WASTEWATER & STORMWATER UTILITY RATE STUDIES & PROPOSITION 218 PUBLIC NOTICE

City Council
Agenda Item 8.01
June 29, 2010

What is needed from the Council?

- Approve proceeding with a Proposition 218 Protest Notice proceedings to consider a wastewater rate increase

- Approve proceeding with a Proposition 218 Public Notice and balloting procedure for a stormwater rate increase
What is not needed from Council?

- Approval of the proposed rate increases
- Approval of the Draft Rate Studies

Background

- Last Stormwater rate study in 1991
- Last Wastewater rate study in 1993
- Current rate structure is not sufficient to maintain operations and permit compliance
- Rate adjustments are necessary to fund:
  - Bond covenant requirements
  - Operations and Maintenance
  - Fats, Oils, and Grease Program
  - CSPA Consent Decree requirements
  - RWCF Plant Upgrade
- Timeline driven by Wastewater Bond Debt Service Coverage Covenant
  - Did not meet the coverage requirement for 08-09 & 09-10
Wastewater Rate Increase

- Bonding Community calling for immediate action
- Failure to meet coverage covenant could affect future bond issuances
- Revenue and Expenditures affected by:
  - Additional $1.5M for digester cleaning
  - Additional $0.5M in energy costs
  - Increased staffing costs due to RWQCB Settlement
  - Connection Fees reduced from $18M (02-03) to $1M (08-09)
  - Funding CSPA Consent Decree Programs
  - Compliance with new wastewater discharge permit

Stormwater Rate Increase

- Stormwater not a bonded fund
- Rate increase is a ballot procedure – more difficult procedure to pass
- Will require more public outreach and education
- Revenue and Expenditures affected by:
  - No rate study since 1991
  - Current rate of $2.10/month/SFR took effect in 1992
  - 1991 rate study did not account for the extensive level of funding the NPDES permit has since required
  - Operating in the deficit and depleting reserves for past few years
Work Efforts To Date

- 11-09 - Introduced need for rate studies to CWC
- 12-09 - Council approved rate consultant RFP
- 1-20 – First introduction to WAG of rate studies
- 2-17 – Discussed debt service coverage with WAG
- 2-23 - Consultants interviewed
- 3-16 - Council approved HDR contract
- 4-6 - Kick-off meeting with consultant team
- 4-14 – Work progress report to CWC
- 4-21 – Work progress report to WAG
- 5-12 –Preliminary rate increases to CWC
- 5-19 –Preliminary rate increases to WAG
- 6-9 – Draft Final Report discussed with CWC/WAG
- 6-29 – To Council to consider Prop 218 proceedings

Utility Customer Overview

- **WASTEWATER:**
  - Operates and maintains 48 MGD RWCF
  - Operates and maintains over 1,000 miles of sewer lines
  - Serves approximately 83,880 customers total
    - 78,900 residential
    - 4,750 commercial
    - 230 industrial/institutional

- **STORMWATER:**
  - Operates and maintains City’s 72 pump stations and over 400 miles of storm sewers
  - Monitors compliance with State NPDES discharge permit
  - Serves approximately 76,160 customers total
    - 71,140 residential
    - 4,985 commercial
    - 35 industrial/institutional
### Rate Comparisons

<table>
<thead>
<tr>
<th>City</th>
<th>Wastewater</th>
<th>Stormwater</th>
<th>Population</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Stockton</td>
<td>$23.25</td>
<td>$2.10</td>
<td>290,000</td>
<td>$25.35</td>
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<tr>
<td>Fairfield</td>
<td>$24.23</td>
<td>In Wastewater</td>
<td>160,500</td>
<td>$24.23</td>
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<tr>
<td>Modesto*</td>
<td>$24.83</td>
<td>$6.58</td>
<td>211,000</td>
<td>$31.41</td>
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<tr>
<td>Galt</td>
<td>$25.81</td>
<td>$2.43 (Tier 1) $6.24 (Tier 2)</td>
<td>25,000</td>
<td>$28.24 $32.05</td>
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<tr>
<td>Tracy</td>
<td>$31.00</td>
<td>$1.20</td>
<td>82,000</td>
<td>$32.20</td>
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<tr>
<td>Lodi</td>
<td>$34.68</td>
<td>In Wastewater</td>
<td>69,000</td>
<td>$34.68</td>
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<tr>
<td>Sacramento</td>
<td>$19.75</td>
<td>$16.84</td>
<td>503,000</td>
<td>$36.59</td>
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<td>Lathrop</td>
<td>$39.10</td>
<td>In Wastewater</td>
<td>18,000</td>
<td>$39.10</td>
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</table>

*Modesto just passed a WW rate increase. It will increase again to $34.41 in 2014.

