



CITY OF HEALDSBURG CITY COUNCIL AGENDA STAFF REPORT

MEETING DATE: March 18, 2024

SUBJECT: Discussion and Direction Regarding the Initiation of a Proposition 218 Process to Increase Water and Wastewater Rates

PREPARED BY: Terry Crowley, Utilities Director

STRATEGIC INITIATIVE(S):

Maintain and Enhance Public Health and Safety

Maintain and Improve Infrastructure and Facilities

RECOMMENDED ACTION(S):

By motion accept the 2024 Water and Wastewater Rate Executive Summary as basis for proposing multi-year rate increases for the City's Water and Wastewater Departments and direct staff to prepare and mail, as required by law, a notice of public hearing on the proposed water and wastewater rate increases, with a public hearing to be held on May 6, 2024.

COMMUNITY ENGAGEMENT/OUTREACH:

In October of 2023 the City Council approved a professional services agreement to update water and wastewater rates due to revenues well below forecast. In February of 2024 staff and the City's consultant presented the Council with preliminary financial forecasts and potential rate increases. The March 18th Council meeting provides another opportunity for public feedback. Should the City Council direct staff to begin a Proposition 218 process to adjust rates, notices will be mailed to all property owners and water and wastewater customers. The proposition 218 notice will be printed in both Spanish and English.

BACKGROUND:

In June of 2022 the City Council approved a series of new water and wastewater rates. These rates were intended to cover operating costs and fund necessary capital improvement projects. However, ongoing conservation stemming from the recent drought reduced sales and subsequently revenues necessary to operate both the Water and Wastewater departments. Although the conservation is desirable from a resource management perspective, the variance between projected and actual usage created a financial imbalance for the funds. To correct this, staff recommended, and Council approved a professional service agreement with Raftelis Financial Consultants, Inc. (Raftelis) to review and update the financial outlook for the water and wastewater departments along with proposed rate corrections.

On February 5, 2024, city staff and Raftelis presented initial findings of the updated financial outlook. Those findings indicated that rate increases for both the Water and Wastewater Departments are necessary to not only cover operating costs and existing bond covenants but to also fund new regulatory obligations and the replacement of aging infrastructure. Due to the magnitude of ongoing conservation and the need for new and replaced infrastructure, the forecasted annual rate increases reach as high as 21% for water and 18% for wastewater in the first year.

During the February 5 Council meeting, the City Council requested that staff explore and provide more information on the following items: tiered rates structures, funding for water supply security from increased reliance on Dry Creek rather than the Russian River, alternatives for the existing capital reserve, and the presentation of monthly rate impacts for typical City customers. The discussion below provides updated financial models and additional information as requested by Council.

DISCUSSION/ANALYSIS:

Since the February meeting City staff and Raftelis have completed the financial forecast and proposed rate increases. Attached to this staff report is Raftelis’ executive summary for the 2024 water and wastewater rate study. The executive summary includes forecasted operating and capital costs, forecasted cash balances, debt coverage, complete rate structures, and bill impacts. Further summarized below are key points from the executive summary and additional information requested by the Council.

The table below shows the forecasted revenue requirement, expenses by category and the overall proposed rate increases. These expenditures include operational costs, sufficient revenue to meet bond covenants, capital improvements, and funding for improved water supply security.

Water fund forecasted revenue, expenditures, and overall rate increases.

