City of St. Helena
Water and Wastewater Rate Study Advisory Committee
Regular Meeting
Carnegie Building, 1360 Oak Avenue, St. Helena, CA 94574
Thursday, August 25, 2022 @ 10:00 AM

PLEASE NOTE: Any person who wishes to speak regarding an item on the agenda or make a comment under the "Oral Communication" portion of the agenda may do so, but please observe the time limit of four minutes.

Page

1. CALL TO ORDER

2. ROLL CALL
Chair: Mario Trinchero
Vice Chair: Walter Nirenberg
Committee Members: Arlene Corsetti, Garry Rose, Sean Maher, Mark Smithers and Peter McCrea.
Staff Liaison: Mandy Kellogg, Administrative Services Director

3. PUBLIC FORUM:
An opportunity for the public to directly address the Committee on items of interest to the public that are not listed on the agenda. Any person addressing the Committee should provide his or her name and address, and limit comments to four minutes. Because of restrictions imposed by **the Brown Act, the Committee may not engage in substantive discussion, nor take action on matters not described on the agenda.**

4. REPORTS BY STAFF AND BOARD
Reports by staff and/or Committee on items of general interest. Brief questions for clarification may be posed and answered, and Committee may request that items be placed on a future agenda. Except under certain circumstances, **the Brown Act prohibits any other discussion or action by the Water and Wastewater Rate Study Advisory Committee.**

5. NEW BUSINESS:

5.1. Raftelis Consultants will provide an update of work accomplished to date including modeling efforts and critical analyses.
Recommendation: Receive and file.

5.2. Pricing Objectives Results - Responses from City Council and the Water Rate Study Advisory Committee were compiled and ranked by Raftelis (~~Staff report forthcoming~~) Staff report provided on 8/19/22. 3 - 13
Recommendation: Discuss and provide feedback.
Staff Report - Pricing Objectives
Attachment A - Pricing Objectives Exercise

5.3. Reserves Policies Discussion - Raftelis will present a comparison of the City's utilities' existing reserves policies, relative to a sample of similar 15 - 16

agencies providing water and wastewater services. (~~Staff report forthcoming~~) Staff report provided on 8/19/22.
Recommendation: Discuss and provide feedback.

Staff Report - Reserve Policy

5.4. Capital Improvement Program (CIP) - The long-term capital program for each utility will be presented to the Committee. (~~Staff report forthcoming~~) Staff report provided on 8/19/22. 17 - 18
Recommendation: Discuss and provide feedback.

Staff Report_Capital Improvement Plan (CIP)

5.5. Discussion on Upcoming Water and Wastewater Rate Study Events:
- Community Open House
- Future Agenda Items
- Tentative Schedule for Deliverables

Recommendation: Receive and file

6. ADJOURNMENT

The next Water and Wastewater Rate Study Advisory Committee meeting is scheduled for September 13, 2022 at 10:00 a.m.

This agenda was posted at City Hall, 1572 Railroad Avenue, and at 1360 Oak Avenue, St. Helena, California on Monday, August 15, 2022.

Cindy Tzafopoulos, City Clerk

In Compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please call the City Clerk's Office (707) 968-2742. Notification 72 hours prior to the meeting as required by Section 202 of the Americans with Disabilities Act will enable the City to make reasonable arrangements to ensure accessibility to this meeting.

Report to the City Council
Water and Wastewater Rate Study Advisory Committee – August 25, 2022

Agenda Section: **NEW BUSINESS**

Subject: **Pricing Objectives Results – Responses from City Council and the Water and Wastewater Rate Study were compiled and ranked by Raftelis**

CEQA Determination: **Not a CEQA project**

Prepared By: Mandy Kellogg, Administrative Services Director

Approved By: April Mitts, Assistant City Manager

BACKGROUND

Within the constraints of legal requirements and industry norms, the best rate structure is the one that is right for a given community. Properly designed rate structures should always collect the appropriate amount of revenue defined in the financial and cost of service exercises. However, rate structures are also important communication tools, addressing the unique characteristics of a water or sewer utility, the values of its customers, and the concerns of other stakeholders in the community. Objectives for pricing and rate structuring support broad policies and serve as discussion points when evaluating and designing alternative rate structures.

