



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** February 22, 2021
FROM: Matthew Bronson City Manager
PREPARED BY: Greg Ray, Public Works Director/City Engineer
Deanne Purcell, Administrative Services Director
SUBJECT: Utility Rate Study Findings and Recommendations

RECOMMENDATION

Receive Utility Rate Study findings and recommendations and provide direction to implement the Proposition 218 noticing process for holding a public hearing on May 10, 2021 on changes to Water and Wastewater utility rates.

BACKGROUND

In 2020, the City contracted with Willdan Financial Services to conduct a Utility Rate Study for both the Water and Wastewater Enterprise Funds. A rate study is recommended to be conducted approximately every five years to ensure the City will have sufficient water and wastewater revenues to meet ongoing operational and capital obligations. The last rate study was conducted in 2016 with a five-year rate structure approved on March 6, 2017.

City staff worked closely with Willdan Financial Services to produce this comprehensive review of the City's utility rates including an extensive review of current water and wastewater rates and future operating and capital costs to 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.

Rate Study Overview

The Utility Rate Study report is included as Attachment 1. Staff from Willdan Financial Services will be available at the February 22nd Council meeting to answer questions regarding the findings and recommendations contained in the report. The key elements of the study include:

- Develop a five-year financial plan for the water and wastewater utilities to ensure financial sufficiency, recover operation and maintenance costs, ensure sufficient funding for capital projects, and preserve the financial health of both utilities.
- Perform a cost-of-service analysis which calculates the cost to serve each customer class;
- Review and recommend changes to the City's current water and wastewater rate structures, including transitioning the current residential water rate structure to a three-tiered structure to better match the cost of services to different customer flow rates similar to most cities in the county; and

- Develop water and wastewater rates for Fiscal Year 2021-22 through Fiscal Year 2025-26 that are fair, equitable, and in proportion to the cost of providing service to the City's customers.

The future water rates must also provide funding for the City's share of costs for the Central Coast Blue recycled water project pending final certification of the Environmental Impact Report and approval of an operating agreement. Central Coast Blue is a local 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.

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 a direct pass-thru from the District as these costs are billed to ratepayers with revenue remitted by the City to the District.

Findings and Recommendations

The revenue analysis as part of the study concludes that revenue projections from the water and wastewater utilities based on existing rates are insufficient to meet the revenue requirements for FY 2021-22 through FY 2025-26 to keep pace with increasing operating, capital improvement costs, and debt service obligations. As a result, the study recommends multi-year increases in water and wastewater rate revenues of 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. The recommended water rates include a meter charge to reflect the fixed costs of operation and maintenance and a consumption charge based on variable costs per 100 cubic feet of water consumption.

The average bi-monthly bill for residential water and sewer customers using 14 units per billing period is projected to decrease from \$197 to \$169. Approximately 68% of residential customers are in this category. However, non-residential customers with higher water consumption and residential customers who use in excess of 14 units per billing period will see increases in their bi-monthly rate given the cost-of-service analysis in this rate study and the proposed transition to tiered rates beginning in FY 2021-22. Following next fiscal year, rates would increase by 2% for all customers annually through FY 2025-26. Attachment 2 identifies how current and recommended utility rates in Grover Beach compared with other cities in the county. The proposed bi-monthly utility rate of \$169 for the average residential customer using 14 units of water is the third lowest rate in the county behind Atascadero and remains significantly below the bi-monthly countywide average of \$261.

Staff is seeking Council direction to proceed with implementing the Proposition 218 noticing process for holding a public hearing on changes to the water and wastewater utility rates. Notices would be sent out to customers to inform them of the recommended rate increases and the date of the public hearing which is scheduled for the May 10, 2021 Council meeting. Pending the public hearing and a related protest vote of less than 50% plus one along with subsequent Council action approving the fees, the new rates would go into effect on July 1, 2021 with the first billing sent out in the fall.

FISCAL IMPACT

The Utility Rate Study has identified insufficient revenues in the Water and Wastewater funds. Willdan Financial Services is recommending customer rate increases to address the projected revenue deficiencies in funding the necessary operating and capital expenses along with requirements for reserves and debt service for these Enterprise Funds. The recommended rate increases would result in additional Water Fund revenue of approximately \$101,000 in FY 2021-22 and \$32,000 in additional Wastewater Fund revenue.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Provide staff with direction to implement the Proposition 218 noticing process for holding a public hearing on May 10, 2021 on changes to the Water and Wastewater utility rates; or
2. Provide alternate direction to staff.

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.

Attachments

1. Utility Rate Study
2. Utility Billing Comparison with Other Communities in San Luis Obispo County