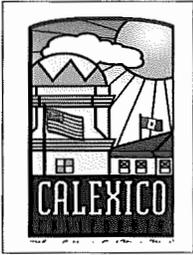


**AGENDA
ITEM**

02



AGENDA STAFF REPORT

DATE: December 5, 2018

TO: Mayor and City Council

APPROVED BY: David B. Dale, City Manager *DD*

PREPARED BY: David B. Dale, City Manager
Miguel Figueroa, Assistant City Manager *MF*

SUBJECT: Second Reading and Adoption of Ordinance No. 1190 - An Ordinance of the City of Council of the City of Calexico Adopting Fees and Charges for Water and Sewer Service and Making Certain Findings and Taking Certain Actions Relating Thereto

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Recommendation:

Second Reading and Adoption of Ordinance No. 1190 - An Ordinance of the City of Council of the City of Calexico Adopting Fees and Charges for Water and Sewer Service and Making Certain Findings and Taking Certain Actions Relating Thereto.

Background:

The City last conducted a Water and Sewer Rate Study in 2006, with annual increases through 2009. There have been no modifications to the rates since FY 2009. With annual inflation rates above 2%, the cost of collection and treatment of sewer and the treatment and distribution of potable water have risen greatly since 2009. Also, the City has identified a substantial Capital Improvement Program (CIP) for the next five years that requires funding. Although there are considerable assets in the Enterprise Funds, it is estimated that it is not enough fund the CIP.

Other local cities have recently modified their water and wastewater rates due to rising costs to purchase, treat and distribute water; and collect and treat wastewater to increasingly stricter State of California Department of Water Resources regulations. Infrastructure that was installed in the mid 1900's is starting to fail and requires costly replacement.

On November 15, 2017, the Calexico City Council approved an agreement with Willdan Financial Services to prepare a Water and Wastewater Rate Study. Over the course of the Study, policy issues aimed at accomplishing the original objectives of the Study were examined in detail. Those objectives included achieving full cost



recovery, revenue stabilization, and simplification of the rate structure, while proportionately allocating the costs of service amongst the city's customer classes. Public Hearings were conducted on June 20, 2018, June 27, 2018 and July 5, 2018. The proposed rates were not approved. On August 1, 2018 the City Council authorized the City Manager to sign an amendment to the agreement between the City of Calexico and Willdan Financial Services to update the water and wastewater rate study that is now complete. The rates presented in the updated study are lower than the proposed rates brought to Council in the prior public hearings. This is possible with the anticipation of refinancing and securing additional bonds for the water and sewer enterprise funding for the capital improvement program (CIP).

There have been no modifications to the rates since FY 2009. With annual inflation rates above 2%, the cost of collection and treatment of wastewater and the treatment and distribution of potable water have risen greatly since 2009. Also, the City has identified a substantial CIP as discussed above for the next five years that requires funding. Although there are considerable assets in the Enterprise Funds, it is estimated that it is not enough fund the CIP.

Discussion & Analysis:

The purpose of the rate study is to identify the cost of service to deliver safe and reliable water, collect and treat wastewater, and maintain the infrastructure associated with both the water and wastewater systems.

Considerations include the funding needed for the next five years to operate and maintain the systems, and determination of the adequate revenue necessary to fund the Capital Improvement Projects ("CIPs") identified in the Capital Improvement Program. Ultimately the goal is to adequately fund the operations to provide clean, safe and reliable water that meet environmental standards. That goal includes the funding of future system rehabilitation costs and the maintenance to extend the useful lives of the existing infrastructure and assets, as well as maintaining a reserve for emergencies and changes to state and federal water regulations.

The proposed water rate structure is unlike the existing structure, as there is no proposed minimum water usage. This will incentivize consumers to conserve water to save on their bill. The proposed residential rates include a fixed base rate of \$17.24 (FY 18-19) plus \$1.99 for every cubic foot of water used. The commercial base rate will be established on the meter size plus usage. Multi-unit commercial buildings with one water meter will be charged one base rate (charge dependent on meter size) plus consumption.

