

# City of Calistoga

## Staff Report

**TO:** Honorable Mayor and City Council

**FROM:** Dylan Feik, City Manager  
Abigail Seaman, Financial Analyst, Bartle Wells Associates

**DATE:** February 6, 2018

**SUBJECT:** Discussion Regarding 2017 Water and Wastewater Utility Rate Study and Consideration of Options

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2 **ISSUE:** Receive a brief presentation of options for Council consideration regarding the  
3 2017 Water and Wastewater Utility Rate Study and direct staff accordingly.

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5 **RECOMMENDATION:** To receive the information, discuss, and provide direction to  
6 staff regarding proposed water and wastewater utility rates.

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8 **BACKGROUND:** Since January 2<sup>nd</sup>, staff has been working with Bartle Wells  
9 Associates (BWA) to further consider “options” the Council could consider prior to  
10 adopting new water and wastewater rates. This staff report provides a list of options  
11 Council could consider.

### 12 **Efforts to Refinance Existing Debt**

13 Since the Council meeting on January 2<sup>nd</sup>, City staff has been working with its financial  
14 adviser, Urban Futures, and Bond Counsel to review existing water and wastewater  
15 debt obligations and determine if the City may be eligible to refinance existing debt.  
16 Previous attempts to refinance debt has been difficult but the City has undertaken many  
17 steps to do this. Several factors have changed since the last time staff attempted to  
18 refinance debt, including –

- 19 1. The City has conducted a full water and wastewater utility rate study and  
20 recommended rate increases which generate new, rate-based revenue
- 21 2. The City has held and closed a public hearing and is preparing to adopt the new  
22 rates
- 23 3. The City has collected significant, one-time connection fees from multiple  
24 construction projects
- 25 4. The municipal bond market is very competitive and there is a large demand right  
26 now following changes in federal tax law which impacts the private bond market.  
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29 The city manager, along with a financial adviser and bond counsel, are preparing  
30 documentation for Council consideration regarding refinancing four (4) outstanding debt

31 obligations. While the actual savings from refinancing won't be determined until the  
 32 bonds are bid on and purchased, the City is estimating approximately \$61,685 per year  
 33 in savings as shown below –

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**EXAMPLE FOR ILLUSTRATION PURPOSES ONLY**

<i>2005D CSCDA &amp; 2008 USDA</i>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>
Water - Current	468,797	468,797	464,457	470,442	462,781
2011 COPS	113,199	112,624	113,006	112,299	112,549
<i>Subtotal</i>	<i>581,996</i>	<i>581,421</i>	<i>577,463</i>	<i>582,741</i>	<i>575,330</i>
Water - Refi	431,514	431,514	431,691	433,141	429,366
2011 COPS	113,199	112,624	113,006	112,299	112,549
<i>Subtotal</i>	<i>544,713</i>	<i>544,138</i>	<i>544,697</i>	<i>545,440</i>	<i>541,915</i>
 <b><i>Water Refi Savings</i></b>	 <b><i>37,283</i></b>	 <b><i>37,283</i></b>	 <b><i>32,765</i></b>	 <b><i>37,301</i></b>	 <b><i>33,415</i></b>
 <i>2001B CSCDA &amp; 2005 USDA</i>	 <b>FY18</b>	 <b>FY19</b>	 <b>FY20</b>	 <b>FY21</b>	 <b>FY22</b>
Wastewater - Current	330,710	330,710	329,518	328,414	326,882
SRF Loan	363,590	363,591	363,591	363,591	363,590
<i>Subtotal</i>	<i>694,300</i>	<i>694,301</i>	<i>693,109</i>	<i>692,005</i>	<i>690,472</i>
Wastewater - Refi	303,670	303,670	305,006	304,531	298,981
SRF Loan	363,590	363,591	363,591	363,591	363,590
<i>Subtotal</i>	<i>667,260</i>	<i>667,261</i>	<i>668,597</i>	<i>668,122</i>	<i>662,571</i>
 <b><i>Wastewater Refi Savings</i></b>	 <b><i>27,040</i></b>	 <b><i>27,040</i></b>	 <b><i>24,512</i></b>	 <b><i>23,883</i></b>	 <b><i>27,900</i></b>
 Total Estimated Savings	 64,323	 64,323	 57,277	 61,184	 61,315

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37 As mentioned in previous meetings, the City has an outstanding State Revolving Fund  
 38 loan for wastewater improvements. At the end of FY23, the debt obligation will be  
 39 retired which “frees up” approximately \$363,591 in annual expenses.

