



Council Agenda Report

To: Mayor Grisanti and the Honorable Members of the City Council

Prepared by: Robert DuBoux, Public Works Director

Reviewed by: Lisa Soghor, Assistant City Manager

Approved by: Reva Feldman, City Manager

Date prepared: April 26, 2021

Meeting date: May 10, 2021

Subject: Wastewater and Recycled Water Rates Study and Proposed Revised Rates

RECOMMENDED ACTION: 1) Receive presentation on the 2021 Wastewater and Recycled Water Rates; 2) Authorize the mailing of the Proposition 218 notices to the affected property owners; and 3) Direct staff to schedule a Public Hearing for the June 28, 2021 City Council meeting to establish wastewater and recycled water service charges for Fiscal Year 2021-2022, Fiscal Year 2022-2023, and Fiscal Year 2023-2024.

FISCAL IMPACT: All operation and maintenance costs associated with the Civic Center Wastewater Treatment Facility (CCWTF) are paid by revenue generated by the wastewater and recycled water service fees. When the wastewater rates were first developed, they were based on estimated costs for running the facility. After almost three years of operation, it is evident that some costs are higher than originally anticipated. The City is responsible for costs applicable to City-owned properties located within the boundaries of the assessment district and those expenses are included in the annual budget.

In Fiscal Year 2018-2019 and Fiscal Year 2019-2020, a General Fund Loan in the amount of \$302,934 was used to cover the additional expenses to operate and maintain the CCWTF.

On May 11, 2020, the City Council discussed the wastewater and recycled water rates for the Civic Center Water Treatment Facility (CCWTF). Due to the economic impacts of the COVID-19 pandemic, the City Council directed staff to postpone

raising the wastewater and recycled water rates and to continue to use the current wastewater and recycled water rates for Fiscal Year 2020-2021. Additionally, the Council directed staff to treat the excess operating costs of the CCWTF as a loan from the General Fund to the CCWTF O&M Fund with a repayment term of three years commencing in Fiscal Year 2021-2022. The repayment of the General Fund Loan will be built into the new wastewater and recycled water rates.

The Proposed Budget for Fiscal Year 2021-2022 anticipates expenditures of \$1,967,500 for the CCWTF. The proposed new wastewater and recycled water rates will generate sufficient revenue to cover the operation, maintenance, and management costs.

WORK PLAN: This item was included as item 5a in the Adopted Work Plan for Fiscal Year 2020-2021.

DISCUSSION: In October 2018, Phase 1 of the Civic Center Wastewater Treatment Facility (CCWTF), wastewater collection system, recycled water distribution system, and the groundwater injection wells was completed. The properties within the Civic Center area connected their private wastewater lines to the City's new wastewater collection system, and the City started collecting wastewater and recycled water service fees. These wastewater and recycled water service rates were set in July 2017 to provide enough revenue to offset the associated operation, maintenance, and management costs.

The original wastewater and recycled water service rates were developed based upon assumptions for the operation, maintenance, and management costs of the CCWTF. The CCWTF has been operating almost three years, and the City has collected the actual operation and maintenance costs. Unfortunately, the original assumptions made to develop the original wastewater and recycled water service rates were not sufficient to cover the actual expenses. The City used a loan of General Funds to cover the deficit.

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On June 22, 2020, the City Council approved the collection of wastewater services charges for the CCWTF for Fiscal Year 2020-2021. Council also approved the terms for the loan, which include establishing the interest rate for the loan based

on the published quarterly apportionment rate from LAIF as established by the Treasurer of the State of California. This interest will be accrued to the loan on an annually and will compound over the life of the loan. The effective date of the loan will be July 1, 2019.

On October 28, 2020, the Administration and Finance Subcommittee recommended the City Council approve the interfund loan agreement with these terms. On November 9, 2020, City Council adopted Resolution No. 20-61 approving an interfund loan agreement for the Civic Center Water Treatment Facility Operations and Maintenance Fund.

