

Agenda Item 3.A

RECOMMENDATION

Staff recommends that Council (1) adopt a Resolution of Intention of the City Council of the City of Tracy declaring its intention to increase wastewater rates, (2) set a public hearing date for June 20, 2023, and (3) authorize staff to proceed with mailing notices to all property owners within the City, as required by Proposition 218.

EXECUTIVE SUMMARY

In 2019, the City contracted with Raftelis to perform a Wastewater rate study for the purpose of establishing a proposed five-year rate schedule. On April 18, 2023, Council conducted a workshop to review the rate study. During the workshop, two rate scenarios were presented to Council. Based upon feedback received during the workshop, Council motioned to proceed with Scenario 2 (defined below) wastewater rate increase, to sufficiently fund the wastewater operations and maintenance expenses, and address the debt coverage ratio.

BACKGROUND AND LEGISLATIVE HISTORY

The City of Tracy Operations and Utilities Department provides wastewater service to over 23,000 residential, commercial and industrial customers located within city limits. The City's wastewater system consists of a Wastewater Treatment Plant (WWTP) on 54 acres, treatment ponds on 67 acres, 465 miles of collection pipelines, 26,000 lower sewer laterals, and over 10 booster and lift stations throughout the City.

The City of Tracy maintains a wastewater collection system which collects wastewater from inside buildings, houses, apartments, and other facilities throughout the City and transports it via underground pipes to its WWTP. The WWTP treats an average of 9.8 million gallons of wastewater per day from its customers. The WWTP also receives wastewater from other sources such as septage haulers, RVs from residents, and local business. The City also services one industrial customer that maintains its own collection system and one septage receiving station.

The City's Wastewater rates were last adjusted 10 years ago in 2013, the costs to treat the City's wastewater have increased since 2013 and require the implementation of rate adjustments to sufficiently fund wastewater operations and maintenance expenses, debt service payments, and capital expenditures while adequately funding reserves for capital improvements and achieving debt

coverage requirements.

In 2019, the City contracted with Raftelis to perform a Wastewater rate study for the purpose of establishing a proposed five-year rate schedule. The study conducted a cost-of-service analysis that establishes a nexus between the cost to serve Wastewater customers and the rates charged to customers, per Proposition 218.

On April 18, 2023, during a Council Workshop, staff presented the City Council with two separate scenarios of rate increases that would address the Operations and Utilities Department's infrastructure needs and address the debt coverage ratio.

ANALYSIS

The goals and objectives of the rate study included developing a financial plan for the City's Wastewater enterprise that supports the City's Wastewater operating and capital programs, prudently maintains an adequate level of fund reserves in future years and maintains the long-term financial stability of the Wastewater enterprise. The study also develops Wastewater rates that recover the City's costs of providing Wastewater service, are fair and equitable to all customer classes, comply with the legal requirements of Proposition 218, and to the extent possible, minimize the impact on customers.

In preparing the rate study, Raftelis worked closely with City staff to develop a Wastewater financial plan. The plan estimates annual revenues, operations and maintenance expenses, debt service payments, capital expenditures and reserve funding. The overall purpose of the financial plan is to determine annual wastewater rate revenues required to achieve sufficient cash flow, maintain adequate reserves, and meet debt coverage requirements.

The Wastewater Enterprise is required to meet debt service coverage requirements on its outstanding wastewater certificates of participation. The required debt coverage ratio is 1.20, meaning that the Wastewater fund's net operating revenues (total revenues, less operating expenses) must amount to at least 1.20 times the amount of annual debt service. Failure to meet debt service coverage results in a technical default, which without foreseeable action (such as implementing rate increases), could result in a downgrade of credit rating, higher costs for future debt issuance, or even denial of credit. In 2022, after a review of the City's 2004 Wastewater bonds by Moody's Investors Service, the City received a downgrade of the Wastewater Enterprise's credit rating from A1 to A2. The adoption of rate increases with identification of a multi-year strategy could lead to an upgrade in the credit rating.

The City has an operating reserve to provide funds to meet ongoing cash flow requirements related to operating expenses. The current operating reserve target

is equal to 30 percent of the annual operating and maintenance expenses and two percent for capital reserve.

On April 18, 2023, Council conducted a workshop to review the wastewater rate study conducted by Raftelis. During the workshop, Council was presented with two rate scenarios that meet debt service coverage requirements. Scenario one is the minimum rate increase to meet the required debt coverage ratio. Scenario two meets the required debt coverage ratio and allows for funding of Capital projects to begin sooner. Based upon feedback received during the workshop, staff recommends rate scenario two.

