



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** May 10, 2021
FROM: Matthew Bronson City Manager
PREPARED BY: Deanne Purcell, Administrative Services Director
SUBJECT: Adoption of Proposed Water and Wastewater Rate Increases

RECOMMENDATION

1) Conduct the Proposition 218 public hearing and determine the official number of written protests received on proposed water and wastewater rate increases; and 2) if the number of valid protest votes is below 50% of the number of property owners or customers authorized to vote, adopt the Resolution amending the Master Fee Schedule for water and wastewater rates.

BACKGROUND

On February 22, 2021, the Council was presented with the results of the Utility Rate Study conducted by Willdan Financial Services which included: 1) Revenue Requirements Analysis; 2) Cost of Service; and 3) Rate Design to fund operating and capital costs needed for the Water and Wastewater Enterprise Funds. The desired outcome of this study was to ensure that the rates are sufficient to cover costs associated with ongoing maintenance and operations of the water and wastewater utilities. The rates should also fund anticipated capital improvement costs while supporting debt service obligations and maintaining reserves equal to at least six months of typical maintenance and operations expenditures in accordance with industry standards. An updated version of the Utility Rate Study was presented to the Council on March 22, 2021 which reflected revised cost estimates for the Central Coast Blue recycled water project particularly with operations and maintenance costs as well as minor revisions to water projects in the Capital Improvement Program.

Monthly rates charged to customers on a bi-monthly basis are the primary source of revenue to operate the City's water and wastewater systems. The Utility Rate Study indicated that current rates do not fully cover operating costs of the system and do not provide adequate funding for over \$10 million in capital projects needed to improve the City's water (\$6 million) and wastewater (\$4 million) systems. In addition, there are currently no provisions within the existing rate structure to allow for the development of a supplemental water supply to assure the City can provide adequate water supply to all customers during recurring drought conditions.

Central Coast Blue is a recycled water sustainability project that would create a new, high quality, and reliable water supply for residents in Arroyo Grande, Pismo Beach, Grover Beach, and Oceano. The City is working with partner agencies in designing an advanced water purification facility that would create a high-quality water source to supplement local supplies and provide sufficient water supplies even in times of water shortage or drought. The future water rates covered in the Utility Rate Study must provide funding for the City's share of costs for the Central Coast Blue project.

Lastly, wastewater rates cover the City's cost of ongoing operations, maintenance and repair of the City's wastewater collection and conveyance system. The cost for treatment by the South San Luis Obispo County Sanitation District were not studied and are currently a direct pass-thru from the District as these costs are billed to ratepayers with revenue remitted by the City to the District. The Sanitation District is proposing to change its billing process to semi-annual billing on the County property tax bill for both Grover Beach and Arroyo Grande customers similar to Oceano customers. The Sanitation District Board will consider this proposal during a public hearing on June 2 and if enacted the change would begin on July 1.

The Council directed staff on February 22 to implement the Proposition 218 noticing process on the proposed rate increases for a public hearing on May 10, 2021. The public hearing notice was mailed on March 25, 2021 to all water utility customers and owners of record of a property that receive water and/or wastewater services in compliance with the 45-day notification requirement. The City also put information about the proposed rate increases on the City's website at <http://grover.org/index.aspx?NID=331>. Attachment 2 includes a copy of the notice which informed customers about the proposed rate increases. The amount of residential water used is billed in three tiers, with the cost increasing in each successive tier, based on the cost of providing water at peak usage. For a typical single-family home (using 7 units of water a month), the water portion of their bill would decrease by approximately \$14.50 per month or \$29 per billing cycle (every two months) for the average residential customer. The sewer portion of an average residential customer bill would increase from \$24.16 to \$24.64 per billing cycle. The notice also informed customers about the May 10th public hearing and how to submit a protest.

Any owner or customer of record that is required to pay the subject fees of a parcel subject to the proposed rates may submit a written protest against the proposed rate revisions. A written protest must contain the street address or Assessor's Parcel Number (APN) for the parcel(s) with respect to which the protest is made. The protest must also be signed by the owner or customer who pays the fees. Protests were required to be mailed or hand-delivered to the City's offices and at the time of agenda posting, eight written protests have been received out of 5,763 notices mailed to property owners and account holders for a total number of 4,940 water utility accounts. To be valid, a signed written protest must be received by the City Clerk at or before the time of the protest hearing. At the end of the public hearing, the City Clerk will tally and report the qualifying written protests and the Council will then certify whether the written protests opposing the increases meet the 50% threshold required to constitute a majority protest. If a majority protest does not exist, the Council may approve the Resolution to adopt the proposed rates.

If adopted, an initial 2% water rate increase would be effective on July 1, 2021 and subsequent 2%, 3%, 4%, and 4% increases would be scheduled to go into effect on July 1 of the following four years. However, the Council retains the ability to enact a lower rate on an annual basis and a lower rate than authorized may be applicable based on the level of grant funding received for the Central Coast Blue project as the rate structure does not assume grant funding pursuant to the grant application requirements. Wastewater rate revenues would increase 2% beginning on July 1, 2021 with annual 2% adjustments each July 1st through FY 2025-26 which is approximate to the current rate of inflation.

FISCAL IMPACT

The recommended rate increases would result in additional Water Fund revenue of approximately \$101,000 in FY 2021-22 and \$103,000 in FY 2022-23 and additional Wastewater Fund revenue of approximately \$19,000 in FY 2021-22 and \$20,000 in FY 2022-23.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Conduct the Proposition 218 public hearing and determine the official number of written protests received and, if the number of valid protest votes is below 50%, adopt the Resolution amending the Master fee Schedule for Utility Rates.
2. Provide alternate direction to staff.

PUBLIC NOTIFICATION

1. The agenda was posted in accordance with the Brown Act.
2. A Proposition 218 Hearing Notice was mailed on March 25, 2021 to all utility customers and property owners that receive water and/or wastewater services.
3. Information regarding the proposed rates and a link to the online copy of the Utility Rate Study, as well as other related information, was posted on the City website.
4. A Public Hearing Notice was published in *New Times* on April 29, 2021.

Attachments

1. Resolution amending the Master Fee Schedule
2. Proposition 218 public notice