



Legislation Details (With Text)

File #: ID18-1157 **Version:** 1 **Name:**
Type: Action Item **Status:** Failed
File created: 9/25/2018 **In control:** City Council
On agenda: 10/11/2018 **Final action:**

Title: Actions related to initiating the Proposition 218 process for proposed changes to the schedule of rates for water, wastewater and solid waste services:
1. Direct City staff to initiate the Proposition 218 process for proposed changes to rates for water, wastewater and solid waste services, and
2. Set public hearings regarding proposed changes to rates for water, wastewater, and solid waste services to December 6, 2018, at 5:00 p.m.

Sponsors: Department of Public Utilities

Indexes:

Code sections:

Attachments: 1. Attachment 1 - FINAL Prop 218 Notice - Page View.pdf, 2. Attachment 2 - Single-Family Residential Utility Rates Comparison (FY2019 - FY2024).pdf, 3. Attachment 3 - Water 5 Year Rate Study - FINAL.pdf, 4. Attachment 4 - Wastewater 5 Year Rate Study - FINAL.pdf, 5. Attachment 5 - Solid Waste 5 Year Rate Report - FINAL v2.pdf, 6. Supplement - PowerPoint Presentation.pdf

Date	Ver.	Action By	Action	Result
10/11/2018	1	City Council	approved	Fail

REPORT TO THE CITY COUNCIL

October 11, 2018

FROM: MICHAEL CARBAJAL, Director
Department of Public Utilities

SUBJECT

Actions related to initiating the Proposition 218 process for proposed changes to the schedule of rates for water, wastewater and solid waste services:

1. Direct City staff to initiate the Proposition 218 process for proposed changes to rates for water, wastewater and solid waste services, and
2. Set public hearings regarding proposed changes to rates for water, wastewater, and solid waste services to December 6, 2018, at 5:00 p.m.

RECOMMENDATION

The Department of Public Utilities (DPU) recommends the City Council direct DPU staff to initiate the Proposition 218 hearing process for proposed changes to the schedule of rates for public water, wastewater and solid waste services, and set public hearings for all proposed rate changes to December 6, 2018, at 5:00 p.m. at City Hall.

EXECUTIVE SUMMARY

DPU has developed a five year schedule of rates for water, wastewater, and solid waste services to cover the five-year forecast of capital costs, operations and maintenance costs, debt service obligations, and provide for adequate fund reserves during the period covering Fiscal Year 2020 through Fiscal Year 2024. The Administration has reviewed the rate plans and proposed schedules of rates as presented in the Notice of Proposed Changes to Schedule of Rates for Public Water, Wastewater, and Solid Waste Services (Attachment 1) and recommends implementation of the proposed rates to support the ongoing delivery of essential services provided by DPU.

In order to implement the new rates, the City must initiate a Proposition 218 (Article XIII-D of the California Constitution, 'Prop 218') process consisting of a 45-day public notice period followed by a public hearing. The first item before Council today directs staff to begin the first step of the Prop 218 process by mailing notices related to the proposed water, wastewater, and solid waste rate changes to affected property owners and tenants. Not less than 45 days after the Notices are mailed, staff anticipates returning to Council on December 6, 2018, to conduct the public hearings related to the proposed rates, followed by reporting the final tabulation of protests received, and, if a majority protest is not achieved, Council consideration of the proposed rates.

BACKGROUND

DPU is charged with providing safe and reliable potable water, wastewater, and solid waste services to ensure the health and safety of the community. In doing so, it is vital to the financial stability of these public utilities that the department routinely assess, evaluate, and project revenues and expenditures. These reviews ensure utility rates adequately and efficiently fund the ongoing delivery of the essential services provided by DPU and accurately and proportionally reflect the City's costs of service.

DPU has analyzed the adequacy of revenues to meet projected expenditures of the Water Division, Wastewater Management Division, and Solid Waste Management Division enterprise funds to determine whether revenues will be adequate to cover operating and maintenance costs as well as needed capital costs while supporting debt service obligations and reserve requirements. Rates have been developed for the five-year period Fiscal Year (FY) 2020 through FY2024 (2020 Rate Plan).