The proposed sewer rate structure is also modified from the existing, by reducing the monthly sewer charges for multifamily units with one water meter. Additionally, the proposed rate officially removes the excess water fees from the residential and multifamily sewer rate structure. The proposed sewer rates for residential will be \$38.08 per month. Monthly charges for multifamily units after the first unit will be \$20.43 per month.

With the proposed changes to the water and sewer rates, the average City of Calexico rates will still be substantially lower than the surrounding communities in compared costs, both in water and sewer. This is due to City staff efficiency to complete the tasks to treat

and distribute the water, and to collect and treat the wastewater. It is also due to the working capital the City has built up over the past years in the enterprise funds.

Pursuant to California Constitution article XIII D, section 6 (approved by the voters by Proposition 218), prior to imposing a new or increasing an existing property-related fee such as water and sewer rates, the City is required to hold a public hearing and mail notice of the public hearing to the record owner of the property and any tenant who is directly liable for the payment of the proposed fees (i.e., a customer of record). Proposition 218 requires that the notice include the following: (a) the amount of the fee or charge proposed to be imposed; (b) the basis upon which it was calculated; (c) the reason for the fee or charge; and (d) the date, time, and location of the public hearing.

Consistent with these requirements, the City sent the Proposition 218 Notice at least 45 days prior to this public hearing, which presents the proposed modifications to the Water and Sewer Fee structure and provides examples of the impact to typical users within the various customer classes, along with a summary explanation of the reason for the proposed rate structure changes and increases, and the basis upon which the rates were calculated.

At this time, the City Council may consider adoption of the proposed rates for Water and Sewer Fees after holding a public hearing. If a majority of the owners of separate parcels or customers of record file written protests against the proposed Water Fees or Sewer Fees, the City Council will be prohibited from adopting the increases. If not, the City may proceed with adopting the adjusted fees and charges. If no majority protest is filed, the City Council will have the first reading of the Ordinance adopting the proposed fees and charges, with a second reading to be held on December 5, 2018. The Ordinance will take effect thirty days thereafter, at which point the increased fees and charges may be imposed.

The proposed fees to take effect January 5, 2019.

At the meeting of November 28, 2018, City Council held a public hearing to receive input from the public. Council approved the first reading of the Ordinance by a 4-0 vote.

Fiscal Impact:

The result of the sewer rate structure change for the Sewer Enterprise Fund represents a revenue increase of 2.0% in FY 19-20, FY 20-21, FY 21-22 and FY 22-23.

The result of the water rate structure change for the Water Enterprise Fund represents a revenue increase of 2.0% in FY 19-20, FY 20-21, FY 21-22 and FY 22-23.

Coordinated With:

City Manager's Office.
Public Works Department.
Finance Department.

Attachment(s):

1. Ordinance Adopting Fees and Charges for Water and Sewer and Making Certain Findings and Taking Certain Actions Relating Thereto.

ORDINANCE NO. _____

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF CALEXICO, CALIFORNIA, ADOPTING FEES AND CHARGES FOR WATER AND SEWER SERVICE, AND MAKING CERTAIN FINDINGS AND TAKING CERTAIN ACTIONS RELATING THERETO.

WHEREAS, the City of Calexico (the "City") provides certain water and wastewater services and charges rate-payers fees for such services; and

WHEREAS, the Water and Sewer Fees were previously adopted in 2006, and have not been updated to reflect increased costs of providing water and sewer services for which they are charged; and

WHEREAS, the City retained Willdan Financial Services ("Willdan"), an independent fee consultant, to prepare a Water and Sewer Rate and Connection Fee Study (the "Study") to determine the rates necessary to meet the cost of providing the water and sewer services provided by the City, and a copy of the Study has been made available and remains available for public inspection at the office of the City Clerk and is incorporated herein by this reference; and

WHEREAS, based on the findings set forth in the Study, the City now wishes to adopt new and increased Water and Sewer Fees (collectively, the "Fees"), which are fair and equitable and compensate the City for the cost of providing the respective services; and

WHEREAS, the proposed Water Fees comprise two components: (1) a monthly fixed water charge ("Fixed Water Charge"), and (2) monthly volumetric water rates ("Volumetric Water Charge"); and

