

**CITY OF SANTA PAULA
MEMORANDUM**

To: Honorable Mayor and Members of the City Council

From: Ikani Taumoepeau, Acting City Manager
Clete J. Saunier, Director of Public Works

Subject: Discuss and Consider the 2019 Santa Paula Water and Sewer Rate Study Report and Selecting Two Alternative Water and Sewer Rates for Consideration at the September 4, 2019 Public Hearing and Approving Amendment No. 2 for the Professional Services Agreement with NBS in an Amount Not to Exceed \$42,360 for Professional Consulting Services.

Date: August 21, 2019

RECOMMENDATION:

Staff recommends that the City Council:

1. Review the rate alternatives outlined in the Water and Sewer Rate Study Report and provide direction to staff to refine the report with no more than two alternative water and sewer rates;
2. Authorize the City Manager to execute Amendment No. 2 to the 2019 Water and Sewer Rate Study Professional Services Agreement with NBS in an amount not to exceed \$42,360 for professional consulting services related to the Sewer and Water Rate Study in a form approved by the City Attorney;
3. Take additional action as necessary to authorize staff to begin preparing for the Proposition 218 implementation and approval process.

Presented by: Clete J. Saunier, Public Works Director

BACKGROUND

The City retained NBS in 2014 and again in 2016 to re-evaluate its water and sewer rates for a number of reasons. However, no action was taken in response to earlier studies. For reference, the last rate increases were implemented November 1, 2013, for sewer and November 1, 2012, for water.

In March 2019, staff reached out to Government Finance Group (NBS) to update the study and a preliminary report was developed. The report was presented to the Sewer and Water Rate Standing Committee on July 11, 2019, and the City Council on July 17,

2019. As directed by the City Council, staff held a community workshop meeting on August 5, 2019 to inform community members about the Water and Sewer Rate Study. NBS and City staff presented the alternative water and sewer rates discussed below.

The main criteria recommended to be used to compare various financial/rate alternatives being considered included:

- ✓ Keeping the rate increases as low as possible.
- ✓ Funding all anticipated O&M costs.
- ✓ Funding capital improvement projects.
- ✓ Maintaining adequate reserve fund levels.
- ✓ Maintaining necessary funding levels for the next 5 years.

Water Rate Alternatives: 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 were to make no rate increases.
- Alternative #2 – 15% Annual Rate Increases for the next 5 years.
- Alternative #3 – Hybrid of Declining Annual Rate Increases (15%, 13%, 11%, 9%, 9%)

Sewer Rate Alternatives: 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 were to make no rate increases.
- Alternative #2 – Inflation-Based Annual Rate Increases of three percent for the next 5 years (3%/year).
- Alternative #3 – Use Separate Funding Sources for Recycled Water Distribution System.

On August 12, 2019, a second Sewer and Water Rate Standing Committee meeting was held to review the rate alternatives. The current draft of the Study incorporates the Committee's recommendations and is presented with this report. Staff recommends the City Council review the rate alternatives outlined in the study and provide direction to staff to refine the report with no more than two alternative water and sewer rates options.

FISCAL IMPACTS:

The City executed a professional services agreement with NBS to update the City's water and sewer study in February 2019 and a contract amendment in July 2019 for a total amount of \$49,930.

Contract Amendment No. 2 would be an additional amount of \$42,360. The services would cover three additional meetings/workshops, two additional rate alternatives, and developing average winter residential sewer rates. The cost would be shared equally under the professional services line item from the Water Enterprise Account 620.5.5072.209 and Sewer Funds Account 610.5.5061.209. There are sufficient funds in the FY 2019/20 budget to cover this amendment.

Table 1: Professional Services Costs

Item	Amount
Base Contract	\$42,230
Amendment No. 1	\$7,700
Amendment No. 2	\$42,360
Grand Total =	\$92,290

For the Water Enterprise and Sewer Funds, there are fiscal impacts related to the proposed water and sewer rate alternatives as outlined in the attached Rate Study Report.

PERSONNEL IMPACTS: None.

OPTIONS:

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

ATTACHMENTS:

EXHIBIT A: Rate Study Presentation

EXHIBIT B: Current Sewer and Water Effective Rates

EXHIBIT C: Water and Sewer Rate Study Report

EXHIBIT D: NBS Contract Amendment No. 2