In developing a five-year schedule of rates, the City must comply with Article XIID of the California Constitution by establishing rates that recover the actual costs associated with the level, quality, and quantity of service delivered to individual users of the system. Accordingly, the City's proposed five-year schedule of rates is based on common and well-established cost-of-service principals that promote equity among system users, whereby users of the system pay rates that are directly proportional to the level, quality, and quantity of service they receive.

Proposed Water Rates

The Water Division retained a rate consultant, Municipal Financial Services, to design a five-year schedule of rates to cover the Water Division's five-year forecast of capital costs, operations and maintenance costs, debt service obligations, and provide for adequate fund reserves (Water 2020 Rate Plan).

The previous five-year water rate plan covering FY2015 - FY2019 (2015 Rate Plan) was adopted in February 2015. The first set of rate changes in the 2015 Rate Plan became effective on March 30, 2015. The final set of rate increases became effective July 1, 2018 (for FY2019). Prior to development of the 2015 Rate Plan, the City entered into a "Settlement Agreement and General Release of Claims" (2014 Settlement Agreement) to settle a dispute related to water rates implemented during 2013.

Section II, 1, D. of the 2014 Settlement Agreement contains requirements for the timeframe and duration of future water rate plans and increases. DPU has interpreted the 2014 Settlement Agreement to prohibit the City from increasing water rates again until March 30, 2020. To comply with the 2014 Settlement Agreement, water rates will not increase in the first year of the Water 2020 Rate Plan.

The proposed schedule of water rates developed by the Water Division for the Prop 218 process is presented in Attachment 1.

The Water Division's proposed Water 2020 Rate Plan is based on addressing the following updated revenue requirements:

1. Adequately fund operations and maintenance activities to meet current customer needs and to comply with state and federal regulatory requirements. Projected operation and maintenance cost increases include power to operate facilities, chemicals for water treatment, parts and services, and personnel costs.
2. Replace and rehabilitate aging infrastructure.
3. Continue to fund debt service costs and continue to meet debt service obligations.
4. Ensure adequate fund reserves for emergencies, drought conditions and economic downturns.

The proposed changes to the water rates are necessary to fund these increased costs of service. No changes are proposed to the water rate structure. It will remain a uniform quantity charge with a fixed monthly meter service charge.

State Legislation Affecting the City's Water System

On May 31, 2018, Governor Brown signed two bills into law (SB 606 and AB 1668) which support making "Water Conservation a California Way of Life" as outlined in the California Water Action Plan. In addition, the State Water Resources Control Board is in the process of strengthening their Conservation and the Prevention of Waste and Unreasonable use laws by adopting the prohibited water uses during the drought into the California Code of Regulations, Title 23. With the enactment of these new water conservation regulations, water use projections for FY2020 through FY2024 are based on projections that include the impact of new conservation regulations.

1,2,3-Trichloropropane

In 1992, 1,2,3-Trichloropropane (TCP) was added to the list of chemicals known to the State of California to cause cancer. The State Water Resources Control Board on July 18, 2017, adopted a

regulation establishing a maximum contaminant level (MCL) for TCP of 5 parts per trillion (ppt). The regulation required that public water systems statewide begin quarterly sampling for TCP in their drinking water sources in January 2018.

Based on water quality sampling conducted since January 2018, 13 wells have already been removed from service due to exceedance of the MCL, and the presence of TCP has been identified in another 47 of the City's active and standby groundwater wells. Based on current results to date, we expect to lose another 4 wells before the end of the year based on the results trend so far. Up to an additional 12 wells may be lost as sampling continues into 2019. Six wells (of the 47) have exceeded the TCP MCL but have remained in service as they have an existing wellhead treatment system capable of mitigating TCP or blending with surface water as is the case with well 185 and the NESWTF. The total production of the 47 wells contaminated with TCP is approximately 83.7 million gallons per day (MGD). The current lost production from the 13 wells removed from service is 19.3 MGD.

