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CITY CLERK'S OFFICE

**Regular Council Meeting
1/13/2022**

FRESNO CITY COUNCIL



Information Packet

ITEM(S)

File ID 22-56, 3-A

WORKSHOP - Prop 218 Process

Contents of Supplement:

PowerPoint Presentation – “Utility Rates Workshop”

Item(s)

Supplemental Information:

Any agenda related public documents received and distributed to a majority of the City Council after the Agenda Packet is printed are included in Supplemental Packets. Supplemental Packets are produced as needed. The Supplemental Packet is available for public inspection in the City Clerk's Office, 2600 Fresno Street, during normal business hours (main location pursuant to the Brown Act, G.C. 54957.5(2)). In addition, Supplemental Packets are available for public review at the City Council meeting in the City Council Chambers, 2600 Fresno Street. Supplemental Packets are also available on-line on the City Clerk's website.

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Utility Rates Workshop

January 13, 2022



Introduction

- 1. Performing periodic cost-of-service rate analyses is a common best practice for local governments**
 - a. Assess cost of service to provide essential services under changing service demands and market conditions
 - b. Ensure equitable cost allocations among customer classes
 - c. Generate stable and reliable revenue to fund essential services
- 2. Recommend Preparing 5-Year Utility Rate Plans for Water, Sewer, and Solid Waste**
