

Public Hearing: Wastewater Utility Fees and Changes to Davis Municipal Code Related to Wastewater Regulations and Utility Fees

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Goals of the Rate Analysis

- **Fund current and projected increases in the costs of operations and maintenance of wastewater infrastructure**
- **Fund utility repair, replacement and capital improvement costs**
- **Distribute costs equitably between customer classes while minimizing the impact on ratepayers**
- **Further refine the treatment costs to include the cost of treating ammonia**

Utilities Commission Review Process

Step	Description	Status
1, 2 & 3	Special meeting on Utility background and relevant details, review of draft Rate Study Request for Proposal for content and requirements, recommend adjustments/changes, review Scope of Work from selected consultant.	<ul style="list-style-type: none"> • November 20, 2019 & November 2020 refresher • January 15, 2020 • December 16, 2020 • April 15, 2020
4	Review cost of providing services (financial plan) outlining funding requirements of utility. Ask questions/ provide feedback. No formal recommendation on needs of utility.	<ul style="list-style-type: none"> • January 20, 2021 • April 21, 2021
5	Review rate scenarios (developed per approved Scope of Work) developed after completion of financial plan. Recommend changes/ modifications to scenarios. No formal recommendation	<ul style="list-style-type: none"> • May 19, 2021 • June 16, 2021 • October 20, 2021
6	Review final draft cost of service report, including final rate scenarios. Formal action taken includes recommended adoption or other action for Council consideration	<ul style="list-style-type: none"> • December 15, 2021

