



Staff Report

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Yountville Town Council Staff Report

DATE: December 5, 2017

TO: Mayor and Town Council

FROM: Utility Rate Ad Hoc Committee Members Dunbar and Mohler
Manager; Maria Ojeda, Finance Director
Wells Associates, Amy Sparrow, Asst. Town Attorney; Gary Bell, Town Attorney. Steven Rogers Town
Doug Dove, Abigail Seaman, Bartle
Wells Associates, Amy Sparrow, Asst. Town Attorney.

TITLE

Consider Adoption of Resolution Number 17-3448 Approving Intention to Adjust Water and Wastewater Rates, Setting Public Hearing, Establishing Procedures for Submitting and Tabulating Proposition 218 Protests, Modifying Drought Water Reserve Bank Policy, and Directing Staff to Provide Notice.

DISCUSSION/BACKGROUND

As a part of its regular business plan for the Utility Enterprise Funds, the Town Council directed staff to complete a Utility Rate Study to evaluate and recommend proposed adjustments to the existing utility rate structure. The Town Council last completed a similar process in December of 2010, seven (7) years ago. The Council appointed Mayor Dunbar and Council Member Mohler to the Utility Rate Ad Hoc Committee to work with town staff and Bartle Wells Associates, the rate consultants, on the next utility rate study.

The 2010 Five-Year Rate Study brought both water and wastewater utility enterprise funds out of the deficit position. In 2010 the Town implemented a new rate structure that consisted of a fixed meter charge, fixed system replacement fee, and water consumption charge for the Water Utility and a fixed service charge and fixed system replacement fee for the Wastewater Utility. This rate structure ensures that all properties pay the same fixed operational charges regardless of their usage. This change insured that second homeowners and vacation rental properties which may have had lower water consumption compared to full-time occupied properties paid their fair share for the operation and maintenance of the utility systems. The last rate increase occurred nearly three (3) years ago on January 1, 2015. The Town's Water and Wastewater Utility Enterprise Funds are funded by ratepayer charges for services and not tax revenue.

The Town is a wholesale purchaser of water from the State of California Veterans Home and does not have direct control of the costs of water charged by that agency. Assembly Bill 3030 allows for the pass through increase of costs in wholesale charges for water provided the agencies comply with the provisions of Government Code Section 53756. A copy of Section 53756 related to AB 3030 is attached. Based on the past seven (7) year history of variable rate increases from the State of California Veterans Home, it is recommended that the Town continue with the 7.5% purchase cost escalation established with the 2010 water rates. The pass through provisions of AB 3030 would only apply if the increased charged to the Town exceeded the 7.5% rate as determined by the Town Council.

Proposition 218 requires that the Town provide all property owners who are charged a fee for water and/or

wastewater service with a notice of any proposed rate increases. The notice must be sent to these property owners a minimum of 45 days in advance of the Town Council holding a public hearing on the proposed rate increases. The property owners have the right to protest the proposed rate increases until the close of the public hearing. If a majority of the parcels file written protests to the Town prior to the close of the public hearing, Proposition 218 states the Town cannot implement the proposed rate increases. If a majority of the parcels do not protest the proposed increases, the Town Council has the authority to implement the proposed rate increases.

In accordance with the provisions of Proposition 218 requirements, several steps have been taken to comply with the law including scheduling a public hearing on February 20, 2018, at or about 6:00 p.m. in Town Council Chambers. In addition, staff has obtained the most current Napa County Assessor's Office parcel role for a direct mailing of the Proposition 218 Notice to each parcel owner of record. Town staff recommends hosting an informational public meeting in February 2018 either separately or as a part of the February 6, 2018 Town Council meeting to discuss the proposed rates. Town staff will also post public notices in the Town's official posting locations, place a notice in the Yountville Sun and place information on the Town's website.