- 3. Rate Consultant Agreements:**
 - a. January 27th Council agenda for consideration

DPU: Providing Life's Essential Services

Water

- a. 260 water supply wells, three water plants, and approximately 1,900 miles of water mains
- b. Produces an average of 110 million gallons of water per day (200 gal/per/day)

Wastewater

- a. One regional water reclamation facility, two recycled water facilities, 16 lift stations, and approximately 1,500 miles of sanitary sewer lines
- b. Treats an average of 60 million gallons of raw sewage per day (100 gal/per/day)

Solid Waste

- a. Provides Three-Cart Service and Operation Cleanup for 114,000 Residential Accounts
- b. Provides Litter Collection Services and Illegal Dumping Response
- c. Provides Recycling Education and Outreach

The background of the slide is an aerial photograph of a city skyline, featuring various buildings and a prominent tower with a spire. The entire image is covered with a semi-transparent blue filter. At the bottom of the slide, there is a solid green silhouette of a city skyline.

Current Utility Rates

Current Utility Bill Charges

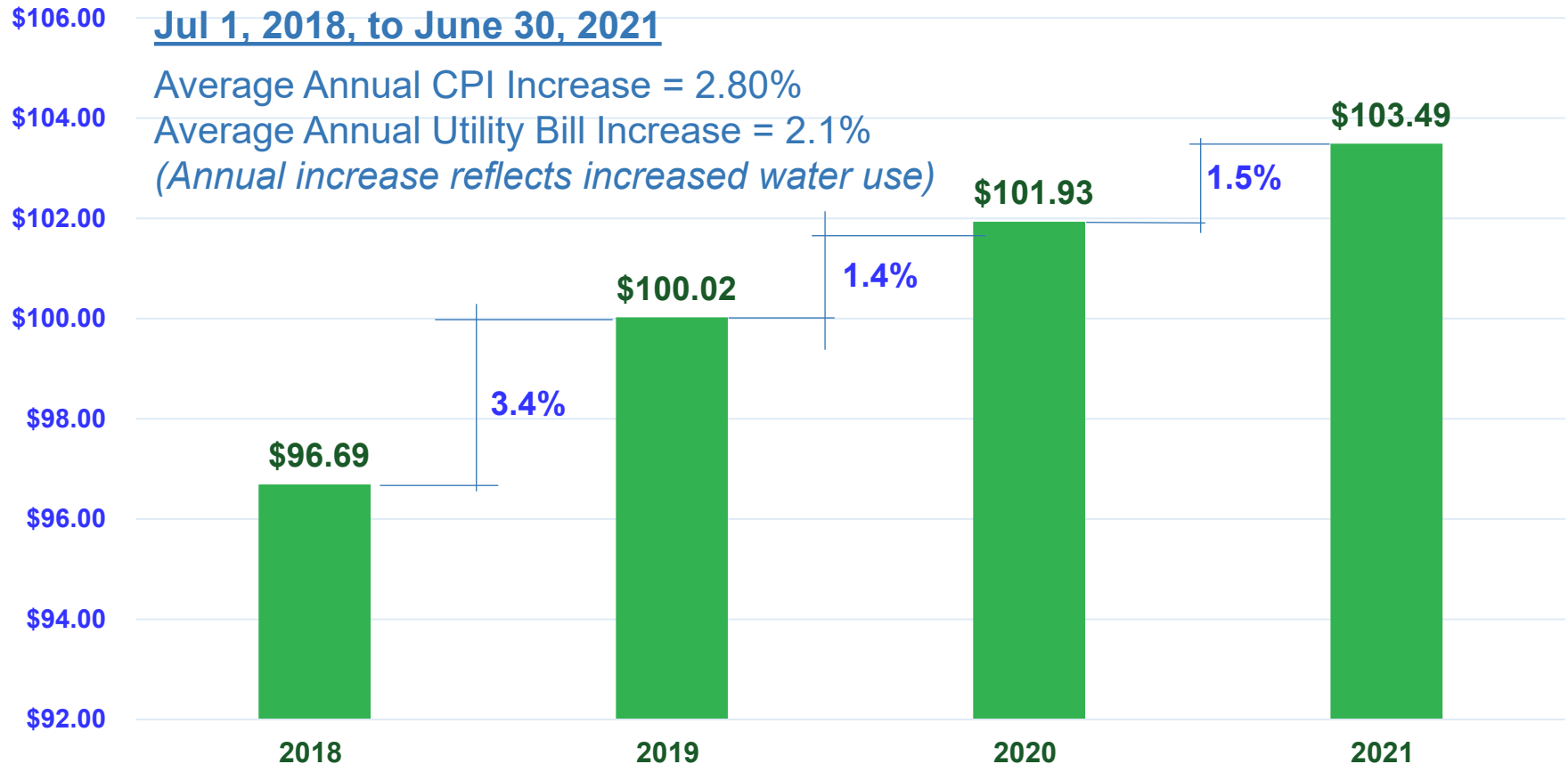
Utility Service	Utility Charge Rate
Water Use Charge, \$/HCF	\$1.74
Water Meter Charge, \$/1-inch meter	\$17.90
Sewer Use Charge, \$/SFR	\$25.75
Sewer Pretreatment Charge, \$/SFR	\$0.06
Solid Waste, 3 can service with 96-gallon gray container	\$25.37
Solid Waste, 3 can service with 64-gallon gray container	\$19.20