Proposed Revenue Adjustments - Two Scenarios

	FY 2024	FY 2025	FY 2026	FY2027	FY2028	Total
	August 1	July 1	July 1	July 1	July 1	
Scenario 1	40.5%	16%	9%	9%	8%	82.5%
Scenario 2	45%	11%	9%	9%	8%	82%

The proposed rates for Scenario 2 are shown below.

Wastewater Rates – Scenario 2

- Proposed MFR charge is a **per dwelling** charge.
- Average dwelling units per apartment complex is 7

Customer Class	Current	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028
Fixed Charges						
Single Family Residential	\$34.00	\$48.05	\$53.34	\$58.14	\$63.37	\$68.44
Multi-Family Residential (per Dwelling Unit)	\$28.75	\$4.05	\$4.50	\$4.90	\$5.34	\$5.77
Commercial I	\$28.75	\$27.46	\$30.48	\$33.22	\$36.21	\$39.11
Commercial II	\$28.75	\$27.46	\$30.48	\$33.22	\$36.21	\$39.11
Commercial III	\$28.75	\$27.46	\$30.48	\$33.22	\$36.21	\$39.11
Volumetric Rate						
Single Family Residential	NA	NA	NA	NA	NA	NA
Multi-Family Residential (per Dwelling Unit)		\$4.38	\$4.86	\$5.29	\$5.77	\$6.23
Commercial I	\$1.98	\$3.52	\$3.91	\$4.26	\$4.65	\$5.02
Commercial II	\$2.91	\$6.26	\$6.95	\$7.57	\$8.26	\$8.92
Commercial III	\$4.89	\$10.21	\$11.33	\$12.35	\$13.46	\$14.54
Industrial (Leprino)	As shown earlier	\$1.29	\$1.43	\$1.56	\$1.70	\$1.84
Septage (\$ / hcf)		\$75.89	\$110.05	\$122.15	\$133.15	\$145.13

The impact to utility customers in year one of rate scenario 2 is an increase of \$14.05 per month to single family residential customers and a decrease of \$9.06 per month to multi-family residential customers. Multi-family residential customers will also see a decrease to their bill in scenario 2 because the rate is now in

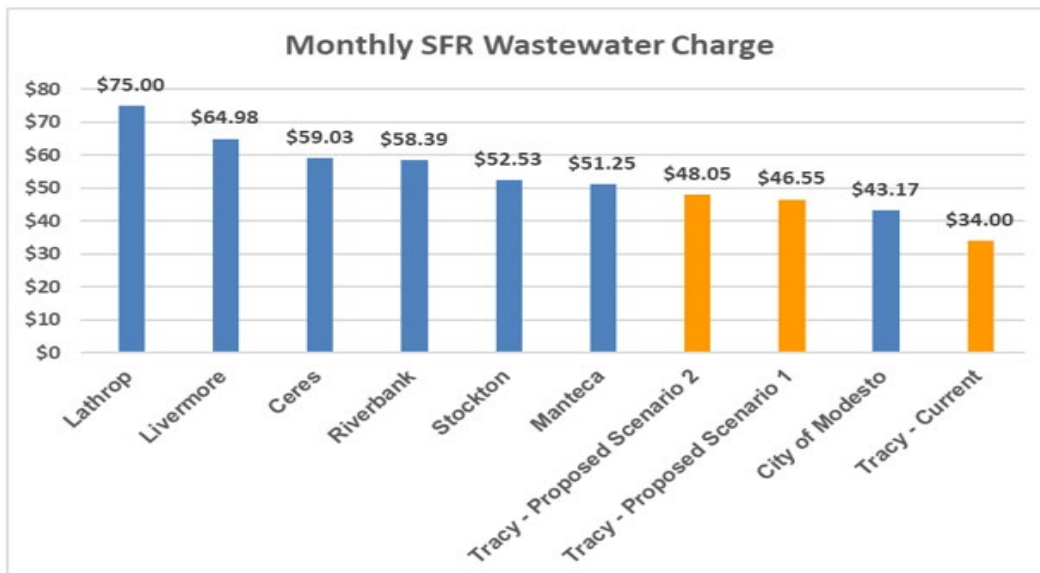
proportion to their use and assumed strength. Commercial customers bills are increasing because their wastewater strength (defined as the concentration of biochemical oxygen demand and total suspend solids) have been revised upwards to reflect the latest best practices and known concentrations at the WWTP. The chart below depicts the monthly bill impacts in year one of rate scenario 2.

