



STAFF REPORT

MEETING DATE: October 11, 2023

PRESENTER: Josefina Alvarez, Finance Director

SUBJECT: Study Session - Water, Wastewater and Storm Drain Rate Study 2023 Draft Report (JA)

RECOMMENDATION: Council receive Water, Wastewater and Storm Drain Rate Study 2023 Draft Report and presentation, discuss, receive public input, and provide direction to staff.

EXECUTIVE SUMMARY:

The City of Kerman contracted Lechowicz and Tseng to conduct a study of our Water, Wastewater and Storm Drain Rates and update these rates based on reasonable cost of service to proportionally recover costs, provide funds to cover debt obligations, repair and replacement of infrastructure and fund reserves for emergencies.

Staff provided consultant with financial data, expected capital projects for the next five years, operation and maintenance costs, billing history, revenues and any other data necessary to put together some draft figures for Water, Wastewater and Storm Drain Funds.

Based on input and direction from the Study Session, a Final Report will be prepared. The Final Report will be presented to the Council on October 25. At the meeting, Council will consider accepting the Final Report and set a public hearing date. Once the date is set, staff will prepare and issue the required 45-day public hearing notices. We note the process is different for storm drain which is based on approval by the property owners rather than by majority protest which is the process for water and sewer. Therefore, two notices will be sent. We further note the inclusion of drought water rates will be reviewed from a legal perspective. There may be further information at the Study Session regarding those rates.

One of the major factors in this rate study was the cost of upgrading to cellular meters. Staff is still in the process of starting this procedure, but is already putting together a Request for Proposal to commence this project. Staff is currently obtaining meter reads by having our Waste Water Treatment Plant Grade II Operator drive all around Kerman with an antenna and laptop to pick up the reads.

Because water meters are over 20 years old, they are starting to loose connection and staff has to manually read 450 meters (300 not transmitting and 150 on the list to be upgraded and currently being read manually). After all meters are read, staff has to manually enter all the reads in Springbrook, which currently takes over a week to complete the entire process.

Upgrading to Cellular meters would eliminate all manual labor. Staff no longer would be required to obtain manual reads with the new meters; reads are imported every 15 minutes. Residents will have the capability to log in to Eye on Water, an application which allows residents to monitor usage, sign up for alerts, possible leaks and other helpful information. In addition, other data and information would be available to assist both Public Works and Finance.

The Water Fund is in a healthy financial position with current revenues covering operating costs, capital costs, and debt repayment. The 3% revenue increase is proposed to keep up with inflationary cost increases. However, two rate structure changes are proposed for the water rates: increases to the meter replacement fee and new drought rates. The City currently collects a \$0.50 monthly charge for metering services for all customers. This is proposed to increase to \$6.50 per month for 3/4" meters and \$7.15 per month for 1" meters and scales up for larger meter sizes. This fee is to accumulate funds for the eventual replacement of the meters at the end of their useful lives. It is also recommended the City adopt a series of drought rates. These are optional increases to the volume rate the City could implement during water shortages. They are intended to cover costs when water sales decline due to drought.

Sewer rate increases are needed due to several factors:

1. Revenues need to keep up with inflationary cost increases such as increases to utilities, equipment, and supplies.
2. In recent years, the City has spent down a portion of its reserves to conduct deferred repairs of the wastewater treatment plant. Current sewer reserves are about \$650,000 while the recommended reserve is about \$1 million. It is proposed rate revenues rebuild the reserve over the next five years.
3. The need for the City to maintain strong debt coverage for its outstanding loan. Absent a rate increase, the Sewer Fund is projected to barely meet its debt coverage requirement. As costs increase, the Sewer Fund could fall out of compliance with its loan obligations, which would have a negative impact on the Sewer Fund's credit rating and ability to secure future debt.

The City has not raised its storm drain rates in many years. Current storm drain rate revenues generate about \$85,000 while operating expenses are over \$140,000. Thus, the Storm Drain Fund is operating at a deficit. It is proposed that rate revenues increase to meet operating costs and have reserves available to fund major capital projects. Moreover, it is proposed the City adjust its rate structure. Storm rates are currently billed as a fixed charge of \$1.60 per month for residential customers and a volume rate of \$0.0736 per 1,000 gallon of metered water use (if over the \$1.60 minimum) for non-residential customers. It is recommended the City bill for storm services based on land use type and parcel size as these factors are more indicative of each customer's impact on the storm drain system.

Below is a draft rate schedule of the Water, Wastewater and Storm Drain Rates, which would commence February 1, 2023, through December 31, 2028.

