City of St. Helena
Ad Hoc Committee
Special Meeting

Vintage Hall Board Room - Second Floor, 465 Main Street, St. Helena
Friday, May 26, 2017 @ 9:00 AM

Page

1. CALL TO ORDER

2. ROLL CALL
   Ad Hoc Utility Rate Committee Members:
   Chair Bonnie Long, Vice Chair Tom Vence
   Committee Members Chris Dann, Lester Hardy, Joel Gott, Doug Cutting and Mark Smithers

   City Council Liaisons: Mayor Galbraith and Councilmember Mary Koberstein

3. PUBLIC COMMENT PERTAINING TO AD HOC UTILITY RATE COMMITTEE: Please observe the three minute limit.

4. NEW BUSINESS

   4.1. Discussion and Committee direction regarding draft recommendations to the City Council based on Council Direction to Ad Hoc Rate Committee — 3 - 15

   Bonnie Long.Draft Recommendations to City Council from Ad Hoc Utility Rate Committee
   Chris Dann.SHWWW Findings 21 May 2017
   Tom Vence recommendation to Council re Ad Hoc
   Mark Smithers.Ad Hoc Committee recommendations
   A&W Public Comment

5. DISCUSSION OF ITEMS TO BE PLACED ON THE NEXT MEETING AGENDA:

   5.1. Discussion of other possible options for reducing rates and committee direction to consultants.

   5.2. What is an assessment district and how does it work?

6. ADJOURNMENT

The next Ad Hoc Utility Rate Committee meeting is scheduled for May 31, 2017 at 9:00 am, St. Helena Library.

This agenda was posted at City Hall, 1480 Main Street, and at Vintage Hall, 465 Main Street, St. Helena, California on May 24, 2017.

Cindy Black, 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) 967-2792. 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

Draft

Recommendations to City Council from Bonnie Long, Chair, Ad Hoc Utility Rate Committee

A seven member Ad Hoc committee was appointed by the City Council to Review the Water and Wastewater Study dated October 31, 2016, and make recommendations, if any to the Council for revisions to the Study and potential adjustments to the rates.

The committee had our first meeting on April 10, 2017, and has had a total of 7 meetings. We have listened to comments from the public, gathered information from the rate consultant, financial advisor and bond council. CIP projects for both water and sewer have been updated with the best information available at this time.

It has become obvious that many members of our community are worried about the impact of rate increases now in place. Some Vineyard Valley residents are planning to move because of the hardship the new rates present. Several small businesses report massive increases – some approaching 2,000 percent.

If a sensitivity test of the 2016 rate increases had been conducted before adopting the rates, it would have been possible to adopt modified rates with less stress on small businesses, Vineyard Valley residents, and other members of our community on limited incomes.

There is no question that the proposed projects are necessary for the water and wastewater systems. Both the community at large and the Ad-Hoc Committee agree and commend them to the Council. However, the timing and funding of those projects is in question as is the rate structure for both systems.

Recommendations to City Council:

1. **Pursue bonding as suggested by financial consultant with debt coverage of 1.4 and a 12 month cash reserve.**

2. **Target some CIP projects for state loans.**

3. **Look at surcharging Meadowood and other outside contracts.**

4. **Consider and adopt a modified rate structure, similar to the Modified option presented in the 2016 study, based on the system finance needs generated by points 1-3.**

City of St Helena

Ad Hoc Utility Rate Committee

5/21/2017

My preliminary findings from the committee's review and discussion of materials, consultation with experts and listening to public comments:

1. The water and wastewater utilities have been insufficiently funded for many years resulting in deferred maintenance, minimal rehabilitation, increasing operating and capital costs
2. The system is extremely old and in poor health operationally and financially; the system is not in compliance with environmental regulations and is not in compliance with bond covenants
3. Access to the City's lowest cost financing, the State Revolving Fund, is contingent upon compliance with bond covenants
4. The rate increase adopted November 29, 2016 is intended restore the system's finances and fund the required deferred maintenance and capital improvement projects
5. While there are options that may incrementally mitigate the impact of increased rates, there are very few alternatives that will **materially** affect the fundamental requirements of catching up with years of neglect and inadequate funding and complying with bond covenants
6. Continuing to defer maintenance and system rehabilitation will make the problems worse, possibly acute, and the costs associated with fixing them will grow
7. Rate reductions from the adopted rates would involve the acceptance of continued risk either operationally or financially or both
8. Funding the system from the City's general fund takes money from other needed infrastructure investments (e.g. streets and sidewalks) and other City obligations; would merely provide a subsidy to large users that are beyond the City limits (who don't pay property, sales or TOT taxes); at any rate, funds from the general fund do not significantly impact rates because they would only impact reserve, not revenue requirements
9. Funding the capital improvements through debt is only possible with the rates as adopted; public debt financing nearly doubles the effective cost of the capital improvements and puts the system, and possibly the City, at higher financial risk
10. Rate structures must be based on the cost of service by law as a matter of equity; particularly in the case of wastewater, these are based on approximations that will always be imperfect
11. Under the prior rate structure, some customer classes were paying substantially higher than their cost of service (schools, churches, commercial) and some classes (mobile home) were paying substantially less than their cost of service
12. The new rate structure uses customer classifications that are more equitable and consistent with best practices
13. Benchmarks show that water and wastewater rates have been below average historically, and with the new rates, are slightly above average compared to comparable cities
14. By state and federal guidelines that provide an objective measure of affordability, the new rates are well within affordability thresholds
15. Undoubtedly, the increased rates present a hardship for some citizens and attention should be focused on all the means at the City's disposal to mitigate the impact of these rates: for example, low income assistance programs, maximizing the use of grants and the State's Revolving Fund
16. Postponing rate increases, maintenance and/or capital improvements will only worsen the hardship for everyone when the problems are finally addressed or forced upon the City by a catastrophic event

Christopher Dann

Ad Hoc Utility Rate Committee Member

DRAFT

From: Tom Vence Vice Chair Ad Hoc Utility committee…. May 2017

Recommendations to City Council regarding information gathered during the series of Utility Ad Hoc committee meetings:

1 **Replace the current waste water base service charge with the Modified Rate Structure described in the Oct 2016 Rate Study.**

Rationale:
This seems to be the most contentious issue raised by city business and mobile homes.
The current methodology results a in very large rate increases for the base service charge of the utility bill for these categories in the city. Businesses were shocked when they received the new bills and complained about their ability to stay in business or if they survive will be faced with ever shrinking profit margins and more rate increases on the horizon. Fixed or low income residents from Vineyard Valley attested at committee meeting of the difficulty these new rates present.

So that is the sad story. Why was the rate change allowed to go into effect without the old task force or council questioning what the effect on rates would be on some segments of the population?

Ms. Hansford at the May 20th meeting explained that she offered the Task Force the New Rate Structure(NRS) or a Modified Rate Structure. The Task Force chose NRS according to Ms. Hansford because it had a better nexus to defending Prop 218.

She also said that the Modified Rate Structure meets Prop 218.

The current methodology does not use a **specific** metric (no winter flows etc) for volume in determining base rate flow. Instead it categorizes business by strength and **average** volumes gathered from City data or other sources. This results in smaller businesses that fall below the **averag**e volume having to pay the **average** (even if they are substantially below the average (which hurts them) and large businesses that rise above the **average** paying the **average** which of course helps them.

Clearly a built-in inequity that creates hardships for small business. As Ms. Hansford so often says no model is perfect and of course that is true. But given the choice of two imperfect models that meet prop 218, I recommend going with the one that favors businesses and mobile homes.

The Council needs to decide which is more important to the residents: providing a more reasonable, affordable rate increase for waste water service charge or to build in a stronger defense for Prop 218 in the remote event that some entity challenges the City on this issue.