Monthly Bill Impacts – Scenario 2

Customer Class	Average Sewer Flow per Account or Dwelling Unit	Average No. of Dwelling Units	Current Monthly Bill	Total Proposed Monthly Bill	Dollar Difference	Percent Difference	No. of Accounts
Single Family Residential	8.5		\$34.00	\$48.05	\$14.05	41.3%	23,970
Multi-Family Residential	5.3	7.0	\$201.25	\$192.19	-\$9.06	-4.5%	610
Commercial I Average Use	57		\$141.47	\$227.98	\$86.51	61.1%	390
Commercial II Average Use	137		\$428.13	\$886.64	\$458.51	107.1%	313
Commercial III Average Use	49		\$267.11	\$524.99	\$257.88	96.5%	63

Comparison of Surrounding Single Family Wastewater Bills

The chart below compares the City’s current single family residential Wastewater rate, proposed rates for scenarios one and two to the Cities of Modesto, Manteca, Stockton, Riverbank, Ceres, Livermore and Lathrop. The City’s current Wastewater rate is the lowest in the surrounding area and in proceeding with rate scenario two, the rate would continue to be on the lower range for the surrounding area.



The City provides a Low-Income Rate Assistance (LIRA) program for qualified utility customers. The total amount of the discount is \$26.05, with \$2.55 of that being directly applicable to the Wastewater rate. The LIRA program is funded through the City's General fund. Over the last year, the City has partnered with PG&E and is now able to auto-enroll qualified customers into the LIRA program. This partnership has resulted in an increase in the number of households receiving the discount, from 1,275 households to 5,100 households.

Proposition 218 requires notification to the affected ratepayers of any proposed increase in fees or charges for property-related services. Notice to property owners must be sent out a minimum of 45 days prior to conducting a public hearing to increase rates. Pursuant to Proposition 218, the City Council may not impose rate increases if written protests are presented by a majority of the property owners on which the fee is imposed.

If Council authorizes staff to distribute notices to property owners notifying them of the proposed rate increase, notices will be sent through United States Postal Services and a public hearing will be scheduled a minimum of 45 days after notices have been distributed. Prior to the public hearing, staff will conduct public outreach and education including publicity of the City's website and social media, informational booth at farmers market, a dedicated email address and an open house. At the conclusion of the public hearing, the protest ballots will be tabulated and presented to City Council for consideration. The public hearing will be set for June 20, 2023.

FISCAL IMPACT

The City's Wastewater utility relies almost entirely on customer revenues to sustain its operations. The proposed rate increases will generate revenue to fund operational and infrastructure needs and continue to provide reliable high-quality Wastewater services. The proposed rates will also allow the City to achieve its required debt coverage ratio minimum of 1.20, which is essential to maintain or improve a strong credit rating and the financial health of the Wastewater fund.

PUBLIC OUTREACH/ INTEREST

Staff has planned public outreach and education strategies scheduled to begin in tandem with the proposition 218 notices being distributed to property owners. Outreach includes an open house, informational booth during farmers market, dedicated email address for resident questions, and answers to frequently asked questions on the City's website.

COORDINATION

Coordination between the Finance and Operations and Utilities Departments in conjunction with Raftelis allowed for the completion of the Wastewater Rate study.

STRATEGIC PLAN

This item supports the Governance strategic priority goal 2.6 by ensuring short and long-term fiscal health through the completion of a Wastewater rate study.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that Council, by resolution, (1) approve a Resolution of Intention of the City Council of the City of Tracy to increase wastewater rates, (2) set a public hearing date for June 20, 2023, and (3) authorize staff to proceed with mailing notices to all property owners within the City, as required by Proposition 218.

Prepared by: Sara Cowell, Director of Finance

Reviewed by: Nancy Ashjian, Assistant City Attorney
Karin Schnaider, Assistant City Manager

Approved by: Midori Lichtwardt, Acting City Manager

Attachments:

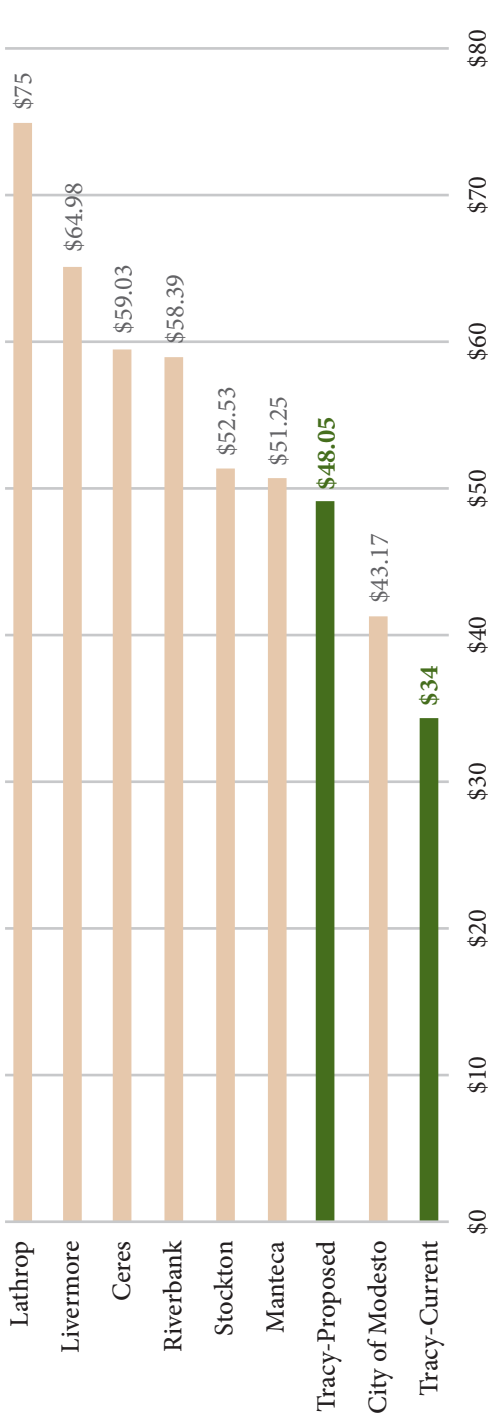
A - Draft Mailing Notice to Property Owners



City of Tracey City Clerk's Office
333 Civic Center Plaza
Tracy, CA 95376

Tracy Wastewater (Sewer) Rates Compared to Neighboring Cities

Monthly Single Family Residential (SFR) Wastewater Charge



How Do I Protest the Proposed Wastewater (Sewer) Rate Increase?

You have the right to protest the proposed rate increases. The protest must be in writing, and it must be submitted by either the property owner or a current ratepaying tenant. It must include the property service address, assessor's parcel number, and the eligible individual's (property owner or tenant's) name and original signature. Written protests may be submitted by mail or in person to the Tracy City Clerk at the City Clerk's Office, 333 Civic Center Plaza, Tracy, CA 95376, or during the Public Hearing on Tuesday, June 20, 2023. All protests must be received (not mailed) before the conclusion of this Public Hearing.

Only one written protest per affected property will be counted. Telephone, e-mail, and fax protests will not be accepted. For your convenience, you may opt to use the protest form below. Written protests must be received by the City Clerk prior to the conclusion of the Public Hearing. The Clerk will not accept or consider any protest received after the conclusion of the Public Hearing.

At the Public Hearing on June 20, the City Council will accept and consider all written protests and hear all oral comments

Optional protest form. *Formulario de protesta opcional.*

If you wish to use this form as your protest, please fill out and mail in a stamped envelope to:
Si desea utilizar este formulario como su protesta, por favor, complételo y envíelo por correo o preséntelo en persona a:

Tracy City Clerk, City Clerk's Office, 333 Civic Center Plaza, Tracy, CA 95376. All protests must be received prior to the conclusion of the Public Hearing on June 20, 2023. *Si desea utilizar este formulario como protesta, réllénelo y envíelo por correo o preséntelo en persona a: Tracy City Clerk, City Clerk's Office, 333 Civic Center Plaza, Tracy, CA 95376. Todas las protestas deben ser recibidas antes de la conclusión de la audiencia pública en 20 junio 2023.*

(Print your full name / Escriba su nombre completo)

I, _____, protest the proposed water rate increase.
Yo, _____, protesto contra la propuesta de aumento de tarifas de aguas.

