

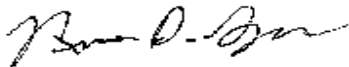
City of Calistoga

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Staff Report

TO: Honorable Mayor and City Council
FROM: Richard Spitler, City Manager
DATE: August 20, 2013
SUBJECT: Direction to complete Water and Wastewater Rate Studies in order to initiate possible water and wastewater rate increases and to authorize notification of public hearing

APPROVAL FOR FORWARDING:



Richard D. Spitler, City Manager

1 **ISSUE:** Consideration of a Resolution directing staff to complete Water and
2 Wastewater Rate Studies in order to initiate possible water and wastewater rate
3 increases and to authorize notification of public hearing.

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5 **RECOMMENDATION:** Adopt Resolution.

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7 **BACKGROUND:**

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9 The City Council held televised workshops on January 22nd, February 6, 2013 and
10 August 13, 2013 on the status of the Water and Wastewater Enterprise Funds.
11 Consultant David Spilman gave a presentation on these enterprise funds with the
12 recommendation that additional revenues be found to bring these funds into balance.
13 This analysis was based upon the foundational work done by the Water and
14 Wastewater Revenue Advisory Committee in 2009 and 2010. The existing rate structure
15 and assumptions were determined by this group which was largely endorsed by the City
16 Council when it adopted new rates.

17
18 Staff prepared updated analyses with the benefit of this information on the water and
19 wastewater enterprise funds with consideration of the following:

20
21 1. Passage of Measure C including development impact fees and capital improvements
22 which would benefit these enterprise funds.

23
24 2. A financial update related to the FY 13-14 budget
25

26 3. The impact of Napa wholesale Water Rate increases

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28 4. The impact of new private development projects and timing relative to payment of
29 impact fees and becoming new water/wastewater consumers

30

31 5. A revised list of capital improvement projects

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33 The objective is to have these enterprise funds adequately funded to be self-sufficient
34 without general fund subsidy and to have a 20% reserve. As will be indicated, to meet
35 this objective a modest increase in the water and wastewater rates will be required,
36 depending on the option selected.

37

38 **DISCUSSION:**

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40 The analysis by Mr. Spilman shows that under present assumptions over the next four
41 years the Water Enterprises Fund will have a deficit of \$1.645 million and the
42 Wastewater Enterprise Fund will have a deficit of \$1.272 million. If these combined
43 funds are not able to pay their way, the General Fund will have to subsidize them by
44 \$2.918 million. This figure does not address the need to have a 20% reserve fund for
45 each enterprise fund. This is an additional \$922,000 that should be in the combined
46 funds.

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48 Another way to look at the situation is that without new development connection fee
49 payments it would require a 10% water rate increase and a 9.2% wastewater rate
50 increase for each of the next four years to achieve fund objectives.

51

52 At the August 13th workshop David Spilman presented PowerPoint slides at the
53 workshop which included the following options:

54

55 Option 1- Use partial development connection fees for debt payment and added new
56 debt. This would require an 8.5% water rate increase and no additional wastewater rate
57 increase for the next three years to achieve fund objectives (this is on top of a 2%
58 inflationary adjustment).

59

60 Option 2- Use full development connection fees for debt payment. This would require a
61 6% water rate increase and no additional wastewater rate increase for the next three
62 years to achieve fund objectives (this is on top of a 2% inflationary adjustment).

63

64 After review by the City Council it was determined that \$851,275 of the \$1.168 deficit in
65 the Water Enterprise Fund will be caused by increased charges by the city of Napa for
66 NBA water treatment and wheeling (or pumping) up to Calistoga. The Council
67 expressed the view that this unforeseen expense should be covered by the water rate fees
68 charged to users. However, the difference of \$317,600 over a four year time period (or
69 \$79,400 per year) should be covered by a General Fund subsidy on an annual basis. If

70 this was done the potential water rate increase would be lowered from 6% to a 4 to
71 4.5%, plus a 2% inflationary adjustment. There would be no increase in wastewater
72 fees, except for a 2% inflationary adjustment.

73

74 By way of example, for a typical single family home the proposed water and wastewater
75 rate increase would be initially an additional \$13.86 every two months (in January 2014)
76 and by Fiscal Year 2016-17 it would be 37.95 every two months.

77

78 Staff recommends that the City Council give direction to staff to complete water and
79 wastewater rate studies to show the basis for a 4 to 4.5% water rate increase above the
80 inflationary adjustment over a four year time period beginning January 1, 2014 and to
81 authorize the City Clerk to publish a public hearing notice for a September 3, 2013 to
82 receive public comment on the draft water and wastewater rate study reports and
83 proposed water and wastewater rate increases. This authorization would also include a
84 formal 45 day notification of proposed rate increases to ratepayers and property
85 owners.

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87 Attached is a schedule of events that would need to take place to meet Proposition 218
88 notification requirements. This would include a formal public hearing on October 25th to
89 hear any protests to the proposed rate increases. The schedule has the City Council
90 introduction the ordinance on November 5th with second reading on December 3rd. The
91 ordinance would take effect January 2, 2014.

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93

94 **Attachments:**

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96 1-Draft resolution

97 2-Water and Wastewater Fund Projection from FY 13-14 to 16-17

98 3-Schedule for adoption of rate increases