

**CITY OF SANTA PAULA  
MEMORANDUM**

To: Honorable Mayor and Members of the City Council

From: Dan Singer, Interim City Manager  
Clete Saunier, Public Works Director

Subject: Discuss and Consider the 2019 Santa Paula Water and Sewer Utility Rate Study and Initiate the Proposition 218 Public Review and Balloting Process for Proposed Water and Sewer Utility Rates

Date: September 4, 2019

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**RECOMMENDATION:**

Staff recommends that the City Council:

1. Review and file the Preliminary Final Water and Sewer Rate Study Report;
2. Direct staff to administer the Proposition 218 majority protest process and send out notice of the proposed increases;
3. Set the public hearing for November 6, 2019 at 6:30 pm at the City of Santa Paula Council Chambers;
4. Approve form of the public notice and ballot for the Proposition 218 Protest Hearing; and
5. Take additional action as necessary to authorize staff to begin preparing for the Proposition 218 implementation and approval process.

**Presented by:** Clete J. Saunier, Public Works Director

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**BACKGROUND:**

The City retained NBS in 2014 and again in 2016 to re-evaluate its water and sewer rates for a number of reasons. However, no action was taken in response to earlier studies. For reference, the previous sewer and water rate increases were adopted by the City in 2009.

In March 2019, staff contacted Government Finance Group (NBS) to prepare an updated rate study. NBS presented its findings and report over the course of five different meetings that were held from July 11 to August 24, 2019.

**Table 1: Past Meetings & Dates**

<b>#</b>	<b>Date</b>	<b>Type</b>
1	July 11, 2019	Rate Committee
2	July 17, 2019	City Council
3	August 5, 2019	Community Workshop
4	August 12, 2019	Rate Committee
5	August 24, 2019	City Council

**ISSUES/ANALYSIS:**

The Preliminary Final Rate Study incorporates the latest assumptions regarding costs, capital projects, customer data, and comments and recommendations from the past five meetings. The following criteria were used to compare various financial/rate alternatives for consideration in the Preliminary Final Rate Study, including:

- ✓ Levels of Rate Increases – The burden that higher rates place on customers is a key consideration.
- ✓ Reserve Fund Levels – The City needs to maintain reasonable levels of reserves to manage the water utility’s finances in a responsible manner.
- ✓ Coverage Ratios – Debt Service coverage ratios are an obligation that comes with issuing debt that the City needs to make every attempt to meet, particularly if it plans to issue future debt.
- ✓ Monthly Bill Impacts – How customers, particularly residential customers, are impacted.

At the direction of the City Council on August 21, 2019, two of the three water and sewer rate alternatives were selected for further discussion and consideration at the September 4, 2019 Council Meeting.

**Water Rate Alternatives:** Currently, the City charges all customer classes and water accounts a fixed charge based on meter size, plus a uniform commodity charge based on the amount of water consumed, with the exception of irrigation meters that are over 1-inch because of the different types of meters used for irrigation services. The same uniform volumetric rate is currently applied to all customers, including irrigation. With the exception of a few existing 5/8-in meters, the majority of the existing residential water meters are 3/4-in. Residential 3/4-in meters that were charged a 5/8-in meter fixed

charge have been corrected as 3/4-in meters in the Preliminary Final Rate Study Report.

The following alternatives were selected by the Council for further consideration:

- Alternative #2 – 15% Annual Rate Increases for each of the next 5 years.
- Alternative #3 – Hybrid of Declining Annual Rate Increases (15%, 13%, 11%, 9%, 9%)

**Sewer Rate Alternatives:** The current sewer rate structure is the same for all residential and non-residential customers, consisting of a fixed service charge based on the number of equivalent dwelling units, plus a volumetric rate based on monthly water consumption. Besides switching residential sewer customers to an average winter water use basis for volumetric charges, there is also now a new fixed monthly customer service charge per account. This charge is intended to fairly recover “customer costs” such as billing and general overhead costs that are more closely allocated to all customers on a per-account basis.

The updated rates were calculated based on the net revenue requirements, number of customer accounts and equivalent dwelling units, water consumption (average winter for single family and monthly for all other customers), and the estimated volume and strength of the effluent produced by the City’s customer classes. The following is a summary of the alternatives currently being considered:

- Alternative #2 – Inflation-Based Annual Rate Increases of three percent for each of the next 5 years (3%/year).
- Alternative #3 – Use Separate Funding Sources for Recycled Water Distribution System.

**Proposition 218:** In 1994, California voters approved Proposition 218. Prop. 218 requires certain procedures be followed with regard to “property-related” fee increases imposed by governmental agencies. Those rate increases are subject to a “majority protest” process that provides if a majority of the parcels subject to the City fee protest the proposed rate increase, the City cannot impose the increase.

Proposition 218 requires that the City provide all properties receiving the service for which the fee is charged with a minimum of 45 days written notice prior to the City Council holding a Public Hearing on a proposed rate increase. The property owners (and record owners) have the ability to “protest” the proposed rate increase until the close of the Public Hearing. If a majority of the parcels file written protests with the City prior to the close of the Public Hearing, the Proposition states that the City cannot implement the proposed increase. If a majority of the parcels do not protest the proposed increase, the City Council has the authority to implement the proposed rate increase.

The majority protest process is part of the California Constitution (Article XIID) and it is mandatory that the City adhere to this voter-enacted process. Staff has prepared a sample notice with the guidelines for submission of protests (Exhibit B).

Staff recommends the City Council review the rate alternatives outlined in the Preliminary Final Rate Study, select an alternative each for the water and sewer rate increases, and direct staff to mail the attached protest hearing notice for water and sewer (Exhibit B) to property owners and utility customers. Staff recommends that the City Council set the hearing date for November 6, 2019, at 6:30 pm in the City Council Chambers and direct staff to mail the notice not less than 45 days prior to the protest hearing.

**FISCAL IMPACTS:**

For the Water Enterprise and Sewer Funds there are fiscal impacts related to the proposed water and sewer rate alternatives as outlined in the attached Preliminary Final Rate Study Report. The rates, if approved by the City Council, will fund water and sewer operations, maintenance, and capital improvements projects.

The water and sewer rate increases would also enable the City to achieve the required debt service ratio to restructure the sewer and water bonds, an essential task if the City seeks to refinance the 2010 bonds that become callable in the coming months. Interest rates are currently at historic lows and a refinancing would translate into significant savings to the City. The analysis presented in the Preliminary Final Rate Study Report has taken this potential savings into consideration.

**PERSONNEL IMPACTS:**

None.

**OPTIONS:**

1. Approve Staff recommendations.
2. Reject Staff recommendations.
3. Provide Staff with additional direction.

**ATTACHMENTS:**

EXHIBIT A - Preliminary Final Rate Study Report  
EXHIBIT B - Public Notice and Ballot