



Agenda Report

Fullerton City Council

MEETING DATE: FEBRUARY 5, 2019

TO: CITY COUNCIL / SUCCESSOR AGENCY

SUBMITTED BY: KENNETH A. DOMER, CITY MANAGER

PREPARED BY: YELENA VORONEL, ACTING DIRECTOR OF PUBLIC WORKS
TIFFANY FOO, ASSOCIATE WATER ENGINEER

SUBJECT: INTRODUCTION TO THE WATER RATE STUDY – PRELIMINARY RECOMMENDATIONS

SUMMARY

Review the draft content of the Water Rate Study Report and Presentation, which evaluates the revenue requirements for the City of Fullerton Water Utility, and recommend a multiyear water rate increase and rate structure adjustments.

RECOMMENDATION

Provide direction to staff and consultant regarding the proposed Water Utility financial plan and Water Rate adjustments.

PRIORITY POLICY STATEMENT

This item matches the following Priority Policy Statement:

- Fiscal and Organizational Stability
- Infrastructure and City Assets.

DISCUSSION

In January 2018, City Council awarded a professional services contract to Stantec Consulting Inc. to conduct a revenue sufficiency analysis, cost of service analysis and rate structure analysis for the City of Fullerton Water Utility. The results from their analysis, findings and recommendations are presented in the attached draft report copy and presentation for the City Council's review.

The previous Water Rate Study was completed in 2013 and concluded with a phased five-year rate increase ending in Fiscal Year 2017-18. Many of the revenue and expenditure estimates included in the 2013 study were based on 2011 and 2012 projections. Since then, the state has suffered enduring drought conditions, which led Governor Jerry Brown to issue mandatory water use reductions in April, 2015. As a result, the City was required to reduce its overall water usage by as much as 28% and the estimated revenue projections did not materialize.

The drivers that initiated the need for a Water Rate Study include:

- The rate schedule adopted by the 2013 rate study has expired.
- The revenue shortfalls relative to the projected revenue from the 2013 study due to a historical drought, significant increase in wholesale water costs, and relatively low fixed revenue.
- The City's water distribution system often experiences over 100 water main breaks per year, which is among the highest rate of breaks in Orange County. These breaks are expensive to repair and disruptive to the community.
- The City's pumps, wells, tanks and other water assets are approaching or have aged beyond their useful lives, pose safety issues, and are in need of replacement and seismic retrofitting.
- The legal environment in California over the past 5 years (namely Proposition 218) has significantly increased the burden of proof required of public utilities to demonstrate that the rates being charged for utility service are proportionate to the cost of providing the utility services.

In May 2018, City Council approved the formation of a Water Rate Study Ad Hoc Committee comprised of six at-large members from the Energy and Resource Management Committee and the Citizens' Infrastructure Review Committee. From August, 2018 to December, 2018, Stantec Consulting Inc. engaged and collaborated with Staff and the Ad Hoc Committee to review various water rate models, capital spending needs, and adjusted rate structures. The Ad Hoc Committee recommended a goal of nine miles of pipe replacement per year by 2023 and the option for a gradual increase in pipe replacement.

The schedule for the proposed rate increase adoption is shown below.

Schedule for Rate Increase Adoption – FY 2019-2024	
January 8, 2019	City Council Workshop Meetings (Closed)
February 5, 2019	Public Meeting – Presentation and Public Comment on Rate Study
March 5, 2019	Public Meeting – Presentation and Public Comment on Rate Study

March 6, 2019	Proposition 218 – 45 Day Notification – Mail Out to All Customers
May 7, 2019	City Council Meeting – Public Hearing, Resolution & Adoption

Attachments:

- Attachment 1 – Water Rate Study – Preliminary Recommendations Presentation
- Attachment 2 – Draft Water Rate Study Report