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41 City staff will continue pursuing debt refinancing for future Council consideration. These  
 42 estimated savings are only estimates.

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**Monthly Billing for Residential Customers**

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 46 During the community forum, one resident asked if the City could do monthly billing for  
 47 residential customers in an effort to make household budgeting more consistent. Years  
 48 ago, the City did conduct monthly meter reading and billing and in an effort to reduce

49 costs, the City switched to bimonthly billing for residential customers (commercial  
50 customers remain on a monthly plan). The current cost to do bimonthly meter reading  
51 and billing is approximately \$99,838 per year. If the City continued to conduct bimonthly  
52 meter reading but mailed bills once a month, the annual cost would be approx.  
53 \$126,730, an increase of \$26,892 per year. The cost increase is tied to additional  
54 workload for staff, creating billing files/data, mailing notices to residents and processing  
55 payments, to name a few activities. Some residents currently wish to make monthly  
56 payments for water and wastewater utility bills. These residents deliver payment to the  
57 City during the “odd month” and when the City mails the bimonthly bill, the payment is  
58 shown as a credit to the bill. The resident would receive only the difference on his/her  
59 actual bill. The Council could consider the following –

- 60 1. Include monthly residential billing for an additional \$26,892 per year, or
- 61 2. Invite residents – who wish to be billed monthly - to make voluntary monthly  
62 payments to the City. There would be nominal added costs to process these  
63 extra payments.

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65 **Regarding fixed/variable revenue collection**

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67 Currently, the City utilizes a fixed/variable rate model whereby approx. 32% of water  
68 rates are fixed and 68% are variable, or wholly dependent on how much water is used  
69 by customers. The current rate proposal by BWA includes adjusting this model to 40%  
70 fixed, 60% variable to ensure more adequate revenue is generated to cover operating  
71 costs. During recent public discussions and a community forum, a few residents asked  
72 whether the City could leave the fixed/variable rate model at 32%/68%.

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74 If the existing model were to remain in effect, there would be a few impacts as follows:

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76 1. Any change in fixed/variable revenue collection in the rate study would result in  
77 the same total rate revenue assuming that consumption remains relatively  
78 constant.
- 79 2. During years of drought, or when customers reduce water consumption, total  
80 water revenues are more variable and would decrease overall revenues to the  
81 water fund, similar as in years past
- 82 3. Since the proposed fixed/variable rates were included in the Proposition 218  
83 notices sent in November 2017, the City would be required to mail new notices if  
84 changes in the proposed rates would be higher than what was published in  
85 November. If the City adjusts the water rates to lower the fixed rate, the variable  
86 rate will be increased for total rate revenue to remain neutral, resulting in the  
87 obligation to follow Proposition 218 notice requirements again.

88  
89 BWA continues to recommend the City move to a rate structure with slightly more fixed  
90 revenue collection because it will provide more stable total revenue (minimizing the

91 need for future rate increases due to decreased consumption) while still giving  
 92 customers control over their bill and accounting for the expenses that truly are variable.  
 93 Most of the City's expenses are fixed and if consumption decreases (due to higher  
 94 rates, drought), volumetric revenue will decrease and will continue running the water  
 95 enterprise into a deficit.

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PROPOSED RATE INCREASES FROM ORIGINAL RATE STUDY

99 Water:

	2017/18	2018/19	2019/20	2020/21	2021/22
% Rate Revenue Increase	15.00%	14.00%	10.00%	10.00%	10.00%

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Wastewater:

	2017/18	2018/19	2019/20	2020/21	2021/22
% Rate Revenue Increase	15.00%	13.00%	10.00%	10.00%	3.00%

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 104 As discussed at several previous Council meetings, a community forum, and found  
 105 within the final Water and Wastewater Reports published in December, BWA is  
 106 proposing rate increases as shown above. For the wastewater enterprise, the  
 107 frontloaded 15% increase allows the rate re-structure to stay relatively close to the  
 108 City's current wastewater rates while maintaining a prudent financial position.

