



DATE: May 15, 2023

TO: Honorable Mayor and Members of the City Council through City Manager

FROM: Christopher J Bolt, Director of Public Works & Utilities
Brian Cochran, Assistant City Manager
Corey Garberolio, Deputy City Manager / Finance Director

SUBJECT: Utility Rate Study Introductory Presentation and Discussion and Direction on Initial Findings

RECOMMENDATION

It is recommended that the City Council consider the attached Utility Rate Study introductory presentation and discussion and direction on initial findings.

BACKGROUND

The City's utilities provide essential water, wastewater, and recycled water services to our residents, businesses, and organizations. The Department of Public Works and Utilities is responsible for maintaining and upgrading a wide variety of critical infrastructure necessary for ensuring the safe and effective delivery of these services to our community. As such, the water and wastewater utilities are required to have sufficient revenues to operate and fund capital improvements.

The City of Petaluma's 2023 Utility Rate Study is underway and preliminary findings are now available for review. The purpose of the Utility Rate Study is to develop water and wastewater rate recommendations for the next five years, with the first adjustment proposed to be effective on September 1, 2023, and subsequent adjustments effective on July 1 each year. The proposed rates are designed to be phased in as gradually as possible to meet each utility's operating and capital funding needs while minimizing the annual fiscal impact on ratepayers.

It has been over five years since the City last conducted a comprehensive utility rate study. The last five-year rate adjustment plan became effective starting July 1, 2017, and resulted in a gradual phase-in of rate increases over the past five years. However, as an exception due to the COVID-19 pandemic, the City deferred water rate adjustments in 2020, and deferred wastewater rate adjustments in 2020 and 2021. The City's current water and wastewater charges for a typical home are in the middle of the range compared to other agencies in the region.

Since the last rate study, there have been significant changes in the operating environment, including increased regulatory requirements, aging infrastructure, and fluctuations in the cost of supplies and labor. Additionally, the City has been developing updated Water and Wastewater Master Plans to identify and prioritize future capital improvement needs for the City's aging water and wastewater infrastructure. As a result, there is now a pressing need to conduct a thorough analysis of the City's utility rates to ensure they are sufficient to cover the costs of providing services and funding high-priority infrastructure improvements to support the continuation of safe and reliable services.

The City of Petaluma is committed to providing high-quality services to its residents and businesses at a reasonable cost. Conducting a utility rate study is essential in achieving this goal and ensuring that the City's utility rates are fair, equitable, and reflect the cost of providing services.

DISCUSSION

City staff have been working with an independent rate consultant, Bartle Wells Associates, on this rate study since October 2022. Bartle Wells Associates also assisted the City with its 2017 rate study. As part of the process, City staff and the consultant are now presenting information about the analysis and the study's findings to seek direction from the City Council about the many issues affecting future water and wastewater rates.

This presentation provides an overview of the Utility Rate Study process and presents preliminary findings and draft recommendations. Additionally, the presentation discusses financial challenges, including the potential for a continuation of gradual annual rate increases to support infrastructure improvements, rising wholesale water rates, and the ability to ensure that the utility systems remain financially stable and sustainable over the long term.

Draft recommendations propose that the City continue its historical practice of adopting small annual rate increases gradually to provide funding for operating and capital improvement needs, while also authorizing future additional annual pass-through rate adjustments for inflation and wholesale water rate increases. The study also proposes the City adopt authority for implementing new Water Shortage Contingency Plan Rate Adjustments designed to support financial stability during periods of drought and reduced usage. These proposed adjustments correspond with the Water Shortage Contingency Plan Levels of the City's 2020 Urban Water Management Plan.

As part of this effort, City staff and Bartle Wells Associates will present to City Council on three occasions:

1. **May 15, 2023**—Introductory Presentation and Discussion of Draft Findings & Recommendations
2. **June 5, 2023**—Receive the 2023 Utility Rate Study and Seek Council Direction to Move Forward with the Proposition 218 Process for Increasing Water and Wastewater Rates
3. **August 7, 2023**—Public Hearing and Consideration of Resolution Authorizing Water and Wastewater Rates for the Next 5 Fiscal Years

In addition, the process will include a community outreach meeting to facilitate public engagement and solicit community feedback. This meeting is anticipated to take place in June.

Bartle Wells Associates has been working with City staff to develop updated cash flow projections to identify future funding needs and evaluate rate increases. Initial cash flow projections indicate a need for the City to continue its historical practice of implementing gradual annual rate increases to support operating and maintenance expenses and maintain the financial stability of both water and wastewater enterprise funds. Both enterprise funds also need to increase revenues to support necessary and important capital projects in the City's Capital Improvement Project (CIP) program and preliminary findings from its water and sewer master planning efforts.

Preliminary findings from the rate study analysis are provided in the attached summary document, which includes an executive summary along with various supporting rate tables and figures. A comprehensive rate study report document will be finalized and provided after comments and suggestions are considered and incorporated.

PUBLIC OUTREACH

This is the first presentation introducing the preliminary rate study findings to the City Council. Future presentations will appear on the City's tentative agenda documents, which are publicly noticed meetings. This item appeared on the tentative agenda on the May 1, 2023, which was a publicly noticed meeting. Additionally, the City plans to hold a Community Public Outreach Meeting in June to share this information, hear comments, and better understand public sentiment. The Community Public Outreach Meeting will be publicized via the City's Community Update and social media channels once the meeting information is set.

The City then anticipates holding a required public hearing on August 7, 2023, to have the first new water and wastewater rates become effective on or after September 1, 2023.

It is important to note that water and wastewater utility rate increases are subject to the procedural requirements of Proposition 218. This process requires that the City mails notices of proposed rates to all affected property owners and/or customers at least 45 days before the public hearing (the draft Proposition 218 notice is provided as an attachment). Water and wastewater rate increases do not require voter approval but are subject to "majority protest" proceeding under which affected rate payers and property owners may file protests concerning the proposed rate adjustments. The City Council cannot adopt the proposed rate adjustments if written protests that meet Proposition 218 requirements are received on behalf of more than 50% of affected parcels.

COUNCIL GOAL ALIGNMENT

The 2023 Utility Rate Study aligns with the City Council Goal of "A City That Works." Specifically, Workplan Item # 171, "Complete Utility Rate Study to ensure rates support sustainable and resilient water distribution, wastewater collection and treatment, and recycled water systems."

CLIMATE ACTION/SUSTAINABILITY EFFORTS

Charging adequate rates for water and wastewater services ensures that the City can fund future operating and maintenance expenses, pay for wholesale water rate increases, and support required capital improvements to the City's overall utility infrastructure, which in turn supports our community's climate action and sustainability efforts. Utility revenues fund a variety of projects and programs that enhance the City's resiliency to drought, ensure support for emergency response activities, and maximize the conservation of water resources.

ENVIRONMENTAL REVIEW

The proposed action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with CEQA Guidelines Section 15378(b)(5), in that, approving this action does not meet CEQA's definition of a "project," because the action is just a presentation and discussion of preliminary study findings, and therefore does not have the potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment.

FINANCIAL IMPACTS

If approved, the proposed water and sewer rates that are being developed in the 2023 Utility Rate Study will result in appropriate revenues necessary to support and sustain the future operating and capital needs of our water and wastewater utilities.

ALTERNATIVES

The rate study analysis can be amended and updated in accordance with the Council's direction following discussion and consideration.

ATTACHMENTS

1. Utility Rate Study Introductory Presentation
2. Utility Rate Study Summary & Tables – DRAFT
3. Utility Rate Study Prop 218 Notice – DRAFT