



## **CITY OF HEALDSBURG CITY COUNCIL AGENDA STAFF REPORT**

**MEETING DATE:** October 16, 2023

**SUBJECT:** Approve a Professional Services Agreement to update Healdsburg's water and wastewater usage forecast and provide revised revenue projections

**PREPARED BY:** Terry Crowley, Utilities Director

**STRATEGIC INITIATIVE(S):**  
Maintain and Improve Infrastructure and Facilities

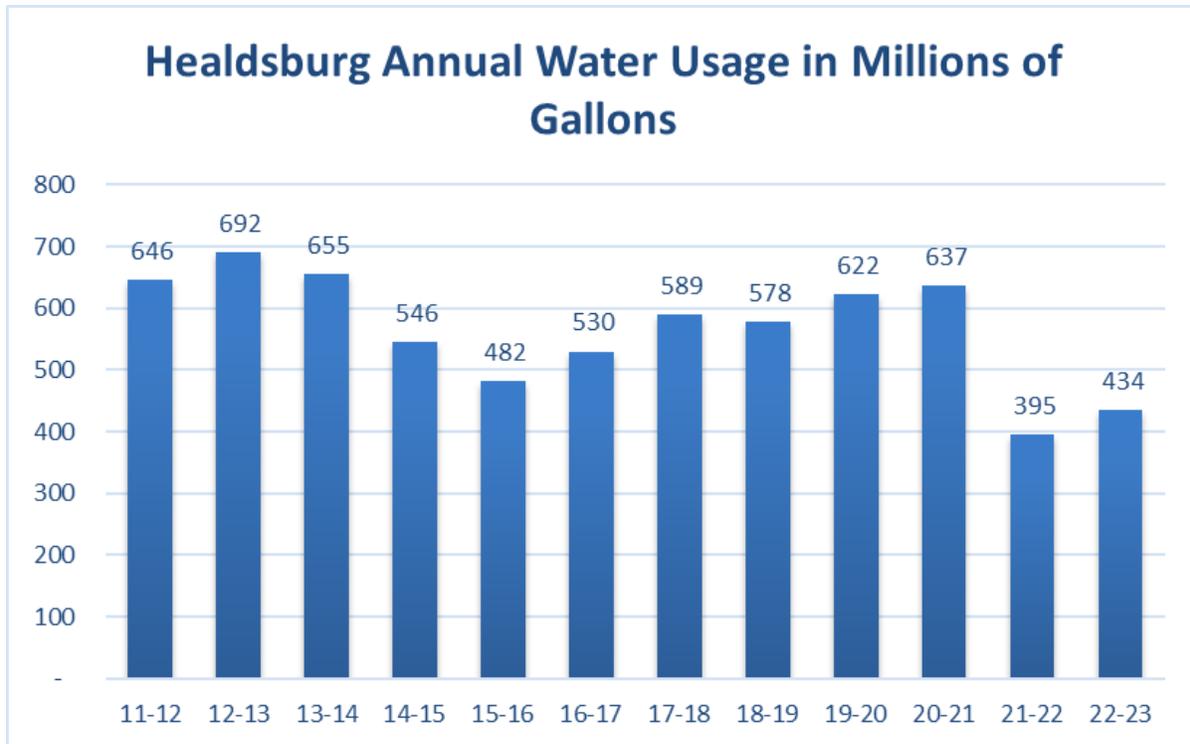
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**RECOMMENDED ACTION(S):**  
Adopt a Resolution approving a Professional Services Agreement with Raftelis Financial Consultants Inc. to update the water and wastewater cost of service studies and rate structures for an amount not to exceed \$70,093 and authorizing the City Manager to approved change orders up to 15% of the original fee proposal.

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**COMMUNITY ENGAGEMENT/OUTREACH:**  
No public engagement was sought for this item.