### Rate Comparisons-Bay Area

<table>
<thead>
<tr>
<th>City</th>
<th>Wastewater</th>
<th>Stormwater</th>
<th>Population</th>
<th>Total</th>
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<tbody>
<tr>
<td>Stockton</td>
<td>$23.25</td>
<td>$2.10</td>
<td>290,000</td>
<td>$25.35</td>
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<td>Pleasanton</td>
<td>$30.17</td>
<td>In Wastewater</td>
<td>66,544</td>
<td>$30.17</td>
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<tr>
<td>San Jose</td>
<td>$31.00</td>
<td>In Wastewater</td>
<td>1,000,892</td>
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<td>Vallejo</td>
<td>$37.75</td>
<td>In Wastewater</td>
<td>116,760</td>
<td>$37.75</td>
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<tr>
<td>Livermore</td>
<td>$40.75</td>
<td>In Wastewater</td>
<td>83,800</td>
<td>$40.75</td>
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<td>Richmond</td>
<td>$42.17</td>
<td>In Wastewater</td>
<td>102,186</td>
<td>$42.17</td>
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<td>San Francisco</td>
<td>$49.08</td>
<td>In Wastewater</td>
<td>808,977</td>
<td>$49.08</td>
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Wastewater Assumptions

- **Wastewater rate model reflects:**
  - Phase 3B increased staffing for wastewater
  - Actual 2010-2011 Budget projections
  - CIPs estimated over the next 20 years
  - Plant upgrade costs estimated conservatively (+/- $20M)
  - Plant upgrade design to begin in 2011-2012, construction from 2012 thru 2017
  - Council Reserve Policy funded over 10 years
  - Facility repair & replacement costs
  - Minimum debt service coverage ratio of app 1.25
  - Annual CPI no greater than 4%
  - No alternate funding sources

Wastewater Financial Plan

- The following elements are being recommended:
  - 1 year defeasance of current COP payments in 2010-2011.
  - Bonds in 2012, 2015 & 2018 for plant upgrade and large CIPs
    - Assumed 30-year at 5.75%.
  - Funding Council Reserve Policy over longer period (12-15 years) can reduce rate increase impacts
  - Fund a rate stabilization fund
  - Adopt an annual CPI for a similar period of time, according to the U.S. City Average, Other Goods and Services, but no greater than 4%
### Wastewater Analysis ($000's)

**With Defeasance & Rate Stabilization**

**Commercial User**
- **Medium Use, Medium Strength**

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<td><strong>TOTAL SOURCES OF FUNDS</strong></td>
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<td>33,252</td>
<td>32,467</td>
<td>32,888</td>
<td>33,579</td>
<td>36,525</td>
<td>41,377</td>
<td>46,877</td>
<td>51,425</td>
<td>56,825</td>
<td>62,240</td>
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<td><strong>PRESENT RATES (2009-2010):</strong></td>
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<td>- Consumption ($/CCF)</td>
<td>419</td>
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<td>- Monthly Total Charge</td>
<td>$469.21</td>
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<td><strong>PROPOSED RATES (2010-2011):</strong></td>
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<td>- Consumption ($/CCF)</td>
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<tr>
<td>- Monthly Total Charge</td>
<td>$559.58</td>
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<td><strong>RATE DIFFERENCE</strong></td>
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### Commercial User Medium Use, Medium Strength

- **Present Rates (2009-2010):**
  - Consumption ($/CCF) - 419
  - Monthly Total Charge - $469.21

- **Proposed Rates (2010-2011):**
  - Consumption ($/CCF) - 419
  - Monthly Total Charge - $559.58

- **Rate Difference** - $90.37
Schools & Church Customer

- Present Rates (2009-2010):
  - Consumption ($/CCF) – 138
  - Monthly Total Charge - $84.26

- Proposed Rates (2010-2011):
  - Consumption ($/CCF) – 138
  - Monthly Total Charge - $100.44

- Rate Difference - $16.18

Industrial User

- Present Rates (2009-2010):
  - Low Volume - $272.94
  - Medium Volume - $10,102.25
  - High Volume - $111,403.75

- Proposed Rates (2010-2011):
  - Low Volume - $324.80
  - Medium Volume - $12,021.57
  - High Volume - $132,569.53

- Rate Difference:
  - Low Volume - $51.86
  - Medium Volume - $1,919.32
  - High Volume - $21,165.78
Stormwater Assumptions

- **Stormwater rate model reflects:**
  - Phase 3B increased stormwater staffing positions
  - CIPs estimated over the next 20 years
  - Council Reserve Policy funded over 10 years
  - Lease payments to General Fund for land use
  - Jarvis Settlement repayment to General Fund
  - 0.5% annual customer growth beginning in 2014-2015
  - County reimbursement for joint oversight of NPDES permit
  - No current reserve balance to roll-over
  - Using the same ERU calculation data approved in 1994
  - Annual CPI no greater than 4%
  - No additional funding sources

Stormwater Financial Plan

- The following options are being recommended by the consultant to fund the utility:
  - Bonds in 2013 may not be necessary
    - Dependent on timing of CIPs
    - If CIPs can be cash funded, funding debt service coverage requirements will not be necessary
  - Finance funding can include loans from either water or wastewater
  - Adopt an annual CPI, for a similar period of time, according to the U.S. City Average, Other Goods and Services, but no greater than 4%
Stormwater Analysis ($000’s)