Current Utility Bill Charges

Utility Service	Utility Charge Rate	Effective Date for Current Rate
Water Use Charge, \$/HCF	\$1.74	July 2018
Water Meter Charge, \$/1-inch meter	\$17.90	July 2018
Sewer Use Charge, \$/SFR	\$25.75	September 2010
Sewer Pretreatment Charge, \$/SFR	\$0.06	September 2010
Solid Waste, 3 can service with 96-gallon gray container	\$25.37	September 2009
Solid Waste, 3 can service with 64-gallon gray container	\$19.20	September 2009

Average Monthly Utility Bill

Average Monthly Utility Bill Residential Customer Class



Utility Bill Affordability

Environmental Protection Agency (Water & Wastewater)

EPA considers a combined annual water and wastewater bill of less than **4.5% of median household income** (MHI) to be affordable (2.5% for water, plus 2% for wastewater services)

California State Water Board (Water only)

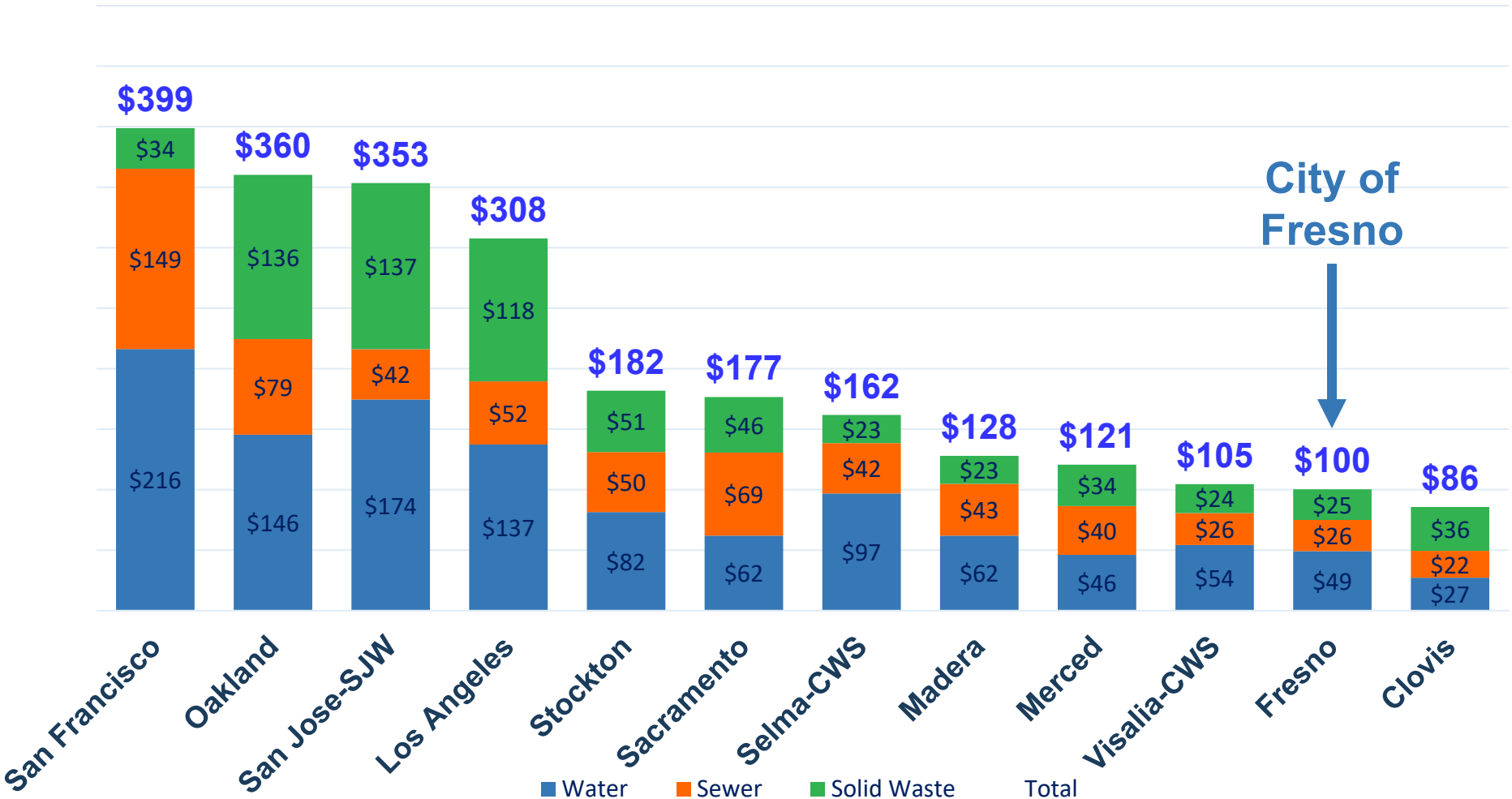
The State Water Board utilized two MHI affordability thresholds. The minimum affordability threshold is **1.5% MHI** and the maximum affordability threshold was set at **2.5% MHI**

There are no published affordability standards for Solid Waste

Affordability of Current Rates

Utility Service	Current Utility Bill Cost (18 HCF)
Water Use Charge, \$/HCF	\$31.32
Water Meter Charge, \$/1-inch meter	\$17.90
Sewer Use Charge, \$/SFR	\$25.75
Sewer Pretreatment Charge, \$/SFR	\$0.06
Solid Waste, 3 can service with 96-gallon gray container	\$25.37
Total Monthly Utility Bill, \$	\$100.40
Median Household Income, \$	\$50,342
% Annual Total Utility Bill/Median Household Income	2.39%

Comparative Utility Bill Rates



The background of the slide is an aerial photograph of a city skyline, featuring various buildings and a prominent tower with a spire. The entire image is covered with a semi-transparent blue filter. At the bottom of the slide, there is a solid green silhouette that represents the city's skyline, creating a layered effect.

Utility Rate Design

California Constitution, Article XIII D Assessment and Property-Related Fee Reform

SEC. 6. Property Related Fees and Charges.