In 2016, the Water Division retained Provost and Pritchard Consulting Group to conduct a TCP Mitigation and Feasibility Study (TCP Study). The TCP Study, completed in May 2018, evaluated alternatives to mitigate the impact of the TCP contamination on the water system and to determine the cost to implement the most feasible mitigation alternative at 52 of the contaminated well sites as part of the first phase of mitigation. The remaining wells will be evaluated as part of a separate study.

The TCP Study determined that the most feasible means of mitigating TCP in groundwater wells is by installing granulated activated carbon (GAC) vessels at each well site to reduce the concentration of TCP below the MCL. The current estimated cost of the first phase of mitigation to install new GAC vessels at 52 well sites contaminated with TCP is \$100 million for the initial installation. The City will incur additional long-term costs for GAC removal, replacement and disposal as the GAC becomes spent from TCP removal and new GAC must be installed. The estimated 40-year present value capital and operational and maintenance cost to provide GAC treatment for TCP mitigation is \$232 million.

To address a portion of the financial burden associated with installing wellhead treatment for TCP, the City has pursued legal action as it has done in the past with other contamination issues. However, until the necessary legal action can be brought to closure, the City will have to fund TCP mitigation by cash financing the capital improvements from the Water Enterprise Fund.

Water Capital Plan

The Water Division's 2015 Rate Plan funded a capital investment plan that included the construction of the Southeast Surface Water Treatment Facility and associated large diameter pipelines through state low-interest loans. The Water 2020 Rate Plan does not anticipate additional debt financing (revenue bonds, state loans, etc.). Instead, cash financing of capital improvements (Pay-As-You-Go) from the Water Enterprise Fund is proposed for the ongoing capital budget to provide necessary replacements, rehabilitation and improvements to water facilities (wells, pumps, water mains, fire hydrants, recharge basins, system control and data acquisition (SCADA) system improvements, etc.), account for inventory, and comply with mandates.

Between FY2020 and FY2024 (five fiscal years), total projected CIP expenditures of approximately \$145.5 million are planned to be cash funded through rates. These planned expenditures, by project category, are summarized below:

1. Water main renewals = \$62.8 million (43 percent)
2. Water wells and pumps = \$41.1 million (28 percent)
3. Supervisory Control and Data Acquisition (SCADA), recharge basins, all other facility improvements = \$16.4 million (11 percent)
4. DPU Administration & Maintenance Facility = \$25.2 million (18 percent)

Proposed Wastewater Rates

The Wastewater Management Division retained a rate consultant, Municipal Financial Services, to design a five-year schedule of rates to meet projected expenditures for operating and maintenance costs of the collection system and treatment facilities, meet projected capital costs, support debt service obligations and provide for adequate fund reserves. Rates developed for the five-year period cover FY2020 through FY2024 (Wastewater 2020 Rate Plan). The previous rate study was completed in 2006 and resulted in rate increases that were implemented between 2007 and 2010. No other rate changes have been implemented since September 1, 2010.

The proposed schedule of wastewater rates developed by the Wastewater Management Division for the Prop 218 process is presented in the Attachment 1.

The proposed rate changes for FY2020 do not increase the total revenue generated, but instead adjusts cost allocation amongst customer classes based on their current use of the wastewater system. This will ensure that each customer class pays an equitable, proportionate share.

The impact of the FY2020 cost allocation adjustment on residential bills varies depending on the customer class. The impact on Single Family, Multiple Family 1st Units, and Multiple Family Each Additional Unit accounts is a decrease in the monthly rate, while Senior Citizen accounts will receive a six percent increase in the monthly rate with the recommended elimination of the Senior Citizen customer category. The Senior Citizen category was eliminated in order to ensure that the rates for each customer class recover the actual costs associated with the level, quality, and quantity of service delivered to users of the system. To compensate for this change, eligible Senior Citizen customers will be able to participate in the expanded Utility Affordability Credit Program, should it be approved by City Council. The Utility Affordability Credit Program will be discussed in further detail below.