DISCUSSION

Raftelis developed a pricing objectives exercise (Attachment 1), which was completed by the City Council and Water and Wastewater Rate Study Advisory Committee, to prioritize policy objectives that will be used to develop a framework in subsequent meetings prior to modeling actual rates.

The following eight policy objectives (Table 1) were developed to help guide the selection process of appropriate alternative structures: Administration, Affordability, Conservation, Defensibility, Equity, Rate Stability, Financial Stability, and Customer Understanding.

Table 1: Policy Objectives and Associated Sub-Objectives for Rate Structure Evaluation

Defensibility	Customer Understanding	Rate Stability	Conservation
• Reduce likelihood of challenge • Increase likelihood of withstanding challenge	• Ease of understanding • Straight-forward bills • Ratepayers can discern changes to rates	• Avoid rate and revenue volatility • Minimize customer impacts	• Reduce total use • Reduce large volume use • Reduce peak use

Administration	Equity	Financial Sustainability	Affordability
• Ease of implementation • Compatibility with existing systems • No new costs	• Equity among customer classes • Equity between customer classes • Inter-generational equity	• Generate adequate revenues over time • Generates stable cash flow month to month	• Affordability for essential use • Affordability for average use

The pricing objectives exercise included a policy statement for each objective, as well as the advantages and disadvantages.

Raftelis will present the analysis of the pricing objectives exercise and explain how the results will be incorporated into the rate setting process.

FISCAL IMPACT
Not Applicable.

RECOMMENDED ACTION
Discuss and provide feedback.

ATTACHMENTS
Attachment 1 – Pricing Objectives Exercise

ATTACHMENT A

RAFTELIS

Pricing and Policy Objectives Exercise Worksheet

1. OVERVIEW

Within the constraints of legal requirements and industry norms, the best rate structure is the one that is right for a given community. Properly designed rate structures should always collect the appropriate amount of revenue defined in the financial and cost of service exercises. However, rate structures are also important communication tools, addressing the unique characteristics of a water or sewer utility, the values of its customers, and the concerns of other stakeholders in the community. Objectives for pricing and rate structuring support broad policies and serve as discussion points when evaluating and designing alternative rate structures.

Raftelis has developed an extensive list of policy objectives (and sub-objectives) to aid in the development of multiple alternative structures as part of the current rate study. Most objectives and sub-objectives relate to rate design, however, some relate more to utility financial planning. Both the financial plans (gross rate revenue needs) and the cost allocations (rate structures) are important components to the rate study. In this exercise we break down the policy objectives and sub-objectives into a fundamental statement, with a brief discussion of the pros and cons of each.

2. BACKGROUND

Raftelis developed the following eight policy objectives (Table 1) to help guide the selection process of appropriate alternative structures: Administration, Affordability, Conservation, Defensibility, Equity, Rate Stability, Financial Stability, and Customer Understanding.

To inform the Water and Wastewater Rate Study Advisory Committee ("Advisory Committee"), each policy objective includes a policy statement, discussion notes, and advantages and disadvantages of the policy. Prioritization of policy objectives by the Advisory Committee will be used to develop a framework in subsequent meetings prior to modeling actual rates. The results of the exercise will be utilized for both the water and wastewater utility services.

Table 1: Policy Objectives and Associated Sub-Objectives for Rate Structure Evaluation

Defensibility	Customer Understanding	Rate Stability	Conservation
• Reduce likelihood of challenge • Increase likelihood of withstanding challenge	• Ease of understanding • Straight-forward bills • Ratepayers can discern changes to rates	• Avoid rate and revenue volatility • Minimize customer impacts	• Reduce total use • Reduce large volume use • Reduce peak use

Administration	Equity	Financial Sustainability	Affordability
• Easy of Implementation • Compatibility with existing systems • No new costs	• Equity among customer classes • Equity between customer classes • Inter-generational equity	• Generates adequate revenues over time • Generates stable cash flow month to month	• Affordability for essential use • Affordability for average use

Policy Objective 1 –Defensibility

Policy Statement: Recognizes that any rates for water and wastewater service in California can be challenged for any reason under Proposition 218. Rates charged to customers should be developed in a manner that reasonably anticipates challenges to rates.