**BACKGROUND:**  
In June of 2022 the City Council adopted a series of water and wastewater rate increases with the intent of covering the City's costs to provide these services including funding planned capital replacements. Fundamental to assuring adequate revenues, is the forecasting of future water and wastewater usage. Through Fiscal Year 2021-22 and FY 2022-23 the City of Healdsburg has continued to see water and wastewater usage much lower than historical averages.



The chart above shows water usage from Fiscal Year (FY) 2011-12 through FY 2022-23. The City’s water usage, over this twelve-year period, substantially decreased due to mandatory conservation required in FY 2014-15 through FY 2015-16 and again as required during FY 2021-22 and FY 2022-23. The 2022 cost-of-service study forecasted milder initial conservation levels in FY 2021-22 and a steady rebound in water usage in the subsequent years much like what was seen in the 2014 drought. Actual sales remain lower than initial expectations resulting in inadequate revenues to fund operational costs or capital improvement projects, and to meet debt covenants. While usage in the first quarter of FY 2023-24 continues trending upward, the gap between current use and forecasted use is financially unsustainable at the current rates.

**DISCUSSION/ANALYSIS:**

Due to low consumption, the water and wastewater funds have both reduced operational costs in an effort to rebalance the budgets with the lower revenues. Despite these efforts the FY 2023-24 Adopted Budget requires the use of reserve funds in the wastewater fund and the debt coverage ratios for both utilities remain in jeopardy. In response to the need for an updated financial strategy staff issued a request for proposals (RFP) to update forecasts on water and wastewater usage and use those forecasts to project future revenues. From these projections, adjustments to rate increases planned for FY 2024-25, FY 2025-26, and FY 2026-27 can be made. Additionally, to improve water supply security during drought years staff requested proposals for the possible incorporation of additional contracted water into the City’s water supply portfolio and development of water rates to help recover the costs of contracted water.

On September 7, 2023, City staff received two proposals with the proposal from Raftelis Financial Consultants Inc. (Raftelis) being ranked the highest. Raftelis proposal indicated a team with many decades of experience and many completed cost-of-services including local agencies

such as Calistoga, Sebastopol, and St. Helena. Raftelis also provided a project timeline indicating implementation of rate adjustments on or before July of 2024.

During the process of reviewing and updating forecasted water and wastewater usage, staff also plan to work closely with Raftelis to review necessary capital replacement projects and how best to fund those projects to meet both regulatory obligations and avoid disruptions to utility services. The forecasting of consumption as well as developing a strong financial plan to fund capital replacement projects are key to the long-term financial stability of the City's water and wastewater departments.

Upon review of the proposals received, staff is recommending the City Council approve a contract with Raftelis to update the current water and wastewater cost-of-service and planned rates. If approved by Council, staff and the consultant plan to bring forward updated information in January of 2024 regarding revenues and possible adjustments to rate structures.

**ENVIRONMENTAL STEWARDSHIP:**

Continued funding of the City's water and wastewater departments allows the City to maintain public water and sewer services within regulatory compliance. Meeting state and regional regulatory compliance in the provisioning of these two public health services, helps lessen the City's impact on the natural environment surrounding Healdsburg.

**ALTERNATIVES:**

The City Council could choose not to award an agreement to Raftelis and provide further direction to staff. Staff doesn't recommend this alternative as Raftelis' proposal has demonstrated their competence to complete the work and provide the City a viable financial future.

**FISCAL IMPACT:**

Raftelis provided a fee proposal totaling \$70,093 to complete the work. While the current FY 2023-24 operating budgets did not contemplate this additional cost-of-service review, staff plans to work within the adopted budget to fund the agreement with Raftelis. Additionally, staff is requesting that Council delegate authority to the City Manager to approved change orders up to 15 percent of the original proposal's fee (\$10,513).

**ENVIRONMENTAL ANALYSIS:**

Pursuant to Title 14, the California Code of Regulations, Section 15302(c) of the California Environmental Quality Act ("CEQA") guidelines, the proposed action is an administrative activity of the City that will not result in direct or indirect physical changes to the environment.

**ATTACHMENT(S):**

Resolution