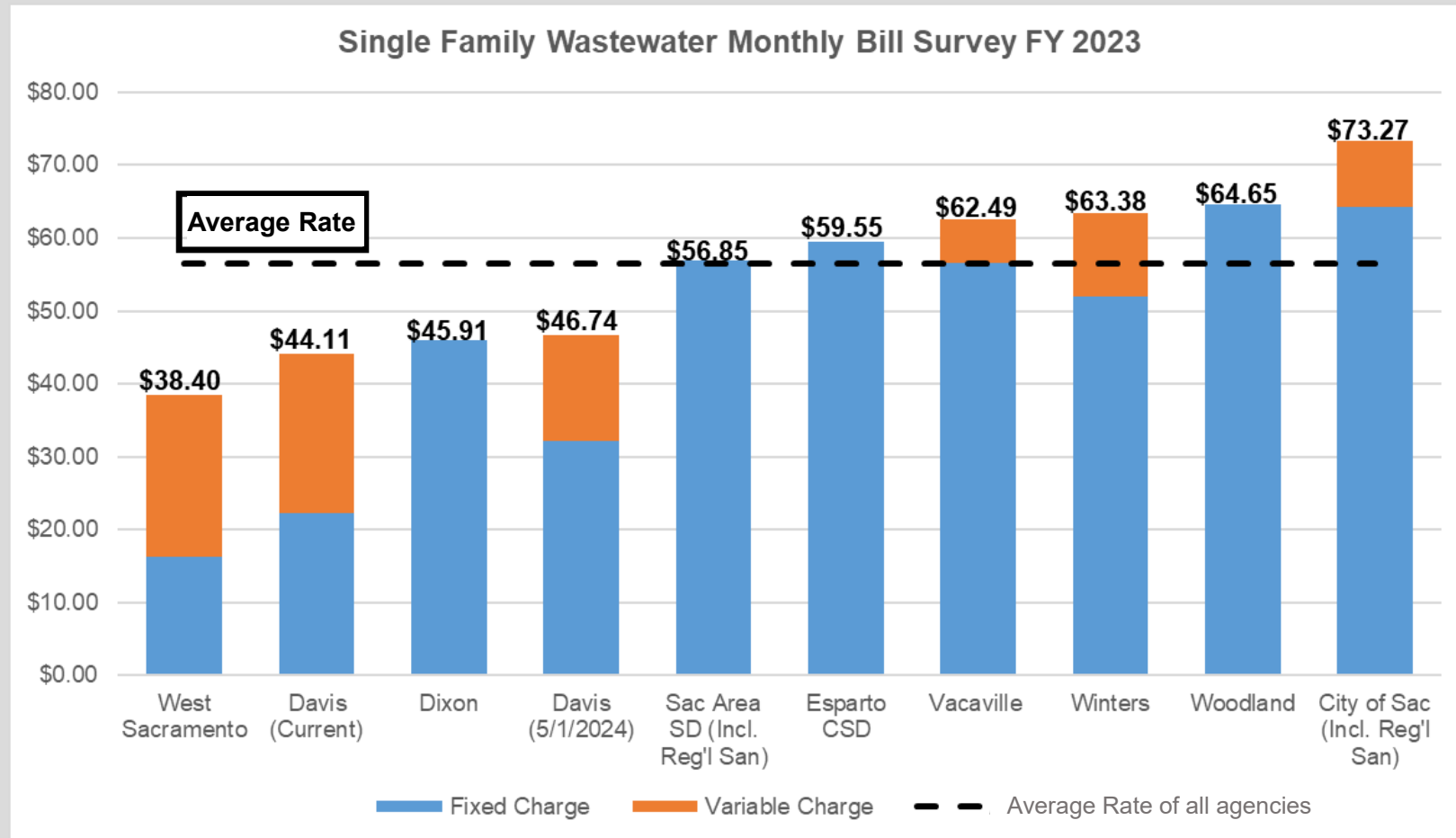
Explanation of One-time Restructure

- **Based on study conducted by consultant, adjusting current rate structure to reallocate costs between customer classes, to have a higher fixed component**
 - **City's current wastewater expenditures reflect a higher fixed versus volumetric charge mix than current rate structure**
 - **Adjustment reapportions costs among users based on study recommendations, does not by itself increase revenue**
 - **No single correct approach, but costs should be allocated within a reasonable range between fixed and variable components (and align with State ratemaking practices)**
 - **Impacts customers differently based on volumetric component of wastewater bill**

One-time Restructure Impact on Residential Customers

- **As part of restructure, lower water users will pay a higher fixed rate than previous structure (between \$5-\$7.23 monthly – not including proposed increase) with initial cost allocation reset; high water users would see a reduction in their wastewater charge**
- **Average winter water users would see roughly the same wastewater charges on their bill (realignment does not increase revenue)**

Fixed/Volumetric Breakdown: Agencies in the Area



Timing of Rate Adjustments

- **Last actual increase in revenue - 2014**
- **2017 cost reallocation & Proposition 218 process based on treatment changes, which did not increase revenue**
- **Expenditures now outpacing revenue, fund balance roughly \$13M in 2023**
- **Enterprise fund reserve level and required debt coverage for the utility is on average \$9M**
- **Draw on working capital balance will increase, and without change in the revenue, the working capital balance will drop below the minimum enterprise reserve levels**
- **Upcoming necessary capital improvements also large driver of need for increases**

Water Conservation Costs

- **Unlike water conservation and consumption – directly correlated to cost - reduced water use provides for more expensive treatment effort at the wastewater facility (overall concentration of waste is higher)**
- **Recommendation to adjust to higher fixed ratio to better capture cost of treatment**
- **Water rates are highly volumetric, with current rates equating to roughly \$50/month difference between high and low water users**
- **Water rates encourage conservation and are primary driver**

Option for Non-Rate Revenue Subsidies

- **Current: Water Assistance Program - \$10.00 monthly credit on the overall City utility bill, open to the first 250 customers who qualify by income and enrolled in Pacific Gas & Electric's (PG&E) CARE Program (60 participants as of Jan 2024)**
 - **Paid for with late fees, bill “round-ups” and general fund offsets**

Staff Recommendations

- 1. Conduct the Public Hearing; and**
- 2. Conduct final count of written protests, including any written protests submitted prior to the close of the public hearing, and determine if there is a majority protest; and**
- 3. If no majority protest exists, introduce the Ordinance amending Chapter § 33.04.050 of the Municipal Code and find the ordinance amendment exempt from environmental review pursuant to CEQA Section 15378; and**
- 4. Approve the Resolution establishing the rates published in the Proposition 218 Notice of Public Hearing with the first increase to be effective beginning February 1, 2024.**