

**Why is a sewer rate increase necessary?**

The City imposes its sewer service charges to fund the City’s costs of operating and maintaining the sewer collection and sewage treatment systems, as well as to pay off the costs of constructing that system. The proposed increases will generate the funding needed to provide wastewater service according to permit requirements and State Water Board mandates. The revised rates will also provide reliable future revenue for financing the City’s Capital Improvement Plan. All rates are designed to evenly spread costs among sewer users according to the cost of providing service to that user. Even with the proposed rate increase in place, the City will draw upon reserves for the first three years to cover the full costs and will not hit the target reserves needed until FY 2026/27, at which point the City will begin to replenish the reserve funds to begin coming into compliance with the City Reserves Policy.

**What is our current rate? What will it be increased to?**

The City’s current and future proposed rates are listed below. These rates are the maximum rates that can be implemented in each year.

Sewer Rate Schedule	Current Rates ('20/21)	Proposed Sewer Rates <sup>1</sup>				
		FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
<b>Fixed Service Charge</b>						
Single Family Residential	\$40.19	\$47.19	\$52.85	\$59.19	\$66.29	\$74.24
Multi-Family Residential (per unit)	\$40.19	\$27.28	\$30.55	\$34.22	\$38.33	\$42.93
Commercial	\$40.19	\$55.69	\$62.37	\$69.85	\$78.23	\$87.62
<b>Volumetric Charge (\$/hcf)</b>						
Commercial ( <i>Applied to Average Winter Water Use</i> )						
Car Wash	\$3.05	\$2.32	\$2.60	\$2.91	\$3.26	\$3.65
Hospital & Rest Home	\$3.17	\$2.78	\$3.11	\$3.48	\$3.90	\$4.37
Jail	\$3.54	\$3.49	\$3.91	\$4.38	\$4.91	\$5.50
Laundry	\$3.42	\$2.58	\$2.89	\$3.24	\$3.63	\$4.07
Market & Morgue	\$3.94	\$5.65	\$6.33	\$7.09	\$7.94	\$8.89
Motel & Hotel	\$3.22	\$3.01	\$3.37	\$3.77	\$4.22	\$4.73
Restaurant & Bakery	\$4.18	\$6.06	\$6.79	\$7.60	\$8.51	\$9.53
Other Commercial	\$3.01	\$3.49	\$3.91	\$4.38	\$4.91	\$5.50

<sup>1</sup> Implementation date for FY 2021/22 rates is July 1, 2021, then July in 2022 through 2025.

**What justifies such a sizable rate increase for Single-Family Residential and Commercial Users?**

Rates are set based on usage, and for commercial users an additional volumetric charge based on industry. The current rates are the same as they have been since 2007, *fourteen years ago*. While the rates have been fixed since 2007, costs have risen (the Consumer Price index has risen by 76.85% between 2007 and April of 2021, average pace of more than 5.4% per full year over that span of time.) A copy of the chart showing the consumer price index increases since 1955 to the present can be found at: <https://www.dir.ca.gov/OPRL/CPI/EntireCCPI.PDF>. The current proposed rate increase is not out of line with the increases in CPI over that span and reaching into the future to FY 2025/26. These rate increases are graduated increases of 15% in 2021/22, then 12% in each of the four years following.

### **What happens if we do not raise the rates or increase rates at a lower level?**

The City of Willows requested that the authors of the Waste Water Rate Study provide alternatives to raising the rates to meet the needs identified by the Rate Study. They have provided a summary of those. This summary is available to the public through the City's website as a file called "Alternative Scenarios for Sewer Rate Study".

One scenario is a rate increase of 10% for single-family residential users in each of the next five years. Under that rate increase amount, the City would be able to fund the Operation and current maintenance expenses and most of the current debt service obligations. The Study authors concluded that at rate increases of 10% per year the City would not be able to cover the costs of "pay as you go" capital projects and would not be able to bring reserves to meet target levels in the City's Reserve Policy. If the City did move forward with Capital projects under this scenario, reserves would be entirely depleted and go into the negative on or before Fiscal Year 2023/24.

Another scenario is a rate increase plan of 8% for single-family residential users in each of the next five years. Under that rate increase amount, the City would be able to fund operations and current maintenance and most of the current debt service obligations, similar to the 10% scenario. However the City's Waste Water reserve would be even more severely impacted, running into the negative in FY2023/24 and over \$900,000 into the negative by the end of FY 2025/26 along with capitol project will not be funded.

If the City does not raise wastewater rates and maintains current rates, it will be able to continue to fund operation and current maintenance costs until FY 2023/24. After FY 2023/24 the current rates will not fully cover the basic cost of operation and current maintenance. The City will not be able to fund the full costs of current debt service beginning in this Fiscal Year (2021/22) and will be unable to cover any of the debt service costs by FY 2023/24. The City would also be unable to contribute to capital improvement projects or reserves in any of the next five years and on into the future.

The practical effects of not increasing rates to the necessary degree are that the City will be unable to maintain or complete a Capital Improvement Plan, which includes projects to fix aging infrastructure and meeting mandated requirements from the State Water Resources Control Board. Overall, sewer infrastructure will continue to deteriorate without the funding needed to maintain it. The sewer system may face system failures such as sanitary sewer overflows onto the streets, which will further increase costs for all users.

### **Is the sewer system in deep disrepair or financially unstable?**

No. The current rates, however are not sufficient to prevent the system from experiencing fiscal instability as we move forward, nor would the current rates allow appropriate maintenance, repairs or replacement of aging parts of the sewer infrastructure and collection system. If not maintained, the system will fall into disrepair as we move forward. This is why the rate increases are needed and why they are proposed at the levels the study identified as necessary to cover the costs of delivering the service.