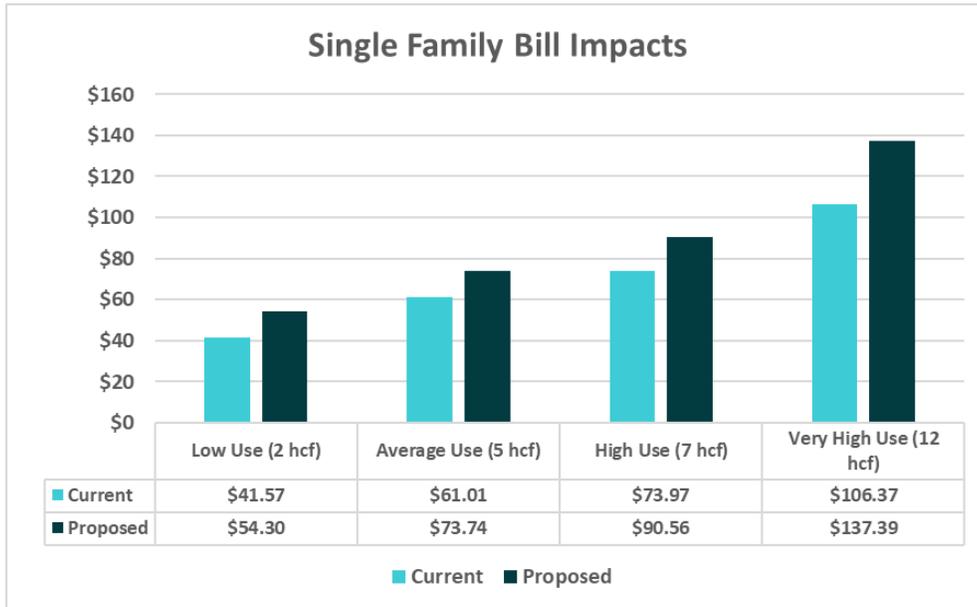
Effective Date	FY 2024-25	FY 2025-26	FY 2026-27
Operating & Maintenance	\$5,247,953	\$5,506,084	\$5,774,793
Debt Service	\$779,894	\$784,515	\$632,022
Capital Improvements	\$1,404,571	\$1,458,834	\$4,097,434
Total Costs	\$7,432,418	\$7,749,433	\$10,504,249
Revenue Adjustment	21.0%	20.0%	13.0%

Wastewater fund forecasted revenue, expenditures, and overall rate increases.

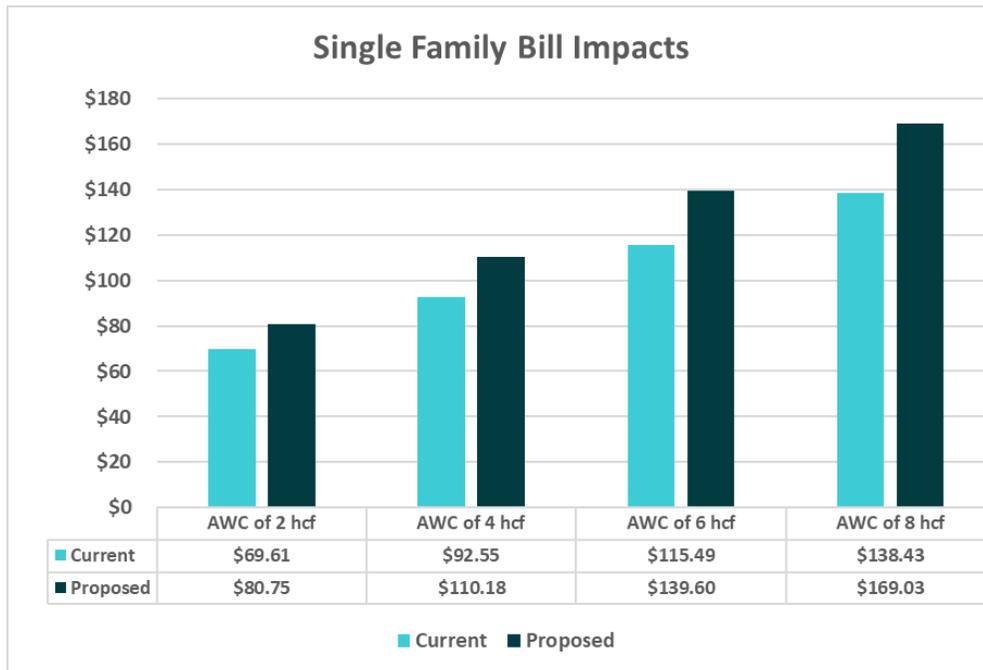
Effective Date	FY 2024-25	FY 2025-26	FY 2026-27
Operating & Maintenance	\$6,719,022	\$7,045,209	\$7,381,809
Debt Service	\$1,794,750	\$1,791,250	\$1,795,750
Capital Improvements	\$1,160,094	\$2,333,129	\$3,391,373
Total Costs	\$9,673,867	\$11,169,588	\$12,568,931
Revenue Adjustment	18.0%	18.0%	15.0%

Residential Bill Impacts

The forecasted costs and increases shown above are necessary to provide reliable water and wastewater services. While the overall rate increases are shown in the tables above, impacts on individual users and differing classes of customers can vary. Included within the executive summary and in the charts below are rate impacts to typical water and wastewater customers. For the average water and wastewater users (7HCF of water and 4HCF of wastewater) the combined rate increase is roughly \$35 per month.



