

Legislation Details (With Text)

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Title: SUBJECT: 2016 Water Rate Study and Set Public Hearing

Recommendation for Action: Staff recommends that the City Council:

- 1) Receive the 2016 Water Rate Study; and
- 2) Set March 7, 2017 as the Public Hearing date for the proposed water revenue increases; and
- 3) Adopt Resolution No. _____, Adopting Procedures for Providing Notice and Receiving and Tabulating Written Protests to Property-Related Fees and Charges

Sponsors:**Indexes:****Code sections:**

Attachments: 1. SUMMARY OF 2016 WATER RATE STUDY for staff report.pdf, 2. WOODLAND_ Reso Adopting Procedures for Prop 218 Water Protest Proceedings-c1

Date	Ver.	Action By	Action	Result
1/17/2017	1	City Council	adopted	Pass

TO: THE HONORABLE MAYOR AND CITY COUNCIL

DATE: January 17, 2017

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Staff Contact

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Fiscal Impact

Adoption of the proposed water revenue increases of 5.5%/year for five (5) years will generate sufficient revenue to meet our operational and capital needs through FY 2021 as well as meet our current debt service and debt coverage ratio requirements. Capital projects will be funded through reserves and rate revenue. No additional bond issuances are assumed in the proposed rate structure.

A drought surcharge has been included in case severe water shortages necessitate reduced water consumption

and the associated water revenue loss. This surcharge would only be implemented upon City Council direction and under severe drought conditions where the conservation target is greater than 25%.

Background

In May 2012, the City Council approved a series of water revenue increases to fund deferred maintenance of our water infrastructure and to fund the debt service relating to the Surface Water Supply Project and the required local projects that support the transition to surface water. At the time the rates were adopted, we did not have final project costs, details on the cost of debt issuance, or final answers on available grant funding. Based on the information we had available and cost projections, the Council approved a series of four, 17% water revenue adjustments with the goal of implementing a lower increase in January 2016, the last approved increase.

Staff worked with HDR Engineering to determine the lowest rate increase possible for January 2016. Using actual construction costs for the Davis-Woodland Surface Water Supply Project and final construction costs for the Woodland local surface water projects; State Revolving Fund debt service; an updated Capital Improvement Program; and updated water consumption data, staff recommended that Council reduce the January 2016 rate adjustment from 17% to 9.5%. All information known at that time indicated that only moderate rate increases would be needed in the five-year forecast to account for inflation and any debt service changes. Unfortunately, the continued drought and State required water conservation mandates reduced water consumption even more substantially than assumed. As a result, rate revenue to our water utility in FY2015/16 was more than \$2 million less than projected in our last rate analysis.

Discussion

Water Rate Adjustments

The January 2016 water rate adjustment was the last approved rate adjustment for the water utility. Staff has been working with Shawn Koorn from HDR Engineering since mid-summer to prepare the 2016 Water Rate Study to inform future water revenue requirements for the next five (5) years. The rate setting process has three major parts: determining the revenue requirement for the water utility, analyzing the cost of service for the various customer classes, and creating the rate structure consistent with the strict requirements of Proposition 218.

Revenue Requirements

The revenue requirement projects on-going costs of operating and maintaining the water system, determines any necessary capital improvement projects, and updates all costs for debt service and required debt service coverage ratios. The other key piece in defining the revenue requirement is determining the on-going water consumption patterns based on the recent drought and long-term customer consumption characteristics. This past year, water consumption declined more than 8.5% from our prior rate projections creating up to a 4% revenue reduction. The current rate model is based on water consumption from the past twelve months as the basis for future water consumption to account for changing consumer behavior. The reduced water consumption estimate accounts for approximately 1.5% of the proposed rate adjustment.

The five-year capital improvement program focuses on annual repair and replacement of our water infrastructure and includes one additional Aquifer, Storage & Recovery (ASR) Well planned in FY 2019. An additional ASR Well is projected for FY 2022. The two additional ASR Wells are needed to meet future peak water demands in the summer. Although it was originally assumed that we could blend our well water with

surface water to meet peak demands, Chromium 6 regulations effectively prohibit the city from using any native ground water. The ASR Wells allow us to inject excess surface water into the ground in the winter months to be stored until needed during peak water use in the summer. All capital costs are assumed to be paid from rate revenue or through reserves. There are no additional bond issuances assumed in the proposed rate structure. Because of the decline in water revenue last fiscal year, much of the proposed rate adjustment is needed in the next two years to ensure that we have adequate revenues to meet the legally required debt service coverage ratios associated with our existing debt.

The rate study also includes the necessary adjustments to revenues and expenses to account for the implementation of the city's Recycled Water Project and the resulting transition of the city's single largest water user (as well as selected city parks) from potable to recycled water.

Cost of Service and Rate Design

Once revenue requirements are determined, then those costs must be classified and allocated to the appropriate customer class such as residential, commercial, and landscape. The City of Woodland has a three-tier rate structure for our residential class whereby lower water use pays a lower per unit cost with the cost increasing as total usage increases between the tiers. Based on a recent court case in San Juan Capistrano, agencies are now required to define the cost basis for the tiered pricing. The cost of service analysis then provides the cost basis for the fixed and consumption charge for each customer class of service.