Discussion: This objective highlights the importance of designing rates that are objective, rational, and with the least degree of creativity. In all cases we will develop a study report that produces a strong administrative record.

Advantages of the Policy Objective: Promoting defensibility of rates and creating structures that are cost-based, objective, and rational, can help ensure stability year over year and allow staff time and City resources to be spent on essential functions.

Disadvantage of the Policy Objective: To reduce perceived risk, rate structure(s) may be simplified and ignore, or minimize, other important policy objectives such as affordability and conservation.

Sub-Objectives:

- **Reduce the likelihood of challenge** – Producing a rate structure perceived to be fair, well documented, and well-communicated reduces the likelihood of legal challenge. This may lead to more efficient and less costly administration.
- **Increase the likelihood of withstanding challenge** – Should rates be challenged, having a strong administrative record and supporting documentation to support the rate structures and study decisions improves a favorable outcome.

Policy Objective 2 –Customer Understanding

Policy Statement: Recognizes the advantages of designating rate structures that are easily understood by ratepayers

Discussion: This objective highlights the importance of keeping rate structures, and changes to rate structures, simple. Customer communications and clarity of bills should be considered as part of this principle. Significant public outreach during the study, and through implementation, help to mitigate some customer understanding concerns.

Advantages of the Policy Objective: Creating structures that are easy for ratepayers to understand will minimize user-related administrative burdens. If customers understand the basis of their bills, they will have the ability to quickly calculate charges and conclude that they are fair.

Disadvantage of the Policy Objective: Simplifying the rate structure generally reduces the degree of fairness and equity across user groups and may also limit conservation and affordability outcomes. It may also limit the types of rate structures for evaluation.

Sub-Objectives:

- **Ease of understanding** – The ability for the rate structures to be explained in a manner that can be understood by the layperson. This creates a positive effect on the acceptance of charges for service.
- **Straight-forward bills** – Implementing a new or modified rate structure merits careful consideration as wholesale changes can require upfront investments in outreach, communications, and interim investments in customer service staffing and other resources.
- **Discernable rate changes** – Producing a rate structure where the layperson can explain the changes and calculate changes to charges on the bill reduces confusion, reduces the burden on administration, and generally leads to acceptance of the rates as fair.

Policy Objective 3 – Rate Stability

Policy Statement: There are advantages to an agency generating stable rates from customers. These policies are achieved by selecting specific funding mechanisms for long-term finances and/or incorporating specific cost components into rate structures.

Discussion: This principle highlights the importance of predicable rates to customers year-over-year while minimizing the effects of rate structure changes.

Advantages of the Policy Objective: The practice of ensuring rate stability generates gains in customer understanding and financial health through less revenue volatility seasonally and annually.

Disadvantages of the Policy Objective: Setting user charges to maximize rate stability may reduce equity among and between user classes and may be perceived as unfair and inequitable. Additionally, prioritizing rate stability often reduces the conservation signaling of rates.

Sub-Objectives:

- **Avoid bill volatility** – To reasonably ensure that rates and charges are predictable across billing cycles and without sharp fluctuations in magnitude or structure year over year. Certain rate structures and long-term financial plans are more effective at guarding against rate spikes and highly fluctuating user bills.
- **Minimize customer impacts** – Aims to minimize the financial impact of rate structure changes to customers to the greatest degree possible.

Policy Objective 4 – Conservation

Policy Statement: Scarce water resources, cyclical drought, and regulatory mandates should be reflected in the rates and charges. The rate structure should encourage a reduction in water demands and empower necessary water management efforts by the City.

Discussion: This principle recognizes the limited water availability of the potable system, as well as the environmental and financial impact of water and wastewater mitigation activities. The rates should encourage reduced use of a limited resource to the greatest extent under the law.

Advantages of the Policy Objective: This policy attempts to align the costs of conservation activities, customer demand patterns, and the water supply portfolio with customers and customer classes, which cause the City to incur those costs. This has the effect of reducing the burden to lower volume users and benefits equity and affordability of service.

Disadvantages of the Policy Objective: Typically, rate structures emphasizing efficiency, conservation, and reduced water use generate increased revenue volatility to the agency. This volatility may be seasonal changes in cashflow or a potential net revenue loss in times of significant reduction beyond projected demand.