WHEREAS, the City charges its customers based on customer class, including Residential and Commercial, Manufacturing, and Industrial, and provides water service on a wholesale basis to Construction/Truck customers and customers purchasing water for resale ("Wholesale Customers"); and

WHEREAS, the City's customer classes are established based on shared water usage and consumption patterns, reflecting the varying demands placed on the City's water system; and

WHEREAS, the Fixed Water Charge is designed to recover a portion of the City's fixed costs for providing water service, including billing, customer service, and meter service costs; and

WHEREAS, the Fixed Water Charge is calculated based on customer class, with Residential customers paying a flat fee based on the number of dwelling units, Wholesale

Customers paying a flat fee, and the remaining Commercial, Manufacturing and Industrial customers paying a fee based on meter size; and

WHEREAS, the Volumetric Water Charge is designed to recover the remainder of the City's fixed costs for providing water service, and variable portions of the City's operating costs, and is imposed based on hundred cubic feet ("HCF") of water used per month; and

WHEREAS, the Sewer Service Fees are designed to recover the costs of providing sewer service to the City's customers, and are imposed on customers based on customer class; and

WHEREAS, the City has established four customer classes for sewer service: Residential and Non-Residential Customers, with Non-Residential Customers including Non-Residential Rate II, Non-Residential Rate III, and Non-Residential Rate IV; and

WHEREAS, Sewer Fees for Residential customers include a uniform rate determined based on the number of dwelling units served by the sewer connection, and the Non-Residential Rate customers include a monthly fixed charge and a flow rate, measured as dollars per HCF of flow; and

WHEREAS, the Sewer Service Fees are calculated based on shared characteristics of strength and flow of wastewater, and the varying demands placed on the City's sewer system per customer class; and

WHEREAS, the Fees are proposed to take effect on January 5, 2019, and to be increased in accordance with the maximum amounts set forth in Exhibit "A" hereto on each July 1 thereafter, through and including July 1, 2022; and

WHEREAS, the revenues derived from the Fees will not exceed the funds required to provide water or sewer service, and shall be used exclusively for the operation and maintenance of the water or sewer system, as the case may be; and

WHEREAS, the Fees are equitable to all customers; and

WHEREAS, the amount of the proposed Fees will not exceed the proportional cost of the water service or sewer service, as applicable, attributable to each parcel upon which they are proposed for imposition; and

WHEREAS, the proposed Fees will not be imposed on a parcel unless water or sewer service is actually used by, or immediately available to, the owner of the parcel, as applicable; and

WHEREAS, article XIII D, section 6 of the California Constitution ("Article XIII D") requires that prior to imposing any new property-related fee such as the Fees, or any increase to existing Fees, the City shall provide written notice (the "Notice") by mail of the

proposed increases to the Fees to the record owner of each parcel upon which the Fees are proposed for imposition and any tenant directly liable for payment of the Fees, the amount of the Fees proposed to be imposed on each parcel, the basis upon which the Fees were calculated, the reason for the Fees, and the date, time and location of a public hearing (the "Hearing") on the proposed Fees; and

WHEREAS, pursuant to Article XIII D such Notice is required to be provided to the affected property owners and tenants directly liable for the payment of the Fees not less than forty-five days prior to the Hearing on the proposed Fees; and

WHEREAS, the City did provide such Notice to the affected property owners and tenants in compliance with Article XIII D at least 45 days prior to the Hearing; and

WHEREAS, a public Hearing was held on November 28, 2018, noticed in the manner and for the time required by law; and

WHEREAS, at the Hearing, the City Council (the "City Council") considered all written materials and written protests to the proposed new or increased Fees received prior to the close of the Hearing, and heard oral testimony concerning the establishment and imposition of the proposed Fees, and at the close of the Hearing the City determined that it did not receive written protests against the establishment and imposition of the proposed Fees from a majority of the affected property owners or tenants directly liable for the payment of such Fees; and