2**. Direct staff to evaluate the cost of service for delivery of water to entities outside the City including Meadowood and if evaluation results in costs not captured in the current rates incorporate documented costs in the rate model**. **Also staff and Hansford should inform Council why $500,000 Meadowood Tank (CIP) should not be allocated to Meadowood.**

Rationale:
Prop 218 requires all rates to be documented cost of service. Allocating costs to those that benefit may result in a moderation of rates.

3. Direct staff to reevaluate the assumption in the Waste Water Rate Model of using 2016 as the base year and justification of using 10% as escalator for both water and wastewater maintenance costs.

Rationale:
The Utility has for many years suffered from deferred maintenance and 2016 culminated in highest total expenses over the last 5 years. Average annual total expenses from 2012 to 2015 were $1,309,285. Expenses in 2016 were $2,191,467 an increase of 67%. By using 2016 as starting point future escalation rates in years 2017 2021 to are skewed higher until an adjustment is

made in 2022.It would be more reasonable to identify the cause(es) for the 2016 increase, determine if they are recurring and make adjustment to achieve a modified base year to project escalation for the next five years. According to Ms. Hansford Industry guidelines for escalating maintenance costs are 3 to 8% annually. The Study projects 10%. Suggest same approach to adjusting maintenance escalation.

4. Direct the financial consultant and Hansford to recalculate the rates with revised CIP debt funding and based on the following parameters:

- **Prioritize CIP in terms of regulatory and infrastructure needs**
- **Determine whether water and wastewater projects need to be separate**
- **Bundle projects to meet a reasonable dollar value and scheduling requirement**
- **Recommend sequencing of bond issue to meet CIP implementation requirements**
- **Consider strategies to minimize idle cash**
- **Recommend sinking fund and rehabilitation amounts**
- **Incorporate Modified rate structure for WW charges**
- **Incorporate results from cost of study analysis if applicable**
- **Incorporate results from base year and maintenance escalation analysis if applicable**
- **Maximize debt to the extent of prudent municipal practice in the pay-go ratio**
- **Use 1.4 as debt service ratio guideline**
- **Consider reducing 12 month reserve recommendation to something that better meets the specific requirements of the Utility and manages risk without burdening rates with excessive undesignated reserves.**
- **Provide estimated costs and timing of Bond issues**
- **Rerun rate model with the appropriate recommendations and determine effect on rates**
- **Recommend further scenarios if necessary**

5. Direct Staff to explore and identify sources of State funding in terms of grants and loans.

Rationale: State funding is the most attractive for the Utility to fund CIP

6. Consider creating a full-time position of Utility Manager

Rationale: The City's W&WW utility was faced in 2016 with a financial crisis brought on by the gross neglect regarding infrastructure improvements, deferred maintenance, minimal rehabilitation, all of which drove up maintenance costs; lack of sufficient regulatory oversight, a drought which encouraged conservation then resulted in historically reduced revenues. The combination of high operating costs and capital Improvement projects (CIP) as well as a major deferred CIP (York Creek Dam) contributed to the recommendation in the October 2016 Utility Rate Study to raise rates in the next 5 years at an average of 23%,16%,20%,4%and ending in 2021 at 4%. This amounts to almost a doubling of the rates in 5 years.

A dedicated Utility manager with authority to manage the day to day and strategic issues of the Utility could prevent a reoccurrence of the scenarios described above.
The Utility manager, possibly reporting to Public Works, could keep Council informed of issues that need their attention on a regular basis thus minimizing surprises and allowing for an orderly budgeting process.

To: Ad Hoc Utility Rate Committee

From: Mark Smithers

Date: May 24, 2017

Re: Recommendations

I have the following recommendations for the committee's consideration.

Model assumptions, policies, and inputs

CIP – Water Enterprise:

Increase all project costs 10%.

Increase main-line replacement to 4% a year.

CIP – Wastewater:

Increase all project costs 10%.

Increase main-line replacement to 4% a year.

Increase reclamation field improvements $1.3 million.

Operating expenses – adjust inflation assumptions based on committee review and conclusions.

Net revenue debt service coverage – set at an annual minimum of 1.3 and a maximum of 1.5.

Cash operating reserves:

Water enterprise – set minimum at 10 months and maximum at 14 months.

