Willows City Council
Special Meeting-Sewer Rate Adjustment Public Hearing In Accordance With Proposition 218

May 21, 2020
Willows City Hall
6:00 p.m.

Agenda

201 North Lassen Street
Willows, CA 95988
(530) 934-7041

City Council
Kerri Warren, Mayor
Larry Domenighini, Vice Mayor
Gary Hansen, Council Member
Lawrence Mello, Council Member
Joe Flesher, Council Member

Interim City Manager
Wayne Peabody

City Clerk
Tara Rustenhoven

1. **CALL TO ORDER - 6:00 p.m.**
2. **PLEDGE OF ALLEGIANCE**
3. **ROLL CALL**
4. **PUBLIC COMMENT/WRITTEN COMMUNICATIONS**

   a. Public Comments:
   Pursuant to N-25-20 issued by Governor Gavin Newsom, this City Council meeting will be CLOSED to the public to prevent the transmission of the COVID-19 virus. Members of the public may attend the meeting telephonically by following the instructions below. In accordance with the Ralph M. Brown Act public comment during this Special Meeting is limited to only those item(s) appearing on the agenda. Members of the public wishing to address the Council may do so at this time by stating your name and address. Then please wait until you are recognized by the Mayor or Vice Mayor. No formal action will be taken unless the matter is placed on a future agenda. Each caller will be limited to three (3) minutes.
   Dial in Number: (605) 313-5611
   Access Number: 404150

   NOTE: Comments pertaining to the Proposed Sewer Rate Adjustment will be heard during the Public Hearing portion of the meeting—Item 6 below.

5. **COUNCIL DISCUSSION AND POSSIBLE ADOPTION of a Resolution entitled:**

   "A Resolution of the City Council of The City of Willows Establishing Sewer User Fees."

   5A. **PUBLIC HEARING** – The City Council will open and conduct a public hearing regarding:

   Proposed 5-Year Rate Increase Program for the City of Willows Sewer Enterprise Fund.

6. **CONTINUANCE OF COUNCIL DISCUSSION AND POSSIBLE ADOPTION (5) AND PUBLIC HEARING (5A) –** Due to current restrictions on public gatherings, the City Council will, by motion, continue the Council Discussion and Possible Adoption of a Resolution (Item 5 above) and Public Hearing (Item 5A above) to Monday, June 22, at 6:00 p.m.

7. **ADJOURNMENT**

This agenda was posted on May 18, 2020.

Tara Rustenhoven, City Clerk

A complete agenda packet, including staff reports and back-up information, is available for public inspection during normal work hours at City Hall or the Willows Public Library at 201 North Lassen Street in Willows or on the City's website at www.cityofwillows.org.

In compliance with the Americans with Disabilities Act, the City of Willows will make available to members of the public any special assistance necessary to participate in this meeting. If requested, the agenda shall be made available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132). The public should contact the City Clerk's office at 934-7041 to make such a request. Notification 72 hours prior to the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

May 21, 2020

AGENDA ITEM

TO: Honorable Mayor Warren and Members of the Willows City Council

FROM: Tim Sailsbery, Administrative Services Director

SUBJECT: Sewer Rate Structure – 5-Year Program

RECOMMENDATION

By resolution, establish adjusted sewer use fees for the next five (5) years commencing on July 1, 2020.

SITUATION (or BACKGROUND):

What are We Doing?

The Sewer Enterprise Fund (sewer collection and treatment) is a stand-alone enterprise fund of the City of Willows. Sufficient revenues must be collected to cover the cost of operations, debt services and capital and equipment needs of the enterprise. We have reached the point where sewer service rates are not covering operations, debt service and capital needs.

Why are We Doing This?

As noted, current rates no longer sustain sewer operations. As operational costs have steadily increased, particularly in the areas of contract services, utilities, and personnel, funds are no longer available to cover operations and debt service, let alone apply to capital needs. We are digging into Sewer Enterprise Reserves and have been doing so for the last 5 years. Current rates are too low to provide the necessary revenue to sustain operations, debt service, and capital programs. Further, it is projected that the rates need to be adjusted over a spread out, five years to move closer to covering these costs by 2024-2025.

Rates have not been adjusted since July 2007. Our rate payers have not experienced a rate increase for 13 years.

How Do We Get There?

The City contracted with Rural Communities Assistance Corporation ("RCAC") to undertake a five-year rate study (Exhibit 1). As a result of the rate study and cost analysis, in 2019 Staff proposed, based on RCAC's April 2019 rate study, that the Council adopt a 5-year plan increasing rates by 9.5% the first year and 9.3% for each of the following four years. Council rejected that proposal and directed staff to return during FY 2020-21 with a revised rate increase proposal. That revised proposal is before Council this evening.

Council formed a committee, which included two volunteer members of the public, to review sewer operations and costs. Please note that this committee did not reach an agreement or consensus on a rate structure. In addition, two town hall meetings were conducted during which citizens were encouraged to provide comment and ask questions.

In addition, Staff has reviewed costs associated with the operation of the sewer collection and treatment system. As a result of these efforts, Staff proposes a five-year plan which increases sewer user rates 5% each year of the plan. For residential users, the first-year increase is the equivalent of $ 24.11 per year.

Please note that, again, it has been 13 years since the last rate adjustment. Exhibit 3 notes a rate comparison between increasing 3% per year over the last 13 years and proposed rate increase.

Affordability?

The State Revolving Loan Fund and the USDA set affordability standards for sewer service fees. Sewer rates within 1.5% to 2.0% of median household income ("MHI") are considered to meet the standard of "affordable." The City does not set these standards, nor does the City have control over the measurement of median household income. The City's current residential rate of $40.19 per month is 0.956% of the MHI. Under the proposed rate structure, percentage of MHI in the final year of this rate structure (2024-25) will be 1.22%. The proposed rate increases do not exceed affordability standards as established and are necessary for the sustainability of the sewer system.

Capital Needs?

The rate study is proposed with a capital portion of $200,000 to $250,000 per year (as instructed by City Staff). RCAC points out in the rate study that the recommended capital infusion from rates per should be closer to $345,000.

