



City of Gilroy

STAFF REPORT

Agenda Item Title: **Public Hearing Regarding the Proposed Water and Wastewater Rate Increases**

Meeting Date: October 16, 2023

From: Jimmy Forbis, City Administrator

Department: Finance

Submitted By: Harjot Sangha, Finance Director

Prepared By: Harjot Sangha, Finance Director

STRATEGIC PLAN GOALS

Develop a Financially Resilient Organization
Maintain and Improve City Infrastructure

RECOMMENDATION

1. Adopt as final the August 2023 Comprehensive Water and Wastewater Utility Rate Study Report prepared by NBS.
2. Adopt a resolution approving water and wastewater rate adjustments.

EXECUTIVE SUMMARY

The City engaged a consultant, NBS Government Finance Group, to conduct a Comprehensive Water and Wastewater Rate Study (Rate Study) with several objectives, including meeting revenue requirements, reviewing rising costs of providing services, funding capital improvements and change in costs, and complying with specific legal requirements, such as Proposition 218 which requires that rates not exceed the cost of providing the service and be proportionate to the cost of providing service to all customers. The Rate Study yielded that both utilities must establish multi-year rate adjustments to continue investing in the critical infrastructure and keep pace with rising operating costs. The overall rate adjustments (as a percentage) necessary for both utilities for a five-year period are as follows:

	FY24*	FY25	FY26	FY27	FY28
Water	8%	8%	6%	4%	4%
Wastewater	4%	4%	4%	4%	4%

*First-year adjustments will vary for each customer based on their customer classification, as the cost-of-service analysis has been updated to reallocate costs recovered between customer classes.

On August 21, 2023, the City Council received a presentation on the Rate Study and the proposed rate adjustments. City Council also adopted a resolution declaring intent to adjust the water and wastewater rates, commencing the Proposition 218 noticing process and setting October 16, 2023, as the date for the Public Hearing to adopt the proposed water and wastewater rates. The August 21st staff report is included as an attachment to this report.

The City has completed the required noticing and is now at the final step of the Proposition 218 process, which is to conduct the Public Hearing and adopt the rates. As of writing this report, the City has received 26 protest letters opposing the rate adjustments, which is substantially below the required majority (50% plus one) needed of approximately 15,000 customers opposing the proposed rate adjustments to not institute the adjustments.

Staff recommends the City Council conduct the Public Hearing, accept the final submission or withdrawals of protest letters, and adopt a resolution approving the water and wastewater rate adjustments.

ANALYSIS

The Rate Study was prepared in accordance with industry standards and included three primary components: 1) development of a financial plan which compared the current sources and uses of the funds and determined the revenue needed from the rates and project rate adjustments; 2) cost of service analysis which classified the expenses and allocated costs to different customer classes in a fair and equitable manner; and 3) rate design analysis which considered relationship between fixed (personnel, debt service, etc.) and variable costs (purchased water, electricity, etc.) to be recovered. The Rate Study is attached to this staff report.

Water Rates Adjustments

The table below outlines the current and proposed water rates for FY24 through FY28. It is important to note that since the last rate study in 2015, factors such as the number of meters and consumption of each customer class have changed. The cost-of-service analysis rebalances the allocation based on these factors, including the shift to 40% fixed and 60% variable proportions. As a result, there is an uneven adjustment in the first year. In subsequent years, the proposed charges are adjusted by the proposed percentage increases in total rate revenue needed for the net revenue requirement.

Public Hearing Regarding the Proposed Water and Wastewater Rate Increases

Water Rate Schedule	Current Rates	Proposed Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Service Charges						
Meter Size						
3/4 inch	\$11.53	\$20.67	\$22.32	\$23.66	\$24.61	\$25.59
1 inch	\$19.24	\$29.05	\$31.38	\$33.26	\$34.59	\$35.98
1 1/2 inch	\$38.47	\$50.02	\$54.02	\$57.26	\$59.55	\$61.93
2 inch	\$61.55	\$75.17	\$81.18	\$86.05	\$89.50	\$93.08
3 inch	\$115.39	\$142.24	\$153.62	\$162.84	\$169.36	\$176.13
4 inch	\$192.30	\$217.70	\$235.12	\$249.23	\$259.20	\$269.57
6 inch	\$384.62	\$427.32	\$461.50	\$489.19	\$508.76	\$529.11
8 inch	\$615.37	\$678.85	\$733.16	\$777.15	\$808.23	\$840.56
10 inch	\$884.50	\$1,768.83	\$1,910.34	\$2,024.96	\$2,105.95	\$2,190.19
Variable Charges for All Water Consumed (\$/1,000 gallons (or TG))						
Residential Customers - Tiered Volumetric Rates			Uniform Vol. Rates			
Tier 1 - Zone 1	\$4.39	\$4.00	\$4.32	\$4.58	\$4.77	\$4.96
Tier 1 - Zone 2	\$4.93	\$4.37	\$4.72	\$5.00	\$5.20	\$5.41
Tier 1 - Zone 3	\$5.52	\$4.73	\$5.11	\$5.41	\$5.63	\$5.85
Tier 2 (more than 20 TG)						
Tier 2 - Zone 1	\$4.93	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 2	\$5.47	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 3	\$6.06	N.A.	N.A.	N.A.	N.A.	N.A.

