



Legislation Text

File #: 18-349, **Version:** 1

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SUBJECT: Draft Report of the Water Rate Study and Request to Set a Public Hearing Following the Proposition 218 Notification

REPORT IN BRIEF

Presentation of the Draft Water Rate & Capital Facility Charge Study.

RECOMMENDATION

City Council - Adopt a motion:

- A. Approving the Water Rate and Capital Facility Charge Study report; and,
- B. Authorizing staff to proceed with the Public Notification process following Proposition 218 guidelines; and,
- C. Setting a Public Hearing for October 15, 2018, at 6:00 PM to approve the amended rates.

ALTERNATIVES

- 1. Approve the changes to the water rates and Capital Facility charges, direct staff to proceed with the Prop 218 process, and set a Public Hearing for October 15, 2018; or
- 2. Accept the changes to the water rates and Capital Facility charges, approve staff to proceed with the 218 process, and set a different date for the Public Hearing; or,
- 3. Deny the water rates and Capital Facility charge changes as recommended; or
- 4. Refer to staff for further study;
- 5. Continue action until a future City Council meeting, specifying date.

AUTHORITY

Article II, Section 200, Article IV, Section 405, and 15.32.060 - Special and Amended Rates - Authority of the Merced Municipal Code (MMC), and relevant sections of the State Constitution and State law.

CITY COUNCIL PRIORITIES

As provided for in the 2018-2019 Adopted Budget.

DISCUSSION

The City last revised its water service charges in 2012 with no increases through the year 2017. On January 1, 2018, the base water service charge was adjusted based on a formula set forth in MMC

Section 15.36.045.

The rate setting process requires the analysis of revenue requirements and cost to provide service while meeting the policy and revenue requirements of the City. Factors taken into consideration to develop the financial forecast include a 1% growth rate, cost inflation over the 5 year projection period, historical water consumption, existing and projected rates, and capital spending.

Our professional consultant, Stantec, has completed the draft report of the water rate study with assistance of staff and input from members of the City Council's Utility Rate Review Committee, Matt Serratto, Josh Pedrozo, and Jill McLeod. Stantec will present to Council the Draft Report of the Water Rate & Capital Facility Charge Study (attachment 1) and follow up with answers to Council's questions from the July 16, 2018 meeting.

For rate design elements, Stantec examined the balance of fixed revenue (base charge) versus variable revenue (volumetric charge), water allocation to customers (options of 30 HCF, 20 HCF, and 10 HCF), as well as standardizing meter equivalency utilizing the American Water Works Association (AWWA) schedule. Additionally, Stantec has proposed new aspects to the rates that other communities have incorporated, including a drought surcharge to be implemented during times of declared drought, as well as an outside customer charge for customers residing outside of City boundaries.

The proposed rate structure was designed to:

- } Fairly and equitably recover costs through rates;
- } Conform to accepted industry practice and legal requirements;
- } Provide fiscal stability and recovery of fixed costs of the system; and,
- } Promote affordability for customers that try to minimize water usage.

The overall changes proposed result in a net increase of 2% per year beginning January 1st, then every July 1st thru 2021, to coincide with our Fiscal Year start date. Because of the proposed change in the meter equivalency schedule, the majority of customers, our single-family residential accounts, will experience a decrease in their base charge and all customers will have decreased cost for the volumetric charge.

When analyzing our customers' water use patterns, we found that during the winter the average household uses about 13.6 Hundred Cubic Feet (HCF or 1 unit) of water and in the summer they use 26 HCF. The annual average use is 18.75 HCF, which is still under the proposed base of 20 HCF.

For our customers with larger meters, the change will be more significant, but still more equitable. Their base rate will increase, but so will the water included in that rate. The volumetric rate will drop down to \$0.73/unit from the current \$0.89/unit.

The Capital Facility Charges were analyzed following standard practices and applicable laws, these charges must be based on an estimate of the reasonable cost of providing capacity. Using an

incremental approach, applying the new meter equivalency schedule, and recognizing that the cost of infrastructure changes over time, these charges were updated as well.

Staff is seeking Council's approval to accept the proposed Draft Water Rate & Capital Facility Charge Study and to proceed with the Proposition 218 process. That process involves notification of our water customers of the proposed changes and a 45-day wait period prior to the Public Hearing. Given the time needed to produce and distribute the materials and the waiting period, staff is requesting to set a Public Hearing for October 15, 2018.

IMPACT ON CITY RESOURCES

No appropriation of funds is needed.

ATTACHMENTS

1. Draft - Final Report on the 2018 Water Rate Study
2. Presentation