FINANCIAL CONSIDERATIONS:

If approved, first year additional revenue for the Sewer Enterprise Fund is estimated be $ 80,000 over current, second year $84,000 over first, Third year $88,200 over second, fourth year $92,600 over third, and fifth year $97,250 over fourth.

NOTIFICATION

Proposition 218 Notification of Hearing Letters were mailed to customers of record on March 27, 2020 which is 55 days prior to this hearing date.

ALTERNATIVES

1. **Adopt Resolution increasing sewer rate adjustment as presented.**
2. **Reject Proposal for Rate Adjustment and provide further direction to Staff.**

RECOMMENDATION

By resolution, establish adjusted sewer user fees for the next five (5) years commencing on July 1, 2020.

May 21, 2020

Respectfully submitted,

/s/ Tim Sailsbery

Tim Sailsbery
Administrative Services Director

Attachments:

Exhibit 1 – RCAC Rate Study
Exhibit 2 – Resolution ___ - 2020
Exhibit 3 – 3% Per Year Scenario

City of Willows Wastewater Rate Study

Prepared by: Mary Fleming

Rural Community
Assistance Corporation
3120 Freeboard Drive, Suite 201
West Sacramento, CA 95691

April 2019

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PART I: INTRODUCTION

1.1 City of Willows (The City)

The City of Willows, California (The City) was incorporated in 1886, under the provisions of the State of California. The City operates under a Council-Manager form of government and provides the following services: public safety, streets, sanitation, culture-parks-recreation, public improvements, planning and zoning, and general administrative services.

Willows is the county seat of Glenn County, California. The city is a home to regional government offices, including the California Highway Patrol, California Department of Motor Vehicles, the United States Bureau of Reclamation and the main offices of the Mendocino National Forest, which comprises about one million acres of Federal land located mostly in mountainous terrain west of Willows. According to American Community Survey (ACS), Willows population was estimated to be 6,055 in 2017. According to the United States Census Bureau, the city has a total area of 2.9 square miles, of which, 2.8 square miles is land and 0.03 square miles is water. Willows has a number of notable historical buildings. The current post office building, which was built in 1918, is listed on the National Register of Historic Places.

1.2 Rural Community Assistance Corporation (RCAC)

RCAC provides training, technical and financial resources and advocacy so rural communities can achieve their goals and visions. As a nonprofit organization established in 1978, RCAC has provided services to low-income residents of rural, Native American, Alaska Native and native Hawaiian communities in 13 western states and the Western Pacific. RCAC program areas include environmental infrastructure (drinking water, wastewater, solid waste), affordable housing, community development finance, and economic and leadership development.

PART II. PURPOSE AND OBJECTIVE

2.1 Wastewater System

The City owns and operates a sewer infrastructure system that serves the residents and commercial connections within the city and residents of the Northeast Willows Community Services District. The system includes a wastewater treatment plant, a sewer collection system and sewer lift stations. The system provides tertiary treatment of sanitary wastewater as well as treatment and conditioning of the solids removed at the treatment plant. RCAC was contracted by The City to complete a comprehensive analysis of the sewer enterprise current service rates. The analysis includes detailed review of historic and budgeted costs, with an eye toward cost savings.

2.2 Fiscal Sustainability

An accurate and useful rate analysis not only identifies the total annual revenue required by a utility to conduct its normal day-to-day operations, but it also anticipates and plans for future operating and capital needs. Furthermore, the analysis attempts to determine whether the projected revenue under existing rates will satisfy those needs. The primary objective of this process is to ensure that the utility has the ability to obtain sufficient funds to develop, construct, operate, maintain, and manage its sewer system on a continuing basis, in full compliance with federal, state and local requirements.

DISCLAIMER
The recommendations contained in this rate analysis are based on financial information provided to RCAC by The City. Although every effort was made to ensure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein.

PART III. FINANCIAL PLANNING

3.1 Objective of Financial Plan

The objective of developing a financial plan for water and wastewater systems is to determine cash needs, revenue requirements and anticipated timing of utility costs to ensure that adequate funds are available to meet operational and maintenance needs as they occur. Financial planning for a small wastewater system normally includes an examination of:

- Operating revenues,
- Operation and maintenance (O&M) expenses,
- Debt service (principal and interest payments) on borrowed funds, and
- Reserve requirements.
    - Debt Service Reserves
    - Emergency Reserves
    - Operating Reserves
    - Capital Improvement (Replacement) Reserves

The financial plan calculates the minimum revenues necessary to maintain a viable and self-sustaining enterprise.

3.2 **Operating Revenues:** Revenues are the main sources of income to a utility and are typically thought of as operating and non-operating. Operating revenue is the stable and reliable income that comes from customer rates or user charges. Non-operating revenue such as interest on checking and reserve accounts, late payments, penalties and reconnection fees may also be considered operating revenue if they are stable and

dependable revenue sources. In reviewing financial statements, it was determined that most of the sewer enterprise's revenue is from charges for services. Therefore, for purposes of this analysis, the FY 2017/2018 rates and number of connections was used for operating revenue.

3.3 **Operating Expenses:** This is the first cost category that is considered when developing a financial plan. Operating and maintenance costs include the day-to-day expenses of providing wastewater disposal to customers. Expenses include labor, insurance, materials, electricity and chemicals. Historic actual costs and the approved budget for FY 2018-2019 were the sources for costs assumptions in this analysis. Assumed inflation rates of 3 – 5 percent were projected forward for a five year period.

3.4 **Wastewater System Reserves:** Reserves are an accepted way to stabilize and support utility financial management. Small systems usually fund the operating expenses but don't often consider putting money aside for a specific upcoming financial need or project, or for an amount that can be used to provide rate stabilization in years when revenues are unusually low or expenditures are unusually high. The rationale for maintaining adequate reserve levels is two-fold. First, it helps to ensure that the utility will have adequate funds available to meet its financial obligations in times of varying needs. Second, it provides a framework around which financial decisions can be made to determine when reserve balances are inadequate or excessive and what specific actions need to be taken to remedy the situation.

