



## AGENDA STAFF REPORT

**MEETING DATE:** 11/7/2023

**AGENDA SECTION:** GENERAL BUSINESS

### **SUBJECT:**

Presentation from Lechowicz & Tseng Municipal Consultants on the Rate Study for water, wastewater and storm drain rates and Council direction to staff and consultants to commence with the Proposition 218 process and set the Hearing Date & Time for January 16, 2024 at 7pm for the proposed rate increases.

### **RECOMMENDATION:**

Recommendation: That City Council receive a presentation from Lechowicz & Tseng Municipal Consultants on the Rate Study for water, wastewater and storm drain rates and provide direction to staff and consultants to begin the Proposition 218 process and set the date of the required public hearing for January 16, 2024.

Recommended Motion: Authorize staff and consultants to begin the Proposition 218 process.

### **BACKGROUND:**

Utility operations in water, sewer and storm drain are self-supporting enterprise funds that provide services for a fee. Charges for service through rates are the primary source of funding for operations and also fund a significant portion of the capital improvement program which includes the debt service (principal and interest) for bonds issued to fund these projects. Developer fees are the other funding source for capital projects. However, impact fees paid by developers are legally limited to addressing the impacts caused by the impacts of the developers' projects. For example, a project's impact fees may not be utilized to address normal wear and tear to infrastructure improvements that are not caused by that project.

It has been five years since water rate adjustments. The last water rate increase was July 1, 2018 (adopted in Resolution No. 15-60-R on December 15, 2015). The last sewer/storm rate increase was July 1, 2011 (adopted in Resolution No. 09-77-R on November 17, 2009) over twelve years ago. Without updating rates the City will not have long term sustainability.

City Council has the authority to approve rate changes when necessary to ensure the continued recovery of costs for services and to secure reinvestment into the system infrastructure for long term sustainability.

Proposition 218 (Prop 218), approved in 1996, adds Article XIII D (Voter Approval for Local Tax Levies) to the California Constitution. All property-related fees, such as water, wastewater and storm drain fees and charges, must meet Prop 218's requirements. It applies to most utility charges and fees; however, electric and gas utility charges were specifically exempted from the definition of

property-related charges in the statute. The City is required to provide notice of proposed increases to the sewer, water and refuse collection service fees and charges to all affected ratepayers and record receipt of all written protests during a public hearing. Prop 218 prohibits increases to fees and charges if a majority of the affected ratepayers submit written opposition to proposed increases. Per Government Code Sections 53750 and 53751, the California Legislature has determined that, for purposes of Proposition 218, "sewer" includes sanitary sewer and storm water collection and disposal systems. As a result, increases to storm water fees are subject to Proposition 218's "majority protest" rules and do not require voter approval. Any new rates (if warranted) are recommended to be in place by February 1, 2024.

The City's utilities are faced with many current and future challenges including aging infrastructure, preserving groundwater supply, adapting to changing water and wastewater quality regulations, and increased operational and capital costs. A growing proportion of Hanford's utility infrastructure is aging beyond its expected useful life. For example, the expected useful life of water distribution pipeline is 40 years. Hanford's operational costs are not immune to the impacts of inflation, which increase construction and equipment costs as well. In addition, adequate fund balance must be maintained to maintain applicable bond requirements and sustain operations in event of a fiscal emergency.

The consultant Lechowicz & Tseng and staff provided Council with a preliminary look at the needs of the water and sewer enterprises at the September 19, 2023 City Council Meeting. After receiving Council direction at the September 19, 2023 City Council Meeting, staff and the consultant reviewed and modified the study, addressed issues raised by Council and the City Attorney and are providing Council with an updated version of the study that establishes the rates to be proposed as part of the Proposition 218 process.

#### **FISCAL IMPACT:**

Based on Council direction today, staff and the consultant could begin the Proposition 218 process including public notices of a rate change effective as of February 2024.

The proposed five-year water utility rate plan will fund future operating and capital costs, maintain reserve levels and financial metrics that comply with approved fiscal and reserve policies, and maintain current bond ratings to keep current and potential borrowing costs for capital investments low.

#### **ATTACHMENTS:**

1. Rate Report Final 11.1.23
2. Prop 218 Notice L&T DRAFT 11.7.23