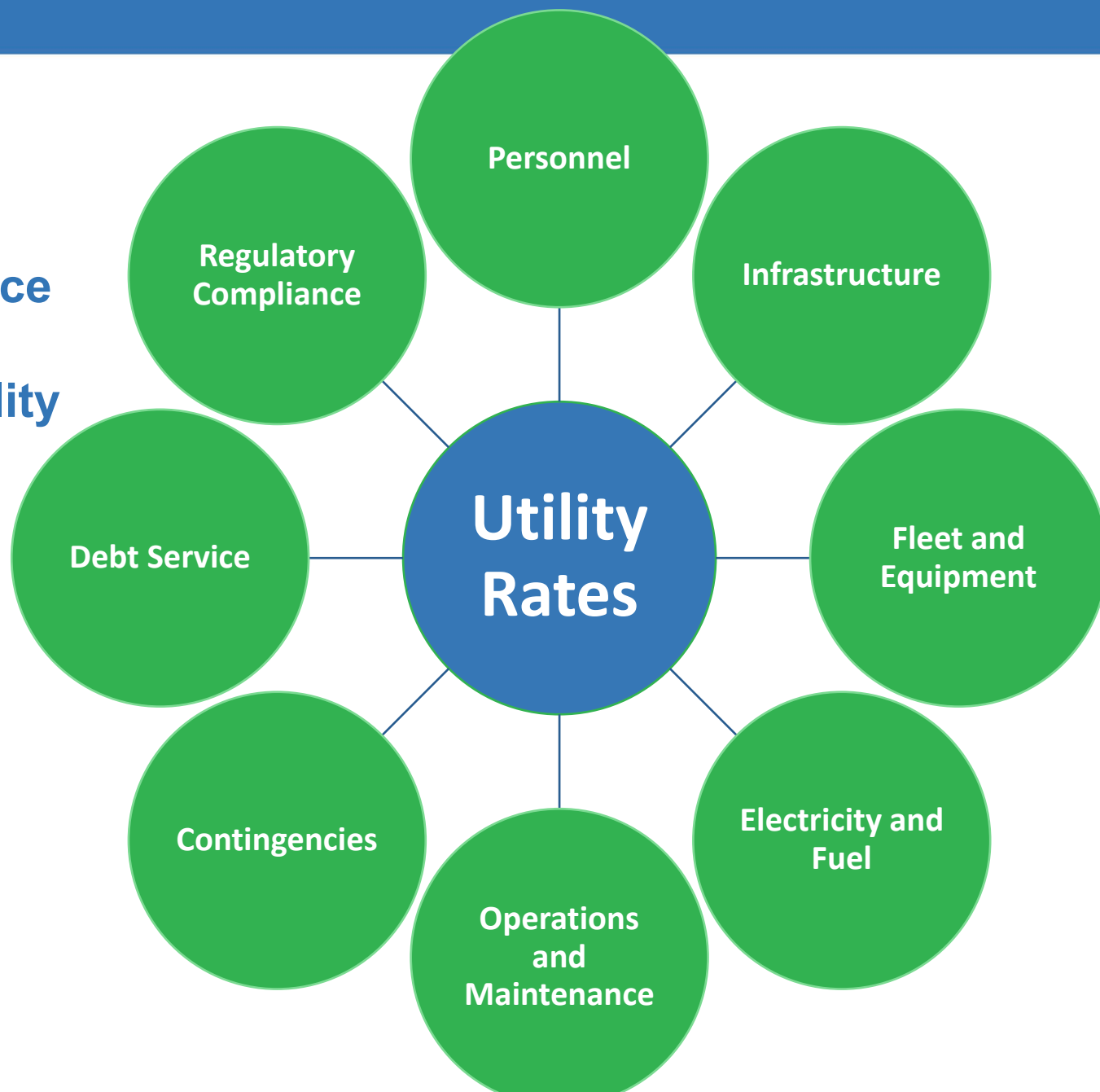
(b) Requirements for Existing, New or Increased Fees and Charges. A fee or charge shall not be extended, imposed, or increased by any agency unless it meets all the following requirements:

- 3) *The amount* of a fee or charge imposed upon any parcel or person as an incident of property ownership *shall not exceed the proportional cost of the service* attributable to the parcel.