The current wastewater and recycled water rates need to be adjusted to collect the correct amount of revenue to offset the actual operation, maintenance, and management costs and to refund the loan from the General Fund.

Budget

An analysis of the actual operation and maintenance costs are required to provide adequate wastewater and recycled water service rates. RFC reviewed the data and has developed a revised operation and maintenance budget. The revised budget will provide the framework for the City's operating, maintenance, and capital budgets, and will be used to develop the wastewater and recycled water rates. Developing the budget includes identifying the costs associated with operating and maintaining the wastewater and recycled water systems.

The proposed budget includes the following:

1. **Contract Costs:** Actual costs for the operation and maintenance identified in the City's contract with Integrated Performance Consultants, Inc., the City's contracted operator for the CCWTF. Generally, these costs include the actual labor to operate the systems.
2. **Pass-through Costs:** Reimbursable expenses by the CCWTF operator and not included in the Contract Costs. These items include chemicals, electricity, and replacement of equipment, fuel for the backup generators, and the biosolids removal and disposal.
3. **Direct Costs:** Additional expenses the City will incur operating and maintaining the CCWTF including utilities, insurance, operating supplies, and water quality monitoring.
4. **General Fund Load Payment:** The General Fund Loan repayment

The CCWTF projected total annual budget for Fiscal Year 2021-2022 is \$1,967,500.

Wastewater Rates

The objectives used in developing the recommended rates were based on an equitable sharing of the wastewater costs and actual services provided.

In January 2016, the City established Assessment District No. 2015-1 (Assessment

District). This Assessment District provided a method of equitable distribution of the design and construction costs based on the estimated flow and strength of the wastewater contributed by each parcel. To be consistent, the wastewater and recycled water rates were developed using the same methodology used in the Assessment District. This ensures a fair and equitable distribution of the operation and maintenance of the wastewater, recycled water and injection wells systems.

Equivalent Dwelling Units (EDUs) allows the development of a base unit to which all parcels are compared and rates to be established. For example, a standard home is represented by the number of fixtures, wastewater flow and strength. A restaurant is then defined by how many standard homes, or EDUs, its flow is equal to. An analysis was created to arrive at a standard EDU for wastewater rates using a similar methodology used in the Assessment District. Each parcel would pay a monthly service rate based on how many EDUs the parcel's flow and strength would be equal to. For example, City Hall has a total of 6.36 EDUs. The following table shows the calculated EDUs for Phase 1:

	EDUs	Percent
Developed Parcels	337.24	63%
Undeveloped Parcels	194.62	37%
Total	532	100%

Since vacant parcels will not be using wastewater and recycled water services until they are developed, the vacant parcels will not be factored into the development of the wastewater rates under Proposition 218. The total annual budget was divided by developed EDUs to calculate the monthly cost per EDU (Annual Budget / 337.24 EDU / 12 months).

Budget Category	FY 2021 (Current)	FY 2022	FY 2023	FY 2024
Contract	\$1,155,000	\$1,155,000	\$1,184,222	\$1,214,182
Pass-Through Cost	\$256,000	\$288,000	\$295,286	\$302,757
Direct Costs	\$551,325	\$524,500	\$537,770	\$551,375
General Fund Loan Repayment	\$0	\$243,122	\$243,122	\$243,122
Total	\$1,962,325	\$2,210,622	\$2,260,399	\$2,311,436
Wastewater Rate (\$/EDU)	\$400.34	\$546.26	\$558.56	\$571.17

The total monthly charge for each parcel is determined by multiplying the EDU rate by the total EDUs for each parcel. Each developed parcel's monthly service charge

is included in Attachment 1. The proposed wastewater rate will remain in place until July 2024. At that time, Phase 2 of the project will be almost complete, and the City will refine the budget as well as adjust the rates based upon the number of developed parcels in Phase 1 and in Phase 2.