Note: The proposed rates for FY24 will be implemented on January 1, 2024, and annually on January 1 for subsequent fiscal years thereafter

Wastewater Rates Adjustments

The table below outlines the current and proposed wastewater rates for FY24 through FY28. Like the water rates, the first year’s rates reflect the cost-of-service adjustments that occur based on changes in customer classes, consumption, and other factors. The projected rates for subsequent years are adjusted by the proposed 4% annual increases.

Sewer Rate Schedule	Current Rates	Proposed Sewer Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Charge						
Residential (100% Fixed)						
Single-Family Residence	\$46.64	\$51.07	\$53.11	\$55.24	\$57.45	\$59.74
Multi-Family Residence	\$33.13	\$34.39	\$35.77	\$37.20	\$38.69	\$40.23
Non-Residential Volumetric Rates						
Low Strength	\$7.41	\$8.36	\$8.69	\$9.04	\$9.40	\$9.78
Domestic Strength	\$9.21	\$9.51	\$9.89	\$10.29	\$10.70	\$11.12
Medium Strength	\$12.08	\$13.15	\$13.67	\$14.22	\$14.79	\$15.38
High Strength	\$18.63	\$21.56	\$22.42	\$23.32	\$24.25	\$25.22
Non-Residential - Monitoring & Pretreatment Program Base Rate Monthly Charges						
Significant/Categorical	\$240.95	\$287.19	\$298.68	\$310.63	\$323.05	\$335.98
Non-Significant/Categorical	\$95.22	\$114.64	\$119.22	\$123.99	\$128.95	\$134.11
Other Non-Residential	\$11.47	\$15.47	\$16.09	\$16.73	\$17.40	\$18.09

Note: The proposed rates for FY24 will be implemented on January 1, 2024, and annually on January 1 for subsequent fiscal years thereafter

Public Hearing

The Public Hearing is the final step of the Proposition 218 process to adopt the water and wastewater rate adjustments, which is being conducted after the minimum of 45 days from the mailing of the notification of proposed rate adjustments. As of the writing of this report (October 10, 2023), 26 written protest letters have been received regarding the rate adjustments, which is substantially below the required majority (50% plus one) needed from approximately 15,000 customers opposing the proposed rate adjustments to not institute the adjustments. The Council is required to accept all written protests

received before the close of the Public Hearing. Provided a majority protest is not received, Staff recommends the City Council approve the recommended rate adjustments by adopting the resolution. The first of the approved increases would become effective on January 1, 2024, and annually on January 1st for subsequent fiscal years.

ALTERNATIVES

Council could elect not to adopt the resolution approving the rate adjustments. This is not recommended as both water and wastewater utility rates have not been adjusted since 2019, and it is vital for the City to continue investing in critical utilities' infrastructure and keep pace with rising operational costs.

FISCAL IMPACT/FUNDING SOURCE

The fiscal and resource impact of preparing the report is included in the staff's annual workplan. The total cost for the comprehensive water and wastewater rate study is \$72,325, which was budgeted and funded by the Water (705) and Wastewater (700) Funds.

The new rates would generate an average of \$2.7 million annually for the water utility and an average of \$1.8 million for the wastewater utility over the next five-year period.

PUBLIC OUTREACH

The public outreach process commenced in early August, ahead of the Rate Study presentation to the City Council and included the City's communication channels such as social media posts, weekly Email Express, and monthly utility bills with links to the dedicated utility rate adjustment webpage on the City's website with relevant information and notices available in both the English and Spanish language. City staff also conducted a community meeting on September 6, 2023, which was attended by several community members. The outreach resulted in increased customer service inquiries to the utility billing function via phone, email and in person where staff provided pertinent rate adjustment information.

NEXT STEPS

Provided Council adopts the resolution approving the new rates, staff will begin a communication campaign advising customers of the upcoming rate adjustments which will be implemented on January 1, 2024.

Staff will conduct similar notification annually thereafter for subsequent rate adjustments in the five-year period.

Attachments:

1. Draft Resolution
2. August 21, 2023 – Staff Report
3. Rate Study