

CITY OF SAN JUAN BAUTISTA

STAFF REPORT

DATE: September 15, 2015

SUBJECT: Water & Sewer Rate Increases

DISCUSSION: The Bartle Wells Associates water and sewer rate study has recommended the following water rate increases over the next five years.

The monthly base water rate increase is:

2.74%	\$49.83	-FY 2016
2.74%	\$51.20	- FY 2017
2.75%	\$52.61	- FY 2018
2.91%	\$54.14	- FY 2019
2.99%	\$55.76	- FY 2020

The monthly sewer rate increase of 1.50% per year over next five years:

1.5%	\$78.77	- FY 2016
1.5%	\$79.96	- FY 2017
1.5%	\$81.16	- FY 2018
1.5%	\$82.37	- FY 2019
1.5%	\$83.61	- FY 2020

This in itself is a reasonable rate adjustment based upon the consumer price increases of Central California. However, the elimination of tiered or variable rates in the water accounts creates an entirely new dynamic to the user. Users of "tier level one" will see a significant increase in the cost to use water, while users of "tier level three" will experience a small increase. As you can see in table 5 of the rate study, the fixed base charges have increased as a percentage of the total operating revenues, and variable revenue has decreased. This trend shows the effects on revenues water conservation has, as well as consumers' use of water efficient plumbing fixtures and facilities. As we go forward, the drought will re-educate the average consumer and condition them to be more efficient to conserve water.

The uniform user rate of \$5.64 per 1000 gallons as recommended by Bartle Wells is indirectly a water conservation rate. The more water used will cost significantly more, particularly at the tier one water rate. The proposed water rate analysis was based upon four factors: operation, contractual services, debt service and capital improvement costs. Table 8 shows the 2016 CPI costs are projected at \$654,000 and \$432,000 in 2017, with costs significantly lower in the following three years.

Table 25 provides a realistic schedule over the next five years; 2016 shows a surplus of \$129,315 with an infusion of \$400,000 from the enterprise reserve fund, to commence with the water softening plant. The following year, the CPI of \$432,000 from funds of the bond refinancing program will be used to complete the water softening plant, which shows a negative surplus of (\$8,119). The following year, 2018, the surplus will grow to \$401,788, and each year thereafter increase accordingly. It is there in the fiscal year 2018, the City Council could consider a revision to the rates to ease the increases to the consumer and still have adequate revenues to achieve programmed capital improvements to the water distribution system.

The citizens will have questions on why the costs are scheduled to increase so high. The following are some of the events and factors that affect this rate increase.

WATER RATE INCREASES ARE A RESULT OF THE FOLLOWING EVENTS & FACTORS:

1. **Tier Rates** are not allowed if not supported by a detailed cost analysis, then a uniform rate must be established.
2. **Mandatory Water Conservation** measures have severely decreased the water revenues that support expenses to provide water.
3. **The Water Well Compliance Order** from State Water Control Board, Drinking Water Division requires the City to provide a reliable source of potable water to customers meeting state water well standards. A new water well is required to meet the state compliance order.
4. **Annual Debt Payments** for the 2008 Certificate of Participation loan (COP) requires annual payments from revenues of the water and sewer enterprise fund. The annual payment is \$773,000 per year.
5. **Monthly Debt Payments** for unpaid infrastructure improvements made by the contractors are still being made. The unpaid work costs \$92,776 per year for the next three years.
6. **The Water Softening Treatment Facility** (Pellet Plant) needs to be completed to provide better quality water to the residents and meet the State Water Resources Control Board's discharge requirements to avoid the annual \$36,000 penalty assessment. The city has invested \$992,000 for equipment for the water softening plant, which has been sitting at the Well No. 3 site for the last four years.

7. **The Reserve and Emergency Fund** needs to be built up for emergency repairs and improvements to the water and sewer system. The City is situated adjacent to the San Andreas earthquake fault and emergency work could be needed any time a major earthquake strikes the area. A contingency plan must be established for such an event.