

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: William C. Norton, Interim City Manager AND *Waw*
Bill Mushallo, Administrative Services Director
DATE: October 19, 2010
SUBJECT: Adoption of Ordinances regarding updated Water and Wastewater Rates

ISSUE: To consider updated Ordinances regarding proposed Water & Wastewater Rates.

RECOMMENDATION: To adopt Ordinances

BACKGROUND: In 2002 updated rates were set for Calistoga's water utility. Those rates were for a four year period through January, 2006. The water rates currently in effect have not been updated since January 2006.

In 2004 updated rates were implemented for Calistoga's wastewater utility. That rate setting process provided rates to January, 2008. Wastewater rates have not been adjusted since January, 2008.

Both water and wastewater rates are in desperate need of updating for several reasons. They are as follows:

- Rates have not been updated since 2006 (water) and 2008 (wastewater)
- Costs of operations have continued to grow over the past several years
- Operating costs related to the wastewater treatment plant are significantly higher than what was estimated in 2004
- Reserves need to be replenished in both utilities
- Debt coverage ratios required by our bond covenants must be achieved

In order to facilitate an update of rates for the water and wastewater utilities, on August 18, 2009 the City Council appointed seven members to the City's Water and Wastewater Revenue Program Advisory Committee. Those appointed from the public were Paul Knoblich, Diane Barrett, Larry Kromann, Nick Kite, and Don Williams. Two Council Members, Gary Kraus and Placido Garcia, were also appointed to the Committee. The Committee was tasked with analyzing operations, revenues, costs and rate structures associated with the utilities and bringing back a recommendation to Council for updated rates. In October 2009 the Committee began meeting to discuss the water and wastewater systems, costs, and rate structures.

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32 Committee ground rules were discussed and several goals and objectives were established for
33 the process. They included:

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- Cover the cost of running the utilities
- Provide funding for critical capital project construction
- Achieve a minimum debt coverage ratio (required by bondholders) of 1.2 times the
38 annual debt service
- Provide adequate reserves for contingencies
- Spread annual rate increases over a five year period
- Have updated rates in place as soon as possible
- Simplify rates and their administration wherever possible
- Mitigate the impact on low income residents whenever possible
- Consider public input from residents and businesses during the rate study process

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46 After ground rules and objectives were established the focus was turned specifically to
47 developing assumptions for the rate study. In order to establish assumptions several questions
48 needed to be addressed. They were as follows:

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- How far into the future to project costs?
- What is the future Development Growth demand on Water system?
- What is the Capacity of the Water & Wastewater systems?
- Who uses the systems – Residential & Non-Residential?
- What Capital Projects are needed and how will they be paid for?
- How Much Will It Cost and who will pay? – Operations, Capital Projects, Debt

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58 Assumptions were established for the modeling process and, after several Committee meetings,
59 consensus was reached and those assumptions were used to calculate cost and revenue
60 requirements for the enterprise utilities.

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62 Water Rate Study Summary

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64 The City of Calistoga operates a Water treatment and distribution system for over 1,500
65 residential and non-residential accounts and over 2,500 users. Annually, the system treats and
66 distributes, on average, 800 acre feet of water or 260 million gallons. An estimated 32% of the
67 water is from local sources and stored in Kimball Reservoir. The remaining 68% of water is

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68 from the State water system and transported to Calistoga through the North Bay Aqueduct. The
69 City stores water, in addition to the Kimball Reservoir, in tanks at High St and Feige Canyon and
70 will be constructing a 1.5 million gallon tank on top of Mt. Washington. The City maintains 32
71 miles of water mains, many valves and hydrants to distribute the water to the users.

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73 With the new Mt. Washington Water Tank, the City will be able to meet the State Water
74 Resources Control Board (SWRCB) requirements for added storage capacity and source of
75 water supply and provide for implementation of the projected General Plan.

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77 This Rate Study updates the operations, improvements and financing costs with actual audited
78 amounts and projects future costs for five years from Fiscal Year 2010-11 to 2014-15. This Rate
79 Study also includes future capital improvements of the Mt. Washington Water Tank, upgrade of
80 the NBA pump station, repairs to the Feige Water Tank and other needed improvements. The
81 Mt. Washington Water Tank will be mostly funded with loans or grants and it is proposed to fund
82 several other projected improvements with additional financing.

