"	\$29.51	\$27.83	\$29.61	\$31.51	\$33.53	\$35.68
3/4"	\$31.67	\$30.57	\$32.53	\$34.61	\$36.83	\$39.19
1"	\$38.12	\$38.78	\$41.26	\$43.90	\$46.71	\$49.70
1.5"	\$46.73	\$49.73	\$52.91	\$56.30	\$59.90	\$63.73
2"	\$70.41	\$79.83	\$84.94	\$90.38	\$96.16	\$102.31
3"	\$244.74	\$301.53	\$320.83	\$341.36	\$363.21	\$386.46
4"	\$309.31	\$383.64	\$408.19	\$434.31	\$462.11	\$491.69
6"	\$459.96	\$575.23	\$612.04	\$651.21	\$692.89	\$737.23
8"	\$632.14	\$794.19	\$845.02	\$899.10	\$956.64	\$1,017.86
Service Fee per Add'l Unit	\$7.99	\$8.12	\$8.64	\$9.20	\$9.78	\$10.40
Fireline Size						
2"	\$3.74	\$4.40	\$4.84	\$5.32	\$5.64	\$5.64
3"	\$10.88	\$12.79	\$14.07	\$15.48	\$16.41	\$16.41
4"	\$23.18	\$27.25	\$29.98	\$32.98	\$34.96	\$34.96
6"	\$67.33	\$79.16	\$87.08	\$95.79	\$101.54	\$101.54
8"	\$143.48	\$168.69	\$185.56	\$204.12	\$216.37	\$216.37
10"	\$258.03	\$303.37	\$333.71	\$367.08	\$389.10	\$389.10
		Variable Charge (\$ per HCF)				
Single-Family						
Tier 1 - 0 to 18 units	\$3.78					
Tier 2 - 19 to 36 units	\$4.16					
Tier 3 - Over 36	\$5.55					
Tier 1 - 0 to 10 units		\$4.06	\$4.32	\$4.60	\$4.89	\$5.20
Tier 2 - 11 to 22 units		\$4.83	\$5.14	\$5.47	\$5.82	\$6.19
Tier 3 - Over 22		\$4.94	\$5.26	\$5.60	\$5.96	\$6.34
Multifamily						
Tier 1 - 0 to 18 units	\$3.78					
Tier 2 - 19 to 27 units	\$4.16					
Tier 3 - Over 27	\$5.55					
Tier 1 - 0 to 10 units		\$4.06	\$4.32	\$4.60	\$4.89	\$5.20
Tier 2 - 11 to 22 units		\$4.83	\$5.14	\$5.47	\$5.82	\$6.19
Tier 3 - Over 22		\$4.94	\$5.26	\$5.60	\$5.96	\$6.34
Commercial	\$3.95	\$4.40	\$4.68	\$4.98	\$5.30	\$5.64
Irrigation	\$4.21	\$4.97	\$5.29	\$5.63	\$5.99	\$6.37
Hydrant	\$6.13	\$7.92	\$8.43	\$8.97	\$9.54	\$10.15
Wheeling	\$2.04	\$2.37	\$2.52	\$2.68	\$2.85	\$3.03

Wastewater Rate

The current wastewater rates consist of fixed and variable charges to residential and nonresidential customers. All customers are charged the same fixed charges bi-monthly. Residential and Non-Residential customers are charged different variable rates. The

Item 10.a.

City Council**Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218****January 11, 2022****Page 5**

City's wastewater rates have not been adjusted since 2009. The Study recommended that wastewater rates be increased by an average of 8.3% beginning on April 19, 2022, and each January 1 through 2026 in order to ensure sufficient funds for needed capital improvements and ongoing operations of the City's wastewater system. Drought rates for the wastewater system were also developed for consideration but were not recommended by staff or directed for inclusion by Council at the December 14, 2021 meeting.

