

**CITY OF SANTA PAULA
MEMORANDUM**

To: Honorable Mayor and Members of the City Council

From: Michael K. Rock, City Manager
Clete Saunier, Public Works Director
Tai Chau, Assistant Public Works Director

Subject: City of Santa Paula Water and Sewer Rate Study Report and Presentation

Date: July 17, 2019

RECOMMENDATION:

Staff recommends that the City Council:

Review the rate alternatives outlined in the Water and Sewer Rate Study Report and provide direction to staff on how to proceed with the rate adjustment process.

Presented by: Clete J. Saunier, Public Works Director

BACKGROUND:

The City originally retained NBS in 2014 and again in 2016 to re-evaluate its water and sewer rates for a number of reasons, including meeting future funding requirements, evaluating issues surrounding the purchase of the wastewater treatment plant, generally improving rate design to be fairer and more equitable, and responding to public input. However, no action was taken in response to earlier studies.

In January 2019, staff reached out to NBS Consultants again to update the study and the work began in March 2019. The study incorporates the latest assumptions regarding costs, capital projects, and customer data. Multiple rate alternatives have been developed in response to recent changes in operations and maintenance budgets and capital projects. The report summarizes the current analysis of the water and sewer rate studies.

The rates ultimately developed in this study are intended to meet the legal requirements of Prop 218 and comply with general industry standards. The report will also assist the City in its effort to maintain transparent communications with the residents and businesses it serves. NBS and City staff cooperatively developed the alternative water and sewer rates discussed below. These alternatives were reviewed by the Advisory Rate Committee on July 11, 2019.

Analysis of Water Financial/Rate Alternatives

The main criteria that should be used to compare various financial/rate alternatives being considered include:

- Levels of Rate Increases – The burden that higher rates place on customers is a key consideration.
- Reserve Fund Levels – The City needs to maintain reasonable levels of reserves to manage the water utility's finances in a responsible manner.
- Coverage Ratios – Debt Service coverage ratios are an obligation that comes with issuing debt that the City needs to make every attempt to meet, particularly if it plans to issue future debt.
- Monthly Bill Impacts – How customers, particularly residential customers, are impacted.

The following is a summary of the alternatives currently being considered:

- Alternative #1 – No Rate Increases. This shows what the results would be if the City did not adopt rate increases.
- Alternative #2 – 15% Annual Rate Increases for the next 5 years.
- Alternative #3 – Annual Rate Increases to Meet Debt Coverage. This alternative only focuses on meeting debt coverage ratios.
- Alternative #4 – Issuing \$15 million in Revenue Bonds and Delaying three CIP Projects. The revenue bonds would be issued in FY 2020/21 and spent in subsequent years to reduce the use of capital reserves and avoid funding capital projects directly through rate revenue.

Analysis of Sewer Financial/Rate Alternatives

The same criteria noted for the water utility apply to the sewer utility when comparing the various financial/rate alternatives:

- Levels of Rate Increases – The burden that higher rates place on customers is a key consideration.
- Reserve Fund Levels – The City needs to maintain reasonable levels of reserves to manage the sewer utility's finances in a responsible manner.
- Coverage Ratios – Debt Service coverage ratios are an obligation that comes with issuing debt that the City needs to make every attempt to meet, particularly, if it plans to issue future debt.

- Monthly Bill Impacts – How customers, particularly residential customers, are impacted.

The following is a summary of the alternatives currently being considered:

- Alternative #1 – No Rate Increases. This shows what the results would be if the City did not adopt rate increases.
- Alternative #2 – Inflation-Based Annual Rate Increases of three percent for the next 5 years.
- Alternative #3 – Issuing \$20 million in Revenue Bonds in FY 2020/21, which will be spent in subsequent years to reduce the use of capital reserves and avoid funding capital projects directly through rate revenue.
- Alternative #3B – Separate funding for the \$15 million Recycled Water Distribution System. In other words, sewer rates will not fund this project, eliminating both the need for new revenue bonds and the need for rate increases over the next five years.

Staff recommends the City Council review the rate alternatives outlined in the Rate Study Report and provide direction to staff on how to refine the proposed rate alternatives and to finalize the report. This process will provide documentation of the rate study analyses and the basis for analyzing potential changes to future rates.

FISCAL IMPACTS:

Unknown until final rates for water and sewer are set.

PERSONNEL IMPACTS:

None

OPTIONS:

1. Approve Staff recommendations.
2. Reject Staff recommendations.
3. Provide Staff with additional direction.

ATTACHMENTS:

EXHIBIT A - Water and Sewer Rate Study Presentation
EXHIBIT B - Water and Sewer Rate Study Preliminary Draft Report