Wastewater – set minimum at 6 months and maximum at 8 months.

Rate structures:

Water – accelerate adjustments and increases to base rates to achieve revenue / cost parity for the water enterprise base rates within 10 years.

Wastewater – return rate structure and volume flow inputs to the prior methods and accounting for base rates through meter size and volume flow assumption differentiation for residences vs businesses. Note: the modified rate structure attached to the wastewater technical memorandum contains certain adjustments from the previous rate structure that are not appropriate for our customer base and are inconsistent with wastewater use facts.

Project financing:

> Upon updating for the items noted above, the financing consultant will work with the rate modeling consultant to optimize the funding of CIP through debt and cash while moderating year over year rate changes and recognizing that debt funded CIP ultimately costs twice as much as cash funded CIP.

Updated model results:

> Provide a comparison of the previous rates, recently established rates, and the rates developed from the Committee recommendations as well as a comparison of total estimated monthly costs by customer type for combined water and wastewater billing based on the previous rates, recently established rates, and the rates developed through the Committee recommendations.

Interim City Council guidance

City Council should discuss and consider at its earliest meeting to instruct City staff to retroactively adjust all wastewater billing to the modified rate structure included in Attachment B of the Wastewater Technical Memorandum from the date the new rates were effective until the consultants have worked through the Committee recommendations and those resulting rates are accepted by City Council.

Future item

Establish a new committee or continue the existing committee to fully explore the requirements, possibilities, accounting, and risks of water enterprise tiered rate structures whereby users may be charged different rates based on location and use volumes both of which would be supported by a thorough study of cost specification and differentiation.

Establish a new committee or continue the existing committee to meet twice a year reviewing both the water enterprise and wastewater enterprise financials with a focus on results and updated forecasts compared against rate models used to set the ultimately established rates.

April Mitts

From: Pete Knight <peteknight13@gmail.com>
Sent: Thursday, May 25, 2017 12:25 PM
To: April Mitts
Subject: Water Bill for ST. Helena A&W
Attachments: img001.pdf

Chairperson AD HOC Committee Bonnie Long

RE: A&W Root Beer Water Bill

I would like to address our billing for water services in St. Helena. I have attached our bills from last year and this years most current.

As you can see we have made efforts to reduce usage in spite of having sales increases of 30% over the course of the last 3 years. In November we began opening at 6AM for breakfast.

We installed low flow toilets and a zero water use urinal in the mensroom. All of our faucets have low flow devises installed. Most of our plants are either established or drought tolerant are are only watered twice weekly.

We have changed how we wash dishes, we hardly use our dishwasher, and now we only hand wash most pots and pans.

One of our biggest uses of "water" is in the sale of Root Beer and sodas. Since most of the "water" leaves the business in a cup, this is hardly the reason for such a high waste water charge.

I believe that the largest use of water comes in the form of our Public Rest Rooms. For decades A&W has provided easy access for the City of St. Helena's many tourists. From the moment we open at 6 AM we have a steady stream of people and families stop and use our restrooms, some times without even a purchase. There are arguably no other businesses in St. Helena that have rest rooms and parking that have provided this valuable public service.

I would like to address these issues at one of your future meetings in the hopes of seeing some relief on our monthly billing. A 72% increase while using less water just doesn't seem fair.

Thank You

Peter and Annette Knight
Franchisee St.Helena A&W
501 Main St. St Helena, CA.

Peter Knight 209-366-3462

Account Statement

1480 Main Street
St. Helena, CA 94574

C26925001128

1126*3*1****AUTO**SCH 5-DIGIT 94515

ST. HELENA A & W
501 MAIN ST
SAINT HELENA, CA 94574-2002

0101500

ACCOUNT INFORMATION

ACCOUNT:	014197-000
SERVICE ADDRESS:	501 Main St
SERVICE PERIOD:	4/16/2016 to 5/15/2016
BILLING DATE:	5/15/2016
DUE DATE:	6/15/2016

