

**CITY OF SEBASTOPOL
CITY COUNCIL
AGENDA ITEM**

Meeting Date: November 5, 2019
To: Honorable Mayor and City Councilmembers
From: Ana Kwong – Administrative Services Director
Subject: Request to postpone Public Hearing and authorize a second mailing of the Proposition 218 Notices regarding proposed increases in utility service rates.
Recommendation City Council to postpone Public Hearing and authorize a second mailing of the Proposition 218 Notices regarding proposed increases in utility service rates.

Funding: Currently Budgeted: _____ Yes _____ No XX N/A
Net General Fund Cost: \$ _____
Amount: _____

INTRODUCTION:

This item requests the City Council to postpone the Public Hearing currently set for November 5, 2019, and authorize the second mailing of the Proposition 218 notices.

BACKGROUND:

On August 6, 2019 Willdan Financial Services (WFS) presented findings from the rate study for consideration of water and sewer service rate adjustments. After careful review of the Report, the City Council adopted a resolution declaring the intention to increase the City water and sewer service rates, and as required by Proposition 218, directed staff to mail notices to all water and sewer services customers. This notice provided customers with information about the proposed increase; informed them of the Public Hearing to take place on November 5, 2019; and provided an opportunity for customers to file timely protests of proposed rate increases.

DISCUSSION:

On September 19, 2019, notices were mailed to water and sewer service customers and property owners in compliance with Proposition 218 requirements of a 45-day notice. The process used to develop the mailing list for notices included Willdan merging data from the utility billing records with data from the County of Sonoma property tax rolls. When the data was merged, an error occurred that caused approximately 33% of property owners to not receive the required notices.

The mailing list has been corrected; and appropriate notices will be sent to all parties to meet the requirements of Proposition 218. New notices will be sent to all parties, rather than just those that were missed the first time, because a new hearing date is required. There are specific notice requirements set forth in Proposition 218 that must be met before a municipality can increase rates charged to customers

for utility services. Since the noticing requirements and transparency are important to the public finance function, staff believes it is prudent to postpone the hearing until there is certainty that all required notices have been delivered, and all rate payers have an opportunity to respond.

City staff regrets the error, and apologizes for the timing problems and customer inconvenience the error caused. In the interest of transparency and to comply with the noticing requirements of Proposition 218, City staff has requested the removal of the public hearing and related items from the November 5, 2019 agenda. The item will be placed on the City Council's agenda once correct notifications have been made, and the requisite noticing and protest period has lapsed.

Staff recommends the City Council take the following actions:

1. **Authorize:** Second mailing of Proposition 218 Notifications regarding intended increases in utility services rates.
2. **Public Hearing:** Postpone the hearing originally set for November 5, 2019; and set a new Public Hearing regarding the intention to increase utility services rates.

RECOMMENDATION:

Staff recommends that the City Council postpone the Public Hearing and authorize the second mailing of Proposition 218 Notices.

Attachment(s):

New Proposition 218 Notice (Water & Sewer)



NOTICE TO PROPERTY OWNERS OF PUBLIC HEARING
REGARDING PROPOSED SEWER RATES

Hearing Date & Time: January 7th, 2020 at 6:00 PM
Hearing Location: Youth Annex, Teen Center
425 Morris Street, Sebastopol, CA

IMPORTANT - This Notice is a duplicate of the one previously sent, so you may be receiving it a second time. THE ONLY CHANGE IS THE DATE OF THE PUBLIC HEARING. Because some property owners were inadvertently left out of the first mailing the Notice is being provided again with the PUBLIC HEARING BEING RESCHEDULED TO JANUARY 7TH, 2020.

Why are you receiving this notice?

The City of Sebastopol ("City") is mailing this notice to you because you are a City sewer customer or are the owner of record of a property that receives City sewer service. This notice describes proposed changes to the City's current sewer rates and provides information about a Public Hearing to be held on January 7th, 2020 at 6:00 p.m. at the Youth Annex Teen Center, 425 Morris Street, Sebastopol, CA 95472 regarding these proposed changes.

What do sewer rates fund?