Utility reserve levels can be thought of as a savings account. Reserve balances are funds that are set aside for a specific cash flow requirement, financial need, project, task, or legal covenant. Common reserve balances are established around the following four areas: operating reserve, capital improvement and replacement reserve, emergency reserve, and debt service reserve. These balances are maintained in order to meet short-term cash flow requirements, and at the same time, minimize the risk associated with meeting financial obligations and continued operational needs under adverse conditions.

3.4.1 **Debt Service Reserve:** Wastewater utilities that have issued debt to pay for capital assets will often have required reserves that are specifically defined to meet the legal covenants of the debt. Normally, debt service reserve represents an amount equal to one full annual loan payment and can be accumulated to this level over a period of five to 10 years.

On August 10, 2004, , The City entered into a loan agreement with the United States Department of Agriculture - Rural Development Serves (USDA-RD) for a loan agreement for the improvement of its wastewater facilities. The maximum loan amount is $6,889,000 to be repaid over 40 years at an interest rate of

4.125%. At June 30 2018, the loan balance was $5,934,000. The City has fully funded the required debt reserves of approximately $352,000.

3.4.2 Short Lived Asset Reserve: Some lenders require an annual set aside for short-lived assets. Unlike the debt service reserve, the funds in this account may be utilized for those replacements, but they must be replenished to keep the balance at the required amount. The Administrative Services Director told RCAC that no short-lived asset reserve is required on the USDA-RD loan.

3.4.3 Operating Reserve: Operating reserves are established to provide the utility with the ability to withstand short term cash-flow fluctuations. There can be a significant length of time between when a system provides a service and when a customer pays for that service. In addition, a system's cash flow can be affected by weather and seasonal demand patterns. A 45-day operating reserve is a frequently used industry norm. Because of potential delays in collecting payment many utilities attempt to keep an amount of cash equal to at least 45 days or one-eighth of their annual cash operating and maintenance (O&M) expenses in an operating reserve to mitigate potential cash flow problems. The calculations in this analysis assume funding a 12.5 percent operating reserve over a five year period.

3.4.4 Emergency Reserve: In addition to operating reserves, emergency reserves are an important tool for financial sustainability. Emergency reserves are intended to help utilities deal with short-term emergencies which arise from time to time, such as main breaks or pump failures. The appropriate amount of emergency reserves will vary greatly with the size of the utilities and should depend on major infrastructure assets. An emergency reserve is intended to fund the immediate replacement or reconstruction of the system's single most critical asset; an asset whose failure will result in an immediate water outage or threat to public safety. The Administrative Services Director stated that the debt reserves also serve as emergency reserves. If it is utilized it must be replenished over time.

3.4.5 Capital Improvement Reserve (CIP): A capital improvement reserve (also called a repair and replacement reserve) is intended to be used for replacing system assets that have become worn out or obsolete. Annual depreciation is frequently used to estimate the minimum level of funding for this capital reserve, but it is important to understand that depreciation expense is an accounting concept for estimating the decline in useful life of an asset and does not represent the current replacement cost of that asset. As an example, a brand new system with a construction cost of $1 million and a service life of 100 years should (in

theory) be setting aside $10,000 per year to fully capitalize the replacement cost of the infrastructure as it wears out. Many smaller systems find this to be impossible because of the effect on rates, which explains the large number of small systems that are falling into disrepair.

To initiate a capital improvement plan (CIP), a small sewer system will start with a list of assets that includes the remaining service life and theoretical replacement costs in today's dollars. It then calculates the monthly and annual reserve that must be collected from each customer to fully capitalize the replacement cost of each asset. In reality, the assets will fail and be replaced gradually, but the replacement cost of sewer system assets is often a shock to small systems that are struggling to keep rates reasonable.

One alternative method is to set-aside an annual amount equal to one-to-two percent of the total original cost asset value of the utility's property. Larger systems often have sufficient non-operating revenue to fund these reserve levels without affecting rates, but smaller systems often do not, leaving them to fund their CIP reserves from rates alone. The City periodically reviews and updates its reserve policy and budgeted reserve amounts to ensure that the Wastewater Enterprise has sufficient resources to adequately provide for capital projects and unforeseen emergencies. The equipment depreciation schedule indicates total purchase costs of $13,890,379. Assuming a past inflation rate of 2% and future inflation rate of 3 percent and assuming 20 percent of the costs will be funded through grants, 60 percent funded with loans, the annual CIP contribution should be $345,080. Due to the impact on the customers, an alternative budget was created assuming only $200,000 annual contribution to CIP reserves.

PART IV: AFFORDABILITY INDEX

4.1 Median Household Income

The affordability index measures the burden of costs passed from the utility to the users against the median household income (MHI) for the area and is used by funding agencies to determine grant and low interest loan eligibility. Many funding organizations look for an affordability ratio of a minimum of 1.5 percent before approving grant money to low income communities. According to 2017 American Community Surveys (ACS), Willows had an estimated MHI of $50,429. The City currently has a residential sewer service rate of $40.19 monthly. This would put the current rate affordability index at 0.96 percent. The proposed rate adjustment will result in an affordability index by year five that remains under 1.5 percent.

Affordability Index = average annual residential bill for wastewater/annual MHI.

PART V: WASTEWATER RATE BASICS

5.1 Rate Structures

The following are types of rates structures common to wastewater systems:

5.1.1 Uniform Flat Rate: All customers pay the same amount. This type of rate is easiest to administer; however, it may not be fair to those producing less waste.

5.1.2 Equivalent Unit (EU): In this type of structure, customers are charged by the number of EUs determined by the type or size of the specific class of connection. An equivalent unit is established, usually based on a single family dwelling, such as one kitchen and one bathroom. The fee for one equivalent unit is determined. Each customer is charged based on the number of EU's that have been assigned to his or her connection. For example a single family residence may be assigned one EU while a laundromat may, by the nature of its business, be assigned four EU's.

5.1.3 Biochemical Oxygen Demand (BOD): BOD is the amount of dissolved oxygen needed by aerobic biological organisms in a body of water to break down organic material present. In this type of rate structure the rate is based on waste strength commonly associated with a particular type of connection and the necessary effort to break down the waste.