WHEREAS, the Water Fees for Wholesale Customers are not subject to the requirements of article XIII D, section 6 of the California Constitution, because they are not imposed as an incident of property ownership; and

WHEREAS, the Water Fees for Wholesale Customers: (1) are imposed for a specific government activity, service, or product, provided directly to the payor; (2) are no more than necessary to recover the estimated reasonable costs of the governmental activity, service, or product, for which the Water Fee is imposed; and (3) the manner in which those costs are allocated to the payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity, service, or product, for which the Water Fees on Wholesale Customers are imposed, and the Water Fees for Wholesale Customers are not taxes within the meaning of California Constitution, article XIII C, §1(e);

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF CALEXICO DOES ORDAIN AS FOLLOWS:

SECTION 1. Recitals. The Recitals set forth above are true and correct statements, and are incorporated as an operative part of this Ordinance and made findings and determinations of the City Council by this reference.

SECTION 2. Adoption of Fees. The City Council hereby adopts the Fees in the maximum amounts and on the effective dates set forth in Exhibit "A" hereto. A bill for the Water and Sewer Fees shall be sent to the responsible parties directly.

SECTION 3. Inconsistency with Other Fees. To the extent the Fees established by this Ordinance are inconsistent with any other fee or charge previously adopted by the City Council, it is the explicit intention of the City Council that the Fees adopted pursuant to this Ordinance shall prevail.

SECTION 4. Rules and Regulations. The City Council may make rules or regulations and from time to time may amend, revoke, or add rules and regulations, not consistent with this Ordinance, as they may deem necessary or expedient in respect to billing for the Fees adopted hereby; provided, however, that no such action shall result in any Fees being increased or exceeding the cost of providing the service or product for which it is imposed.

SECTION 5. Severability. If any section, subsection, clause or phrase in this Ordinance or the application thereof to any person or circumstances is for any reason held invalid, the validity of the remainder of this Ordinance or the application of such provision to other persons or circumstances shall not be affected thereby. The City Council hereby declares that it would have passed this Ordinance and each section, subsection, sentence, clause, or phrase thereof, irrespective of the fact that one or more sections, subsections, sentences, clauses, or phrases or the application thereof to any person or circumstance be held invalid.

SECTION 6. Further Action. The City Council authorizes the City Manager, and other City staff members as designated by the City Manager or the Calexico Municipal Code, to take all actions necessary to effectuate the intent of this Ordinance and to implement the Fees adopted pursuant to this Ordinance.

SECTION 7. Certification. The City Clerk shall certify the passage of this Ordinance and shall cause the same to be entered in the book of original ordinances of the City; shall make a minute passage and adoption thereof in the records of the meeting at which time the same is passed and adopted; and shall, within fifteen (15) days after the passage and adoption thereof, cause the same to be published as required by law, in a local newspaper of general circulation and which is hereby designated for that purpose.

SECTION 8. Effective Date. This Ordinance shall take effect 30 days after its adoption.

SECTION 9. CEQA Compliance. The City Council finds that the administration, operation, maintenance, and improvements of the City's water and sewer systems, which are to be funded by the Fees as set forth herein, are necessary to maintain water and sewer service within the City's existing service areas as described herein. The City Council further finds that the administration, operation, maintenance and improvements of the City's water and sewer systems, to be funded by the Fees, will not expand the

City's water and sewer systems. The City Council further finds that the adoption of the rates for the Fees is necessary and reasonable to fund the administration, operation, maintenance and improvements of the City's water and sewer systems. Based on these findings, the City Council determines that the adoption of the Fees established by this Ordinance are exempt from the requirements of the California Environmental Quality Act pursuant to section 21080(b)(8) of the Public Resources Code and section 15273(a) of the State CEQA Guidelines. The documents and materials that constitute the record of proceedings on which these findings have been based are located at the City's offices, 608 Heber Avenue, Calexico, CA 92231.

SECTION 10. Future Fees and Charges. The Fees adopted pursuant to this Ordinance may be amended in the future by either resolution or ordinance of the City Council. A resolution adopting updated Fees shall supersede the Fees adopted herein with the same force and effect as an ordinance.