Over the past several months, the consultant has worked with Town staff and Ad Hoc Committee members to conduct the financial analysis and rate study. The goals of the rate study were to ensure the following:

- That fees and charges are distributed in a fair and equitable manner amongst ratepayers;
- The ongoing fiscal sustainability of each utility enterprise fund ensuring that they do not operate in a deficit or require a General Fund Subsidy;
- That the Water and Wastewater Enterprise Funds have reserve capacity to make necessary system replacement and upgrades as outlined in the Five-Year Capital Improvement Program (CIP);
- Meet State and Federal regulatory compliance requirements related to the operation of the utility systems; and
- In the case of the Water Utility Enterprise Fund, make significant changes to the existing 4-Tiered Conservation based water usage rates to come into compliance with the San Juan Capistrano Supreme Court case ruling that severely limited conservation based tiered rate structures.

Several items were used in the study conducted by the Bartle Wells Associates team to ensure that the proposed rates would be fair and equitable to all ratepayer classifications. The consultant reviewed the financial status of each utility fund against the target results from the 2010 Study and Financial Plan, long-term capital improvement plans, State Water Resources Board requirements for water, State Regional Water Quality Board (RWQCB) for wastewater, the Town's Five-Year Capital Improvement Program (CIP), current and projected operating costs and projected revenue requirements.

Bartle Wells Associates staff will present the findings of the 2017 Water and Wastewater Utility Rate Study in detail at the December 5, 2017 Town Council meeting. The reports are attached for your review. They will discuss and review the recommendations of the Utility Rate Ad Hoc Committee members with the Town Council as a whole, and the Town Council will need to finalize and make a recommendation as to the proposed rate adjustment which will be the maximum rate adjustment amount. The Town Council at the public hearing to adopt the rates has the ability to adopt a lower rate adjustment but cannot increase the rates above the proposed maximum in the Proposition 218 Notice.

The following timeline to implement the Proposition 218 Notice Process is proposed:

December 5, 2017	Council determines maximum amount of proposed rate increase.
December 5, 2017	Council adopts Resolution related to Proposition 218 Process.
December 30, 2017 or earlier	Town mails Proposition 218 Notice of Proposed Rate Increase.
February 6, 2018	Date to be determined for Public Informational Meeting.
February 20, 2018	Town Council holds public hearing.

February 20, 2018	Town Council determines if there was a majority protest.
February 20, 2018	Town Council adopts rate increase if no majority protest.
March 1, 2018	New rates go into effect beginning with monthly billing cycle.

The Utility Rate Ad Hoc Committee Members met on two occasions to review the options for water and wastewater rates and considered two options for water and one option for wastewater. The factors influencing costs for both utility operations included operational costs, capital projects, the cost to purchase water, water consumption, the legal requirements of the San Juan Capistrano tiered water rate ruling and current fiscal conditions of all funds.

A recent audit of the Town's fire meter lines found that through additional development and code updates in Town, the number of fire meter lines grew from two to 26 total. The current rate in place for fire meter lines is outdated and the new industry standard is to charge 20% of the meter service charge. Fire meter lines serve businesses and multi-family units. The new rate study proposes updating the rates to follow industry standards at 20% of current meter service charge.

A review of water use indicates that 60% of our water is consumed by single-family homes and 40% by all other users including multi-family and non-residential (commercial). The impact of the San Juan Capistrano ruling only permits the Town to legally justify a two-tiered rate structure (changing from 4) and requires a reduction in surcharges to out of Town customers. These changes ensure that the Town does not charge more than the actual cost of service. The absence of two additional tiers creates a decrease in water costs for the high user water category and is outlined below.

The proposed Ad Hoc Committee recommended options would place the Town of Yountville water rates in the middle range (of neighboring jurisdictions) in comparison to rates that are or will soon be in effect in the Napa/Sonoma region.

WATER RATES

Option 1: Requires an 8.5% rate increase over five years to the current fixed meter charge and system replacement fees and changing the current single family rate of \$2.57 for Tier 1 water consumption to \$3.22 (effective 2018) for those using 0-4 kgals, \$3.68 for those using 5 or more kgals and \$3.57 for all other users (multi-family/commercial). The current unrestricted fund balance is \$1,374,358. At the end of five years the remaining ending fund balance would be drawn down to \$1,083,809 in combined water funds. Note, kgals represents 1,000 gallons of water.