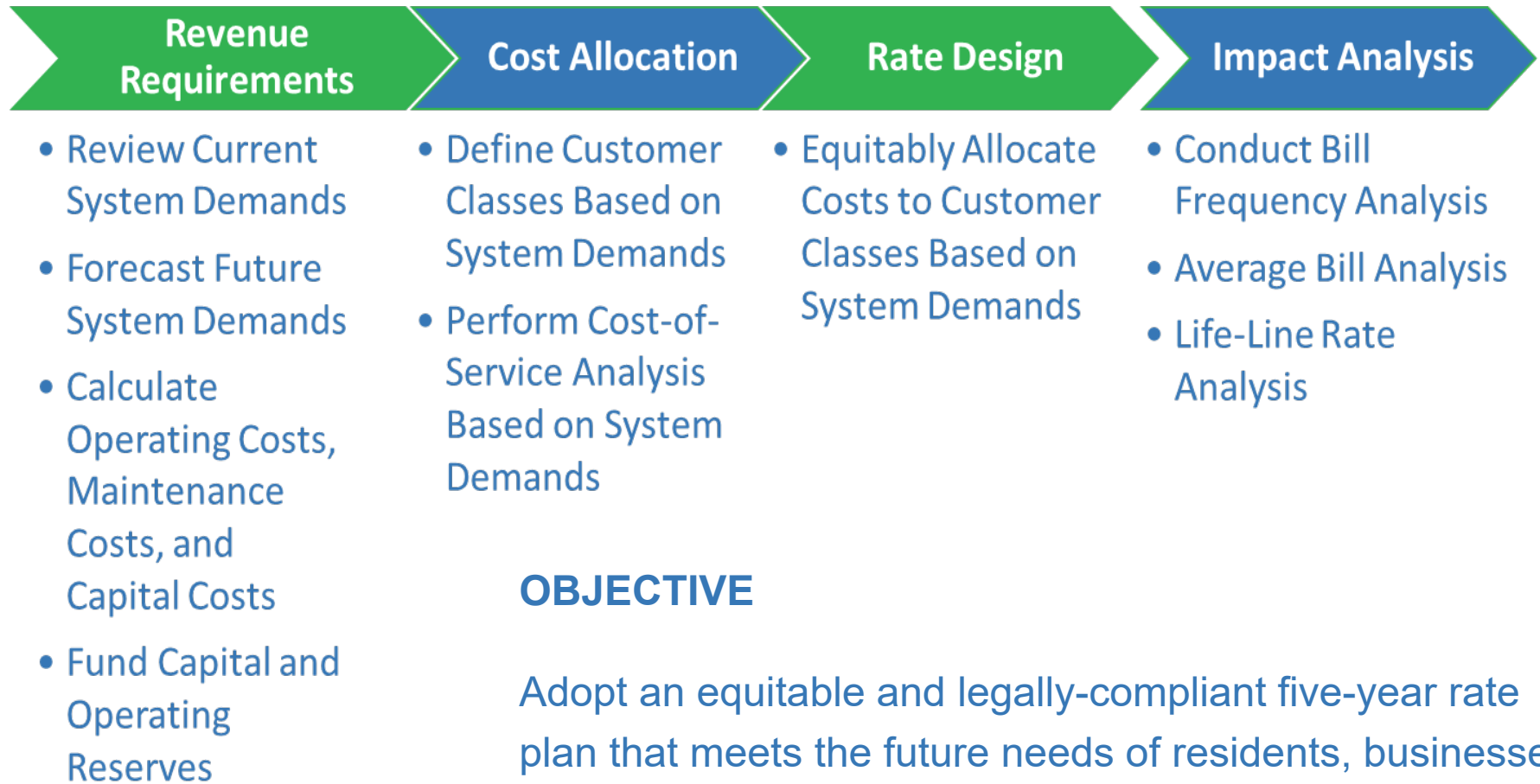
UTILITY RATE DESIGN MUST COMPLY WITH STATE LAW

UNIQUE FEATURE OF CALIFORNIA

**What cost-of-service
elements can be
included in the utility
rates?**



Principles of Utility Rate Design



OBJECTIVE

Adopt an equitable and legally-compliant five-year rate plan that meets the future needs of residents, businesses, industries and institutions in the City's service area.