Table 8: Proposed Monthly Water Rates
City of Kerman
Utility Rate Study

		Proposed Proposition 218								
		February 1, 2024			January 1, 2025			January 1, 2026		
Meter Size	Current	Base Fee	Meter Fee	Total Fee	Base Fee	Meter Fee	Total Fee	Base Fee	Meter Fee	Total Fee
3/4"	\$28.67	\$29.26	\$6.50	\$35.76	\$30.14	\$6.50	\$36.64	\$31.04	\$6.50	\$37.54
1"	\$43.81	\$44.75	\$7.15	\$51.90	\$46.09	\$7.15	\$53.24	\$47.47	\$7.15	\$54.62
1.5"	\$81.65	\$83.46	\$8.45	\$91.91	\$85.96	\$8.45	\$94.41	\$88.54	\$8.45	\$96.99
2"	\$127.07	\$129.92	\$9.75	\$139.67	\$133.82	\$9.75	\$143.57	\$137.83	\$9.75	\$147.58
3"	\$248.18	\$253.82	\$13.00	\$266.82	\$261.43	\$13.00	\$274.43	\$269.27	\$13.00	\$282.27
4"	\$384.43	\$393.20	\$16.25	\$409.45	\$405.00	\$16.25	\$421.25	\$417.15	\$16.25	\$433.40
6"	\$762.91	\$780.36	\$19.50	\$799.86	\$803.77	\$19.50	\$823.27	\$827.88	\$19.50	\$847.38
Volume Rate (\$/1,000 gallons)	\$1.27			\$1.33			\$1.37			\$1.41
DROUGHT RATES - Volume Rate (\$/1,000 gallons)										
10% Water Cutback				\$1.39			\$1.43			\$1.47
25% Water Cutback				\$1.50			\$1.55			\$1.60
40% Water Cutback				\$1.68			\$1.73			\$1.78
		Proposed Proposition 218								
		January 1, 2027			January 1, 2028					
Meter Size		Base Fee	Meter Fee	Total Fee	Base Fee	Meter Fee	Total Fee			
3/4"		\$31.97	\$6.50	\$38.47	\$32.93	\$6.50	\$39.43			
1"		\$48.89	\$7.15	\$56.04	\$50.36	\$7.15	\$57.51			
1.5"		\$91.20	\$8.45	\$99.65	\$93.94	\$8.45	\$102.39			
2"		\$141.96	\$9.75	\$151.71	\$146.22	\$9.75	\$155.97			
3"		\$277.35	\$13.00	\$290.35	\$285.67	\$13.00	\$298.67			
4"		\$429.66	\$16.25	\$445.91	\$442.55	\$16.25	\$458.80			
6"		\$852.72	\$19.50	\$872.22	\$878.30	\$19.50	\$897.80			
Volume Rate (\$/1,000 gallons)				\$1.45			\$1.49			
DROUGHT RATES - Volume Rate (\$/1,000 gallons)										
10% Water Cutback				\$1.52			\$1.56			
25% Water Cutback				\$1.64			\$1.69			
40% Water Cutback				\$1.84			\$1.89			