### **What will the new charge be for a “typical” household?**

All residential users will receive a minimum annual charge according to the above chart,

Currently	\$482.28 yearly or \$40.19 per month	
Proposed 21/22 15%	\$566.28 yearly or \$47.19 per month	\$7.00 increase per month.
Proposed 22/23 12%	\$634.29 yearly or \$52.85 per month	\$5.66 increase per month
Proposed 23/24 12%	\$710.28 yearly or \$59.19 per month	\$6.34 Increase Per month
Proposed 24/25 12%	\$795.48 yearly or \$66.29 per month	\$7.10 increase Per Month
Proposed 25/26 12%	\$890.88 yearly or \$74.24 per month	\$7.95 increase Per Month

Bills are placed on the property tax bill and are typically paid by the property owner.

### **Why is Multi Family Cheaper than Single Family?**

Rates are set, for residential users, based on usage. Usage is determined by evaluating winter water consumption by type of user (single-family, or multi-family). Multi-family users consume less per residential unit than single-family users and therefore they pay a lesser share of costs that is proportionate (per unit) to their usage.

### **When were rates last raised? What was the percent increase?**

The last increases happened in 2005-2007, annual sewer rates increased 28% 27% & 15% in each of those respective years. Between 2007-2021, there has been no change to the sewer rate. On average in those years CPI has increased by 76.85% (2007 through April of 2021). Note that rates are projected a further five additional years into the future, out to 2025/26. A copy of the chart showing the consumer price index increases since 1955 to the present can be found at: <https://www.dir.ca.gov/OPRL/CPI/EntireCCPI.PDF>. The current proposed rate increase is consistent with the increases in CPI over that span and reaching into the future to FY 2025/26.

### **Was the sewer enterprise fund misused in the past?**

City council has given direction to request an audit of the prior five years of the Sewer Enterprise Fund from the California State Controller's Office. Once the audit is complete, the City would respond to the results with appropriate corrective action based on the recommendations. The current proposed rate increases are based on a current comprehensive sewer rate study conducted by an outside professional firm, and included a study that reviews the City's cost allocation plan so that indirect costs are correctly shared between each fund based on the City's present status. Both the Rate Study and Cost Allocation Plan are available on the City's website for public review.

### **What is the City's Reserve Policy? Does the sewer fund meet the City reserve policy requirements?**

The City maintains a general fund reserve policy at a minimum of 15% Catastrophic Reserves and 10% budget stabilization reserves (a total of 25%). Capital and special projects reserves may be set aside in addition to these designated reserves that are used to address unforeseen emergencies or disasters, significant changes in the economic environment and key infrastructure and capital projects. The reserves are evaluated each year during the budget preparation process. When a fund is used or depleted below the 25% threshold, Council is to develop a 1-5 year reserve replenishment plan. The

sewer funds currently meet the minimum City reserve policy requirements for the General Fund but will be depleted and not in compliance without rate increases to support the fund. The reserves will continue to erode for the next three fiscal years under the proposed graduated rate increase plan to mitigate the graduated nature of the increases – meaning essentially that while the rates gradually rise to meet the system needs, the reserves will be used until the rates catch up a few years from now. It is not known whether the reserves will, in each year, remain in compliance with the policy requirement, however the proposed rates, if adopted, are expected to begin to restore the reserves into a healthy position in FY 2026/27

### **What is the process for implementing these rates?**

In compliance with California law, the City sent notices to all property owners regarding the potential rate increase and identifying the proposed rates from the rate study. Following a 45-day waiting period, the City then will hold a public hearing, scheduled for August 12, 2021 to consider the proposed rates. If a majority of property owners or a tenant from a property submit written protests (maximum of one protest per parcel) against the new sewer rate before the close of the hearing, the City will not implement the new rate. Otherwise, the new rate will be considered by the City Council and, if approved, placed on the property tax bills issued later in 2021.

### **What if I don't agree with the proposed rates?**

Property owners who do not agree with the proposed rates can submit a written protest to the City. Protests are limited to one per parcel (whether that protest is received from an owner or tenant) and must be actually received prior to the close of the public hearing on August 12, 2021. Actual receipt is required – postmarks are not acceptable to establish the date of receipt.

### **Can multiple owners or multiple tenants or a combination of owners and tenants file a protest vote?**

Written protest votes may be filed by an owner or a tenant of an affected parcel. Only one protest per parcel is counted (for example if both an owner and a tenant, or multiple tenants or owners file protests for the same parcel, these are counted as one single protest vote). However, everyone is invited to present oral or written testimony to the City Council at the public hearing.

### **How do the sewer rate adjustment benefit my family and I?**

You benefit from the assurance your wastewater will be conveyed to the wastewater treatment plant, maintenance will be performed to minimize sewer backups and overflows that can damage your property, structures, and contents. The prudent operations and maintenance of the sewer utilities protect you, the environment, public safety, and our sewer resources. The rate increases also allow for the city to maintain the current level of service by allowing for the replacement of aging infrastructure. This will minimize the need for larger future rate increases as a result of deferring infrastructure improvements.

### **Where can I find more information on the proposed rate and cost justification?**

The full sewer rate study conducted by NBS Associates and other related documents can be found on the City's website at [www.cityofwillows.org/news/sewer-rate-presentation](http://www.cityofwillows.org/news/sewer-rate-presentation). If you have any questions about the proposed rates, feel free to contact City Hall at (530) 934-7041