The recommended wastewater rate structure and rates are provided in table 2 below:

Table 2
Proposed Wastewater Fixed and Variable Charges

	Current Rate	April 19, FY 21-22	January 1, FY 22-23	January 1, FY 23-24	January 1, FY 24-25	January 1, FY 25-26
Fixed Charge (\$ per month)						
All Customers [1]	\$2.40	\$2.62	\$2.84	\$3.08	\$3.34	\$3.62
Variable Charge (\$ per HCF) [2]						
Single-family Residential	\$0.67	\$0.72	\$0.78	\$0.84	\$0.91	\$0.99
Multifamily Residential	\$0.94	\$1.04	\$1.12	\$1.21	\$1.31	\$1.42
Non-Residential	\$1.32	\$1.40	\$1.52	\$1.65	\$1.79	\$1.94

City Council

Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218

January 11, 2022

Page 6

ANALYSIS OF ISSUES:

The Study proposes water rate increases of 6.4% on April 19, 2022, and each January 1 through 2025-26 to provide sufficient revenue for ongoing operations as well as participation in the CCB project. A wastewater rate increase of 8.3% annually over the next 5 years is also proposed. These increases reflect the anticipated costs of providing water and wastewater services to the City's customers.

Consistent with Council direction provided on December 14, 2021, staff is recommending moving forward with the water rates with CCB and wastewater rates presented in the Study. The water rates with CCB include the City's full costs to participate in the project without additional grant funding. While it is anticipated that additional grants will be awarded for the project, it is unknown how much grant funding will be received. In the event that additional grants are awarded, staff proposes to evaluate the impacts to the City's adopted rate adjustments and to recommend reductions as appropriate. It is possible that sufficient grant funding will enable the City to determine that an increase scheduled for January 1 of 2024-2026 is not necessary, though additional analysis will be required following the award of grants for the project.

While the ongoing drought may impact the City's water and wastewater enterprises by reducing revenue as customers reduce their water usage, it is not recommended that the drought rates presented in the Study be included in the proposed adjustments at this time. Staff recommends reevaluating the City's rates and water and wastewater fund revenues in 2-5 years when more details are known regarding grant funding received for the CCB project and the drought picture.

Adoption of the recommended water rates with CCB and the recommended wastewater rates, without drought rates for either, is anticipated to have the following impacts on an average SFR customer:

