



Council Agenda Report

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

Prepared by: Robert DuBoux, Public Works Director

Approved by: Reva Feldman, City Manager

Date prepared: April 28, 2020

Meeting date: May 11, 2020

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

RECOMMENDED ACTION: 1) Receive presentation on the 2020 Wastewater and Recycled Water Rates; 2) Provide staff with direction on whether to proceed with revising the wastewater and recycled water service rates; 3) If proceeding with revising the rates, authorize the mailing of the Proposition 218 notices to the affected property owners; and 4) Direct staff to schedule a Public Hearing for the July 13, 2020 City Council meeting to establish wastewater and recycled water service charges for Fiscal Year 2020-2021, Fiscal Year 2021-2022, and Fiscal Year 2022-2023.

FISCAL IMPACT: All operation and maintenance costs associated with the Civic Center Wastewater Treatment Facility (CCWTF) are to be 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 two years of operation, it is evident that some costs are higher than originally anticipated. The adopted wastewater rates generate \$1,610,964 based on the properties that are currently connected in Phase One. In Fiscal Year 2018-2019, General Funds in the amount of \$105,182 were used to cover the additional expenses. For the current fiscal year, staff has projected that \$197,752 will be needed from the General Fund to cover expenses. The projected \$302,934 exists as a loan from the General Fund that will be repaid by the CCWTF Fund over time. It is recommended that interest of 2% be charged on the loan.

The Proposed Budget for Fiscal Year 2020-2021 anticipates expenditures of \$1,915,200 for the CCWTF. If new rates are not adopted, the projected revenue

of \$1,610,964 will result in an additional \$304,236 that will need to be loaned from the General Fund.

WORK PLAN: This item was included as item 5a in the Adopted Work Plan for Fiscal Year 2019-2020.

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 and maintenance costs of the CCWTF. The CCWTF has been operating almost two 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. The wastewater and recycled water rates need to be adjusted to collect the correct amount of revenue to offset the actual operation and maintenance costs and to refund the loan from the General Fund.

On January 23, 2017, the City contracted with Raffelis Financial Consultants, Inc. (RFC) to develop the original wastewater and recycled water service rates. The wastewater and recycled water rates were developed to provide a fair and equitable rate structure that would provide sufficient revenue to operate and maintain the systems.

On March 23, 2020, the City amended RFC's agreement to review and update the wastewater and recycled water service rates.

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.

The projected total annual budget for Fiscal Year 2020-2021 is \$1,915,200.

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	335	63%
Undeveloped Parcels	197	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 / 335 EDU / 12 months).

Budget Category	Total Category Cost* [A]	Monthly Cost per EDU* [B=A/335 EDUs/ 12 months]
Contract	\$1,155,000	\$287.31
Pass-through	\$284,000	\$70.65
Direct Costs	\$476,200	\$118.41
Wastewater Rate per EDU	\$1,915,200	\$476.38

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 \$302,934 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 Civic Center area. It is recommended that an interest rate of 2% be used for the repayment of the General Fund.

Staff has worked with RFC to develop two options for a rate increase to cover the actual costs of operating the CCWTF and repayment of the General Fund loan:

- Option 1 – Increase rates to cover costs in Fiscal Year 2020-2021
 - Defer repayment of General Fund loan until Fiscal Year 2023-2024
 - Repay General Fund loan over 3 years
 - Repay General Fund loan over 5 years
- Option 2 – Defer rate increase to Fiscal Year 2021-2022
 - Repay General Fund loan over 3 years
 - Repay General Fund loan over 5 years

In Option 1, the monthly loan repayment amount is \$26.81 per EDU for the 3-year repayment or \$16.40 per EDU for the 5-year repayment.

It is important to note that the General Fund loan amount increases by \$304,236 in Option 2. The monthly loan repayment amount is \$55.03 per EDU for the 3-year repayment or \$32.44 for the 5-year repayment.

The following table shows the comparison of the different options:

Wastewater Rate (\$ / EDU)	Current	FY 2020-2021	FY 2021-2022	FY 2022-2023
Option 1 Defer repayment	\$400.34	\$476.38	\$494.33	\$513.55
Option 1 3-year repayment	\$400.34	\$502.76	\$521.14	\$540.36
Option 1 5-year repayment	\$400.34	\$492.35	\$510.73	\$529.96
Option 2 3-year repayment	\$400.34	\$400.34	\$547.36	\$566.58
Option 2 5-year repayment	\$400.34	\$400.34	\$526.77	\$546.00

Staff is seeking direction from Council on which scenario to implement.

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, rates were calculated to be \$2.23 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
Inside District			
Tier 1	\$0.00	\$0.00	\$0.00
Tier 2	\$2.23	\$2.31	\$2.38
Outside District	\$5.81	\$5.88	\$5.95

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.

Postponing Revised Rates

The City Council may elect to postpone the revised wastewater and recycled water service rates due to the COVID-19 pandemic. On March 4, 2020, Governor Newsom issued a Stay at Home Order. The State ordered all individuals living in the State of California to stay at home or at their place of residence. The order also closed most commercial businesses, including those in the Civic Center area. This has caused a substantial financial impact to those businesses.

In an effort to assist in the recovery of these commercial properties, Council may elect to postpone revising the wastewater and recycled water service rates. Any additional funds needed to cover the operation and maintenance costs could be loaned from the General Funds. It is estimated that \$304,236 would be required to fund the additional expenses for Fiscal Year 2020-2021. These funds would be required to be repaid by the property owners.

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 July 13, 2020 Public Hearing date.

Staff is seeking direction on whether to proceed with revising the wastewater and recycled water service rates.

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.