Single-Family Residential Monthly Water Bill Impacts (FY 2024/25)



Single-Family Residential Monthly Wastewater Bill Impacts (FY 2024-25)

Proposed Rates

Included in the proposed rates are structural changes for both water and wastewater. As proposed, residential monthly fixed fees for water customers will be set by the metered connection size rather than the number of dwellings per meter. Additionally, per unit water charges will be based upon customer class (residential, commercial, industrial, landscape) and for residential customers will include three increasing tiers. For wastewater, monthly fixed fees will remove the combined charge for single-family dwellings (SFD) with accessory dwelling units (ADU) and treat SFD with ADU as multi-family residential (MFR). The tables below, which are also included in the executive summary, show the proposed monthly and per-unit rates for the next three fiscal years.

Proposed Three-Year Water Rate Schedule (Executive Summary Table 1-3)

Description	Current	FY 2025	FY 2026	FY 2027
Residential Fixed Monthly Service Charge				
Single Family	\$28.61	By Meter Size	By Meter Size	By Meter Size
Single Family + ADU (per DU)	\$21.84	By Meter Size	By Meter Size	By Meter Size
Multi-Family (Per DU)	\$17.01	By Meter Size	By Meter Size	By Meter Size
Fixed Monthly Service Charges				
Up to 1"	\$45.26	\$41.34	\$49.61	\$56.06
1 ½"	\$45.26	\$41.34	\$49.61	\$56.06
2"	\$86.90	\$77.94	\$93.53	\$105.69
3"	\$136.86	\$121.86	\$146.24	\$165.26
4"	\$253.46	\$238.98	\$286.78	\$324.07
6"	\$419.91	\$370.75	\$444.90	\$502.74
8"	\$1,127.75	\$736.76	\$884.12	\$999.06
Residential (Single Family & Multi-Family)				
Tier 1 (0-5 HCF)	\$6.48	\$6.48	\$7.78	\$8.80
Tier 2 (6-10 HCF)	\$6.48	\$8.41	\$10.10	\$11.42
Tier 3 >10 HCF	\$6.48	\$10.80	\$12.96	\$14.65
Non-Residential Classes				
Commercial	\$6.48	\$7.61	\$9.14	\$10.33
Industrial	\$6.48	\$9.49	\$11.39	\$12.88
Landscape	\$6.48	\$11.06	\$13.28	\$15.01
Riverview HOA ¹	\$1.59	\$1.93	\$2.32	\$2.63

¹ Rate applicable to Riverview HOA under the terms of the 1997 order of condemnation

Proposed Three-Year Wastewater Rate Schedule (Executive Summary Table 1-5)

Description	Current	FY 2025	FY 2026	FY 2027
Residential Service Charges (\$/Month/Dwelling Unit)				
Single Family Residential (SFR)	\$46.67	\$51.33	\$60.57	\$69.66
SFR + ADU	\$31.95	N/A	N/A	N/A
Multi-Family Residential (MFR)	\$37.80	\$36.94	\$43.60	\$50.14
Flat Rate (Sewer Only SFR)	\$104.01	\$106.21	\$125.34	\$144.15
Non-Residential Service Charges (\$/Month/Meter)				
5/8"	\$75.75	\$83.88	\$98.99	\$113.84
1"	\$75.75	\$83.88	\$98.99	\$113.84
1 1/2"	\$148.49	\$243.37	\$287.18	\$330.26
2"	\$235.77	\$396.68	\$468.09	\$538.31
3"	\$439.44	\$1,279.52	\$1,509.84	\$1,736.32
4"	\$730.39	\$1,405.05	\$1,657.97	\$1,906.67
6"	\$1,966.94	\$1,405.05	\$1,657.97	\$1,906.67
Wastewater Usage Charges (\$/HCF)				
Residential (SFR/MFR)	\$11.47	\$14.71	\$17.37	\$19.98
Non-Residential				
Low Strength	\$10.31	\$11.43	\$13.49	\$15.52
Medium Strength	\$15.09	\$15.21	\$17.95	\$20.65
High Strength	\$22.08	\$21.08	\$24.88	\$28.62

