

**From:** [Cochran, Brian](#)  
**To:** [-- City Council](#)  
**Subject:** Council Q&A for Tonight  
**Date:** Monday, May 15, 2023 4:00:29 PM

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Hello Mayor and Councilmembers,

We received questions on a few agenda items for tonight's meeting. Below please see the questions and staff's responses.

### **Item 3 - AMI**

#### **What percent of users does the city have email address for?**

Out of about 20,000 water customers, we have emails for about 10,000. These customers are signed up for online bill pay and receive their water bills electronically.

#### **Will the system roll that existing email address data into the new user portal?**

Yes. Our existing billing software, "Beacon," interfaces seamlessly with the new AMI system – integration with our existing infrastructure and software is an important reason why we are recommending this vendor.

It is important to note that customers who want to sign up for "Eye on Water" will be prompted to create an account within the customer portal.

#### **This approval is for equipment purchase only. When is the installation contract to be brought to Council?**

We're anticipating awarding the installation contract later this year (October or November).

#### **What is that estimated cost?**

We're estimating around \$1M-\$1.5M but we haven't received any estimates from installers directly. The estimate is based on project costs for another utility in 2020. The installation costs should also be covered by the grant. We received a total of \$7.5M in grant funding for the project.

#### **Will it be a sole source contract with Badger as well? If so, why separate the purchase and install contracts?**

No, the installation contract will go through the public bidding process. Purchasing the materials directly from the vendor at this time provides adequate lead time for manufacturing (estimated at 6 months) and minimizes the risk of supply chain issues that could arise during installation.

#### **Will the standard install replace water meters or just the AMR/AMI equipment?**

Residential meters are not expected to have the meter body replaced, only the register and endpoint. We don't expect water service interruptions for most residential

customers.

Larger commercial and industrial meters will have the entire meter body replaced with a newer technology water meter. Any water service interruptions will be coordinated beforehand with the property owners.

**Item 4 - Bus TIRCP - This is a \$3m grant. The FY24 budget Sources reflects \$940k. Why aren't the future year funds shown in the Budget?**

The City is scheduled to receive a total of \$3,080,000 for the TIRCP grant, which will be spent over the period between now and FY 26/27.

Only the transit facility improvements (\$940,000) are scheduled for FY24, with the remaining funds to be used for an electric bus purchase and bus stop improvements scheduled for FY25-FY27.

Staff is in the process of exploring a modification to the grant (allowable per CalTrans) that would make funding for these additional improvements available sooner.

**Item 9 - Rate Study**

**Page 5 of the presentation shows Petaluma cost of \$50 for 7hcf. Is 7 hcf the actual SFD average?**

Please note that water use fluctuates from year to year. Last fiscal year FY22, single family residential (SFR) water use averaged almost exactly 7 hcf (average water use over the whole year). This is the average figure that Finance has used for SFR for several years, and represents a year-round average.

The median was lower than 6 hcf as the average is typically skewed upwards by a smaller number of bills with high usage. Water use was a little higher in prior fiscal years, but also has been coming in a little lower in the current fiscal year.

**Page 6 shows a 5 hcf Winter average. Is this the actual SFD average?**

Yes, single family residential winter water consumption averaged almost exactly 5 hcf last fiscal year FY22 and has fluctuated around 5 hcf for a number of years (average winter use, which is lower and used as a baseline for residential sewer charges all year). Unlike annual water use (which can fluctuate from year to year based on weather, landscape irrigation, and other factors), winter water use does not change much from year to year as it excludes outdoor irrigation and more accurately reflects indoor water consumption that is being returned to the sewer system.

**Page 8 - is this an actual average or just an example?**

Slide 8 shows a rate survey for a low-use home with 4 hcf monthly water use and 3 hcf billed sewer use. This is an example of a low-use home.

**Having a fixed cost component stabilizes revenue. However, it penalizes those who**

**conserve. How is a balance of these competing goals determined?**

The fixed rate component helps stabilize revenues but staff suggests that it does not penalize those who conserve. A substantial portion of water and wastewater system costs are fixed annual expenses that do not vary with changes in water use or sewer discharge.

For both water and wastewater utilities (but particularly so on the wastewater side) a substantial amount of costs are incurred providing wastewater system capacity to be ready to serve customers on demand, regardless of their monthly usage. Water and wastewater rate structures were modified and re-derived in the 2017 Rate Study and resulted in a gradual 5-year phase-in of a little more fixed rate revenue recovery while still preserving a very substantial share of usage-based revenue recovery.

While one perspective is that an increase in fixed rate revenue recovery puts more burden on low-use customers, the other perspectives are that: a) all customers face the same fixed rate increases in dollars; b) even with the adjustments, the City's fixed rates are still low compared to most other agencies and compared to the City's fixed costs of service; and c) low-use customers benefit significantly from the City's current rate structure.

**It is proposed to discuss Emergency water rates. Were other options discussed? Can this be achieved by establishing a fund balance reserve level for drought stabilization?**

There are a number of ways agencies can help mitigate the financial impacts of drought including: a) adopting additional regular water rate increases to build up more fund reserves for drought stabilization; and b) authorizing water shortage contingency plan rate adjustments to support net revenue stability during periods of significant reductions in water sales. In this case, the City would have some limited fund reserves that could be used on a short-term basis, but would obtain authorization to levy additional temporary rate adjustments as needed in response to an escalating drought or water shortage. By obtaining this authorization via the Prop 218 process, Council will have the flexibility to phase in additional water shortage rate adjustments up to the maximum authorized levels if ever needed. Generally speaking, fund balance reserves can be used, but this is considered to be a more prudent strategy since it is impossible to predict the duration and severity of drought periods.

**Page 10 discusses Recycled water. Why is recycled water funded 23% from water billing?**

While recycled water has historically been considered a method of wastewater effluent disposal, it is now also recognized as a drought-proof source of water supply for qualified irrigation uses. In development of the recycled water capital improvement plan, some projects – mainly urban recycled water pipeline extensions and conversion to recycled water irrigation services at City parks – were deemed to largely provide water supply benefits (via offsets, etc.) and were hence allocated partially to water based on evaluation and input from City public works staff.

**Page 16 and 20 - why is debt financing anticipated? Why is debt funding advantageous? This seems like a looming crisis.**

While the goal is to gradually increase rates to support higher levels of recurring pay-as-you-go cash funding for capital needs, debt financing can be strategically and beneficially used to fund temporary spikes in capital needs which would otherwise needed to be funded by larger rate increases on a cash basis, or to fund major one-time projects such as a future anticipated major rehabilitation and upgrade of the wastewater treatment plant. In this case, debt financing is only included when the projections indicate it would be needed to fund non-recurring levels of elevated capital needs. The City can eventually evaluate if and when debt financing is needed in future years and cross that bridge when needed.

Using debt to fund operational costs is not a prudent practice; however, using debt to finance capital project investments is an effective way to leverage today's construction costs to invest in new technology, meet system needs, and enhance services and resiliency for the community.

**Item 11 - were any changes made to the draft budget discussed at the May 8 Council Workshop?**

No changes have been made to the draft budget at this time. However, staff is working to address comments shared at the May 8<sup>th</sup> workshop.

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