Implementing Option 1 would impact water users in the following manner:

Low User (4 kgals): current charge (fixed meter fee, system replacement and consumption) is \$55.86 and the new charge would be \$62.33, for an increase of \$6.47;

Average User (11 kgals): current charge (fixed meter fee, system replacement and consumption) is \$84.89 and the new charge would be \$88.11, for an increase of \$3.22;

High User (20 kgals): current charge (fixed meter fee, system replacement and consumption) is \$137.18 and the new charge would be \$121.25, for a decrease of \$15.93.

Option 2 (Proposed Option): Requires a 7% increase over five years with a one-time draw down on the Drought Reserve Bank Fund (57-4507) of \$200,000. Changing the current single family rate of \$2.57 for Tier 1 to \$3.17 (effective 2018) for those using 0-4 kgals, \$3.63 for those using 5 or more kgals and \$3.52 for all other users (multi-family/commercial). At the end of five years the remaining ending fund balance would be drawn down to \$1,012,908 in combined water funds.

Implementing Option 2 would impact water users in the following manner:

Low User (4 kgals): current charge is \$55.86 (fixed meter fee, system replacement and consumption) and the new charge would be \$61.45, for an increase of \$5.59;

Average User (11 kgals): current charge is \$84.89 (fixed meter fee, system replacement and consumption) and the new charge would be \$86.88, for an increase of \$1.99

High User (20 kgals): current water consumption charge is \$137.18 (fixed meter fee, system replacement and consumption) and the new charge would be \$119.57, for a decrease of \$17.61.

The current Drought Water Reserve Bank Policy was established on January 20, 2009, to purchase water on the open market for drought supply water. Since its inception the fund has not been used and has a current fund balance of \$2.06 million. The Drought Water Reserve Bank Policy has been revised, is an attachment in this report and includes new language that allows for the Town Council to draw down on the fund for water utility capital projects and reduce the impact to the rate payer while still maintaining a very strong fund balance.

WASTEWATER RATES

The proposed wastewater rate includes a 12% increase over five years. The increase changes the rates for residential, non-residential, water system replacement fee and sewer load factor & strength rates. The current unrestricted fund balance is \$3,048,643. After five years, the combination of implementing the proposed rates and planned expenses would draw down on fund balance leaving an ending fund balance of \$1,035,044. An example of the new rate impact to single family account holders is as follows:

Single Family: current rate is \$44.82, new rate (effective 2018) would be 50.20, and increase of \$5.38

ENVIRONMENTAL REVIEW

Exempt per California Environmental Act (CEQA) Guideline, Section 15061(b)(3)

FISCAL IMPACT

Is there a Fiscal Impact? Yes

Is it Currently Budgeted? Partially

Where is it Budgeted? Water Funds 60, 61, 57 and 58 and Wastewater Enterprise Funds 62, 63, 64 and 65.

Is it Mandatory or Discretionary? Mandatory

Is there a Staff Resource Impact? Nominal

STRATEGIC PLAN GOAL

Is item Identified in Strategic Plan? Yes

If yes, Identify Strategic Goal and Objective. Responsible Fiscal Policy

Briefly Explain Relationship to Strategic Plan Goal and Objective. The Town Council is responsible for implementing a utility rate structure that will fund the operation of the Water and Wastewater Enterprise Funds in a fiscally responsible manner in compliance with State and Federal regulatory guidelines and which does not operate in a deficit position and is fully funded by utility rates.

ALTERNATIVES

Modify the Ad Hoc Committee and staff recommendations for the maximum amount of the proposed utility rate adjustments for water and wastewater and/or the provisions for compliance with Proposition 218 notification and protest process as determined by the Town Council and approve.

Reject the Ad Hoc Committee and staff recommendations and provide direction to staff as to how the Town Council desires to move forward, as not approving future utility rates will place the utility enterprise funds into a deficit position.

Approve the Ad Hoc Committee and staff recommendations related to the maximum amount of the proposed utility rate adjustments for water and wastewater and the provisions for compliance with Proposition 218 notification and protest process.

RECOMMENDATION

Receive staff report and direct questions to staff.

Receive public comment.

Conduct Council discussion on proposed Resolution.

Adopt Resolution Number 17-3448 Approving Intention to Adjust Water and Wastewater Rates, Setting Public Hearing, Establishing Procedures for Submitting and Tabulating Proposition 218 Protests, Modifying Drought Water Reserve Bank Policy, and Directing Staff to Provide Notice.