The City provides sewer service to over 3,000 residential and commercial customers. Monthly sewer rates charged to system users (customers) are the primary source of revenue to operate the sewer system and are used solely for this purpose. Sewer rate revenue provides funding for costs related to system operations, capital projects, debt service, administration, as well as costs related to prudent long-term operational or financial management of the utility, such as maintaining adequate fund reserves and planning for contingencies.

The proposed rates are based on a comprehensive rate study and financial plan. The City will annually review revenues and expenditures for the sewer fund to ensure that sufficient and appropriate revenues are collected to effectively provide for the short and long-term sewer service needs of the community.

Why are rate increases needed?

During the Spring and Summer of 2019, an independent consultant conducted a financial rate study, which evaluated the current financial condition of the sewer utility, and whether existing sewer rates would be sufficient to provide for ongoing funding needs. This study determined that the City's existing sewer rates were not sufficient to fund the City's costs for system operations and maintenance and planned capital projects. Based on this study, the City is considering adoption of updated sewer rates that are intended to address this deficiency.

The proposed rates have been calculated based on the City's cost to provide sewer service to users. Required revenue for the sewer system is based on projected expenses for operations, maintenance, and required repairs and/or replacement for capital facilities and equipment, and maintenance of prudent financial reserves. Projected expenses are allocated between a monthly Base (fixed) Charge and a Flow Charge. The monthly Base Charge is based on the size of the meter and recovers fixed costs of providing sewer service, with costs allocated based on number of accounts and the size of a customer's sewer meter. The Flow Charge recovers the variable costs of providing sewer service and costs associated with the delivery of sewer and is based on potential sewer flows associated with meter size. The rate structure was designed so that each system user will be charged an amount that is proportional to the cost of serving that user and which does not exceed the cost of serving that customer.

A healthy reserve fund is critical to the ability of the City to serve its customers by smoothing out timing differences between the collection of revenue through rates and payment of necessary costs, and by providing funds to respond to unforeseen and unpredictable expenses associated with the sewer system. The reserve fund, like all elements of the sewer charges, may only be used to fund costs associated with the sewer system.

New sewer rates

In order to provide necessary funding for the sewer system, the City is proposing to implement new sewer rates as a series of annual adjustments starting in January 2020, with additional increases following each July 1 beginning 2020, until July 2023. The following table summarizes the proposed sewer rates. The proposed charges will go into effect and remain in effect until superseded by Council action.

Table 1-3

Proposed Sewer Rates

Fiscal Years 2019-20 through FY 2022-23

Bi-Monthly Charge - \$	Bi-Monthly Base Charge				
	Existing	19-20 ⁽¹⁾	20-21 ⁽²⁾	21-22 ⁽²⁾	22-23 ⁽²⁾
5/8 x 3/4-inch	\$74.50	\$66.81	\$70.15	\$73.31	\$76.61
1-inch	124.28	111.60	117.18	122.46	127.97
1 ½-inch	247.84	222.27	233.38	243.88	254.86
2-inch	396.77	355.86	373.65	390.46	408.03
3-inch	868.30	779.19	818.15	854.97	893.44
4-inch	1,240.69	1,112.89	1,168.53	1,221.11	1,276.06
Flow Rate					
Residential 0 -100 CF	\$0.00	\$6.73	\$7.06	\$7.38	\$7.71
Residential > 100 CF	6.60	6.73	7.06	7.38	7.71
Dining Facility (Take Out) 0 – 100 CF	0.00	6.73	7.06	7.38	7.71
Dining Facility (Take Out) > 100 CF	7.42	6.73	7.06	7.38	7.71
Dining Facility (On Premise) 0 – 100 CF	0.00	6.73	7.06	7.38	7.71
Dining Facility (On Premise) > 100 CF	9.19	6.73	7.06	7.38	7.71
All Other 0 – 100 CF	0.00	6.73	7.06	7.38	7.71
All Other 100 – 50,000 CF	6.60	6.73	7.06	7.38	7.71
All Other > 50,000 CF	5.49	6.73	7.06	7.38	7.71

(1) Effective January 2020, following adoption of the new rates

(2) Effective July 1, 2020 and each July thereafter

How do you file a protest or participate in the public hearing?