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84 The 2010 Rate Study also reviews and updates the allocation of water use for each of the user
85 categories from the 2002 Rate Study. In the 2002 Rate Study, refinements were made to
86 various user categories to be more consistent with SWRCB Rate Study guidelines and local
87 conditions. Also in the 2002 Study, a more refined method was developed to allocate the meter
88 service charges to the different users by meter size and demand to the water system. This
89 2010 study continues that methodology and updates the demand factors based on actual
90 average use. The allocations were reviewed and adjusted, as appropriate in this update.

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92 In addition, the Special Advisory Committee spent considerable time reviewing the current
93 single family conservation tiers. Adjustments were needed to ensure that the entire single
94 family user category was paying the appropriate amount. The tiers and rates were adjusted to
95 better recover the costs of the water system to the single family users and still encourage
96 conservation of water use.

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98 Growth in users and flows are conservatively estimated from development projections and are
99 estimated to average less than 2% per year over the next five years. This growth of new
100 development is reflected in the revenue estimates for connection fees.

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102 Operating costs were carefully reviewed and labor increases were projected at 2 to 3.5% over
103 the next five years. Services and supply costs varied from 5% per year for energy, 3.5% for
104 NBA water and other costs ranged from 0% to 3%.

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106 The 2010 Rate Study meets the requirements of State law for a fair and reasonable allocation of
107 the wastewater system operating, capital and debt costs to the different user categories through
108 an equitable rate structure. The Rate Study includes an update of the combined capacity and
109 equity connection fee calculation to reflect the improvements to the system that benefits new or
110 expanded development.

111 A similar process was followed for the wastewater utility.

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113 Table A in the attached water rate study details the proposed rate changes for all types of users over
114 the next five years to January 2015. The water rates have two different types of charges. A flat meter
115 service charge is based on the size of the water meter and type of user. A volume charge per hundred
116 cubic feet of water used (referred to as "hcf" and approximately 748 gallons) is the same for all types of
117 users. In order to promote water conservation, single family users have conservation tiers with higher
118 rates for higher use of water. All other users have a peak surcharge rate for water use in excess of a
119 calculated peak use adjusted by the type of user.

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121 The increases in the rates will average around 4% annually over the next five years. The affect of the
122 meter service charge rates will be different for users due the changes in the Demand Factor from the
123 2002 Study to the 2010 Rate Study. The affect of the volume rate changes will be based on the amount
124 of water used by each type of user. However, the single family conservation tiers have been adjusted
125 to apply the base volume charge for all water use from 0 to 32 hcf bi-monthly (every two months) and
126 then higher rates for greater amounts of water used. This change will significantly increase the affect of
127 the rate changes to many single family users. The peak surcharge rate has been adjusted to better
128 reflect the cost of importing water and the tiers remained the same as the 2002 rate study, but with the
129 application of the demand factor to adjust the use by the type of user.

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131 A major cost of the water system is the use of NBA water which will range from 31 to 34% of operating
132 costs. The charges for this water are set by the State, Napa County and City of Napa. It is
133 recommended that any changes in the cost of NBA water due to changes in rates set by other agencies
134 shall be calculated and added to the annual proposed rate changes.

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136 In addition, it is recommended that after the last rate increase in 2015, annual increases in subsequent
137 years will be based on the San Francisco-Oakland-San Jose Consumer Price Index annual percent
138 change from the prior year.

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140 The recommended rate changes are proposed to be implemented over the next five years with
141 the first increase effective 30 days after adoption of the Ordinance and subsequent annual
142 adjustments are recommended to be effective after each January 1st, starting in 2012.

143 144 Wastewater Rate Summary

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146 The City of Calistoga operates a complex wastewater collection, treatment and disposal system
147 for over 1,250 residential and non-residential accounts. The wastewater collection system is
148 made up of 14 miles of sewer mains and 264 manholes for maintenance. The Wastewater
149 Treatment Plant currently processes an adjusted average daily dry weather flow of 580,200
150 gallons of wastewater and is capable of processing up to 840,000 gallons per day. The
151 disposal system can store 30 million gallons of effluent (treated wastewater) in holding ponds
152 and reclaimed water distribution system to irrigate over 40 acres of public and private property.