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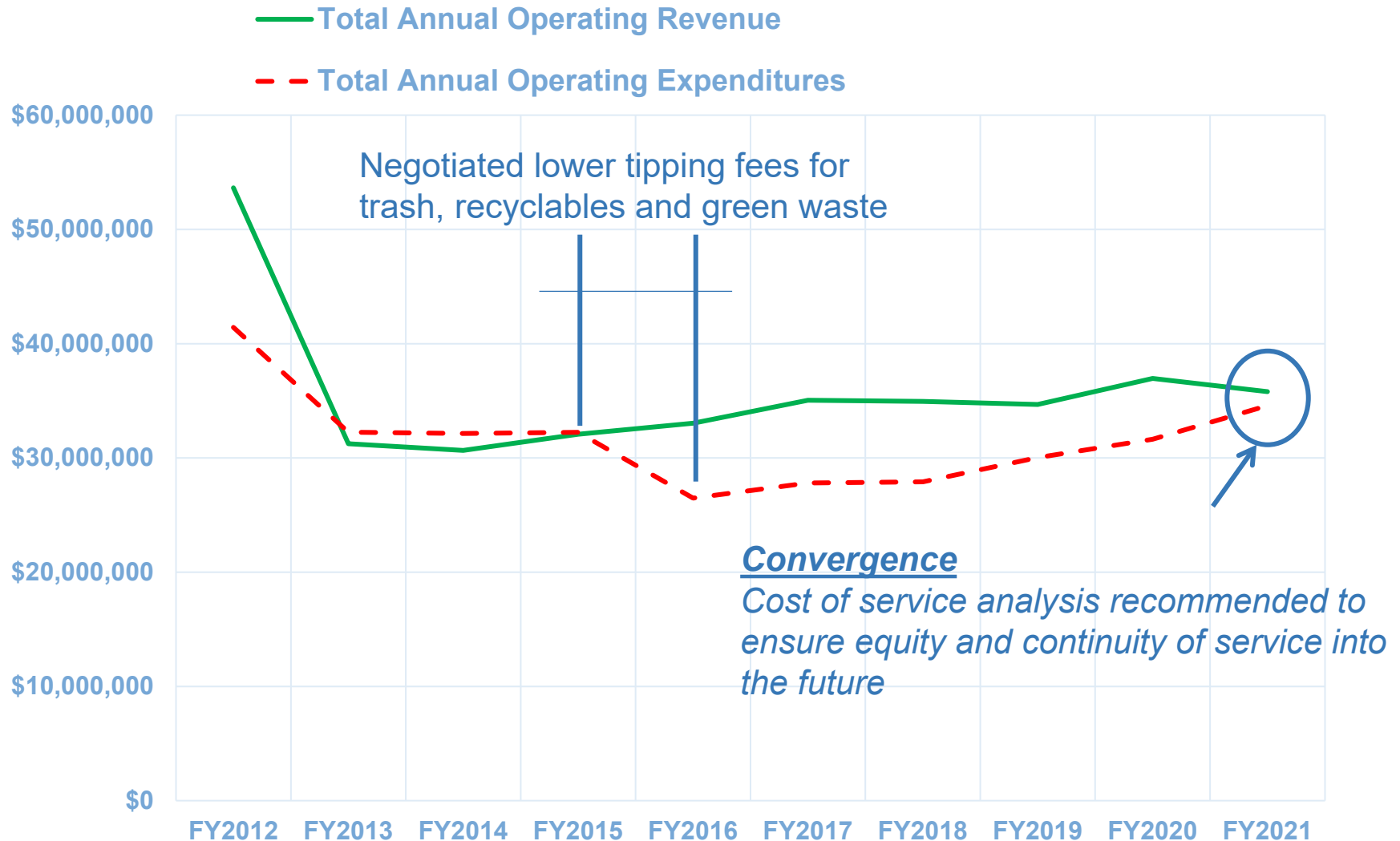
Cost of Service Considerations

Solid Waste Cost of Service

1. Labor and Fuel
2. Vehicle and Equipment Maintenance and Purchases
3. **Transfer Station Operations**
4. **Disposal Fees**
 - a. Landfill (trash) disposal fees
 - b. Recyclable material disposal fees
 - c. Green waste material disposal fees
5. **Changes in Law**
 - a. SB 1383 (organics, food waste)
6. Litter Control Programs (Beautify Fresno, Operation Cleanup)
7. Landfill Post-Closure Care and Maintenance



Solid Waste Revenues and Expenditures



Solid Waste Fund Balance Utilization

Capital and Operating Reserves

1. Funds held in reserve to fund emergency-response measures to maintain continuity of operations during service disrupting events.
 - a. Emergency Drought Declarations
 - b. Treatment Plant Upset Conditions
 - c. Major Waterline and Sewer Line Breaks
 - d. Transfer Station or Landfill Upset Conditions
2. **Solid Waste is currently utilizing reserve funds to support general operations.**
3. At current levels of service, the Solid Waste's reserve fund balance will be **depleted in 36 months.**