Sub-Objectives:

- **Reduce total use** – Use of best available data and planning documents should be employed to develop a rate structure that promotes the efficient use of water. Example includes identifying efficient water requirements at the parcel level for certain classes of customer.
- **Reduce large volume use** – Relies on price signaling to deter high volume water use and promote conservation and the efficient use of water.
- **Reduce peak use** – Aims to curtail use during the highest demand periods of the year to take pressure off certain facilities and/or reduce purchasing and conveyance of water from more expensive sources.

Policy Objective 5 –Administration

Policy Statement: Recognizes the advantages of designating rate structures that are simple to implement, administer, and update by staff.

Discussion: This objective highlights the importance of keeping structures and the process of administering them practical. Ratepayer education and communications, as well as clarity of bills, should be considered as part of this principle.

Advantages of the Policy Objective: Creating structures that are easy for ratepayers to understand and for staff to implement will minimize rate-related administrative issues. If staff can implement the rates and charges without modifying systems, it reduces staff time, implementation costs, and opportunities for delays.

Disadvantage of the Policy Objective: Maximizing the ease of administration may not allow for certain rate structures or modifications of rate structures. This may mean simplifying rate structures which could limit achieving other objectives.

Sub-Objectives:

- **Ease of implementation**– Implementing a new rate structure merits careful consideration as rate structure implementation may require upfront (one-time) costs such as data gathering or billing system changes. An easy-to-administer structure does not negatively impact the ongoing costs of administration, which are predominately staffing costs.
- **Compatibility with existing systems** – A new rate structure should not require modifications to the customer information and billing systems or inter-departmental changes. This reduces the time to implement changes and the level of effort by staff.
- **No new costs** – Any new rate structure should not require one-time costs or costs that would otherwise not be incurred if not for the rate structure. Staff should be able to utilize the existing systems and update rates and charges effortlessly.

Policy Objective 6 –Equity

Policy Statement: In compliance with Article XIII D of the State Constitution (commonly referred to as Proposition 218), governing statutes of State Law, and industry best practices, rates and charges should be cost-based, fairly apportioned among classes of customers, and account for the substantive provisions of the law through a sound, technically defensible methodology.

Discussion: This objective highlights the importance of ratepayers' perception of fairness and equity, while recognizing that absolute equity among all users and user classes may not be achieved. Rates should generally be perceived as fair, reasonable, and equitable for all.

Advantages of the Policy Objective: This principle reinforces the priority of treating all customer classes fairly. Also, it acknowledges the practical obstacles that prevent perfect equity, such as excessive administrative costs or technical costs incurred solely to achieve marginal gains in equity.

Disadvantages of the Policy Objective: "fairness" and "equity" can be subjective and requires the Advisory Committee and policymakers (City Council) to apply discretion and judgment. More, equity can be interpreted at the system level, customer class level, or intra-class level.

Sub-Objectives:

- **Equity among customer classes** – States that a rate structure achieves equity by allocating costs fairly and proportionally within user groups (customer classes). For example, tiered water rates and variable component wastewater rates attempt to increase equity within a class of customers.
- **Equity between customer classes -** States that a rate structure achieves equity by allocating costs fairly and proportionally across distinct user groups of systems. For example, equity between residential users, commercial users, and agricultural users.

- **Inter-generational equity –** States that a rate structure achieves equity by matching the costs of impacts to those who have caused the impacts. The objective aims to protect current and future users from disproportionately bearing costs due to past, or projected, activities. Inter-generational equity also relates to the future costs of infrastructure investment and re-investment and who should pay.

Policy Objective 7 –Financial Stability

Policy Statement: There are advantages to an agency in increasing revenue certainty. It is important to establish rates that generate adequate revenues from year to year, regardless of climate cycles or variation in water use. These policies are achieved by selecting specific funding mechanisms or selecting specific rate structures.

Discussion: This principle highlights the importance of ensuring adequate revenue generation for maintaining a self-sustaining agency. Revenues must be adequate to fund technical, personnel, and other operational costs. Revenue generation should be predictable with little variability.