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RATE INCREASE SCENARIO – SCENARIO ONE

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 112 Based on multiple public discussions, staff requested BWA provide certain scenarios  
 113 which would impact the proposed rates. The items included in Scenario One are as  
 114 follows -

- 115 1. Update Capital Improvement Plan with reduced and deferred expenses
- 116 2. Assume lower borrowing costs at 2% vs 5%
- 117 3. Increase low income program from \$15,000 to \$30,000

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SCENARIO 1 Water Rate Increases:

	2017/18	2018/19	2019/20	2020/21	2021/22
% Rate Revenue Increase January 1	13.00%	13.00%	10.00%	10.00%	10.00%

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SCENARIO 1 Wastewater Rate Increases:

	2017/18	2018/19	2019/20	2020/21	2021/22
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% Rate Revenue Increase January 1	15.00%	10.00%	5.00%	5.00%	3.00%
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 123 Item 1. The original rate study began in November 2016. The capital improvement  
 124 project list (CIP) was provided to BWA in spring 2017 to input into the rate study. Since  
 125 that time, staff has begun work on projects, completed work on others, encountered  
 126 delays in some, or has obtained updated information pertaining to items affecting  
 127 construction schedules. For example, FEMA continues to perform its environmental  
 128 review of the Riverside Pond and Headworks Project which has thus far taken 18  
 129 months. In essence, staff is adjusting the project schedule which impacts the annual  
 130 costs for the enterprise funds. Here is a brief summary of modifications to the CIP –

131  
 132 Water Enterprise Projects

- 133 • Taste & Odor Improvements – Scheduled start moved from FY18/19 to  
 134 FY19/FY20
- 135 • Dwyer Road Pump Station – Scheduled start moved from FY17/18 to FY18/19

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 137 Wastewater Enterprise Projects

- 138 • Riverside Pond & Headworks Project – Scheduled start moved from FY16/17 to  
 139 FY17/18
- 140 • Infiltration & Inflow Testing and Repairs – Scheduled start moved from FY16/17  
 141 to FY17/18
- 142 • Grit Removal from Aeration Basins – Scheduled start moved from FY16/17 to  
 143 FY17/18. In addition, reduced the total cost of the project by estimated \$300k.  
 144 Last summer, the City hired 2 new positions so the City completed a significant  
 145 amount of this work in-house
- 146 • Recycled Water System Improvements – Scheduled start moved from FY17/18  
 147 to FY18/19

148  
 149 Item 2. Current debt for the enterprise funds ranges from 2.5% to 5.125%. BWA  
 150 assumed a 5% interest rate on future debt which, while reflective of existing debt, may  
 151 be excessive. Despite using a conservative cost estimate of 5% interest for future debt,  
 152 there are other alternatives available which are significantly less. By modifying the  
 153 future debt costs to 2%, there are savings generated for both utility funds. Future  
 154 proposed loans are larger for the Wastewater enterprise so the savings on rate  
 155 increases from decreasing the interest rate are more significant to wastewater.

156  
 157 Item 3. PG&E provides a discount program to low income customers called the “CARE  
 158 program.” The City, historically, has provided a 20% discount on the water bill to anyone  
 159 who qualifies for the PG&E CARE program. The annual amount for this program cost of  
 160 is \$15,000 which provides a 20% discount to eligible participants. *The City is*  
 161 *recommending increasing the discount to 40% for eligible participants. In addition, the*

162 *City is going to review other ways to “qualify” customers which may be more beneficial,*  
 163 *such as using a U.S. Housing & Urban Development (HUD) low income standard or*  
 164 *possibly another qualifying standard. Customers would simply provide documentation to*  
 165 *qualify for the discount and then City staff applies the discount to the bill.*

166  
 167 During public discussions, some mobile home park (MHP) one resident was concerned  
 168 he was eligible for the program but was not receiving the discount. Following that  
 169 meeting, he learned we was receiving the discount. Staff will continue outreach to the  
 170 community to ensure eligible participants are receiving the benefit. Staff will also work  
 171 with all MHPs to ensure they are passing along those discounts to eligible participants.