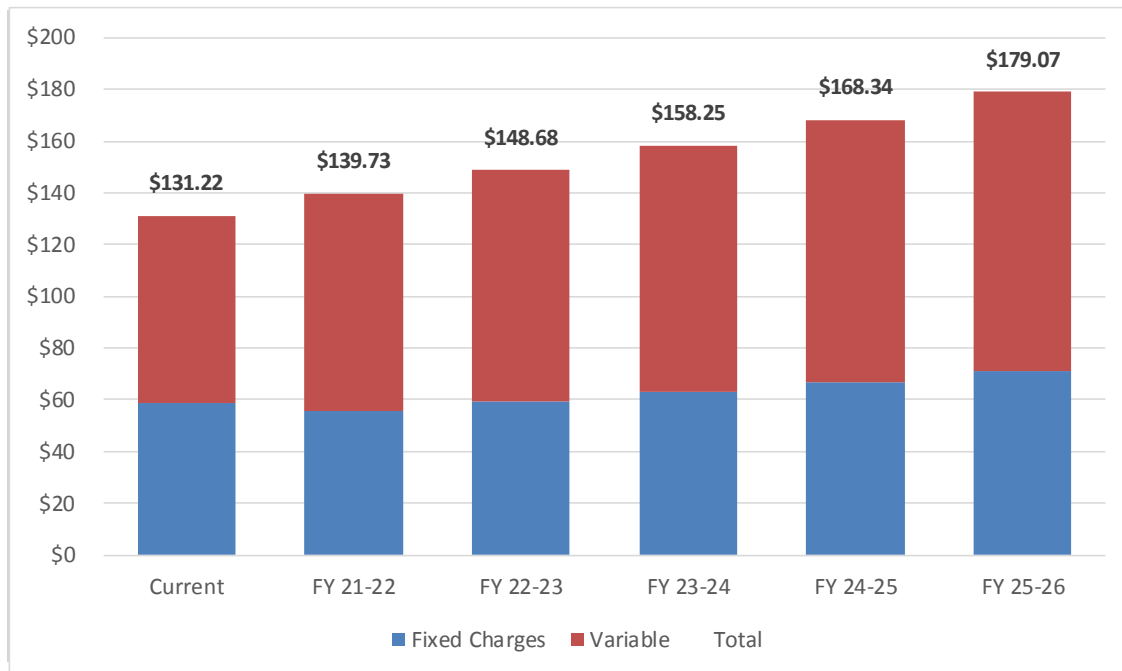
City Council

Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218

January 11, 2022

Page 7

Table 3
SFR Bi-monthly Water Bill Impacts at 19 HCF Bi-Monthly
With Central Coast Blue

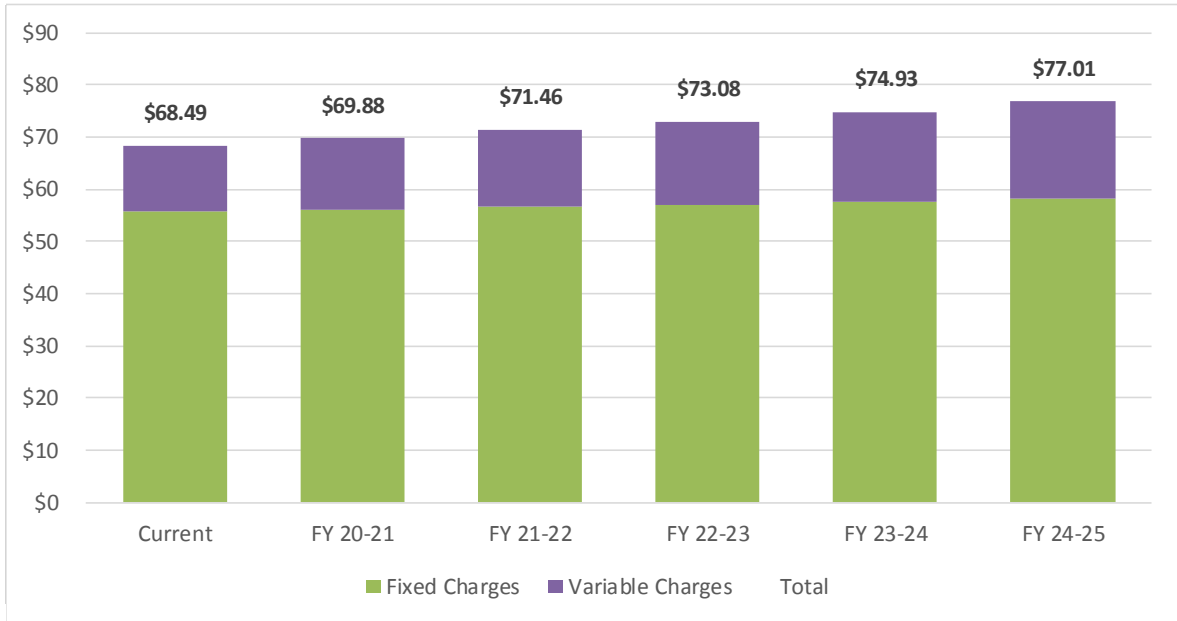


SFR Charges	Current	Proposed				
		FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Fixed Charges	\$59.02	\$55.66	\$59.22	\$63.02	\$67.06	\$71.36
Variable Charges	\$72.20	\$84.07	\$89.46	\$95.23	\$101.28	\$107.71
Total Charges	\$131.22	\$139.73	\$148.68	\$158.25	\$168.34	\$179.07
Dollar Change		\$8.51	\$8.95	\$9.57	\$10.09	\$10.73
Percent Change		6.5%	6.4%	6.4%	6.4%	6.4%

Item 10.a.