I am the: Property Owner Ratepayer (Customer)
Soy el: Dueño de la propiedad Contribuyente (Cliente)

Property Address: _____
Dirección de la propiedad: _____

Assessor's Parcel Number (APN): _____
Número de Parcela del Tasaador (APN, por sus siglas en inglés): _____

Signature: _____
Firma _____



Notice of Public Hearing

Notificación de Audiencia Pública



Scan for City Council Meetings
Reuniones del Ayuntamiento

7 p.m. Tuesday, June 20, 2023 | 7 p.m. martes, 20 de junio de 2023
City of Tracy Council Chambers | Cámaras del Consejo de la Ciudad de Tracy

333 Civic Center Plaza, Tracy, CA 95376

Proposed Wastewater (Sewer) Rate Increases

Propuesta de Aumento de las Tarifas de Aguas Residuales (Alcantarillado)



Please Take Notice That

The Tracy City Council will conduct a Public Hearing to consider proposed rates for wastewater (sewer) services. Sewer rates were last increased 10 years ago. If adopted, the proposed rate adjustments would become effective on August 1, 2023, with annual rate increases through 2028.

All those interested are invited to appear at the time and place of the Public Hearing (7 p.m. June 20, 2023, in the Tracy City Council Chambers at 333 Civic Center Plaza, Tracy, CA 95376), to give oral or written testimony or to submit written protests regarding the proposed rate adjustments. The City Council will hear and consider oral testimony and written materials submitted regarding the proposed rate increases at the Public Hearing. The City Council has the authority to adjust the proposed rate increases in response to oral testimony and written materials submitted for consideration, provided that any adjustments cannot increase rates beyond those listed in this Notice.

Overview of the City's Wastewater (Sewer) Services

The City's Utilities Department maintains, repairs, and operates Tracy's water, wastewater, and stormwater infrastructure in an efficient and cost-effective manner while preserving the environment and ensuring the health, safety, and economic vitality of our community.

What is Wastewater? Wastewater, sometimes referred to as sewage, is water that has been impacted from ordinary living processes, including household, commercial, and industrial uses. It is essentially "used" water, containing materials and particles that would negatively impact people and the environment if left untreated. Wastewater entering a treatment plant is also called "influent," and treated wastewater is called "effluent."

As with most municipalities in California, the City's collection and storm drain systems are separate. Wastewater flows from the drains and toilets of homes and businesses to the wastewater treatment plant via the collection system, and stormwater flows directly to local waterways, untreated.

The Wastewater Collection System The City's wastewater collection system serves a population of about 97,000 people in Tracy's 26-square-mile service area. The system serves 25,800 single-family and multi-family residential connections and 766 commercial, industrial, and institutional customers.

Components of the Wastewater Collection System:

- 465 miles of gravity sewers (approximately 1,500 line segments) ranging in size from 4 to 42 inches in diameter to transport the wastewater to the pump stations
- 3,100 manholes
- 9 pump stations
- 10 miles of force mains ranging in size from 4 inches to transport the wastewater from the pump stations
- 26,150 wastewater (sewer) laterals, which are the pipes that carry water and waste from homes and businesses to the public wastewater main line

Wastewater Treatment Plant

The City's Wastewater Treatment Plant (WWTP) treats collected wastewater (sewage) to federal and state standards so it may be discharged safely to surface waters, like Old River. The WWTP removes solids and

pollutants, breaks down organic matter, and restores the oxygen content of the treated wastewater. The City meets or exceeds stringent state and federal standards for treating and recycling wastewater to be used as nonpotable water for landscape irrigation and dust control at construction sites.

Why is a Wastewater (Sewer) Rate Increase Needed?

The Tracy City Council will consider rate changes that will affect the sewer rate on your utility bill. The last wastewater (sewer) service rate increase was 10 years ago in 2013. The City charges these rates to its wastewater (sewer) customers in order to fund the cost of safe and reliable wastewater operations. The costs include operating and maintaining the wastewater (sewer) system, rehabilitating in system infrastructure, and paying off debt used to rehabilitate the system.

The City is considering wastewater (sewer) rate adjustments in 2023 for Fiscal Years 2024-2028 due to inflation and rising costs of operations, maintenance, and environmental and regulatory compliance. Per State law, revenues generated from sewer rate increases must only be used to fund the actual costs to operate and maintain the system including infrastructure projects and the cost of debt to finance capital improvement projects.

With help from an independent consultant, a rate study was performed to assess the revenue needs. The proposed rates are determined based on the projected revenue needed to fund:

- Operations and maintenance expenses: labor, supplies, chemicals, electricity, etc.
- Capital: large projects to repair/replace pipes and treatment plant processing equipment
- Debt service to pay back loans
- Reserve funding



The enclosed rate recommendations were presented to the Tracy City Council on April 18, 2023. A video of the meeting is available on the City's website. The Cost of Service Study also is available on our website at www.cityoftracy.org under "2023 Wastewater Rate Study." Scan this code to be taken directly to the web page.