5.1.4 Water Usage: Wastewater rates are often based on water usage. The assumption in this case is that the more water that is used by a connection, the more wastewater that connection will produce. With this type of rate a base rate is established and a commodity rate is charged based on water usage.

5.2 Willows Rate Structure

The City's current rate structure is a flat fee for all residential services and flow charges for commercial services. The flow charges are based one hundred cubic feet (ccf) of water used with a per unit cost based on type of commercial account. Commercial connections are subject to a minimum charge. RCAC and The City discussed alternate rate structure methods and The City pointed out that other methods would require additional city personnel to maintain, consequently increasing costs.

5.3 Potential Growth

The City will not rely upon growth in the short-term and long-term future. Census information indicates Willows has experienced a slow decline in population over the past several years.

TABLE 1: Current Rate Structure

Current Rates	
Residental ($/Mo.)	$ 40.19
Commercial ($/CCF)	
Motel/Hotel	$ 3.22
Hospital/Rest Home	$ 3.17
Restaurant/Bakery	$ 4.18
Market/Morgue	$ 3.94
Laundry	$ 3.42
Car Wash	$ 3.05
Jail	$ 3.54
Other Commercial	$ 3.01

Part VI: BUDGETED COSTS

6.1 2019/2020 Budget

The City's budgeted costs for the wastewater enterprise for fiscal year ended (FYE) June 30, 2020, was in the amount of $2,010,880, including $351,889 for debt service, $35,585 for operating reserves and $200,000 for CIP reserves. It is anticipated the CIP reserves will be expended on system improvements in the same year they are collected.

6.2 Significant Costs

Typically the highest costs for operating a wastewater facility are salaries, contract operators and utilities. The City's costs follow that convention.

6.2.1 Electricity

In an effort to save costs, The City negotiated a power purchase agreement with a solar company. The results of the agreement have been disappointing because solar panels have underperformed. The City continues to seek cost reductions in this area.

6.2.2 Salaries

Salaries for the enterprise are projected to increase by 3 percent annually. Wastewater staff include one supervisor, two maintenance staff, level 2 and one maintenance staff, level 1. Employee retirement and health benefits are projected to increase by 5% annually.

6.2.3 Debt

The Wastewater enterprise has one long term note with USDA-RD with a balance of $5,934,000 at June 30, 2018. The annual payments total approximately $352,000. The City has attempted to refinance the debt to more favorable terms but has been unable due the funder's concern regarding deficiency of current rates.

6.2.4 Contract Operator

The City maintains a contract with Severn Trent Services, Inc., for operation of the plant facility. The services include operations and maintenance of the wastewater system. Charges for the services were $648,315 FYE 6/30/2018. The 2019/2020 budget projects costs of $654,000 with annual 3% increases. The contract will expire and be up for re-negotiation on 6/30/2020.

TABLE 2: BUDGETED COSTS FYE 6/30/2020 and PROJECTED COSTS SUBSEQUENT YEARS

Description	2019/2020 Fund Support Sewer	2020/2021 Fund Support Sewer	2021/2022 Fund Support Sewer	2022/2023 Fund Support Sewer	2023/2024 Fund Support Sewer
	$ 1,586,774	**$ 1,586,774**	**$ 1,586,774**	**$ 1,586,774**	**$ 1,586,774**
Salaries	$ 178,386	$ 183,738	$ 189,250	$ 194,927	$ 200,775
Overtime	$ 16,000	$ 16,480	$ 16,974	$ 17,484	$ 18,008
PERS	$ 81,061	$ 85,114	$ 89,370	$ 93,838	$ 98,530
Health Insurance	$ 90,308	$ 94,823	$ 99,565	$ 104,543	$ 109,770
FICA	$ 16,335	$ 17,152	$ 18,009	$ 18,910	$ 19,855
Workers Compensation	$ 11,530	$ 11,876	$ 12,232	$ 12,599	$ 12,977
Unemployment	$ 400	$ 412	$ 424	$ 437	$ 450
Life Insurance	$ 252	$ 252	$ 252	$ 252	$ 252
Office Expense	$ 600	$ 618	$ 637	$ 656	$ 675
Special Departmental	$ 4,500	$ 4,635	$ 4,774	$ 4,917	$ 5,065
Small Tools	$ 600	$ 618	$ 637	$ 656	$ 675
Uniform Expense	$ 2,800	$ 2,884	$ 2,971	$ 3,060	$ 3,151
Telephone	$ 950	$ 979	$ 1,008	$ 1,038	$ 1,069
PG&E	$ 170,000	$ 175,100	$ 180,353	$ 185,764	$ 191,336
Building Maintenance	$ 2,500	$ 2,575	$ 2,652	$ 2,732	$ 2,814
Vehicle Maintenance	$ 20,000	$ 20,600	$ 21,218	$ 21,855	$ 22,510
Vehicle - Tires	$ 2,000	$ 2,060	$ 2,122	$ 2,185	$ 2,251
Vehicle - Fuel	$ 14,000	$ 14,420	$ 14,853	$ 15,298	$ 15,757
Equipment Maintenance	$ 21,000	$ 21,630	$ 22,279	$ 22,947	$ 23,636
Professional Services	$ 20,000	$ 20,600	$ 21,218	$ 21,855	$ 22,510
Contractual Services	$ 654,000	$ 673,620	$ 693,829	$ 714,643	$ 736,083
Insurance	$ 25,600	$ 26,368	$ 27,159	$ 27,974	$ 28,813
Travel & Meetings	$ 300	$ 309	$ 318	$ 328	$ 338
Dues & Memberships	$ 2,000	$ 2,060	$ 2,122	$ 2,185	$ 2,251
Training	$ 300	$ 309	$ 318	$ 328	$ 338
First Aid & Safety	$ 250	$ 258	$ 265	$ 273	$ 281
Discharge Permit	$ 10,500	$ 10,815	$ 11,139	$ 11,474	$ 11,818
General Administration	$ 77,234	$ 79,551	$ 81,938	$ 84,396	$ 86,928
Total Operating Costs	$ 1,423,406	$ 1,469,855	$ 1,517,885	$ 1,567,552	$ 1,618,917
Sewer Loan Repayment - 2007 Renovation	$ 351,889	$ 352,083	$ 352,071	$ 351,853	$ 351,429
Debt Reserves (Assumes one Annual Payment is Fully Funded)	$ -	$ -	$ -	$ -	$ -
Operating Reserves (assumes funding 12.5% of annual budget over 5 years)	$ 35,585	$ 36,746	$ 37,947	$ 39,189	$ 40,473
Emergency Reserves (assumes fully funding @ 6/30/2019)					
Capital Improvement Reserves	$ 200,000	$ 250,000	$ 200,000	$ 250,000	$ 200,000
Total Costs	$ 2,010,880	$ 2,108,684	$ 2,107,903	$ 2,208,594	$ 2,210,819

