

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: Dylan Feik, City Manager and
Abigail Seaman, Financial Analyst, Bartle Wells Associates
DATE: November 7, 2017
SUBJECT: Presentation of Report Regarding 2017 Water and Wastewater Utility
Rate Study

APPROVAL FOR FORWARDING:



Dylan Feik, City Manager

1 **ISSUE:** To receive a presentation from Bartle Wells Associates on the 2017 Water and
2 Wastewater Utility Rate Study, hear a recommendation from staff and the Council's Water
3 & Wastewater Rate Advisory Committee regarding the water and wastewater utilities'
4 proposed future rate structure options.

5
6 **RECOMMENDATION:** To receive the report, discuss, and provide direction to staff
7 including mailing resident notices regarding proposed water and wastewater utility rates.
8

9 **BACKGROUND:** Bartle Wells Associates (BWA) has been retained by the City of
10 Calistoga to conduct a water and wastewater rate study to evaluate the financial health
11 of each enterprise and determine the cost of service for each water and wastewater
12 customer. BWA will present options for Council consideration including recommended
13 rate increases mainly driven by the City's Capital Improvement Plan, debt service
14 obligations, and mandated improvements driven by a 2016 Cease and Desist Order. In
15 addition, the City has long experienced problems related to aging infrastructure and lack
16 of adequate funds for capital improvements The proposed 5-year financial plan for each
17 enterprise ensures smooth and equitable rate increases and the fulfillment of all
18 financial targets, including a stable fund balance and adequate debt service coverage of
19 at least 1.25x.
20

21 Both water and wastewater enterprise funds remain in desperate need of review for
22 several reasons. They are as follows:

- 23
- 24 • Current rates have not provided adequate funding for projects associated with
25 the 2016 Cease and Desist Order, routine capital improvement projects or annual
26 debt service obligations.
- 27 • Costs of operations increase faster than rate revenue
- 28 • Reserves fail to comply with existing debt reserve obligations, eliminating the
29 City's ability to apply for beneficial grant and loan programs for much-needed
30 projects.
- 31 • Debt coverage ratios required by our bond covenants must be achieved.

32 As part of the review In order to facilitate an update of rates for the water and
33 wastewater utilities, on November 15, 2016 the City Council appointed two members to
34 the City Council ad hoc water and wastewater utility rate subcommittee. The
35 subcommittee, City staff and BWA were tasked with analyzing operations, revenues,
36 costs and rate structures associated with the two (2) utilities and bringing back a
37 recommendation to Council for updated rates. The subcommittee discussed several
38 goals and objectives to influence the outcome of the overall process, including:

- 39
- 40 • Cover the cost of running the utilities
- 41 • Provide funding for critical capital project construction
- 42 • Achieve a minimum debt coverage ratio (required by bondholders) of 1.2 times
43 the annual debt service
- 44 • Provide adequate reserves for contingencies
- 45 • Spread annual rate increases over a five year period
- 46 • Have updated rates in place as soon as possible
- 47 • Simplify rates and their administration wherever possible
- 48 • Mitigate the impact on low income residents whenever possible AND offer
49 increased programs for low income ratepayers
- 50 • Consider public input from residents and businesses during the rate study
51 process

52 **Attachments:**

- 53 1. Calistoga Water Final Draft Tables 11-2-2017
54 2. Calistoga Wastewater Final Draft Tables 11-2-2017
55