General Fund Repayment

During the first two years of operating the CCWTF, the City used a loan of General Funds to cover the additional operating and maintenance expenses. The additional expenses include additional electrical and treatment costs, insurance, and water quality monitoring. An estimated total of \$327,334 of General Funds was used during Fiscal Year 2018-2019 and Fiscal Year 2019-2020. This amount must be reimbursed by the connected property owners in the CivicCenter area. An interest rate based on the published quarterly apportionment rate from LAIF as established by the Treasurer of the State of California will be used for the loan. This interest will be accrued to the loan on an annually and will compound over the life of the loan.

Recycled Water Rates

The CCWTF treats wastewater to a level at which it can be used for recycled water. The treated wastewater is disinfected and sent to the recycled water system. If there is a surplus, the recycled water will be injected into the ground through the injection wells. There is a minimal difference in operation and maintenance costs between groundwater injection and recycled water distribution costs. Based upon this analysis and input from stakeholders, property owners within Phase 1 would receive their wastewater flow back as recycled water (minus a 5% loss in the treatment process) at no additional cost. However, recycled water rates need to be established based on those property owners who exceed their allocations and for those property owners outside the Phase 1 boundary who wish to purchase recycled water.

The recycled water rates will be split up into the following categories and tiers:

- **Inside Assessment District** – This rate includes those properties located within the boundary of Phase 1.
 - **Tier 1** - Recycled water equal to the Phase 1 property owner's wastewater flow minus 5-percent due to water loss
 - **Tier 2** - Excess usage by Phase 1 property owners beyond their wastewater flow.
- **Outside Assessment District** – Those property owners who seek to purchase recycled water outside the boundary of Phase 1.

The recycled water rates are calculated to recover the capital, operations and maintenance costs associated with the wastewater to meet the requirements for recycled water. Under the Inside Assessment District category, Tier 2 rates were calculated to be \$2.24 per hundred cubic feet.

Since those properties located outside the Assessment District did not contribute

to the capital costs, those costs as well as the operation and maintenance costs will need to be recovered under the Outside Assessment District category. Those rates were calculated to be \$5.81 per hundred cubic feet. This rate is lower than Los Angeles County Waterworks District No. 29 usage rate of \$6.41.

These recycled water rates will be in effect through Fiscal Year 2023-2024.

	FY 2021	FY 2022	FY 2023	FY 2024
Inside District				
Tier 1	\$0.00	\$0.00	\$0.00	\$0.00
Tier 2	\$2.04	\$2.24	\$2.30	\$2.36
Outside District	\$5.70	\$5.81	\$5.87	\$5.93

Any additional revenue generated by the recycled water rates will offset future operation and maintenance budgets and could reduce the need for future rate increases.

Proposition 218

If the Council elects to proceed with revising the wastewater and recycled water service rates, the City would be required to follow the procedures in Proposition 218 regarding revising the rates.

In July 2006, the California Supreme Court determined that water and wastewater service charges are property related charges and therefore are subject to Proposition 218 procedural requirements. Proposition 218 procedures require notices to be mailed to each property owner 45 days prior to a public hearing on any proposed fee increase. Proposition 218 prohibits the adoption of a fee increase if a majority of property owners protest in writing. Under Proposition 218, the fee must not exceed the proportional cost of the service attributable to the property.

A detailed notice of the proposed water and wastewater rate adjustments will be mailed to all property owners in the City service areas 45 days before the June 28, 2021 Public Hearing date.

Staff recommends Council authorize the mailing of the Proposition 218 notices to the affected property owners, and to schedule a Public Hearing for the June 28, 2021 City Council meeting to establish wastewater and recycled water service charges for Fiscal Year 2021-2022, Fiscal Year 2022-2023, and Fiscal Year 2023-2024.

STAFF FOLLOW UP: If Council elects to proceed with revising the wastewater and recycled water service rates, staff will prepare and send out the Proposition 218 notices to the affected property owners.

ATTACHMENTS: None.