The City will consider the new rate structure and proposed revenue increase at a public hearing on Tuesday, January 7th, 2020 at 6:00 p.m. at the Youth Annex Teen Center, 425 Morris Street, Sebastopol, CA 95472. You are invited to present oral or written testimony at the public hearing.

Any owner or customer of record of a parcel subject to the proposed rates may submit a written protest against the proposed rate revisions. If written protests are filed for a majority of the affected parcels, the proposed rate revisions will not be adopted.

A written protest must include the following to be counted:

- A statement indicating that the identified property owner or customer of record is in opposition to the proposed rate changes;
- The street address or Assessor's Parcel Number (APN) for the parcel(s) with respect to which the protest is made;
- The name and signature of the owner or customer.

Protests may be mailed to 7120 Bodega Avenue P.O. Box 1776 Sebastopol, CA 95473 or hand delivered to City Hall at 7120 Bodega Ave, Sebastopol, CA 95472. Protests may also be delivered to the City Clerk at the Public Hearing. To be valid, a signed written protest must be received by the City Clerk before the conclusion of the Public Hearing.

Any protest submitted via e-mail or other electronic means will not be accepted. Please identify on the front of the envelope for any written protest, whether mailed or submitted in person to the City Clerk, that the enclosed protest is for the Public Hearing on the Proposed Rate Changes - Sewer Service Fees.

The City Council will hear and consider all written and oral protests to the proposed rate changes at the Public Hearing. Oral comments at the Public Hearing will not qualify as formal protests unless accompanied by a written protest. Upon the conclusion of the Public Hearing, there will be no more written protests accepted and no more testimony taken, and the City Council will consider adoption of the proposed rates for sewer service described in this notice. If written protests as outlined above, are not presented by a majority of property owners or customers of record, the City Council will be authorized to implement the proposed rates. If adopted, the rates for sewer service will be in effect beginning January 2020.

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NOTICE TO PROPERTY OWNERS OF PUBLIC HEARING
REGARDING PROPOSED WATER RATES

Hearing Date & Time: January 7th, 2020 at 6:00 PM
Hearing Location: Youth Annex, Teen Center
425 Morris Street, Sebastopol, CA

IMPORTANT - This Notice is a duplicate of the one previously sent, so you may be receiving it a second time. THE ONLY CHANGE IS THE DATE OF THE PUBLIC HEARING. Because some property owners were inadvertently left out of the first mailing the Notice is being provided again with the PUBLIC HEARING BEING RESCHEDULED TO JANUARY 7TH, 2020.

Why are you receiving this notice?

The City of Sebastopol ("City") is mailing this notice to you because you are a City water customer or are the owner of record of a property that receives City water service. This notice describes proposed changes to the City's current water rates and provides information about a Public Hearing to be held on January 7th, 2020 at 6:00 p.m. at the Youth Annex Teen Center, 425 Morris Street, Sebastopol, CA 95472 regarding these proposed changes.

What do water rates fund?

The City provides water service to over 3,000 residential and commercial customers. Monthly water rates charged to system users (customers) are the primary source of revenue to operate the water system and are used solely for this purpose. Water rate revenue provides funding for costs related to system operations, capital projects, debt service, administration, as well as costs related to prudent long-term operational or financial management of the utility, such as maintaining adequate fund reserves and planning for contingencies.

The proposed rates are based on a comprehensive rate study and financial plan. The City will annually review revenues and expenditures for the water fund to ensure that sufficient and appropriate revenues are collected to effectively provide for the short and long-term water service needs of the community.

Why are rate increases needed?

During the Spring and Summer of 2019, an independent consultant conducted a financial rate study, which evaluated the current financial condition of the water utility, and whether existing water rates would be sufficient to provide for ongoing funding needs. This study determined that the City's existing water rates were not sufficient to fund increasing costs for system operations and maintenance and planned capital projects. Based on this study, the City is considering adoption of updated water rates that are intended to address this deficiency.