Similar to the residential customer classes, the impact of the FY2020 cost allocation adjustment on commercial and industrial rates varies depending on the waste discharge flow and concentration of Biochemical Oxygen Demand (BOD) and Total Suspended Solids (TSS).

The proposed changes for FY2021 through FY2024 are based on increasing costs of service. These increasing costs include:

1. Increased operational costs since the last rate increase in September 2010, including rising electricity costs to operate facilities, rising biosolids hauling costs, and increased labor costs.
2. Funding required for utility repair, replacement, and upgrade costs.

3. Funding required to comply with state and federal regulatory requirements.

Wastewater Capital Plan

The proposed capital investment plan totals \$178.9 million over a five-year period spanning FY2020 to FY2024 and includes the following projects:

1. Treatment facility rehabilitation and operations = \$42.5 million (24 percent)
2. Collection system/lift station rehabilitation and maintenance = \$32.3 million (18 percent)
3. Collection system capacity expansion/extension = \$30.7 million (17 percent)
4. Discharge permit/regulatory requirements = \$30.6 million (17 percent)
5. Treatment capacity expansion = \$21.7 million (12 percent)
6. Recycled water treatment and distribution = \$16.9 million (10 percent)
7. DPU Administration and Maintenance Facility = \$4.2 million (2 percent)

The proposed rate changes are necessary to fund increased costs of service and the capital investment plan.

Proposed Solid Waste Rates

The Solid Waste Management Division retained a rate consultant, HF&H Consultants, LLC., to design a schedule of rates for residential collection service to maintain service levels while meeting projected expenditures on operating and capital expenses, supporting debt service obligations and maintaining necessary operating reserve requirements. Rates developed for the five-year period cover FY2020 through FY2024 (Solid Waste 2020 Rate Plan). The previous rate study was completed in 2006 and resulted in rate increases that were implemented between 2007 and 2009. No other rate changes have been implemented since September 1, 2009.

The proposed schedule of solid waste rates developed by the Solid Waste Management Division for the Prop 218 process is presented in Attachment 1.

The proposed rate changes reflect the cost of providing service to each customer based on 96-gallon container service and/or 64-gallon container service. The rate adjustments are needed to cover operational cost increases that have occurred since FY2010 for solid waste services. The contributing factors include rising costs in maintaining and replacing collection vehicles, fuel, tipping fees, labor, collection containers, and landfill operating and capital post closure costs.

The current residential solid waste rate structure includes a category for Senior Citizens whose rates are approximately 14 percent lower than those for single family residential customers. The proposed rate structure eliminates the Senior Citizen category in order to ensure that the rates for each customer class reflect the actual costs associated with the level, quality, and quantity of service delivered to users of the system. Approval of the Solid Waste 2020 Rate Plan will eliminate the

senior citizen rate category and instead provide eligible customers with access to the Utility Affordability Credit Program should it be approved by City Council. The Utility Affordability Credit Program will be discussed in further detail below.

Solid Waste Capital Plan

The proposed capital plan for FY2020 through FY2024 totals \$48.3 million and includes the following projects:

1. Collection Vehicles = \$28.4 million (59 percent)
2. DPU Administration and Maintenance Facility = \$15.9 million (33 percent)
3. Collection Containers = \$3.0 million (6 percent)
4. Landfill Closure = \$1.0 million (2 percent)

The proposed rate changes are necessary to fund increased costs of service and the capital plan.

Comparison of Current Rates to Proposed Rates

The table in Attachment 2 presents the distribution of costs for a monthly single family residential utility bill including water, wastewater, and solid waste service for each of the five years of the proposed 2020 Rate Plans. The costs are based upon a ratepayer having an annual average water consumption rate of 16 hundred cubic feet (HCF) per month (11,968 gallons per month), monthly wastewater service, and 96 gallon waste, recycling, and green waste services. The current single family residential total monthly bill is \$96.86. With full implementation of the proposed 2020 Rate Plans, the single family residential total monthly bill will increase by a total of \$21.49 over the five year period.