City Council**Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218****January 11, 2022****Page 8**

Table 4
SFR Bi-monthly Wastewater Bill Impacts at 19 HCF



SFR Charges	Current	Proposed				
		FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Fixed Charges	\$4.80	\$5.24	\$5.68	\$6.16	\$6.68	\$7.24
Variable Charges	\$12.73	\$13.68	\$14.82	\$15.96	\$17.29	\$18.81
SSLOCSD Charge	\$50.96	\$50.96	\$50.96	\$50.96	\$50.96	\$50.96
Total Charges	\$68.49	\$69.88	\$71.46	\$73.08	\$74.93	\$77.01
Dollar Change		\$1.39	\$1.58	\$1.62	\$1.85	\$2.08
Percent Change		2.0%	2.3%	2.3%	2.5%	2.8%

The recommended water and wastewater rates result in an overall increase of 32.1% and 11.9% respectively over the course of the five-year implementation period. However, the City's rates will remain lower than the vast majority of the providers in the County during the remainder of Fiscal Year 2021-22, as depicted in Charts 1 and 2 below. (Comparisons of an average SFR customer's bills in future years have not been included due to the uncertainties of other jurisdictions' rate changes.)

Chart 1 SFR Bi-monthly Water Bills of Local Communities Using 19 HCF with Central Coast Blue

City Council
 Consideration of Approval of Water and Wastewater Rate Study and Setting Public
 Hearing in Compliance with Proposition 218
 January 11, 2022
 Page 9

