

REPORT TO CITY COUNCIL

Council Meeting of: August 18, 2021

Agenda Number: A-1

Anthony R. Forestiere

Anthony Forestiere, Finance Department Director

Arnoldo Rodriguez

Arnoldo Rodriguez, City Manager

SUBJECT:

Update on Water, Sewer, Storm Drainage and Solid Waste Rate Studies

RECOMMENDATION:

Information workshop. No formal action is being requested.

OVERVIEW:

Madera is a full-service city that provides water, sewer, solid waste, and storm drainage services to its residents. There are approximately 14,200 residential, commercial, and industrial utility customers. The last utility rate study prepared by the City was completed in 2015, which updated the utility rates for water and sewer, taking effect incrementally July 2015 through January 2020. Considering that rates are generally reviewed every five years, the City issued a Request for Proposal (RFP) in August 2020 for a study of the utility rates for water, sewer, storm drainage, and solid waste services. Of the seven proposals received, the City Council (Council) selected NBS Consulting to perform the utility rate studies. Prior to the ongoing study, the last rate study resulted in water and sewer rates taking effect in July 2015 with incremental increases through January 2020. In December 2018, the Council considered a revision to the water conservation portion of the water rates and reduced the planned increase from 10 percent to 6 percent for the fiscal year 2018/19. The storm drainage rates have not been adjusted since 1992. The solid waste services are contracted to a third party, and the fee schedule was updated in March 2017.

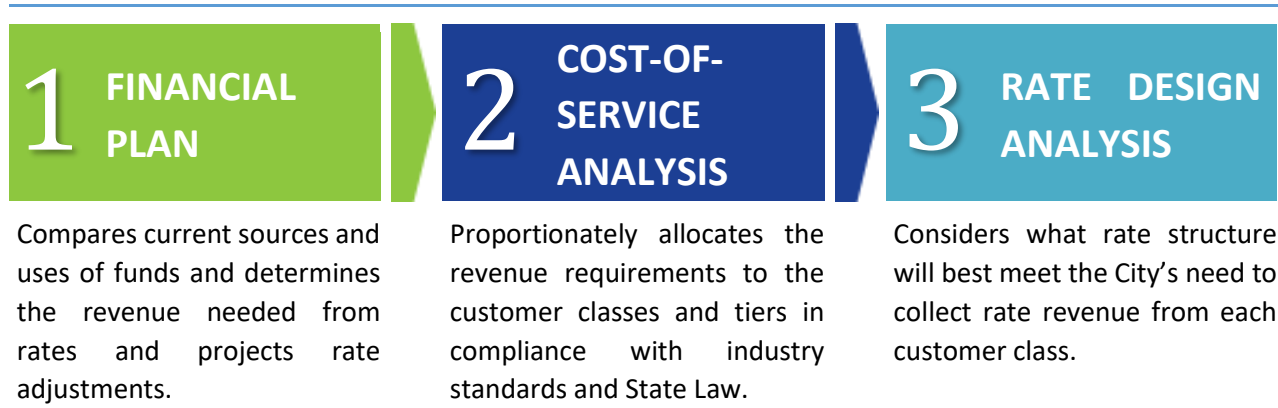
It is worth noting that utilities, including sewer, water, trash collection, and drainage are funded by user fees that provide for the daily operation and maintenance of the various systems. Said fees are viewed as property-related fees for a utility service and are subject to specific requirements of the California Constitution Article XIII D § 6(a), commonly referred to as Proposition (Prop) 218. The requirements include:

- The fees must only cover expenses to provide service to the customer assessed.

- An increase in the fee(s) must be approved by the customers under a protest-ballot procedure, where all affected property owners are notified and given the opportunity to protest the increase in writing or at a public hearing, and a majority protest prohibits the increase.
- A multi-year schedule of fee increases is allowed for up to five years.

The Prop 218 process occurs after the Council approves the rate studies. This process involves mailing a Notice of the Proposed Rate Increases to all affected customers. Any customer opposed to the rate increase would need to send a letter back to the City protesting the rate increases. If more than 50 percent of the customers are opposed to the rate increase, the increase would be blocked. The Prop 218 process also requires having a public hearing no earlier than 45 days before the mailing to receive comments on the proposed increases. At the end of this hearing, the Council would close the period to receive protests, and then count the protest ballots. If the protest failed, the Council could adopt the proposed rate increase.

Since the City’s last rate studies, COVID-19 related economic challenges, drought impacts, changes in State guidelines and evolving legal environment present unique challenges to assessing rates. Regardless, comprehensive rate studies such as this one typically includes the following three components, as outlined in Figure 1:



To date, NBS has prepared *draft* reports of the sewer, water, and storm drainage studies. Staff is in the process of reviewing said reports. In addition to these studies, NBS Consulting also prepared alternatives with different expenditures, while in anticipation of rate adjustments, Council directed staff to designate \$23 million from the American Rescue Fund to go towards the City’s sewer and water systems. It is anticipated that the \$23 million will greatly mitigate rate increases.

PURPOSE OF THIS WORKSHOP

The purpose of this workshop is to provide background on the rate setting process, eventually leading to the more formal process.