Table 9: Current and Proposed Sewer Rates
City of Kerman
Utility Rate Study

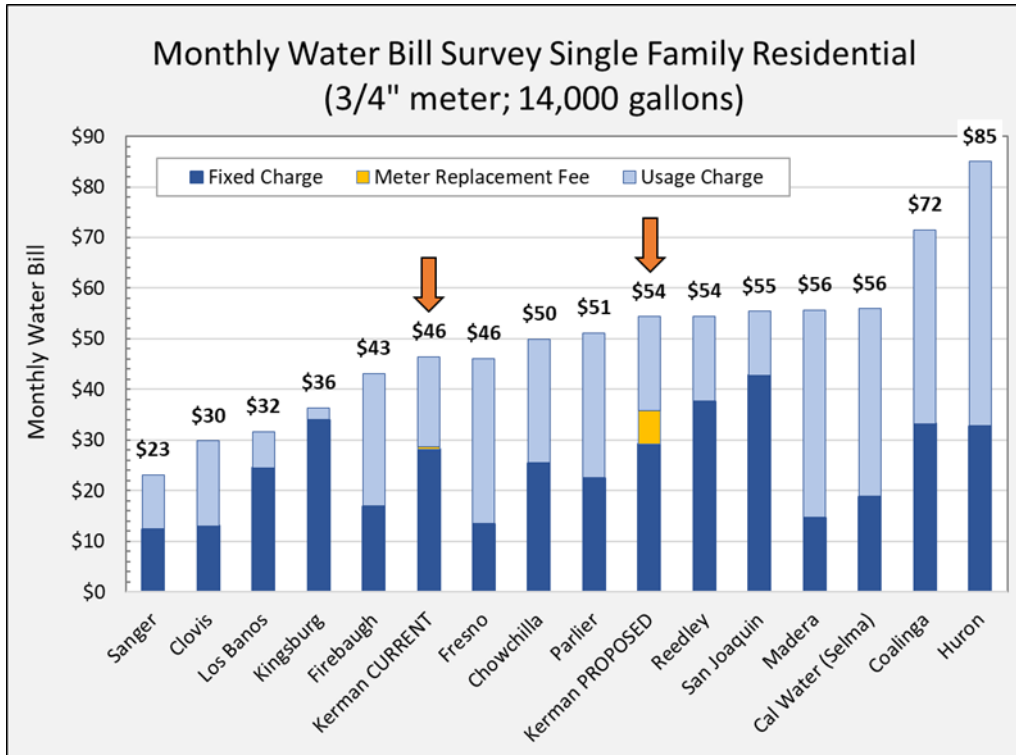
Fixed Charges (\$/mo)	Current Rates	Proposed				
		1-Feb-24	1-Jan-25	1-Jan-26	1-Jan-27	1-Jan-28
Residential						
Base	\$15.53	\$15.79	\$17.05	\$18.41	\$19.88	\$21.47
Flow	<u>\$19.12</u>	<u>\$20.72</u>	<u>\$22.38</u>	<u>\$24.17</u>	<u>\$26.10</u>	<u>\$28.19</u>
Total	\$34.65	\$36.51	\$39.43	\$42.58	\$45.98	\$49.66
Multi-Family Unit						
Base	\$15.53	\$15.79	\$17.05	\$18.41	\$19.88	\$21.47
Flow	<u>\$10.75</u>	<u>\$15.54</u>	<u>\$16.78</u>	<u>\$18.12</u>	<u>\$19.57</u>	<u>\$21.14</u>
Total	\$26.28	\$31.33	\$33.83	\$36.53	\$39.45	\$42.61
Commercial (Base)	\$15.53	\$15.79	\$17.05	\$18.41	\$19.88	\$21.47
Commercial Volume Rates (\$/1,000 gal)						
Low Strength	\$2.39	\$2.59	\$2.80	\$3.02	\$3.26	\$3.52
Medium Strength	\$2.75	\$2.98	\$3.22	\$3.48	\$3.76	\$4.06
High Strength	\$3.18	\$3.44	\$3.72	\$4.02	\$4.34	\$4.69

Table 4: Proposed Monthly Storm Drain Rates
City of Kerman
Utility Rate Study

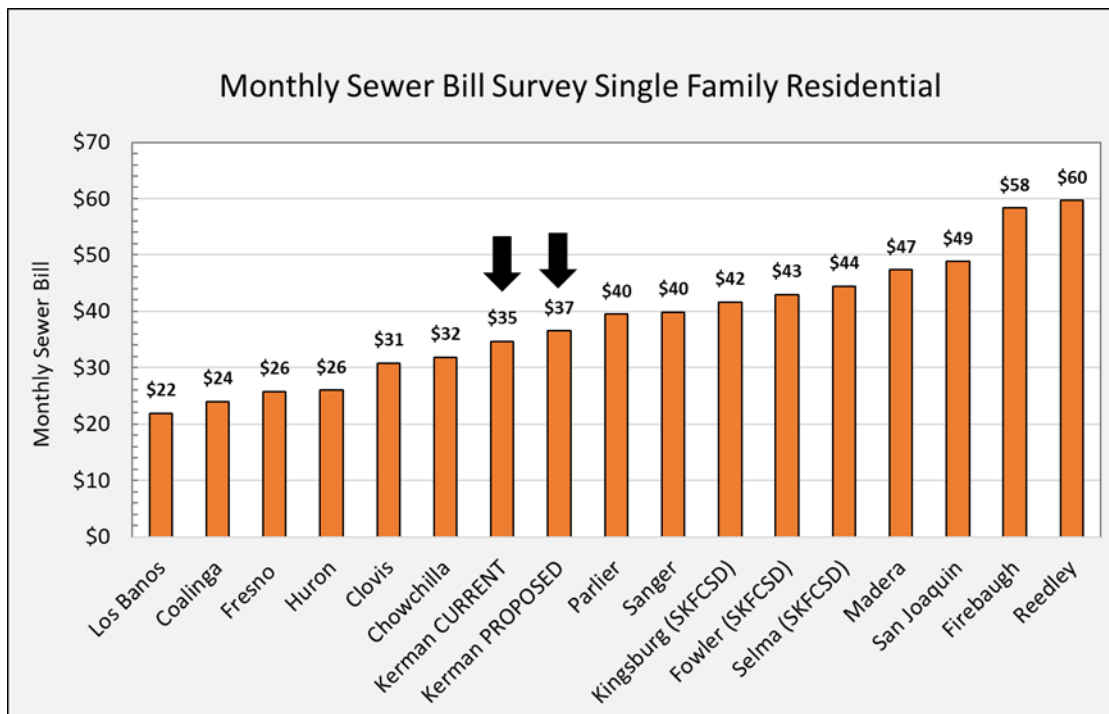
Customer Class	Current		Proposed					
			1-Feb-24	1-Jan-25	1-Jan-26	1-Jan-27	1-Jan-28	
Single Family	per account	\$1.60	per account	\$1.45	\$1.49	\$1.53	\$1.58	\$1.63
Multi-Family	per account	\$1.60	per acre	\$10.65	\$10.97	\$11.30	\$11.64	\$11.99
Commercial	per account	\$1.60	per acre	\$12.17	\$12.54	\$12.92	\$13.31	\$13.71
Industrial	per account	\$1.60	per acre	\$13.69	\$14.10	\$14.52	\$14.96	\$15.41
Church	per account	\$1.60	per acre	\$7.60	\$7.83	\$8.06	\$8.30	\$8.55
Schools	per account	\$1.60	per acre	\$4.56	\$4.70	\$4.84	\$4.99	\$5.14
Parks	per account	\$1.60	per acre	\$1.52	\$1.57	\$1.62	\$1.67	\$1.72