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154 The treatment plant was significantly upgraded in 2003, at a cost of \$13.4 million, to meet the
155 State Water Resources Control Board (SWRCB) requirements for added capacity and provide
156 for implementation of the projected General Plan growth. Most of the funding was financed over
157 20 to 40 years and the repayment will be from the ratepayers (62%) and new development
158 (38%).

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The Rate Study updates the operations, improvements and financing costs with actual audited amounts and projects future costs for five years from Fiscal Year 2010-11 to 2014-15. This Rate Study also includes future inflow and infiltration capital improvements, replacement of the main trunk line and other needed improvements that will be better defined through a system master plan update and funded with loans or grants from the State Revolving Loan Fund or other sources.

The 2010 Rate Study also reviews and updates the allocation of flows and strength characteristics for each of the user categories that were implemented in the 2004 Rate Study. In the 2004 Rate Study, refinements were made to various user categories to be more consistent with SWRCB Rate Study guidelines and local conditions. Also in the 2004 Study, a more thorough review of groundwater discharge from geothermal and cold water wells into the wastewater system was made and included in the allocation of costs of services to the user categories. The allocations were reviewed and adjusted, as appropriate in this update.

Growth in users and flows are conservatively estimated from development projections and are estimated to average less than 2% per year over the next five years. This growth of new development is reflected in the revenue estimates for connection fees.

Operating costs were carefully reviewed and labor increases were projected at 2 to 3.5% over the next five years. Services and supply costs varied from 5% per year for energy, chemicals and sludge processing and other costs ranged from 0% to 3%.

The 2010 Rate Study meets the requirements of State law for a fair and reasonable allocation of the wastewater system operating, capital and debt costs to the different user categories through an equitable rate structure. The Rate Study includes an update of the combined capacity and equity connection fee calculation to reflect the improvements to the system that benefits new or expanded development.

Table A in the attached wastewater rate study details the proposed rate increases for all types of users over the next five years to January 2015. The rate changes vary by type of user due to the different cost impacts different types of users have on the wastewater system. The flat residential rates are proposed to increase, on average, \$3 to \$19 per month over the next five years. The non-residential rates are generally based on volume of water used to represent discharge to the wastewater system and will range from reductions of \$.24 per hcf (hundred cubic feet or 748 gallons) of water used to \$4.90 per hcf.

The first two years of rate increases will be significant for almost every user. This is due to a delay in adjusting the rates over the last several years to meet the operating expenses of the wastewater system. By FY 12-13, the annual rate changes will be less.

In addition, it is recommended that after the last rate increase in 2015, annual increases in subsequent years will be based on the San Francisco-Oakland-San Jose Consumer Price Index annual percent change from the prior year.

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205 The recommended rate changes are proposed to be implemented over the next five years with
206 the first increase effective 30 days after adoption of the Ordinance and subsequent annual
207 adjustments are recommended to be effective after each January 1st, starting in 2012.
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209 On September 21st a public hearing was held to receive input on the proposed rate increases.
210 A total of 26 protests were received regarding the rates. This represents less than two percent
211 of the ratepayers. Several suggestions also arose at the September 21st meeting. It was
212 suggested that the City evaluate the possibility of monthly billing for residential users. It was
213 also suggested that an apprentice program be considered in the future. A review/follow up
214 committee was suggested to be formed to evaluate future items along with items not considered
215 in the current rate study. That committee could consider revisions to the 15% surcharge and
216 report back to the Council periodically. The committee could also coordinate monitoring of the
217 water program to insure continued conservation. On October 5th another public hearing was
218 held and the Council adopted a resolution to authorize the establishment of a follow up
219 committee to consider the above mentioned suggestions. Updated water and wastewater
220 Ordinances were also introduced on the 5th of October.
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222 The goal at the October 19th meeting will be to adopt the updated water and wastewater
223 Ordinances.
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225 Attachments:

- 226 1. Water rate study
- 227 2. Wastewater rate study
- 228 3. Public notice sent out for September 21st public hearing
- 229 4. Draft Water Rate Ordinance
- 230 5. Draft Wastewater Rate Ordinance