Finally, through the rate design, the costs are allocated between the fixed rate for each water meter size for all customers and the consumption rates (variable) for each tier in the residential category and the per unit rates for the non-residential categories. The rate design is done so that the water utility will have a specific revenue increase for each year. Because of the shift in cost allocation between consumption tiers, the rate adjustments are not as simple as multiplying existing rates times the overall revenue percentage increase (i.e., 5.5%). There is a greater increase to the tier one cost per CCF based on the cost allocation. This creates a larger percentage increase to a typical residential rate in the first year of the rate adjustments.

The results of the water rate study propose water revenue increases of 5.5% beginning April 2017, January 2018, January 2019, January 2020 and January 2021. These increases are necessary to provide sufficient revenue to meet the following conditions:

- Provide the required debt service and debt service coverage ratios
- Responsibly address on-going maintenance and replacement of aging water infrastructure
- Provide adequate water supply to meet peak water demands through the use of ASR Wells
- Maintain reasonable and responsible reserve fund levels for the water utility

The table shows the current and proposed rates for the first year revenue adjustment of 5.5%.

FY 2017 Proposed Rates - 5.5% Adjustment		
	Current Rates	Proposed Rates
Meter Charge (All Customers)		
3/4" - 2"	\$ 42.45	\$ 44.85
3"	\$ 79.75	\$ 84.25
4"	\$ 132.90	\$ 140.40
6"	\$ 265.35	\$ 280.35
Consumption (\$/CCF)		
Residential		
0-12 CCF	\$ 2.90	\$ 3.20
13-36 CCF	\$ 3.74	\$ 3.85
36+ CCF	\$ 4.91	\$ 4.73
Mult-Fam, Comm, Ind & City	\$ 4.31	\$ 4.31
Landscape	\$ 4.91	\$ 4.70

Assuming a 1" water meter and average water use of 17 CCF, a typical residential water bill would be as follows:

With Proposed 5.5% Revenue Increases					
Current Avg Res Bill	2017	2018	2019	2020	2021
\$ 95.95	\$ 102.54	\$ 108.21	\$ 114.29	\$ 120.64	\$ 127.36

Drought Surcharge

As evidenced by our FY 2016 revenue decline, as water consumption drops from conservation during a drought, so do the consumption based revenues. The current rates, as well as the proposed rates, collect approximately 60% of the revenues through the consumption or variable charges. As a result, a decline in consumption can have a significant impact on revenues as noted previously. Drought rates provide the water utility with a method to meet target revenue/expense levels when consumption is reduced due to drought conditions and/or mandated conservation. The primary advantage to having drought rates in place is flexibility. Given the requirements of Proposition 218, any change in rates must be cost based, noticed to the public and a public hearing set. As a result, to adjust water rates, the utility would need a minimum of 60 days just to provide notice to the customers, and this does not include any time to develop the proposed rates. Given this, the adoption of drought rates provides an approach that can be easily enacted, if adopted through the current Proposition 218 process. Although drought rates would then be available, they would not be implemented until the Council directs City staff to do so.

The proposed drought rates are tied to the City's adopted Water Shortage Contingency Plan and are based on a water shortage greater than 25% which is considered a water crisis. If Council determines it is necessary to maintain system revenues due to drought induced consumption declines, the additional drought rates are available to ensure the financial stability of the water utility. The proposed drought surcharge would increase the cost per CCF of water by \$2.08. The table below shows the impact of enacting the drought rates:

<i>Consumption (\$/CCF)</i>		
	Normal Rates	Drought Rates
Residential		
0-12 CCF	\$ 3.20	\$ 5.28
13-36 CCF	\$ 3.85	\$ 5.93
36+ CCF	\$ 4.73	\$ 6.82
Multifam, Comm, Ind & City	\$ 4.17	\$ 6.25
Landscape	\$ 4.70	\$ 6.79

Proposition 218

In accordance with Proposition 218, notifications of the proposed rate changes will be mailed to record property owners and customers of record by January 20th. Customers of record are defined as any tenant who is directly liable for the payment of the utility bill. Council is being asked to approve a Resolution that adopts specific procedures for providing notice and receiving and tabulating written protests for the property-related fee or charge. Adoption of the resolution provides clear direction on the process that the City will use to receive protests related to the proposed water rate adjustments.

Commission/Committee Recommendation

The Water Utility Advisory Committee (WUAC) met in September and again in December to review the draft Water Rate Study.

The Council Infrastructure Sub-committee met on January 12, 2017 and reviewed the proposed water rate study and proposed water rate adjustments.

Conclusion

Staff recommends that the City Council:

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Prepared by: Lynn Johnson, Senior Management Analyst



Paul Navazio, City Manager

Attachments: Summary of 2016 Water Rate Study
Resolution