Water, Wastewater and Storm Drain Rate Comparison to other local utilities

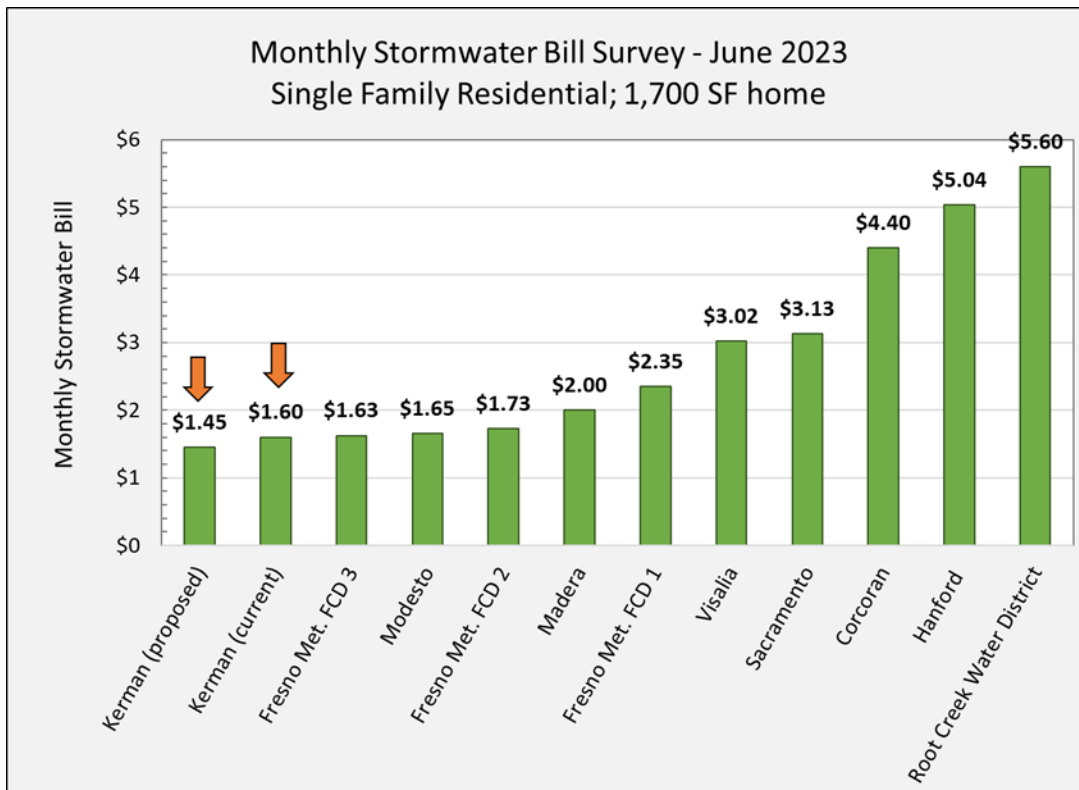
In comparison to other utilities, the water rate would be in mid-range with most other cities at about \$54.00 and as noted on the graph below, the water meter replacement fee is primarily the reason for the increase.



The wastewater rate is in the low mid-range when compared to other utilities. The wastewater rate would be increased to about \$37.00.



The Storm Drain Rate is on the lowest end when compared to other utilities. It was difficult to find other Fresno County cities billing for storm drain to compare rates. Storm drain for residential accounts would decrease by about \$0.15 for the first year and storm drain would bill per acre for every other service.



FISCAL IMPACT:

The proposed fees, if adopted, would generate an increase to all three funds to help maintain all infrastructure, operations and maintenance, new and ongoing capital projects, debt obligations and help maintain a health reserve balance for emergencies.

ATTACHMENTS:

- A. Water, Wastewater and Storm Drain Rate Study 2023 Draft Report