Advantages of the Policy Objective: The practice of ensuring revenue sufficiency and stability generates additional gains in financial health and generally reduces volatility in future rates. This generally reduces utility financial risk and generally makes the utilities more attractive to external entities (e.g. bond rating).

Disadvantages of the Policy Objective: While pursuing a rate structure that promotes financial stability is advantageous, setting user charges in a fashion that fixes a user's bill may be perceived as unfair and inequitable. The public may perceive the need as unnecessary and that the agency has little incentive to be judicious with operating and management costs.

Sub-Objectives:

- **Generate adequate revenues** – The ability of the rate structure and financial plan to generate stable and predictable revenues on an annual basis. Specific types of rate structures are more effective at maintaining revenue stability than others. Adequate revenues ensure, for example, that technical studies can be conducted, qualified personnel can be retained, and that operational costs of the utility are covered.
- **Generate stable cash flow** – The ability of the rate structure to generate stable and predictable revenues in each billing cycle. Specific types of rate structures are more effective at maintaining revenue stability than others. Adequate revenues ensure, for example, that technical studies can be conducted, qualified personnel can be retained, and that operational costs of the Agency are covered.

Policy Objective 8 –Affordability

Policy Statement: Utility bills should be affordable to customers, and the rate and charges should be developed to deliver the greatest degree of affordability possible. Significant and/or unexpected rate changes may impose financial hardships on certain types of customers and cause otherwise affordable charges to become unaffordable.

Discussion: Affordable rates require a balance between generating stable and sufficient revenue for operations and providing flexibility to customer bills. Alternative rate structures may result in improvement or deterioration of charges perceived to be affordable.

Advantages of the Policy Objective: Flexibility in bills allows users a degree of choice and control over their charges. More, lower-income, fixed income, and/or those facing financial hardship are more likely to stay current on their charges with charges deemed affordable by the community.

Disadvantages of the Policy Objective: Affordability is relative to each customer and can be challenging to define. What may be affordable for one user is unaffordable to another. Additionally, affordability efforts generally present a tradeoff with revenue stability.

Sub-Objectives:

- **Affordability for essential Use** – This sub-objective addresses the importance of maintaining the price - i.e., that which is used for health and sanitation – at the lowest cost possible while considering the needs of the utility and regulatory conditions. This ensures that affordable outcomes are maximized for the lowest volume water users and those most financially vulnerable.
- **Affordability for average Use** – Aims to make charges for water and wastewater service affordable for the average user within a class of users, irrespective of absolute use or economic conditions.

3. PRICING OBJECTIVES EXERCISE

City of St. Helena - Water & Wastewater Utilities
Policy Objectives Exercise

Please prioritize each of the sub-objectives sequentially from 1 to 20 with 1 being highest priority and 20 being lowest priority

Objective	Sub-Objectives	Priority
Defensibility	Reduce likelihood of challenge	
	Increase likelihood of withstanding challenge	
Customer Understanding	Ease of understanding	
	Straight-forward bills	
	Discernable rate changes	
Rate Stability	Avoid bill volatility	
	Minimize customer impacts	
Conservation	Reduce total use	
	Reduce large volume use	
	Reduce peak use	
Administration	Ease of implementation	
	Compatibility with existing systems	
	No new costs	
Equity	Equity among customer classes	
	Equity between customer classes	
	Inter-generational equity	
Financial Stability	Generate adequate revenues	
	Generate stable cash flow	
Affordability	Affordability for essential use	
	Affordability for average use	

Report to the City Council
Water and Wastewater Rate Study Advisory Committee – August 25, 2022

Agenda Section: **NEW BUSINESS**

Subject: **Reserve Policies Discussion – Raftelis will present a comparison of the City's utilities' existing reserves policies, relative to a sample of similar agencies providing water and wastewater services.**

CEQA Determination: **Not a CEQA project**

Prepared By: Mandy Kellogg, Administrative Services Director

Approved By: April Mitts, Assistant City Manager

BACKGROUND

The City of St. Helena developed reserve policies in an effort to ensure financial security through the maintenance of a healthy fund contingency balance that guides the creation, maintenance, and use of resources for financial stabilization purposes. The City's primary objective is to maintain a prudent level of financial resources to mitigate risk due to temporary revenue shortfalls or unpredicted one-time expenditures. The City also seeks to maintain the highest possible credit ratings which are dependent, in part, on the City's maintenance of a healthy fund balance.