Water Supply Security

As requested during the February Council meeting, staff reviewed options to fund increased pumping capacity at the Dry Creek well field allowing the City to source more water from Lake Sonoma. Sensitive of additional increases upon already large, forecasted increases, staff is recommending the deferral of water treatment upgrades at the Fitch Well fields (Badger Park) to allow funding the rehabilitation and restoration of existing pumping facilities at Dry Creek. By deferring funding for cryptosporidium treatment, those planned capital dollars can be used to fund Dry Creek rehabilitations in FY2026-27, increasing the pumping capacity to 4 cubic feet per second or roughly 80% of the City’s daily historical peak demand. This water supply effort will also require contracting for an additional 600 acre-feet of water from Sonoma Water.

A consequence of this funding swap is that the use of the Fitch Well field will be limited starting in FY2025-26 and going forward due to a lack of cryptosporidium filtration. The Fitch Well fields will still be available for irrigation of Badger Park and Tayman Golf Course, but drinking water needs will not be met from this well field. Delaying the installation of cryptosporidium also provides the City time to complete PFAS testing to identify if there is a need for additional and more costly filtration at the Fitch Well field.

Reserve Policy

The Water and Wastewater Funds currently have two reserve targets, an operating reserve with a

target balance of 25% of operating expenses and a capital reserve with a target balance of \$1 million dollars. The policy also indicates the capital reserve target will increase annually with CPI. During the February 5th council meeting, staff proposed eliminating the existing capital reserve fund in order to apply the funding derived from previous rate revenues to reduce the current rate increases. Staff's current recommendation is to transition the capital reserve to a rate stabilization reserve and remove the annual CPI increase. This will memorialize the proposed action of funding capital and operating costs in a manner that stabilizes the rates. The reserve funds will no longer be restricted to cover only contingencies of major equipment failures and will instead be used to complete necessary capital improvements that will prevent failures. The proposed rate increases in the presented financial plan will not fully fund the rate stabilization reserve. In future years when the established rates are sufficient to cover necessary investment in infrastructure, staff will propose to further fund the rate stabilization reserve.

Proposition 218 Process

With the updated financial outlook and proposed rates structures staff is recommending the Council begin the Proposition 218 Process to increase water and wastewater rates. This process begins with a mailed notice to all property owners at least 45-days ahead of a noticed public hearing. Property owners will be able to voice their concerns, support, and/or opposition to the rate increase. During a future public hearing Council can use this community feedback to better inform their decision to either adopt the proposed rates or provide further direction to staff.

ENVIRONMENTAL STEWARDSHIP:

Continued adequate funding for both the water and wastewater departments allows these activities to work within existing and future environmental regulations. The proper treatment of drinking water along with the proper collection and treatment of the City's wastewater helps ensure the responsible use of natural water resources and that the City's waste will not pollute the local creeks and rivers.

ALTERNATIVES:

As an alternative the City Council could choose not to direct staff to start the Proposition 218 process and provide further direction to staff.

FISCAL IMPACT:

Due to lower-than-expected customer usage, both the Water and Wastewater departments are experiencing budget shortfalls that are not sustainable. Staff and Council have taken multiple actions to defer capital projects and necessary operating costs in order to continue operations under the current rate structure. Raftelis and staff have prepared a financial outlook that identifies the total revenue adjustments needed to correct budget shortfalls, meet bond covenants, meet required reserves, and fund necessary capital improvement projects. If Council directs staff to begin the Proposition 218 process, staff will return on May 6th to hold a public hearing and again present the proposed rates for possible adoption.

ENVIRONMENTAL ANALYSIS:

A utility rate is not subject to the provisions of the California Environmental Quality Act (CEQA) because a rate study and/or increase is not a project, since it will not have a direct or reasonably foreseeable indirect impact on the environment.

ATTACHMENT(S):
Executive Summary - March 13, 2024