Utility Affordability Credit Program

The current rate structure for water service may be partially offset by the existing Water Affordability Credit Program (Water ACP), which provides financial assistance to eligible account holders based on demonstrated financial need. The current water credit is \$5 per month with a maximum of \$60 in a 12 month period. In FY2018, 2,866 customer account holders participated in the Water ACP. The Water ACP is funded for a maximum of \$1 million per year through revenues derived from fines since, in accordance with Prop 218, it may not be funded by rate revenues. If the entire \$1 million fund were utilized, no further funds would be available until the following year. Account holders are required to reapply each year to participate in the Water ACP.

The current rate structure for wastewater/sewer and solid waste services provides Senior Citizen customers a monthly charge that is 10 percent and 14 percent lower, respectively, than for Single Family Residential customers. It is recommended that the Senior Citizen customer category be eliminated for both wastewater/sewer and solid waste services to ensure that each customer class is charged according to their actual costs of service in accordance with Article XIID of the California Constitution, and eligible Senior Citizens be provided the opportunity to participate in an expanded Utility Affordability Credit Program applicable to wastewater/sewer and solid waste services, similar to what is currently offered to water customers through the Water ACP.

If approved by Council, the updated financial assistance program for qualified low-income utility account holders would be referred to as the Utility Affordable Credit Program (Utility ACP). The Utility ACP would provide financial assistance to account holders of any age based on demonstrated need. The proposed value of the Utility ACP for a qualified account holder is up to \$10.60 per month or up to \$127.20 for a 12-month period. If an account holder does not have an active account with water, wastewater/sewer, and/or solid waste services, the amount of the monthly credit would apply only to the services the account holder uses.

The Utility ACP would be funded with the annual appropriation of \$1 million of non-rate revenues. This funding would provide financial assistance for up to approximately 7,860 income-qualified account holders per year.

To qualify for the Utility ACP, an account holder would submit to UB&C documentation that they qualify for PG&E's California Alternate Rates for Energy (CARE) Program or one of Fresno County's human services programs, such as the Supplemental Nutrition Assistance Program (SNAP), the Women, Infants, and Children (WIC) Program, the National School Lunch Program (NSLP), or the Medi-Cal Program. Account holders would apply for the Utility ACP on an annual basis and affordability credits issued on a first-come, first-served basis to qualified applicants.

A resolution establishing the expanded Utility ACP including Solid Waste and Wastewater services will be brought before Council for approval at the same time the 2020 Rate Plans, anticipated to be considered in December 2018 following the Prop 218 notice and protest period.

DPU Facility

DPU Solid Waste Management Division and Water Division together employ 380 employees and operate 350 pieces of equipment to collect municipal solid waste and operate and maintain the water system for Fresno residents. As the city has grown, the need to provide services to a larger population has also grown.

The Solid Waste Management Division has been operating in its current facility at the Municipal Services Center (MSC) for over 35 years. In 1980 the population for the City of Fresno was 217,491 with appropriate equipment levels and fleet facilities to house and repair the fleet of service vehicles, as well as staff. As the city has grown and the need to expand services over a larger footprint as well as population has increased, the need for adequate fleet maintenance, vehicle storage, and office space has become evident. An increase of all equipment (from public safety, streets, and utilities) used to serve a population of 527,000+ people have made the need for additional facilities critical. DPU is looking to the future of Fresno, which would include a larger fleet and more support staff. The addition of a site which could house this equipment, service the fleet, and provide support staff offices, while freeing up valuable space in the current MSC for continued growth of other service providers is part of the long term planning for the utility.

The Water Division has been operating from its location at 1910 East University Avenue since 1957, and the property has exceeded its useful service life. The facility has inadequate office space for staff and exceeded recommended fleet vehicle/equipment parking guidelines, is lacking adequate onsite employee parking, does not comply with current American Disability Act accessibility requirements, and is landlocked by development which limits expansion opportunities to meet current and future needs. The facility is also adjacent to Fresno City College, which has expressed interest in acquiring

the property from the City to support its own expansion needs.