Part VII: RATE ANALYSIS

7.1 Current Rates

In reviewing the current rate against the projected costs, it is clear the rates will not cover the costs, even with the reduction in CIP reserve funding. Table 3, below, compares current rates to projected costs.

TABLE 3: CURRENT RATES AGAINST PROJECTED COSTS

Current Rates against Projected Costs	# Units Billed	Monthly Rate	Average Monthly Revenue	Average Annual Fee Revenue		
Residential - In City Limits	2,476	$ 40.19	$ 99,510.44	$ 1,194,125		
Residential - Northeast Willows CSD	302	$ 40.19	$ 12,137.38	$ 145,649		
Total Base Revenue	**2,778**		**111,648**	**$ 1,339,774**		
Flow Charges	**Rate Per CCF**	**Average Annual Usage**	**Billable Usage (100 CFs)**	**Average Annual Flow Revenue**		
Motel/Hotel	$ 3.22		-	$ -		
Hospital/Rest Home	$ 3.17		-	$ -		
Restaurant/Bakery	$ 4.18		-	$ -		
Market/Morgue	$ 3.94		-	$ -		
Laundry	$ 3.42		-	$ -		
Car Wash	$ 3.05		-	$ -		
Jail	$ 3.54		-	$ -		
Other Commercial	$ 3.01		-	$ -		
Total Flow Charges		**$ -**	**$ -**	**$ 260,000**		
County Fees (Contra Revenue)				**$ (13,000)**		
Budget Assuming 3% - 5% nflation per year	**6/30/2020**	**6/30/2021**	**6/30/2022**	**6/30/2023**	**6/30/2024**	**5 Year Total**
Total Monthly Required Reserves Fund	$ 19,632	$ 19,632	$ 19,632	$ 19,632	$ 19,632	
Total yearly required reserve fund	$ 235,585	$ 286,746	$ 237,947	$ 289,189	$ 240,473	$ 1,289,940
Debt Service	$ 351,889	$ 352,083	$ 352,071	$ 351,853	$ 351,429	$ 1,759,325
Sewer Maintenance - Personnel	$ 394,272	$ 409,847	$ 426,076	$ 442,990	$ 460,618	$ 2,133,803
Sewer Maintenance - Operations	$ 1,029,134	$ 1,060,008	$ 1,091,808	$ 1,124,563	$ 1,158,299	$ 5,463,812
Total Operating Budget	**$ 2,010,880**	**$ 2,108,684**	**$ 2,107,903**	**$ 2,208,594**	**$ 2,210,819**	**$ 10,646,881**
Revenue:	**1/31/2020**	**1/31/2021**	**1/31/2022**	**1/31/2023**	**1/31/2024**	**5 Year Total**
Estimated Annual Revenue From Base Rate	$ 1,339,774	$ 1,339,774	$ 1,339,774	$ 1,339,774	$ 1,339,774	$ 6,698,869
Estimated Annual Revenue - Usage Charges	$ 260,000	$ 260,000	$ 260,000	$ 260,000	$ 260,000	$ 1,300,000
Estimated County Cost of Collection (Contra Revenue	$ (13,000)	$ (13,000)	$ (13,000)	$ (13,000)	$ (13,000)	$ (65,000)
Total Operating Revenue	$ 1,586,774	$ 1,586,774	$ 1,586,774	$ 1,586,774	$ 1,586,774	$ 7,933,869
Net Operating Revenue/(Loss)	**$ (424,106)**	**$ (521,910)**	**$ (521,129)**	**$ (621,821)**	**$ (624,045)**	**$ (2,713,011)**
Non-Operating Revenue						
Interest Revenue	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 75,000
Sewer Connection	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 75,000
Interest on Sewer Connection Fees	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 17,500
Total Non-Operating Income	$ 33,500	$ 33,500	$ 33,500	$ 33,500	$ 33,500	$ 167,500
Net Revenue/(Loss)	**$ (390,606)**	**$ (488,410)**	**$ (487,629)**	**$ (588,321)**	**$ (590,545)**	**$ (2,545,511)**

7.2 Recommended Rate Adjustment

In analyzing the information, a number of alternatives and cost cutting measures were discussed with The City management. While it would normally be recommended that a much higher amount in CIP reserves be funded, the impact to the rates was prohibitive. Various rate alternatives with the reduced CIP reserve funding were explored. The City opted to spread the necessary increase over a five year period with a 9.5 percent increase in the first year followed by 9.3 percent annual increases in subsequent years. It is expected the first two years will be operated at a significant loss that will be recovered in the final three years of these projections. Table 4 illustrates this recommendation.

