



CITY OF POMONA COUNCIL REPORT

January 28, 2019

To: Honorable Mayor and Members of the City Council

From: Linda Lowry, City Manager

Submitted by: Darron Poulsen, Water Resources Director

Subject: **Direction to Staff to Issue Required Public Hearing Notices Regarding Proposed Rate Increases/Adjustments to Water, Sewer, and Recycled Water Rates to Property Owners and Utility Customers**

OVERVIEW

Recommendations - That the City Council direct staff to issue the required water, sewer, and recycled water public hearing notices to the City property owners and utility customers for the proposed rate increases.

Fiscal Impact - After a comprehensive review of the City's Water, Recycled Water, and Sewer utilities, it was determined rate increases are necessary to allow each utility to continue to operate and maintain its infrastructure and to deliver the level of service the City's customers have come to expect. The recommended revenue increases are shown below for each of the utilities:

	July 2019	January 2020	January 2021	January 2022	January 2023
Water	10.25%	10.25%	10.25%	10.25%	7.00%
Recycled Water	7.00%	7.00%	7.00%	7.00%	7.00%
Sewer	34.00%	6.00%	6.00%	6.00%	5.00%

As water use is different for each customer, the impact to customers will differ. The numbers below provide an estimate of how the billing increase would appear on a bimonthly basis to the average customer:

Water	Sewer
\$4.10	\$5.95

As the financial information compiled to review and develop utility rates is voluminous, more detailed information can be found in the attached Raftelis Water, Recycled Water, and Wastewater Rate Study (Attachment 2).

Previous Related Action – On June 20, 2016, City Council awarded a contract to Raftelis Financial Consultants for cost of service rate study.

On April 30, 2018, City Council conducted a workshop and requested staff to conduct public outreach meetings to inform the public about the proposed upcoming Water and Sewer rate adjustments. Presentations were made along with the City's tax ballot measures (PG and PC) informational meetings at community centers throughout the City last summer and fall.

EXECUTIVE SUMMARY

After an extensive financial analysis of the City's water, sewer, and recycled water utilities, staff is recommending rate increases to ensure the utilities have resources to continue to deliver the services expected by the residents and businesses of the City. The analysis has led to recommended rate increases which cannot be approved without a public hearing. The action sought from Council is to approve the mailing of legally required public hearing notices to all City parcel owners and utility customers for a public hearing on April 15, 2019.

DISCUSSION

Raftelis Financial Consultants and the Water Resources Department evaluated the water, sewer and recycled water financial condition and its rates. This effort consisted of a comprehensive cost of service analysis for the three enterprise funds. Included within was a review of revenues, expenses, reserves, capital replacements, vehicle replacements, debt service requirements, and other items. Through this effort it was determined revenue increases are needed to allow the utilities to remain solvent and be able to continue to properly maintain utility facilities. Additionally, as the City's utilities age, replacements are necessary to prevent them from being in a constant state of disrepair.

The rates designed are based on what is considered a cost of service study. This type of study is required in the State of California (Proposition 218, 1996) whenever property related fees are being increased. The law requires that rates being charged be based on the costs to deliver service to each parcel being served on an analytically and legally substantiated basis.

Public Outreach

Over a two month period staff engaged in numerous meetings with the community. To inform the public of the proposed meetings, staff advertised the dates and times of these meetings on the City's website and social media. On June 13, 2018, staff made a presentation to the Pomona Chamber of Commerce.

The outreach efforts were intended to educate and inform the public about overall operations of the City's utilities and how the rate increases were established, to hear public concerns, and to incorporate changes and ideas received where possible. Based on the feedback received, the public appeared to understand the utilities' need for additional revenues.

Reserves

The recommended rates include adjustments to the three utilities reserve policies to include a reasonable amount of cash for contingencies beyond the standard 3 months of operating costs. A resolution amending the reserve policies will be presented at the Public Hearing.

Expenses

The recommended rates include reasonable estimates for equipment replacement, pipeline replacement, as well as offsetting operational savings which accompany timely infrastructure investment.

Tiers

A new tiered structure has been carefully engineered after review of ten years of water purchase costs and use. The City's five water sources have been grouped into three bundles, or tiers, based on similar cost and the amount of water available from the source. These tiers were used as part of the rate making process. As a result of the use of this kind of tier structure, the need for different single family residential and non-single family residential rates is proposed to be eliminated. This elimination improves compliance with Proposition 218 because the cost of water service does not vary based on the customer's use of the water.

Next Steps

If staff is given the approval to issue the public hearing notices, the following items will be completed in the timeframe delineated below.

- March 1, 2019- Send Notices of Public Hearing (Attachment 1.);
- April 15, 2019- Council holds Public Hearing and First Reading;
- May 6, 2019- Council considers Second Reading and Reserve Fund Resolution Amendments on the Consent portion of agenda;
- July 1, 2019- Rates become effective.

Attachments: 1. Draft 218 Notice of Public Hearing
2. Raftelis Water, Recycled Water, and Wastewater Rate Study

Prepared by: Chris Diggs, Water Resources Manager