

City of Morro Bay

City Council Agenda

Mission Statement

The City of Morro Bay is dedicated to the preservation and enhancement of the quality of life. The City shall be committed to this purpose and will provide a level of municipal service and safety consistent with and responsive to the needs of the public.

**NOTICE OF SPECIAL MEETING
TUESDAY, FEBRUARY 24, 2015
VETERAN'S MEMORIAL HALL – 4:30 P.M.
209 SURF STREET, MORRO BAY, CA**

ESTABLISH QUORUM AND CALL TO ORDER

PUBLIC COMMENT RE: ITEMS ON THE AGENDA

SPECIAL MEETING AGENDA ITEM:

- I. STUDY SESSION TO REVIEW PRELIMINARY RECOMMENDATIONS FOR WATER AND SEWER RATES

ADJOURNMENT

DATED: February 18, 2015

Jamie L. Irons, Mayor

MATERIALS RELATED TO AN ITEM ON THIS AGENDA SUBMITTED TO THE CITY COUNCIL AFTER DISTRIBUTION OF THE AGENDA PACKET ARE AVAILABLE FOR PUBLIC INSPECTION AT CITY HALL LOCATED AT 595 HARBOR STREET; MORRO BAY LIBRARY LOCATED AT 625 HARBOR STREET; AND MILL'S COPY CENTER LOCATED AT 495 MORRO BAY BOULEVARD DURING NORMAL BUSINESS HOURS.

IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN A CITY MEETING, PLEASE CONTACT THE CITY CLERK'S OFFICE AT LEAST 24 HOURS PRIOR TO THE MEETING TO INSURE THAT REASONABLE ARRANGEMENTS CAN BE MADE TO PROVIDE ACCESSIBILITY TO THE MEETING.



AGENDA NO: I

MEETING DATE: February 24, 2015

Staff Report

TO: Honorable Mayor and City Council

DATE: February 13, 2015

FROM: Rob Livick, PE/PLS Public Works Director/City Engineer

SUBJECT: Study Session to Review Preliminary Recommendations for Water and Sewer Rates

RECOMMENDATION

Staff recommends the City Council receive a presentation on water and wastewater (sewer) rates, then discuss and provide direction regarding the rate study options.

ALTERNATIVES

There are no suggested alternatives at this time.

FISCAL IMPACT

Both the water and wastewater funds have required future expenses for which the current rate structures will not provide adequate funding. Additionally, the current rate structures of both revenue streams do not produce adequate funds to meet debt coverage ratios. This study recommends rate structures to correct this fiscal imbalance.

BACKGROUND

The community's water and wastewater rate structures are currently both related to water consumption: water based upon direct meter readings and wastewater upon estimates of what portion of water delivered is returned to the wastewater system. Wastewater rates also incorporate the constituents that the various types of customers add to the wastewater stream, such as detergents from laundry businesses and/or food products from restaurants. These higher strength wastewater streams require more treatment than residential strength wastewater and thus have higher rates for treatment.

Water Rates

In advance of setting the water rates in 1994, the City Council considered a number of different types of rate structures, including a flat rate (each billing unit costs the same), a multi-tiered system (flat rate for fixed costs plus variable rate for water delivered) and an inverted block rate (each successive billing unit costs more than the previous unit). The water rate philosophy adopted by the City Council was a version of the inverted block rate. This system's primary characteristic is that it provides incentives for water conservation but it also provides that higher volume customers effectively pay a significantly higher unit

Prepared By: RL

Dept Review: RL

City Manager Review: _____

City Attorney Review: _____

cost for water for which the City pays a flat rate (i.e., State Water at \$1500 +/- per acre foot).