TABLE 4: RECOMMENDED RATE ADJUSTMENT

Adjusted Rates against Projected Costs	# Units Billed	Monthly Rate	Adjustment	Adjusted Rate	Average Monthly Revenue	Average Annual Fee Revenue
			9.50%			
Residential - In City Limits	2,476	$ 40.19	$ 3.82	$ 44.01	$ 108,963.93	$ 1,307,567
Residential - Northeast Willows CSD	302	$ 40.19	$ 3.82	$ 44.01	$ 13,290.43	$ 159,485
Total Base Revenue	**2,778**				**122,254**	**$ 1,467,052**
Flow Charges	**Rate Per CCF**	**Adjustment**	**Adjusted Rate**	**Average Annual Usage**	**Billable Usage (100 CFs)**	**Average Annual Flow Revenue**
		9.50%				
Motel/Hotel	$ 3.22	0.3059	$ 3.53		-	$ -
Hospital/Rest Home	$ 3.17	$ 0.30	$ 3.47		-	$ -
Restaurant/Bakery	$ 4.18	$ 0.40	$ 4.58		-	$ -
Market/Morgue	$ 3.94	$ 0.37	$ 4.31		-	$ -
Laundry	$ 3.42	$ 0.32	$ 3.74		-	$ -
Car Wash	$ 3.05	$ 0.29	$ 3.34		-	$ -
Jail	$ 3.54	$ 0.34	$ 3.88		-	$ -
Other Commercial	$ 3.01	$ 0.29	$ 3.30		-	$ -
Total Flow Charges				**$ -**	**$ -**	**$ 284,700**
County Fees (Contra Revenue)						**$ (13,000)**
Budget Assuming 3%- 5% Inflation per year	**6/30/2020**	**6/30/2021**	**6/30/2022**	**6/30/2023**	**6/30/2024**	**Five Year Total**
Total Monthly Required Reserves Fund	$ 19,632	$ 19,632	$ 19,632	$ 19,632	$ 19,632	
Total yearly required reserve fund	$ 235,585	$ 286,746	$ 237,947	$ 289,189	$ 240,473	$ 1,289,940
Debt Service	$ 351,889	$ 352,083	$ 352,071	$ 351,853	$ 351,429	$ 1,759,325
Sewer Maintenance - Personnel	$ 394,272	$ 409,847	$ 426,076	$ 442,990	$ 460,618	$ 2,133,803
Sewer Maintenance - Operations	$ 1,029,134	$ 1,060,008	$ 1,091,808	$ 1,124,563	$ 1,158,299	$ 5,463,812
Total Operating Costs	**$ 2,010,880**	**$ 2,108,684**	**$ 2,107,903**	**$ 2,208,594**	**$ 2,210,819**	**$ 10,646,881**
	6/30/2020	**6/30/2021Assumes 9.3 % Annual Increase**	**6/30/2022 Assumes 9.3% Annual Increase**	**6/30/2023 Assumes 9.3% Annual Increase**	**6/30/2024 Assumes 9.3% Annual Increase**	**Five Year Total**
Estimated Annual Revenue From Base Rate	$ 1,467,052	$ 1,603,488	$ 1,752,613	$ 1,915,606	$ 2,093,757	$ 8,832,516
Estimated Annual Revenue - Flow Charges	$ 284,700	$ 311,177	$ 340,117	$ 371,747	$ 406,320	$ 1,714,061
Estimated County Cost of Collection (Contra Revenue	$ (13,000)	$ (13,000)	$ (13,000)	$ (13,000)	$ (13,000)	$ (65,000)
Total Operating Revenue	$ 1,738,752	$ 1,901,665	$ 2,079,729	$ 2,274,353	$ 2,487,077	$ 10,481,577
Net Operating Revenue/(Loss)	**$ (272,128)**	**$ (207,019)**	**$ (28,174)**	**$ 65,759**	**$ 276,258**	**$ (165,304)**
Non-Operating Revenue						
Interest Revenue	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 75,000
Sewer Connection	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 15,000	$ 75,000
Interest on Sewer Connection Fees	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 3,500	$ 17,500
Total Non-Operating Income	$ 33,500	$ 33,500	$ 33,500	$ 33,500	$ 33,500	$ 167,500
Net Revenue/(Loss)	**$ (238,628)**	**$ (173,519)**	**$ 5,326**	**$ 99,259**	**$ 309,758**	**$ 2,196**

TABLE 5: Five Year Rate Schedule

	Current Rate	July - June 2019 - 2020	July - June 2020 - 2021	July - June 2021 - 2022	July - June 2022 - 2023	July - June 2023 - 2024
Increase		9.5%	9.3%	9.3%	9.3%	9.3%
Affordability Index	0.96%	1.05%	1.14%	1.25%	1.37%	1.49%
Residential	$ 40.19	$ 44.01	$ 48.10	$ 52.57	$ 57.46	$ 62.81
Motel/Hotel	$ 3.22	$ 3.53	$ 3.85	$ 4.21	$ 4.60	$ 5.03
Hospital/Rest Home	$ 3.17	$ 3.47	$ 3.79	$ 4.15	$ 4.53	$ 4.95
Restaurant/Bakery	$ 4.18	$ 4.58	$ 5.00	$ 5.47	$ 5.98	$ 6.53
Market/Morgue	$ 3.94	$ 4.31	$ 4.72	$ 5.15	$ 5.63	$ 6.16
Laundry	$ 3.42	$ 3.74	$ 4.09	$ 4.47	$ 4.89	$ 5.34
Car Wash	$ 3.05	$ 3.34	$ 3.65	$ 3.99	$ 4.36	$ 4.77
Jail	$ 3.54	$ 3.88	$ 4.24	$ 4.63	$ 5.06	$ 5.53
Other Commercial	$ 3.01	$ 3.30	$ 3.60	$ 3.94	$ 4.30	$ 4.70

7.3 Impact of Delaying Rate Increases

Often a utility will avoid a rate increase because it is thought that the governing body is doing the community a service by keeping rates artificially low. In fact, it is a disservice to the community. Besides the inability to fund necessary repairs and replacements, the rates will ultimately be higher if they are delayed. Most customers will find it is easier accept small, incremental annual rate increases than a single large one resulting from delayed rate adjustments.

PART VIII: PROPOSITION 218

California approved Proposition 218 in 1996 requiring agencies to adopt property fees and charges in accordance with a defined public process found in article XIII D or by associated court decision. Water and wastewater rates are user fees under the definition and must meet the following requirements:

- Revenues derived from the fee or charge must not exceed the funds required to provide the property-related service.
- Revenue from the fee or charge must not be used for any purpose other than that for which the fee or charge is imposed.
- No fee or charge may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in substantially the same manner as it is to property owners.
- The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- The fee or charge may not be imposed for service, unless the service is actually used by, or immediately available to, the owner of the property in question.