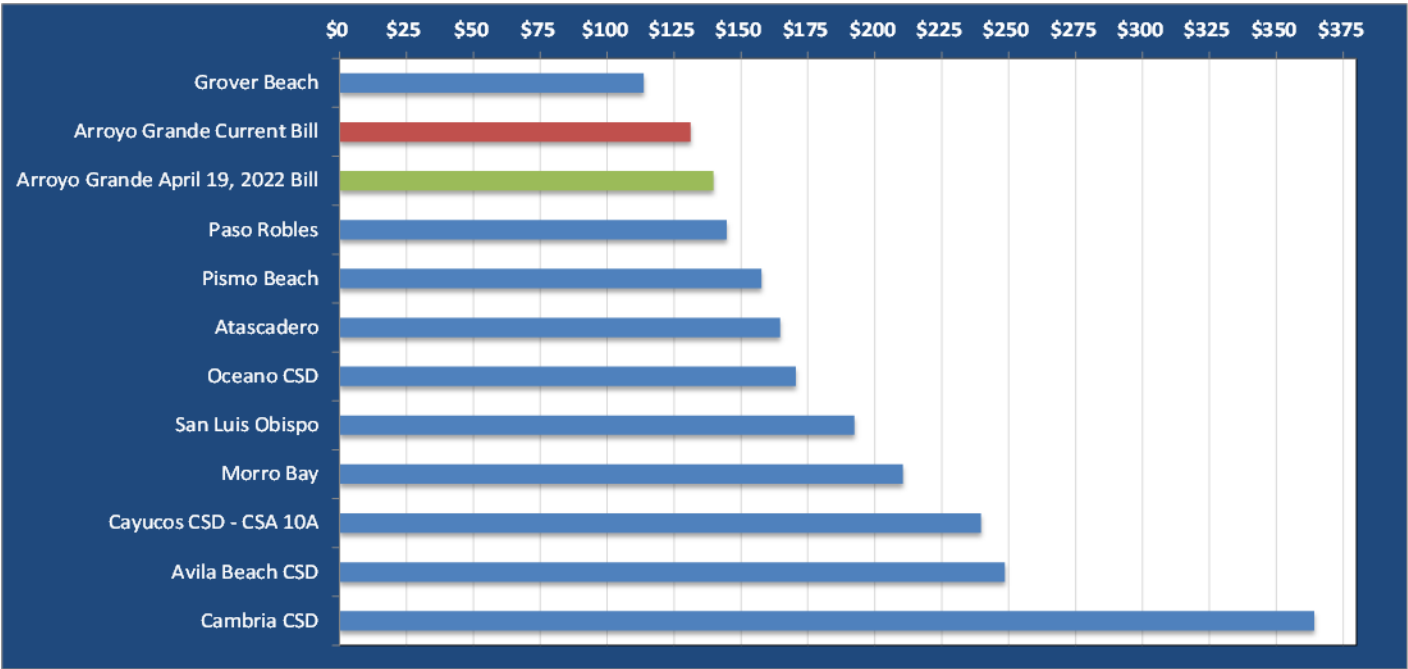


Chart 2 SFR Bi-monthly Wastewater Bills of Local Communities Using 19 HCF



Proposition 218 Process

Based upon the provisions of Proposition 218, all affected rate payers must receive written notice by mail at least 45 days prior to the City Council consideration of adjustments. The notice must include the amount of the fee, the basis on which the fee

City Council

Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218

January 11, 2022

Page 10

was calculated and the date, time and place of the public hearing and must clearly advise of the right to protest the fee increase.

Additionally, the Governor recently signed into law SB 323 to require challenges to water and sewer rates “adopted, modified or amended after January 1, 2022” to be filed as validation suits within 120 days. This new law clarifies the time frame and process for lawsuits challenging new or modified rates. The new deadline does not apply to disputes about application of established rates, such as billing errors. Nor does it apply if another statute provides a specific procedure to challenge a particular fee. The Proposition 218 notice mailed to customers must mention the 120-day deadline and validation procedure, and the City’s notice will comply with this requirement.

It is recommended that the City Council set the public hearing for March 8, 2022, and direct staff to provide notice to affected customers of the proposed rate adjustments stated in Tables 1 and 2 in compliance with Proposition 218.

Next Steps

If staff’s recommendations are approved, next steps for the Water and Wastewater Rate Study will include:

- January 22, 2022 - Deadline for mailing the 45-day public hearing notice in compliance with Proposition 218
- March 8, 2022 – Conduct a public hearing to consider protests regarding the proposed rate adjustments identified in the Proposition 218 hearing notice
- April 19, 2022 – If approved, new rates go into effect

ALTERNATIVES:

The following alternatives are provided for the Council’s consideration:

1. Adopt staff’s recommendations to 1) Adopt a Resolution approving the Water and Wastewater Rate Study; 2) Set a public hearing for March 8, 2022, to consider adjusting the water and wastewater rates for Fiscal Years 2021 through 2026; and 3) Direct staff to prepare and distribute a Proposition 218 notice for the proposed water and wastewater rate increases; or
2. Provide other direction to staff.

ADVANTAGES:

Implementing the proposed water rate increases and rate structure changes will provide ongoing revenue to meet the next five years of operating, capital and debt expenditures in the Water Enterprise Fund and Wastewater Enterprise Fund. The recommendations will balance minimizing rate increases with maintaining adequate reserves available to meet important capital and water supply needs.

DISADVANTAGES:

Customers will experience higher water and wastewater utility costs.

Item 10.a.

City Council

Consideration of Approval of Water and Wastewater Rate Study and Setting Public Hearing in Compliance with Proposition 218

January 11, 2022

Page 11

ENVIRONMENTAL REVIEW:

No environmental review is required for this item.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

Attachments:

1. Proposed Resolution approving the Water and Wastewater Rate Study
2. Water and Wastewater Rate Study
3. December 14, 2021 Staff Report – Consideration of Draft Water and Wastewater Rate Study