

ADOPT A RESOLUTION AUTHORIZING A PUBLIC HEARING BE HELD TO CONSIDER INCREASES IN THE CITY'S WASTEWATER RATES AND CHARGES AND AUTHORIZING AND DIRECTING THE CITY MANAGER TO MAIL A NOTICE OF THE PUBLIC HEARING TO CONSIDER THE PROPOSED INCREASES TO THE WASTEWATER RATES AND CHARGES

RECOMMENDATION

It is recommended that the City Council adopt a resolution to:

1. Authorize a public hearing be held to consider increases in the City's wastewater rates and charges; and
2. Authorizing and directing the City Manager to mail a notice of the public hearing to all City of Stockton Wastewater Utility customers and the record owners of property upon which the rates and charges are proposed for imposition. The public hearing shall be held not less than 45 days after the notice of the public hearing has been mailed.

It is further recommended that the City Manager be authorized to take appropriate and necessary actions to carry out the purpose and intent of this resolution.

Summary

By these actions, Council will approve the recommendations made by the Water Advisory Group and Council Water Committee, and initiate the notice and public hearing proceedings required under California Constitution article XIII D, section 6 (commonly referred to as "Proposition 218") for the consideration of the proposed wastewater rates and charges. These actions will advise wastewater ratepayers and affected property owners of the proposed rate increases and provide them with an opportunity to submit written protests to the proposed rates and charges prior to the close of the public hearing. Two public meetings will be held within the 45-day period to provide public information regarding the proposed rate increases.

Notices will be mailed to customers directly responsible for payment of wastewater utility charges and the record owners of property upon which the rates and charges are proposed for imposition within the City's wastewater service area. Although both billed customers and record owners will be notified, only one protest per parcel will be counted. If fewer than fifty-percent plus one of the customers of record or record owners submit written protests to the proposed rate increases prior to the close of the public hearing, the Council will be asked to authorize the wastewater rate increases at the public hearing, currently anticipated to be held on May 21, 2019.

DISCUSSION

Background

Periodic wastewater utility rate studies are required by law and necessary to maintain a sound fiscal base to deliver service. A Wastewater Utility rate study was last completed in 2010 and included the adoption of phased rates increases over a 5-year period, after which annual cost of living adjustments were applied. A Consumer Price Index rate increase of 1.8% was applied in FY 2015-16 and 1.6% in FY 2016-17. Indefinite rate increases are not allowed under the law, therefore no rate adjustments were made in FY 2017-18 and FY 2018-19.

Funds from the phased rate increases approved in 2010 were used to correct bond coverage covenants, fund the California Sportfishing Protection Alliance (CSPA) Consent Decree programs, fund cash reserves, complete several maintenance projects, offset increased labor costs, and correct for nearly \$20 million in unrealized connection fee revenue.

The 2010 rate increases included funding for the Capital Improvement and Energy Management Plan (CIEMP). The project was put on hold in 2013 while the City negotiated an exit from bankruptcy. In 2014, a new National Pollutant Discharge Elimination System (NPDES) permit was issued to the City's Regional Wastewater Control Facility (RWCF). The permit requires lower nitrate + nitrite (read nitrate plus nitrite, N+N) discharge limits to the San Joaquin River, which the current RWCF treatment processes cannot meet. The CIEMP was revised to include treatment process modifications to meet the new limits by the 2024 compliance deadline.

The RWCF Modifications Project's design is underway with an estimated cost of \$190 million, plus administrative and contingencies costs. A rate study and proposed rate increases are necessary to meet updated legislative requirements, continue funding the operation and maintenance activities, and fund construction of the RWCF's Modifications Project to meet new permit requirements.

Present Situation

Following a Request for Qualifications process, a professional services contract with HDR Engineering, Inc. was approved by Council on April 17, 2018, by Resolution 2018-04-17-1108, and fully executed on June 1, 2018. HDR was tasked to evaluate the Wastewater Utility's revenue requirements, prepare a cost of service analysis, and design rates that are equitably and proportionately distributed among all customer classes.

The Draft Wastewater Rate Study, dated February 2019, (Attachment A) exclusively evaluated potential adjustments to the rates of the wastewater service charges; connections fees were not a part of this study. To determine the appropriate and required revenue of the utility, HDR Engineering, Inc. conducted a maintenance and operations evaluation from FY 2019-20 through FY 2023-24, including RWCF repairs and plant modifications. Three interrelated analyses were used to address the adequacy and equity of the utility's rates, including:

- The revenue requirement analysis, which compares the revenues to the expenses of the utility to determine the overall rate adjustment required;
- The cost of service analysis, which allocates the revenue requirement of the utility to the various customer classes of service in a fair and equitable manner; and
- The rate design analysis, which considers both the level and structure of the rate design to collect the target level of revenue.

