

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: James C. McCann, City Manager
DATE: May 4, 2010
SUBJECT: Water & Wastewater Rate Advisory Committee Update and Discussion

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2 **ISSUE:** To consider a request from the Council's special ad-hoc Water and
3 Waste Water Rate Structure Advisory Committee.

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5 **RECOMMENDATION:** Receive request, discuss, and provide direction.

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7 **BACKGROUND/DISCUSSION:** The City Council established a special ad-hoc
8 committee to review the City's existing water and waste water systems and their
9 respective operating revenue and expenditure budgets and the rate structures in
10 place to determine whether amendments should be made to the rate structures
11 to support on-going operations and future needs.

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13 The Committee has been meeting for the past several months and has held more
14 than twenty public meetings to address the Council's assignment. To date, the
15 Committee has completed its review of the water system and has unanimously
16 voted to recommend to Council a rate structure that they find to be fair and
17 equitable and appropriate to support Calistoga's necessary water system needs.
18 The Committee is now engaged in the public meetings and analysis to develop a
19 similarly well-conceived recommendation relative to a rate structure for the waste
20 water system.

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22 **FISCAL IMPACT:** Both the water and the wastewater enterprises are essential
23 services provided by the City. Each of these systems is presently under
24 significant financial stress due to reduced revenue as a result of the extended
25 economic decline (reduced business activity and corresponding declines in water
26 consumption and waste water production), much reduced new development
27 activity (substantially reduced revenue generated from new connections to the
28 systems than the utility's revenue model had reasonably anticipated), no change
29 in the rate structures for three to four years, consistently increasing operating
30 costs, and increasing regulatory compliance requirements and corresponding
31 additional costs.
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33 The Committee recognizes that adjustments to the present rate structures are
34 necessary. The Committee has suggested that the Council determine whether
35 they would prefer to receive the Committee's recommendations on a system-by-
36 system basis or as a combined review and recommendation. In other words,
37 should the completed review and recommendations regarding the water
38 enterprise be forwarded to the Council for review, public hearing and action now
39 or should it wait for the Committee to conclude its consideration of the waste
40 water system and the formulation of a recommendation regarding adjustments to
41 that system as well.

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43 The Committee recognizes the need for prompt action on the rate structure to
44 address as quickly as possible the difficult financial condition of the utility
45 enterprises. Still, the majority of the Committee is of the opinion that the Council
46 should consider both systems at the same time so that the total effect of rate
47 adjustments to the customer base and upon new development can be
48 considered. Staff recommends implementing new rates at the earliest
49 opportunity.

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51 The Committee spent a number of months (more than twenty public meetings) to
52 develop its recommendations relative to the water system. It is anticipated that
53 its work regarding the waste water system, while no less challenging, will be
54 completed much more quickly as many complex concepts are common between
55 the enterprises and the Committee has gained much valuable understanding of
56 the system history, and engineering, regulatory, and financial elements of the
57 utility enterprises.