DISCUSSION

The City should maintain balances in the Water and Wastewater Funds at a level sufficient to accommodate operating and capital needs. City Council's directed target for the Water Fund is 10-14 months (83%-106%) of annual operating expenditures in cash and the Wastewater Fund 6-8 months (50%-67%) of annual operating expenditures in cash. These amounts include cash balances in the Water and Wastewater Capital Improvement Project Funds. Multi-year fee studies for these funds should be updated periodically as a basis for defining the revenue sources necessary to maintain system infrastructure and required service levels. As a result of the periodic fee or master plan studies, adjustments to user charges may be necessary to maintain recommended fund balance levels.

Raftelis will discuss comparative reserve policies and will review policy considerations.

FISCAL IMPACT
Not Applicable.

RECOMMENDED ACTION
Discuss and provide feedback.

ATTACHMENTS
N/A

Report to the City Council
Water & Wastewater Rate Study Advisory Committee – August 25, 2022

Agenda Section: **NEW BUSINESS**

Subject: **Capital Improvement Program (CIP) – The long-term capital program for each utility**

CEQA Determination: **Not a CEQA project**

Prepared By: Martin Beltran, Senior Management Analyst

Reviewed By: Mandy Kellogg, Administrative Services Director

Approved By: April Mitts, Assistant City Manager

BACKGROUND

The City of St. Helena provides water and sewer services for approximately 2,600 residents and businesses both within and outside City limits. The City water and sewer rates are established by City Council. The purpose of a water and wastewater rate study is to determine the level of funding required over the next five years to ensure that each utility is meeting financial obligations for ongoing operations and maintenance, debt service, and capital improvements while maintaining prudent reserves.

The City conducted its last water and wastewater rate review in 2016 and the City Council adopted its current water and wastewater rates in 2017. The final rate increase approved in the current rate study was implemented in November 2021.

On Friday, December 3, 2021, the City released a Request for Proposals (RFP) for professional services to complete an updated Water and Wastewater Rate study. The City received a total of eight proposals, which were reviewed by a selection committee consisting of the two Water Ad Hoc Council members, two City employees, and one member of the public.

On March 25, 2022, City Council adopted Resolution 2022-12 authorizing the City Manager to execute a Professional Services Agreement with Raftelis Financial Consultants to provide services associated with a Water and Wastewater Rate Study.

DISCUSSION

The City's five-year Capital Improvement Program (CIP) is a multi-year planning instrument that guides the construction of new facilities/infrastructure and the expansion, rehabilitation, or replacement of existing City-owned assets. The adopted CIP becomes the guiding document for the prioritization of projects, provides projected programming, and provides estimated costs over a five-year period. The current Five-Year Capital Improvement Program for Fiscal Years 2022-23 to 2026-27 was adopted by City Council on June 14, 2022.

The information included in the adopted CIP is updated annually to reflect changing priorities, updated costs, funding availability, and project completion. A new five-year CIP is submitted to City Council annually with recommended projects, adjustments to project budgets, funding sources, descriptions, and/or schedules.

Taking the information from the FY 2022-23 to FY 2026-27 five-year CIP list, the four sources listed below, and other unfunded CIP needs, staff compiled a 30-year master CIP worksheet. The projects in the 30-year list are from the various series of studies, working committees, and reports to categorize assets, provide costs estimates for replacement/repair, and develop funding strategies for the replacement/repair of assets. This included:

1. Facilities Condition and Need Assessment (2017)
2. St. Helena Assets Planning Engagement (SHAPE) Committee (2018)
3. Financing Civic Infrastructure Task Force (2020)
4. Integrated Utility Master Plan (2021)

Raftelis will present the list of CIP projects for both the water and wastewater enterprise with the following information:

1. Highlight some of the primary projects;
2. Highlight the short-term water and wastewater projects;
3. Review various scenarios; and
4. Review of identified funding sources for each project including, but not limited to: pay-go, debt financing, grants, impact fee funds, and GO Bond proceeds.

FISCAL IMPACT

Not Applicable.

RECOMMENDED ACTION

Discuss and provide direction.

ATTACHMENTS

N/A