Based on the analyses, the Municipal Utility Department's (MUD) proposed wastewater rates have been developed to meet the legal requirements of California Constitution article XIII D, section 6. Article XIII D, which requires that the wastewater rates may not exceed the cost of providing wastewater service and the amount of the wastewater service charge imposed upon any parcel or person shall not exceed the proportional cost of the service attributable to the parcel. The utility's revenue requirements are allocated to the different customer classes based on the respective volume and strength of their discharge, and customer group. The rate design reflects the revenue requirement findings, meets the City's goals and objectives, and are cost-based and equitably and proportionately distributed among all the customer classes.

On March 6, 2019, and March 12, 2019, the Draft Wastewater Rate Study and proposed rate increases were presented to the Water Advisory Group and Council Water Committee, respectively. Following the Water Advisory Group's recommendation, the Council Water Committee approved forwarding the proposed wastewater rate increases to City Council for consideration and to proceed with the Proposition 218 notice and Public Hearing process.

The City of Stockton will conduct public information sessions, including at least two public meetings in April or May 2019 to provide information interested members of the public regarding the proposed rate increases and the Proposition 218 process.

By approving the resolution, the Council will approve the Council Water Committee recommendations to hold a public hearing to consider the proposed wastewater rates and charges and authorize and direct the City Manager to issue a notice of the public hearing to all City of Stockton Wastewater Utility customers and the record owners of property upon which the proposed rates and charges are proposed for imposition. The Public Hearing shall not be held less than 45 days after the notice of the public hearing is mailed. At this time, staff anticipates that the Public Hearing will be at the May 21, 2019, City Council meeting.

The proposed wastewater rates and charges for each customer class and the effective dates are shown in the tables below.

Summary of Proposed Monthly Residential Wastewater Rates

	Present Rates	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
<u>Residential Charge (Per Dwelling Unit)</u>						
Single-Family & Condo (City)	\$42.06	\$44.10	\$46.75	\$49.56	\$52.53	\$55.68
Single-Family & Condo (Non-City)	\$38.36	\$40.22	\$42.63	\$45.19	\$47.90	\$50.77
Multi-Family (City)	\$40.20	\$41.55	\$44.04	\$46.68	\$49.48	\$52.45
Multi-Family (Non-City)	\$36.06	\$37.27	\$39.51	\$41.88	\$44.39	\$47.05
Apartments (City)	\$34.22	\$37.68	\$39.94	\$42.34	\$44.88	\$47.57
Apartments (Non-City)	\$30.04	\$33.08	\$35.06	\$37.16	\$39.39	\$41.75

Summary of Proposed Monthly Commercial/Institutional Wastewater Rates

	Present Rates	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
<u>Consumption Charges (\$/CCF¹)</u>						
Com/Inst – Low-strength	\$1.64	\$1.75	\$1.86	\$1.97	\$2.09	\$2.22
Com/Inst – Med-strength	\$2.03	\$2.14	\$2.27	\$2.41	\$2.55	\$2.70
Com/Inst – High-strength	\$3.41	\$3.59	\$3.81	\$4.04	\$4.28	\$4.54
Schools/Churches (\$/ADA ²)	\$0.96	\$1.03	\$1.09	\$1.16	\$1.23	\$1.30
Fixed Monthly Charge (City)	\$23.16	\$21.25	\$22.53	\$23.88	\$25.31	\$26.83
Fixed Monthly Charge (Non-City)	\$20.34	\$18.66	\$19.78	\$20.97	\$22.23	\$23.56

1 -CCF = one hundred cubic feet

2 ADA = average daily attendance

Summary of Proposed Monthly Industrial Wastewater Rates

	Present Rates	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
<u>Industrial Charges</u>						
Fixed Monthly Charge	\$23.16	\$21.25	\$22.53	\$23.88	\$25.31	\$26.83
<u>Admin / Stand-by Charge</u>						
Industrial – Flow (\$/MG ¹)	\$613.86	\$685.00	\$726.10	\$769.67	\$815.85	\$864.80
Industrial – BOD (\$/Klbs ²)	\$99.37	\$111.00	\$117.66	\$124.72	\$132.20	\$140.13
Industrial – SS (\$/Klbs)	\$72.57	\$81.50	\$86.39	\$91.57	\$97.06	\$102.88
<u>Consumption Charges</u>						
Industrial – Flow (\$/MG)	\$530.64	\$592.90	\$628.47	\$666.18	\$706.15	\$748.52
Industrial – BOD (\$/Klbs)	\$36.97	\$41.30	\$43.78	\$46.41	\$49.19	\$52.14
Industrial – SS (\$/Klbs)	\$59.16	\$66.10	\$70.07	\$74.27	\$78.73	\$83.45

1 MG = million gallons

2 Klbs = one thousand pounds

FINANCIAL SUMMARY

There are sufficient funds available in the Wastewater account 431-4331-574 for printing and postage fees for mailing the notice.

There is no impact to the General Fund, or any other unrestricted fund, from this action.