Path Forward Considerations

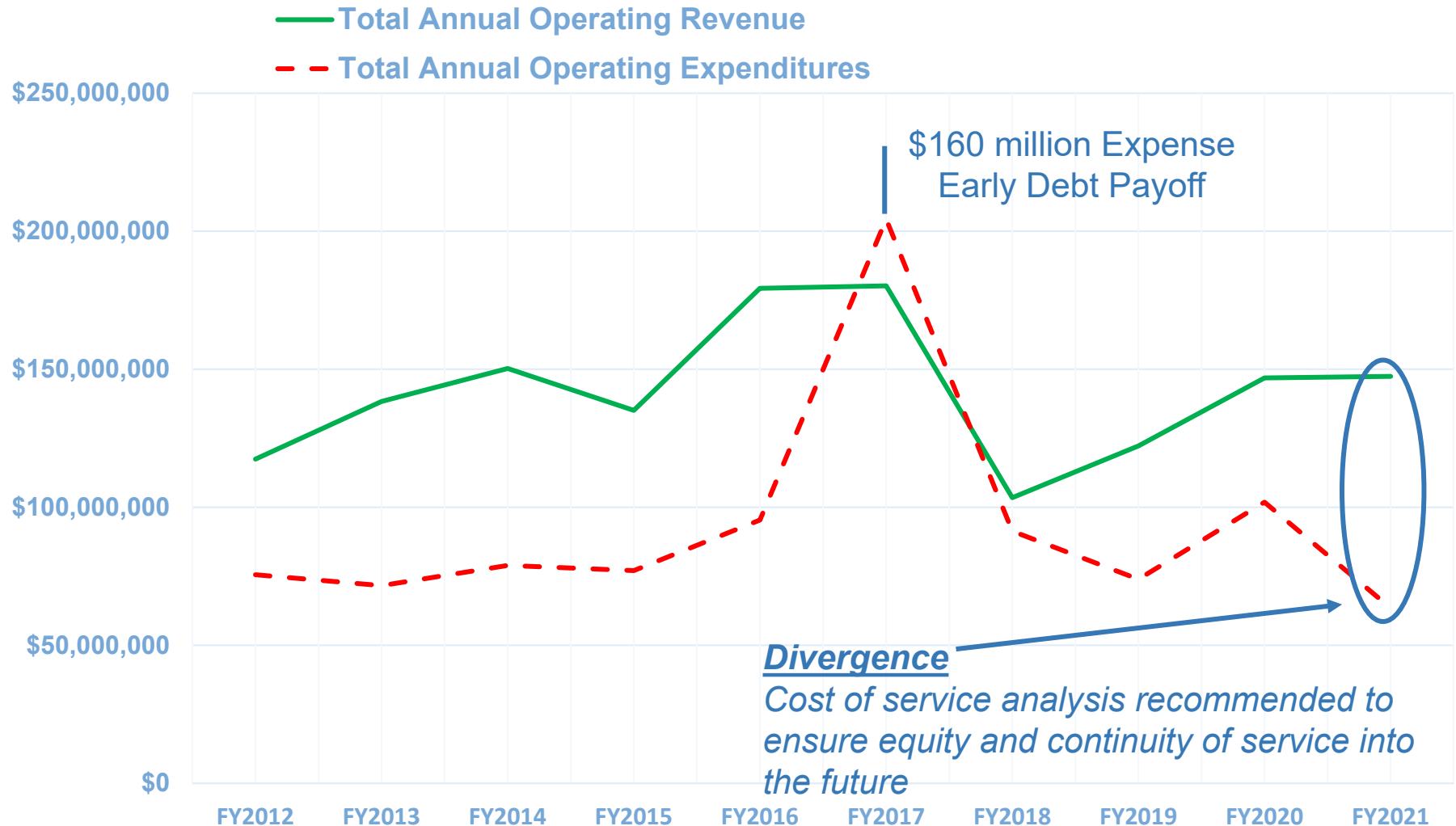
- 1. Normal Escalation in Labor, Energy, and Fuel Costs**
(~1.5 to 3.5% per year)
- 2. Service Area Expansion**
- 3. Volatility of Market Conditions**
 - a. Recyclable Materials Market
 - b. Vehicle Maintenance and Equipment Purchases
- 4. Changes in Law**
 - a. Senate Bill 1383 – Organic Material (*food waste*) Disposal
 - b. Impacts Commercial and Residential Waste Disposal Practices
- 5. DPU O&M Facilities Loan**
 - a. 5-year loan to recover the Solid Waste's proportionate share of the acquisition and renovation costs for the DPU O&M Facility

Wastewater Cost of Service

1. Labor, Energy, Fuel, and Chemicals
2. Vehicle and Equipment Maintenance and Purchases
3. **System Maintenance and Repair**
 - a. Very Abrasive and Corrosive Environment
 - b. Wastewater Treatment Plants, Sewer Lift Stations, Sewer Collection System
4. **Changes in Law**
 - a. Salt and nitrate discharge limitations for wastewater treatment plant
5. **Capital Projects**
 - a. Digester Gas Recovery
 - b. Nitrogen Reduction for Wastewater Discharge
 - c. Aging Asset Repair and Replacement