Written notice should be given to both the record owners and customers within the area subject to the fee or charge. The notice shall include the following:

- The formula or schedule of charges by which the property owner or customer can easily calculate their own potential charge.
- The basis upon which the amount of the proposed fee or charge is to be imposed on each parcel. An explanation of the costs that the proposed fee will cover and how the costs are allocated among property owners.
- Date, time and location of a public hearing on the rate adjustment. The public hearing must occur 45 or more days after the mailing of the notice.

California's Proposition 218 provides that a customer of the District or owner of record of a parcel or parcels subject to the proposed rate increases, you may submit a protest against any or all of the proposed rate increases by filing a written protest with the District at or before the time the public hearing has concluded. Only one protest per parcel is counted. If written protests are filed by a majority of the affected parcels, the proposed rate increases will not be imposed.

PART IX: CONCLUSIONS AND RECOMMENDATIONS

9.1 Key points to remember with any rate adjustment:

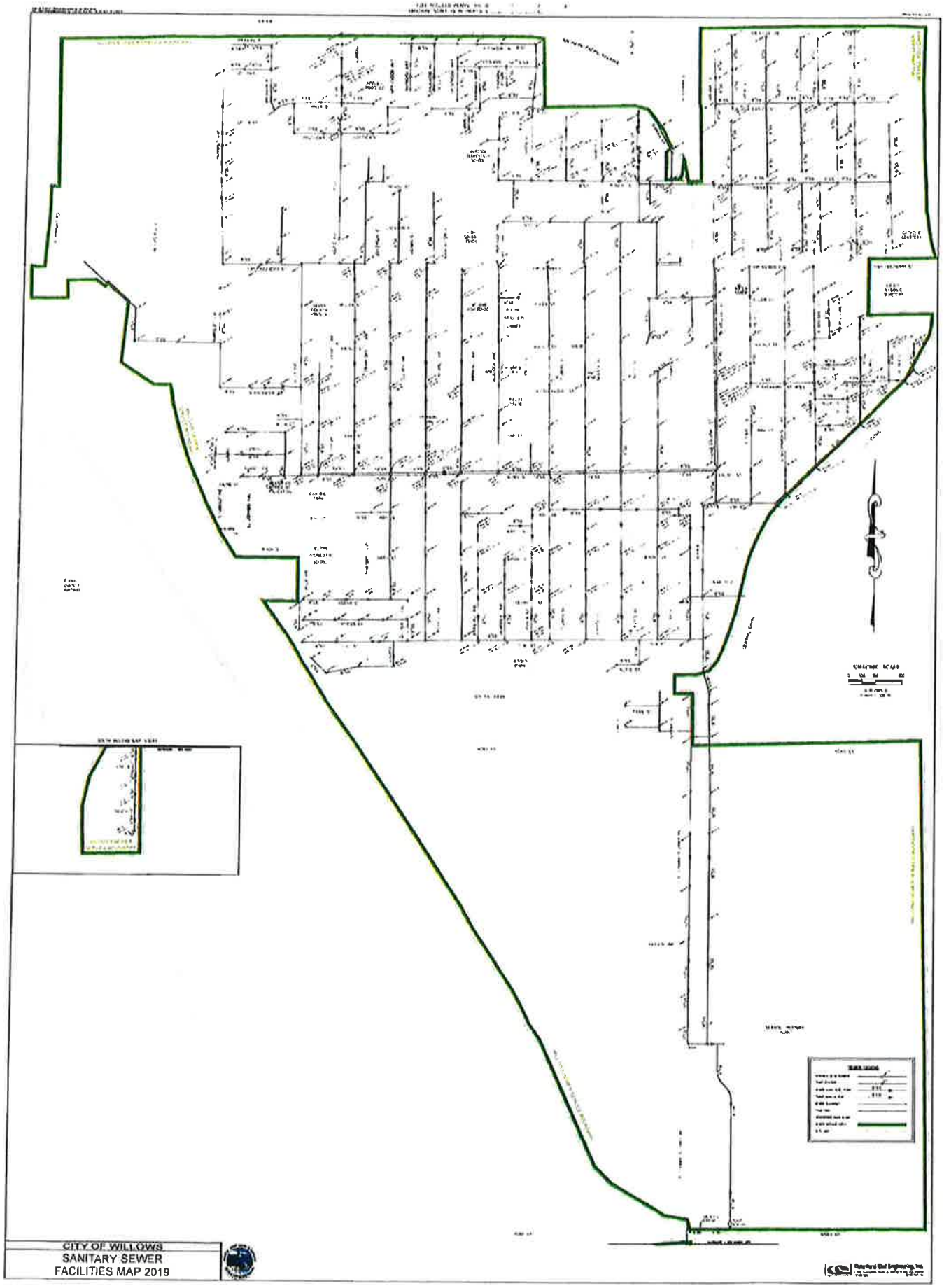
9.1.1 Successful utilities are those that strive to be transparent. In day-to-day operations, The City should strive to promote its services (highlights and the low points), and continuously educate residents on why it is necessary to raise and adjust rates.

9.1.2 The ability of the proposed rate structure to generate adequate revenue will depend on maintaining a vigorous collection and shut-off policy to keep delinquent accounts at a minimum.

9.1.3 In order to achieve and maintain long-term viability, wastewater systems should review rates annually, or no less than a minimum of every two years.

9.1.4 The City should raise rates as soon as possible after the Proposition 218 hearing to provide sufficient revenues for funding operations and adequately fund reserves.

9.1.5 The City should establish policies for reserve accounts as recommended in this analysis and note the individual reserve accounts in the accounting records. While a separate bank account is not necessary for the individual reserves, they should be noted and tracked individually.



CITY OF WILLOWS
SANITARY SEWER
FACILITIES MAP 2019

RESOLUTION NO. ___-2020

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WILLOWS ESTABLISHING SEWER USER FEES.