172

173 RATE INCREASE SCENARIO TWO

174 The proposed rate study includes fully funding approved positions, salaries, benefits  
 175 and costs associated with running the enterprise operations. As a cost savings measure  
 176 over the last few years, two positions have been held vacant or “frozen.” One option that  
 177 could be considered is for another year, two years or combination thereof, the City could  
 178 continue to hold these positions vacant. The positions are Maintenance Worker I and  
 179 Sr. Civil Engineer. The fully burdened cost (salary, benefits, insurance, etc) are shown  
 180 below. Since both positions provide services to three different funds (General, Water  
 181 and Wastewater), the savings affect three different funds. Estimated savings are-

- 182 a. General Fund \$97,510
- 183 b. Water Fund \$93,285
- 184 c. Wastewater Fund \$84,807

185  
 186 Assuming the City holds both positions vacant for Years 1 and 2, the impact would  
 187 increase reserves but not affect debt service coverage in Years 3 thru 5 where the  
 188 operations savings is needed. If this savings is used as a rate subsidy and transferred in  
 189 as revenue in Years 3 thru 5, rate increases would be as follows:

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191 **SCENARIO 2 Water Rate Increases:**

	2017/18	2018/19	2019/20	2020/21	2021/22
% Rate Revenue Increase January 1	10.00%	10.00%	10.00%	10.00%	10.00%

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193 **SCENARIO 2 Wastewater Rate Increases:**

	2017/18	2018/19	2019/20	2020/21	2021/22
% Rate Revenue Increase January 1	15.00%	5.00%	4.00%	4.00%	3.00%

194  
 195 *The greater the rate subsidy is increased, the larger the rate increases will need to be*  
 196 *after year 5 in order to keep the City in a self-sustaining financial position. If instead the*

197 savings were used to fund capital by reducing the initial loan amount, savings would not  
 198 be great enough to generate significant rate increase savings in Years 1-5.

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 200 RATE INCREASE SCENARIO THREE

201 *Same items as Scenarios 1 and 2, but includes transferring the General Fund salary*  
 202 *savings to the Water/Sewer Debt Reserve accounts.*

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 204 Similar to Scenario Two (above), Scenario 3 shows the impact of applying “savings”  
 205 from vacant positions. In addition, this option utilizes the general fund savings (Year 1 =  
 206 \$97,510) and applies that amount towards the enterprise funds equally. This generates  
 207 savings in Years 1 and 2 but does not affect future debt service in Years 3 thru 5. If this  
 208 savings is used as a rate subsidy and transferred in as revenue in Years 3 thru 5, rate  
 209 increases would be as follows:

210  
 211 SCENARIO 3 Water Rate Increases:

	2017/18	2018/19	2019/20	2020/21	2021/22
% Rate Revenue Increase January 1	10.00%	10.00%	9.00%	9.00%	9.00%

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 213 SCENARIO 3 Wastewater Rate Increases:

	2017/18	2018/19	2019/20	2020/21	2021/22
% Rate Revenue Increase January 1	15.00%	3.00%	3.00%	3.00%	3.00%

214  
 215 The greater the rate subsidy is increased, the larger the rate increases will need to be  
 216 after Year 5 in order to keep the City in a self-sustaining financial position. BWA would  
 217 recommend to ***instead use any personnel savings from the general fund and***  
 218 ***enterprise funds to fund capital projects and reduce proposed loan amounts in***  
 219 ***the future.*** This would generate savings over the life of the loan but has a lower impact  
 220 on the rate increases Years 1-5. Rate increases for this modified version of Scenario 3  
 221 would be as follows:

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 223 SCENARIO 3 (Modified) Water Rate Increases:

	2017/18	2018/19	2019/20	2020/21	2021/22
% Rate Revenue Increase January 1	13.00%	12.00%	10.00%	10.00%	10.00%

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 225 SCENARIO 3 (Modified) Wastewater Rate Increases:

	2017/18	2018/19	2019/20	2020/21	2021/22
% Rate Revenue Increase January 1	15.00%	8.00%	5.00%	5.00%	3.00%

226  
227 Staff is providing these options to City Council for discussion and direction. Once  
228 Council determines which scenario to utilize, staff will return this item to City Council for  
229 final approval on February 20<sup>th</sup> in the form of Ordinance Amendments.

230

231 **Attachments:**

- 232 1. Water & Wastewater Enterprise Funds History FY08-FY18  
233 2. Calistoga Water Rate Report Final  
234 3. Calistoga Wastewater Rate Report Final