PASSED, ADOPTED, AND APPROVED by the City Council of the City of Calexico at the regular meeting this 5th day of December, 2018.

Lewis Pacheco,
Mayor

ATTEST:

Gabriela Garcia
City Clerk

APPROVED AS TO FORM:

Carlos Campos
City Attorney

EXHIBIT "A"

Water Rates

Proposed Water Rates - Fiscal Years 2018-19 through 2022-23					
Class	2018-19	2019-20	2020-21	2021-22	2022-23
Monthly Fixed Charge					
Residential - First Dwelling Unit	\$ 17.24	\$ 17.58	\$ 17.94	\$ 18.30	\$ 18.66
Additional Dwelling Unit	\$ 8.62	\$ 8.79	\$ 8.97	\$ 9.15	\$ 9.33
Commercial, Manufacturing and Industrial					
3/4-inch meter	\$ 19.11	\$ 19.49	\$ 19.88	\$ 20.28	\$ 20.69
1-inch meter	\$ 31.92	\$ 32.56	\$ 33.21	\$ 33.87	\$ 34.55
1-1/2 inch meter	\$ 63.65	\$ 64.92	\$ 66.22	\$ 67.55	\$ 68.90
2-inch meter	\$ 101.87	\$ 103.91	\$ 105.99	\$ 108.11	\$ 110.27
3-inch meter	\$ 203.94	\$ 208.02	\$ 212.18	\$ 216.42	\$ 220.75
4-inch meter	\$ 318.62	\$ 324.99	\$ 331.49	\$ 338.12	\$ 344.88
6-inch meter	\$ 637.04	\$ 649.78	\$ 662.78	\$ 676.03	\$ 689.55
Construction/Truck	\$ 102.42	\$ 104.47	\$ 106.56	\$ 108.69	\$ 110.86
Water for Resale	\$ 102.46	\$ 104.51	\$ 106.60	\$ 108.73	\$ 110.91
Volume Rate \$/100 Cubic Feet					
Residential - All Use	\$ 1.99	\$ 2.03	\$ 2.07	\$ 2.11	\$ 2.15
Commercial, Manufacturing and Industrial	\$ 3.19	\$ 3.25	\$ 3.32	\$ 3.39	\$ 3.45
Construction/Truck	\$ 7.56	\$ 7.71	\$ 7.87	\$ 8.02	\$ 8.18
Water for Resale	\$ 10.86	\$ 11.08	\$ 11.30	\$ 11.52	\$ 11.76

*Effective January 5, 2019, and increased each July 1 thereafter commencing July 1, 2019 through and including July 1, 2022.

Sewer Rates

Proposed Sewer Rates - Fiscal Years 2018-19 through 2022-23					
Class	2018-19	2019-20	2020-21	2021-22	2022-23
Fixed Charge \$/Month					
Residential - First Dwelling Unit	\$ 38.08	\$ 41.67	\$ 42.51	\$ 43.36	\$ 44.23
Additional Dwelling Unit	\$ 20.43	\$ 20.84	\$ 21.25	\$ 21.68	\$ 22.11
Non-Residential II	\$ 38.08	\$ 38.84	\$ 39.62	\$ 40.41	\$ 41.22
Non-Residential III	\$ 42.91	\$ 43.77	\$ 44.64	\$ 45.54	\$ 46.45
Non-Residential IV	\$ 47.69	\$ 48.58	\$ 49.55	\$ 50.55	\$ 51.56
Volumetric Rate \$/100 Cubic Feet					
Non-Residential II (Over 1,000 cubic feet)	\$ 3.81	\$ 3.89	\$ 3.96	\$ 4.04	\$ 4.12
Non-Residential III (Over 1,000 cubic feet)	\$ 4.29	\$ 4.38	\$ 4.46	\$ 4.55	\$ 4.64
Non-Residential IV (Over 1,000 cubic feet)	\$ 4.76	\$ 4.86	\$ 4.95	\$ 5.05	\$ 5.15

*Effective January 5, 2019, and increased each July 1 thereafter commencing July 1, 2019 through and including July 1, 2022.