Adopted by the City Council of the

CITY OF WILLOWS

on Date of June 22, 2020

WHEREAS, the City of Willows owns, operates and maintains a wastewater collection system serving the residents and commercial establishments within the City of Willows; and

WHEREAS, the City of Willows owns, operates and maintains a wastewater treatment facility in accordance with water quality standards set forth by the State of California (the "Plant"); and

WHEREAS, the Plant treats the sewage effluent created by the residential and commercial property owners in the City of Willows; and

WHEREAS, these wastewater collection and treatment facilities require funding for operation, maintenance and improvements; and

WHEREAS, funds are derived from sewer user fees established by the City of Willows in accordance with guidelines set forth by the State of California to ensure equitable cost sharing by all benefitted property owners; and

WHEREAS, the sewer user fees assessed and collected by the City of Willows are "property-related fees" as defined in the California constitution Article XIII D; and

WHEREAS, current sewer user fees are no longer sufficient to sustain the operation, maintenance and improvement of the wastewater collection and treatment system; and

WHEREAS, the City of Willows has not adjusted sewer user fees since 2007; and

WHEREAS, the City of Willows gave written notice by mail of the proposed fees or charge to the record owner of each identified parcel upon which the fee or charge is proposed for imposition, the amount of the fee or charge proposed to be imposed upon each, the reason for the fee or charge, together with the date, time, and location of a public hearing on the proposed fee or charge; and

WHEREAS, the City Council of the City of Willows conducted a noticed public hearing upon the proposed sewer fees more than 45 days after mailing the notice of the proposed fees to the record owners of each identified parcel upon which the fee or charge is proposed to be collected; and

WHEREAS, at the public hearing the City Council of the City of Willows heard and considered all protests objecting to the proposed fee or charge; and

CITY OF WILLOWS
RESOLUTION ___-2020

WHEREAS, a majority of owners of the identified parcels subject to the assessment of the proposed sewer fees did not file or submit written protests objecting to the imposition of the proposed fees,

NOW, THEREFORE, BE IT RESOLVED THAT:

1. The above recitals are true and correct, and incorporated herein.

2. The sewer service fees established herein are necessary to assure continued effective operation, maintenance and improvement of the City of Willows' wastewater collection and treatment system.

3. The revenues derived from collection of the sewer service fees established herein do not exceed the funds required to provide the property-related service.

4. The revenues derived from collection of the sewer service fees established herein shall not be used for any purpose other than that for which the fee is imposed.

5. The sewer service fees established herein as an incident of property ownership do not exceed the proportional cost of the service attributable to the respective parcels of property.

6. The sewer service fees established herein shall be collected only from parcels at which sewer service is actually used by, or immediately available to, the owner of the property in question.

7. The sewer service fees set forth below are hereby established effective July 1, 2020 through June 30, 2024:

City of Willows
Sewer Fees

		5.0%	5.0%	5.0%	5.0%	5.0%
	Current	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025
Residential & Minimum Commercial (Monthly)	$40.19	$42.20	$44.31	$46.52	$48.85	$51.29
Residential Annualized (per Dwelling Unit)	$482.28	$506.39	$531.71	$558.30	$586.21	$615.53
Motel/Hotel	$3.22	$3.38	$3.55	$3.73	$3.91	$4.11
Hospital/Rest Home	$3.17	$3.33	$3.49	$3.67	$3.85	$4.05
Restaurant/Bakery	$4.18	$4.39	$4.61	$4.84	$5.08	$5.33
Market/Morgue	$3.94	$4.14	$4.34	$4.56	$4.79	$5.03
Laundry	$3.42	$3.59	$3.77	$3.96	$4.16	$4.36
Car Wash	$3.05	$3.20	$3.36	$3.53	$3.71	$3.89
Jail	$3.54	$3.72	$3.90	$4.10	$4.30	$4.52
Other Commercial	$3.01	$3.16	$3.32	$3.48	$3.66	$3.84

Notes & General Conditions:

a. Residential rates apply to each dwelling unit, including apartment and trailer units.

b. Commercial, Industrial and Governmental metered users are billed monthly based on CCF—100 cubic feet of water. The person or entity named on the water bill is responsible for payment of sewer usage fees.

c. Industrial users are charged on the basis of individual flow and strength of wastewater characteristics in CCF per month.

d. The rates set forth above do not include any additional charges for debt service or other charges imposed by the Northeast Willows Community Services District.

PASSED AND ADOPTED by the Willows City Council this 22nd day of June, 2020 by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

APPROVED: ATTESTED:

_____ _____
Kerri Warren, Mayor Tara Rustenhoven, City Clerk

City of Willows
Schedule of Rate Scenarios
Comparison of Increase

Note The comparison below illustrates where we would be had we increased sewer rates 3% per year vs. what is being proposed (monthly rate per dwelling unit)-

3% Rate Increase Per Year since 7/1/2007		Proposed Rate Structure	
$ 40.19	7/1/2007	$ 40.19	7/1/2007
$ 41.40	7/1/2008	$ 40.19	7/1/2008
$ 42.64	7/1/2009	$ 40.19	7/1/2009
$ 43.92	7/1/2010	$ 40.19	7/1/2010
$ 45.23	7/1/2011	$ 40.19	7/1/2011
$ 46.59	7/1/2012	$ 40.19	7/1/2012
$ 47.99	7/1/2013	$ 40.19	7/1/2013
$ 49.43	7/1/2014	$ 40.19	7/1/2014
$ 50.91	7/1/2015	$ 40.19	7/1/2015
$ 52.44	7/1/2016	$ 40.19	7/1/2016
$ 54.01	7/1/2017	$ 40.19	7/1/2017
$ 55.63	7/1/2018	$ 40.19	7/1/2018
$ 57.30	7/1/2019	$ 40.19	7/1/2019
$ 59.02	7/1/2020	$ 42.20	7/1/2020
$ 60.79	7/1/2021	$ 44.31	7/1/2021
$ 62.61	7/1/2022	$ 46.53	7/1/2022
$ 64.49	7/1/2023	$ 48.85	7/1/2023
$ 66.43	7/1/2024	$ 51.29	7/1/2024