In March 2018, the City Council authorized the Departments of Transportation and Public Utilities to engage HDR Engineering, Inc., to perform an analysis and develop a comprehensive plan to relocate the Solid Waste Management Division, Water Division, and related fleet management operations to the Southeast Surface Water Treatment Facility located at 6395 East Floradora Avenue in Fresno. The analysis also includes reutilization of space for the remaining MSC tenants (Public Works, PARCS, Transportation, and Facilities Management). The analysis and development of relocations plans is currently ongoing and expected to be complete by the end of the year.

The 2020 Rate Plans for the Water Division, Wastewater Management Division, and Solid Waste Management Division enterprise funds each include a conservative level of funding totaling \$54 million for the development of a combined Administration and Maintenance Facility (DPU Facility). DPU is proposing to design and construct a DPU Facility, located on approximately 20 acres adjacent to the Southeast Surface Water Treatment Facility, for the shared use and colocation by the Water Division and Solid Waste Management Division. The site would contain administrative, operations, warehouse, storage and staff facilities; and would include vehicle and equipment parking areas for the water and solid waste fleet. A vehicle fleet maintenance facility would also be constructed to support Water, Solid Waste Management, and Wastewater Management Divisions.

The key project objectives are to:

1. Provide a modern, centralized Administration Building and Maintenance Facility that will be able to accommodate anticipated future increases in needs and future growth.
2. Alleviate overcrowding within the existing Water Yard (1910 E. University Avenue) and the Municipal Service Center (2101 G Street) for Water Division and Solid Waste Management Division equipment.
3. Co-locate the Maintenance Facility with the Administration Building to improve operational efficiency and effectiveness.

Proposition 218 Schedule

Prop 218 sets forth procedural requirements the City must follow before adopting new water, wastewater, or solid waste rates. One of those requirements is that the City must provide a special form of mailed notice to parcels regarding the proposed rate increases at least 45 days before holding a public hearing on the matter. If a majority of parcels receiving water, wastewater, or solid waste services submit valid written protests before the close of the public hearing, Prop 218 prohibits the City from implementing the proposed rate increase. If a majority of parcels do not protest a proposed rate increases, the City Council may consider that rate increases.

To ensure that the 2020 Rate Plans are successfully implemented as proposed in FY 2020, DPU has developed the Prop 218 schedule provided below. It is essential to conduct the Prop 218 hearing process within this timeframe to allow for the programming of the billing system with the new rates, setup the Utility ACP program, budget for capital improvement projects and conduct outreach to the community ahead of the July 1, 2019 effective date of the new rates. Most importantly, it allows our customers time to be fully prepared for the new rate program prior to implementation.

The anticipated Prop 218 process schedule is as follows:

1. Council Directs Staff to Initiate Prop 218 process: **October 11, 2018**;
2. Prop 218 Notices mailed: no later than **October 22, 2018**;
3. City Council conducts Prop 218 public hearing: **December 6, 2018**;
4. If majority protest not received, City Council considers adoption of new five-year schedules for water, wastewater, and solid waste rates: **December 6, 2018**;
5. DPU Utilities Billing and Collection begins billing approved water, wastewater, and solid waste rates from 2020 Rate Plans: **July 1, 2019**;

DPU recommends the City Council authorize Department staff to initiate the Proposition 218 hearing process for proposed changes to the schedule of rates for water, wastewater, and solid waste services.

ENVIRONMENTAL FINDINGS

This is not a “project” for the purposes of CEQA pursuant to CEQA Guidelines § 15378.

LOCAL PREFERENCE

Local preference was not considered because the recommended action does not include a bid or award of a construction or services contract.

FISCAL IMPACT

As this is an enterprise operation, there is no impact to the General Fund. Other fiscal impacts are addressed within the rate studies (Attachments 3-5).

Attachments:

Proposed Public Notice for Changes to Schedule of Rates for Public Water, Wastewater, and Solid Waste Services (Attachment 1)

Single-Family Residential Utility Rates Comparison (FY2019 - FY2024) (Attachment 2)

Water Utility Financial Plan and Rates Study (Attachment 3)

Wastewater Utility Financial Plan and Rates Study (Attachment 4)

Solid Waste Division Five-Year Rate Plan (Attachment 5)