The water rate structure has been in place unchanged since that time, with the exception of the rate reduction program which we can no longer offer due to Prop 218. During that same time, operational expenses have increased more than 200%. Additionally, there may be different strategies in a rate structure to encourage water conservation in accordance with the City's adopted 2010 Urban Water Management Plan and State Requirements. For the past four fiscal years, the City has not met its obligation to the State Water project for the debt coverage ratio. The City is required to earn/charge monies through rate payers so that the amount taken in is 1.25 times more than the amount required for operational expenses. Currently, this debt coverage ratio is only at 0.74 times the amount needed. Additionally, there are capital project needs within the system that are necessary to maintain a safe and dependable water supply, including the following major Capital projects: Desalinization Plant upgrades and replacement of the Nutmeg Water Tank. In addition to these major capital projects, there are a host of smaller "maintenance" type projects whose costs are not insignificant. These projects include pump replacements, valve replacements and water meter replacements among other maintenance projects.

Wastewater Rates

The wastewater rate schedule underwent a similar consideration when it was originally adopted in the early 1980's based upon both community philosophical desires and Wastewater Treatment Plant (WWTP) upgrade grant requirements. The adopted rate schedule is a multi-tiered system for residential customers with a flat rate component from 0 to 10 water billing units, which recovered fixed costs for both the Collection System and the WWTP and a variable component based upon usage above that amount and the constituents of the residential wastewater stream.

The most recent increase occurred in October 2007, where the City Council adopted a schedule of wastewater rate increases to fund the construction of the Wastewater Treatment Plant at the current site. This rate increase looked more closely at the residential and commercial categories and initially provided a 50% commercial and residential increase and a subsequent 7.25% annual commercial and 5% annual residential increase. This current rate schedule for increases ends in one year as Proposition 218 requires a new vote every five years for succeeding rate increases.

Due to events that have occurred since that adopted increase, including the denial of the Coastal Development Permit for the wastewater treatment plant at the current location and the community's desire to construct a new Water Reclamation Facility (WRF) away from the coast, the assumptions used in the 2007 rate increase are no longer adequate. In late 2010/early 2011, finance staff worked with RBC Capital to verify debt service coverage in anticipation of entering into a State Revolving Fund loan, and discovered our revenues in excess of our expenditures were insufficient to meet debt coverage ratios.

The most recent work on the new WRF provides us with a planning level estimate for the development, permitting and construction of a new WRF at approximately \$75,000,000. While we do not have a final estimated construction cost; it will behoove the City to point the wastewater rates in the direction of developing this facility.

DISCUSSION

The draft report by Bartle Wells Associates establishes new water and wastewater rate structures that are needed to fulfill the Operation and Maintenance needs along with future Capital construction requirements. These rates are phased in over the next five years. For the typical residential water user (5 Billing Units per month) the combined water and wastewater bill will increase from \$73.17/month to \$98/month in July 2015 and ultimately to \$151.40 in 2020. Commercial customers will see a similar rate increase, but based on customer class and water use for wastewater. The significant changes include adding a base fee to water, reducing the water billing tiers to four and charging for each unit of water, a flat wastewater fee for residential and reducing the number of customer classes for wastewater.

The Public Works Advisory Board (PWAB) reviewed the rate study at their special meeting on January 28, 2015 and provided some general comments including making the logic on how the rates were determined clearer and look at adjusting the block/tiers to be more uniform between tiers. The analysis will be returning the PWAB at their February 19, 2015 meeting for final recommendations. Staff proposes to provide an update to the City Council based of final recommendation from the PWAB's discussion at their February 19, 2015 meeting. Additionally this information was presented at the Water Reclamation Facility Citizens Advisory Committee meeting on February 11, 2015.

CONCLUSION

Based on the projected needs for the maintenance of our water and wastewater systems, the relocation and construction of the WRF as well as continued maintenance of our current Wastewater Treatment Plant and other capital demands; along with the need to increase the debt coverage ratio to the minimum required amounts, the City needs to increase revenues to its Water and Wastewater funds. The only mechanism to increase revenue to these enterprise funds is to increase rates. In addition to rates, the City's consultant is looking at other miscellaneous charges. This will be presented at the February PWAB meeting.

ATTACHMENTS

Water & Sewer Rate Studies - Draft Tables 1-27-2015. These have been previously transmitted to the City Council under separate cover and are available on the City's website at: <http://ca-morrobay.civicplus.com/DocumentCenter/Index/305>