You are receiving this Notice in compliance with Proposition 218, which requires the City to inform property owners and wastewater customers that proposed rate increases are being considered.

What Happens if We Do Not Raise Rates

If rates are not raised, the City would need to review the pressing needs of our aging systems and prioritize those that are most critical to ensure public and environmental health. These investments are needed now. Deferring until later will only guarantee higher costs and possible increased regulatory oversight by permitting agencies. We would be forced to defer major infrastructure projects, which would, in turn, leave our existing systems vulnerable in the following ways.

- More frequent service disruptions caused by failed facilities
- Infrequent maintenance of pipelines potentially impacting service
- Critical capital projects go unfunded
- City won't meet its debt coverage requirements
- Emergency Reserves are depleted
- Increased costs for emergency construction
- City's ability to secure grants and other funding sources may be limited

Proposed Wastewater (Sewer) Rates

Customer Class Clase de cliente	Current Actual	FYE 2024 Año fiscal 2024	FYE 2025 Año fiscal 2025	FYE 2026 Año fiscal 2026	FYE 2027 Año fiscal 2027	FYE 2028 Año fiscal 2028
Fixed Charges Cargos Fijos						
Single Family Residential <i>Residencia unifamiliar</i>	\$34.00	\$48.05	\$53.34	\$58.14	\$63.37	\$68.44
Multi-Family Residential <i>Residencia multifamiliar</i>	\$28.75	\$4.05	\$4.49	\$4.90	\$5.34	\$5.77
Commercial I <i>Comercial I</i>	\$28.75	\$27.46	\$30.48	\$33.22	\$36.21	\$39.10
Commercial II <i>Comercial II</i>	\$28.75	\$27.46	\$30.48	\$33.22	\$36.21	\$39.10
Commercial III <i>Comercial III</i>	\$28.75	\$27.46	\$30.48	\$33.22	\$36.21	\$39.10
Volumetric Rate Tarifa Volumétrica						
Single Family Residential <i>Residencia unifamiliar</i>	NA	NA	NA	NA	NA	NA
Multi-Family Residential <i>Residencia multifamiliar</i>	\$4.38	\$4.86	\$5.29	\$5.77	\$6.23	\$6.23
Commercial I <i>Comercial I</i>	\$1.98	\$3.52	\$3.91	\$4.26	\$4.65	\$5.02
Commercial II <i>Comercial II</i>	\$2.91	\$6.26	\$6.95	\$7.57	\$8.26	\$8.92
Commercial III <i>Comercial III</i>	\$4.89	\$10.21	\$11.33	\$12.35	\$13.46	\$14.54
Industrial (Leprino) <i>Industrial (Leprino)</i>	As shown earlier	\$1.29	\$1.43	\$1.56	\$1.70	\$1.84
Septage (\$ / hcf)		\$75.89	\$110.05	\$122.15	\$133.15	\$145.13

*Proposed Multi-Family Residential charge is per dwelling unit

*Average dwelling units per apartment complex is 7z

*hcf = hundred cubic feet

*La tasa residencial multifamiliar propuesta es por unidad de vivienda.

*La media de unidades de vivienda por complejo de apartamentos es de 7

*hcf significa = cien pies cúbicos

Sample Bill

The following table provides the estimated Utility bill for wastewater (sewer) on average, per customer class, for the first year of the proposed rate change effective August 1, 2023.

Customer Class Clase de cliente	Average Sewer Flow per Dwelling Unit (Ccf) Caudal medio de alcantarillado per cuenta o unidad de vivienda (Ccf)	Average No. of Dwelling Units Número medio de viviendas	Current Monthly Bill Factura mensual actual	Total Proposed Monthly Bill Total de la factura mensual propuesta	\$ Difference \$ Diferencia
Single Family Residential <i>Residencia unifamiliar</i>	8.5		\$34.00	\$48.05	\$14.05
Multi-Family Residential <i>Residencia multifamiliar</i>	5.3	7.0	\$201.25	\$192.19	-\$9.06
Commercial I Average Use <i>Comercial I Uso medio</i>	57		\$141.47	\$227.98	\$86.51
Commercial II Average Use <i>Comercial II Uso medio</i>	137		\$428.13	\$886.64	\$458.51
Commercial III Average Use <i>Comercial III Uso medio</i>	49		\$267.11	\$524.99	\$257.88
Leprino			Yearly Bill	Yearly Bill	Yearly Difference
Leprino			\$381,357	\$397,083	\$15,726