The proposed rates have been calculated based on the City's cost to provide water service to users. Required revenue for the water system is based on projected expenses for operations, maintenance, required repairs and/or replacement for capital facilities and equipment, and maintenance of prudent financial reserves. Projected expenses are allocated between monthly Base (fixed) Charges and Volume Charges. The monthly Base Charge is based on the size of the meter and recovers fixed costs of providing water service, with costs allocated based on number of accounts and the size of a customer's water meter. The Volume Charge recovers the variable costs of providing water service and costs associated with the delivery of water and is based on the amount of water used by each customer. The rate structure was designed so that each system user will be charged an amount that is proportional to the cost of serving that user and which does not exceed the cost of serving that customer.

A healthy reserve fund is critical to the ability of the City to serve its customers by smoothing out timing differences between the collection of revenue through rates and payment of necessary costs, and by providing funds to respond to unforeseen and unpredictable expenses associated with the water system. The reserve fund, like all elements of the water charges, may only be used to fund costs associated with the water system.

New water rates

In order to provide necessary funding for the water system, the City is proposing to implement new water rates as a series of annual adjustments starting in January 2020, with additional increases following each July 1 beginning 2020, until

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July 2023. The following table summarizes the proposed water rates. The Fixed and Volume charges will go into effect and remain in effect until superseded by Council action.

Table 1-2 Proposed Water Rates Fiscal Years 2019-20 through FY 2022-23					
Bi-Monthly Charge - \$	Bi-Monthly Base Charge				
	Existing	19-20 ⁽¹⁾	20-21 ⁽²⁾	21-22 ⁽²⁾	22-23 ⁽²⁾
5/8 x 3/4-inch	\$49.11	\$45.49	\$46.96	\$48.37	\$49.33
1-inch	82.03	76.16	78.14	80.79	82.41
1 ½-inch	163.37	151.67	156.22	160.91	164.13
2-inch	261.56	242.83	250.11	257.62	262.77
3-inch	572.72	531.71	547.66	564.09	575.37
4-inch	817.99	759.41	782.20	805.66	821.78
Volume Rate - \$/100 CF	Volume Rate				
	18-19	19-20 ⁽¹⁾	20-21 ⁽²⁾	21-22 ⁽²⁾	22-23 ⁽²⁾
0-100 CF	\$0.00	\$3.12	\$3.22	\$3.31	\$3.38
100 to 3,000 CF	3.03	3.12	3.22	3.31	3.38
> 3,000 CF	3.20	3.12	3.22	3.31	3.38
(1) Effective January 2020, following adoption of the new rates					
(2) Effective July 1, 2020 and every July thereafter					

How do you file a protest or participate in the public hearing?

The City will consider the new rate structure and proposed revenue increase at a public hearing on Tuesday, January 7th, 2020 at 6:00 p.m. at the Youth Annex Teen Center, 425 Morris Street, Sebastopol, CA 95472. You are invited to present oral or written testimony at the public hearing.

Any owner or customer of record of a parcel subject to the proposed rates may submit a written protest against the proposed rate revisions. If written protests are filed for a majority of the affected parcels, the proposed rate revisions will not be adopted.

A written protest must include the following to be counted:

- A statement indicating that the identified property owner or customer of record is in opposition to the proposed rate changes;
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Any protest submitted via e-mail or other electronic means will not be accepted. Please identify on the front of the envelope for any written protest, whether mailed or submitted in person to the City Clerk, that the enclosed protest is for the Public Hearing on the Proposed Rate Changes - Water Service Fees.

The City Council will hear and consider all written and oral protests to the proposed rate changes at the Public Hearing. Oral comments at the Public Hearing will not qualify as formal protests unless accompanied by a written protest. Upon the conclusion of the Public Hearing, there will be no more written protests accepted and no more testimony taken, and the City Council will consider adoption of the proposed rates for water service described in this notice. If written protests as outlined above, are not presented by a majority of property owners or customers of record, the City Council will be authorized to implement the proposed rates. If adopted, the rates for water service will be in effect beginning January 2020.