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<tbody>
<tr>
<td>Total Rate Revenues</td>
<td>$5,926</td>
<td>$9,203</td>
<td>$9,576</td>
<td>$6,316</td>
<td>$5,680</td>
<td>$5,422</td>
<td>$5,412</td>
<td>$6,023</td>
<td>$6,015</td>
<td>$6,171</td>
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<tr>
<td>Total Miscellaneous Revenues</td>
<td>267</td>
<td>361</td>
<td>609</td>
<td>233</td>
<td>631</td>
<td>343</td>
<td>682</td>
<td>442</td>
<td>758</td>
<td>532</td>
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<tr>
<td><strong>TOTAL SOURCES OF FUNDS</strong></td>
<td><strong>$6,193</strong></td>
<td><strong>$9,564</strong></td>
<td><strong>$9,919</strong></td>
<td><strong>$6,559</strong></td>
<td><strong>$6,111</strong></td>
<td><strong>$5,765</strong></td>
<td><strong>$5,755</strong></td>
<td><strong>$6,465</strong></td>
<td><strong>$6,763</strong></td>
<td><strong>$6,703</strong></td>
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</table>

**APPLICATIONS OF FUNDS**

- **O&M Expenses**
  - $2,285
  - $2,908
  - $3,010
  - $1,800
  - $2,700
  - $2,500
  - $2,200

- **Capital Outlays from Rates**
  - $2,200
  - $2,500
  - $2,000
  - $1,800
  - $2,700
  - $2,500
  - $2,200

- **Debt Service**
  - $0
  - $0
  - $100
  - $100
  - $100
  - $100
  - $100

- **General Fund Balance Payment**
  - 0
  - 0
  - 0
  - 0
  - 0
  - 0
  - 0

- **Change in Working Capital**
  - 0
  - 10
  - 120
  - 60
  - 50

**TOTAL REVENUE REQUIREMENT**

| $12,200 | $12,200 | $12,200 | $12,200 | $12,200 | $12,200 | $12,200 | $12,200 | $12,200 | $12,200 |

**BALANCE (DEFICIENCY) OF FUNDS**

| ($8,300) | ($7,500) | ($6,600) | ($5,700) | ($4,800) | ($3,900) | ($3,000) | ($2,100) | ($1,200) | ($1,300) |

**AVERAGE RESIDENTIAL MONTHLY BILL**

| $2.10  | $2.10  | $2.10  | $2.10  | $2.10  | $2.10  | $2.10  | $2.10  | $2.10  | $2.10  |

- **Single Family Monthly Charge**
  - After Rate Adjustment: $4.90
  - $5.05
  - $5.20
  - $5.35
  - $5.50
  - $5.65

- **$ Difference**
  - $2.80
  - $2.95
  - $3.10
  - $3.25
  - $3.40

**DEBT SERVICE COVERAGE RATIOS**

<table>
<thead>
<tr>
<th>Before Rate Adjustment</th>
<th>After Proposed Adjustment</th>
</tr>
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<tbody>
<tr>
<td>0.00</td>
<td>0.00</td>
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<tr>
<td>0.00</td>
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* Funding Reserve Minimum Fund Balance Policy

Public Outreach

- Stakeholder groups have been interviewed.
- Outreach message consistent with interview response
- July Utility Bill insert will contain educational material about MUD, the utilities, and rate increases
- Website under construction
  - Coordinating with Connie Cochran
- Scheduled Presentations:
  - Stockton Chamber of Commerce Bd of Directors, 5-27
  - MIDR, 6-10
  - BIA, 6-10
  - GRC, 6-11
  - Lion’s Club, 6-22 & 7-20
  - SJ. Business Council Board of Directors, 7-15, noon
  - Kiwanis, 7-14
- Now scheduling community meetings for the public
Failure To Pass

- Failure to pass either rate increase will have significant negative affects
- Wastewater will fail to meet bond coverage covenants for a 3rd year
- City’s bond rating will decline and affect future bond issuance
- Utility will be unable to fund required compliance work
- Stormwater will continue to be unable to fund operations
  - Non-compliance with NPDES permit requirements
  - Increased risk of lawsuits
  - Seek assistance from General Fund to avoid severe penalties
Recommendations
Approve the recommendations of the Council Water Committee and the Water Advisory Group and:

- Authorize the City Manager to send a 45-day Proposition 218 Public Notice to wastewater customers and to schedule a Public Hearing for the August 17, 2010 City Council meeting to consider adoption of the proposed wastewater rate increase,

- Authorize the City Manager to send a 45-day Proposition 218 Public Notice to stormwater property owners and to schedule a Public Hearing for the August 17, 2010 City Council meeting to consider authorizing mailing of the ballots for the proposed stormwater rate increase

- Recommend which CPI shall apply to each rate increase