Wastewater Revenues and Expenditures

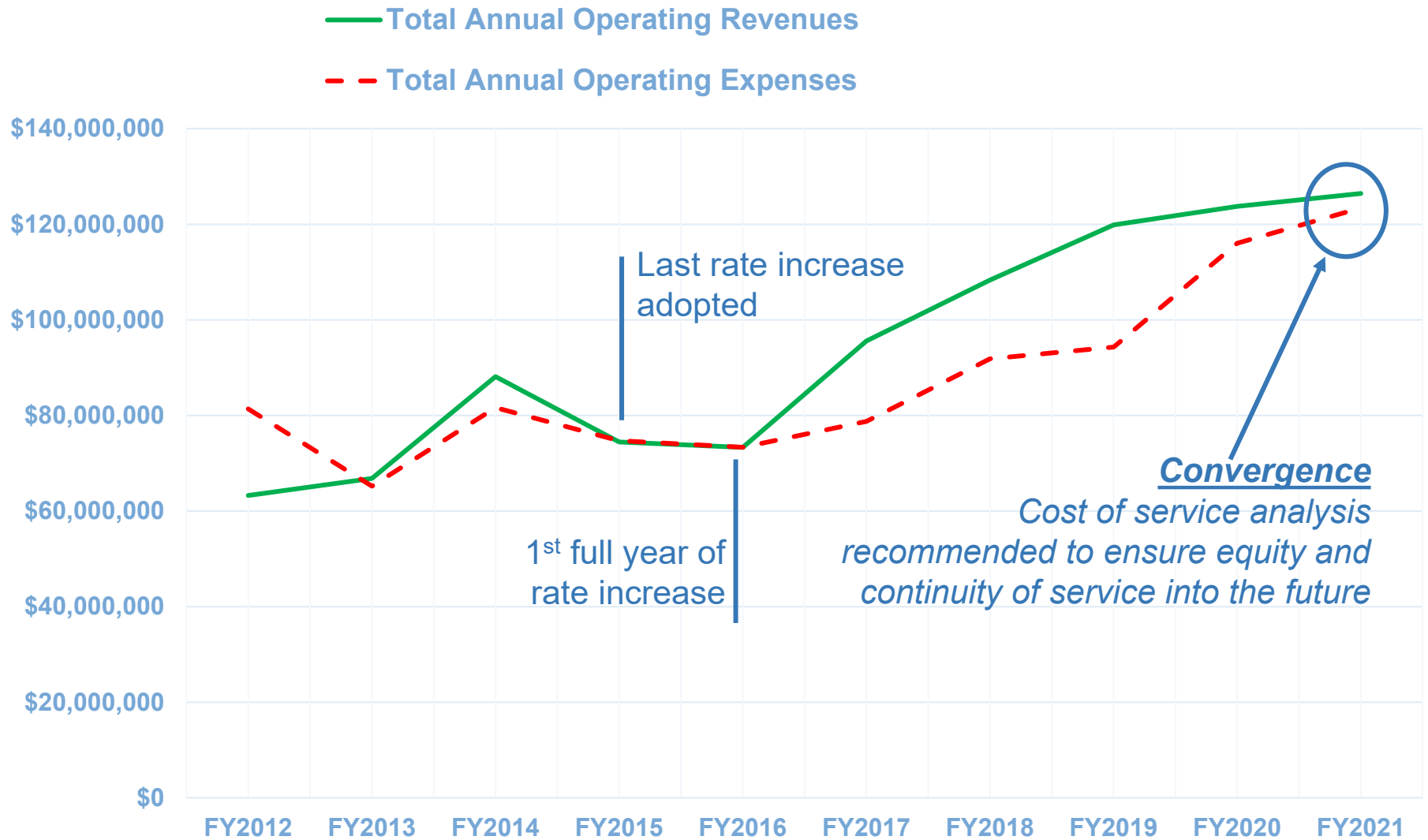


Water Cost of Service

1. Labor, Energy, Fuel, and Chemical Costs
2. Vehicle and Equipment Maintenance and Purchases
3. **Water Supply Purchase Costs**
4. System Maintenance and Repair
 - a. Surface Water Treatment Plants
 - b. Water Supply Wells
 - c. Water Distribution System
5. **Changes in Law**
 - a. Primary Drinking Water Standards
 - b. Drought Resiliency Requirements
 - c. Sustainable Groundwater Management Act
6. **Pending Litigation**
7. Aging Asset Repair and Replacements



Water Revenues and Expenditures

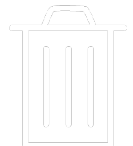


The Rate Planning Process



Proposed Rate Planning Process

1. Council authorizes consultant agreements to conduct Cost-of-Service Analyses (Jan 27, 2022)
2. Administration conducts cost of service analyses and community outreach and engagement (Apr 2022 to Nov 2022).
3. Council Authorizes Proposition 218 Process (Dec 2022)
4. Administration Administers Proposition 218 Process (Dec 2022 to Jan 2023)
5. Council Conducts Public Hearing and Clerk Tabulates Ballots (Feb 2023)
6. Council Adopts Rates (March 2023)
7. New Rates Effective July 1, 2023





QUESTIONS