METER READING

	Previous Reading		Current Reading		
Serial No	Date	Reading	Date	Reading	Usage
003000523	4/8/2016	4870	5/9/2016	4906	36

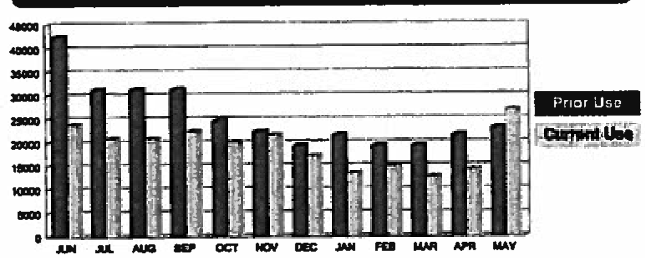
SPECIAL MESSAGE

To sign up for our Online Services, please go to www.cityofsthelena.org; on the Finance & Utilities page click on View and Pay Your Bills Online. If you have any questions regarding your water bill please contact us at (707) 968-2745. PLEASE NOTE - Any payments received after 5:00 pm on May 12th, 2016 may not be reflected on your statement.

CURRENT CHARGES

Water Base Fee 1 in Comm Inside	63.80
Water Use 36 units @ 4.48	161.28
Sewer Base Fee 1 in	102.42
Sewer Use 36 units @ 11.68	420.48
TOTAL CURRENT CHARGES	747.98

Water Use in Gallons



Water use this billing cycle in gallons:	26,928.00
Average gallons used per day:	841.50
Water use one year ago in gallons:	23,188.00
Average gallons used per day one year ago:	748.00

BILL SUMMARY

PREVIOUS BALANCE	914.20
Thank you for your payment.	-914.20
ADJUSTMENTS	0.00
ADDITIONAL BILLING	0.00
CURRENT CHARGES	747.98
TOTAL AMOUNT DUE	747.98

pd 6-10-16 ck#1770

CHAIRMAN BONNIE LONG (april m@cityofsthelena.org)

AD HOC MAY 31ST 9AM - 11AM ST. HELENA LIBRARY

Account
Statement

1480 Main Street
St. Helena, CA 94574

1100*3*1****AUTO**SCH 5-DIGIT 94515
ST. HELENA A & W
501 MAIN ST
SAINT HELENA, CA 94574-2002

ACCOUNT INFORMATION

ACCOUNT:	014197-000
SERVICE ADDRESS:	501 Main St
SERVICE PERIOD:	4/9/2017 to 5/8/2017
BILLING DATE:	5/15/2017
DUE DATE:	6/14/2017

METER READING

	Previous Reading		Current Reading		
Serial No	Date	Reading	Date	Reading	Usage
003000623	4/7/2017	5317	5/8/2017	5349	32

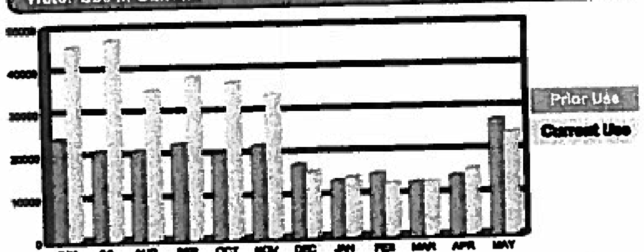
SPECIAL MESSAGE

To sign up for our Online Services or Autopay, please view the back of your statement for instructions. Any payments received after 3:00 pm on May 11th, 2017 may not be reflected on your statement. If you have any questions regarding your water bill please contact us at (707) 968-2745.

CURRENT CHARGES

Water Base Fee 1" Commercial	80.08
Water Use 32 units @ 5.50	176.00
Sewer Base Restaurant	840.03
Sewer Use 18 units @ 10.18	183.24
TOTAL CURRENT CHARGES	1,279.35

Water Use In Gallons



Water use this billing cycle in gallons:	23,936.00
Average gallons used per day:	748.00
Water use one year ago in gallons:	26,928.00
Average gallons used per day one year ago:	841.50

BILL SUMMARY

PREVIOUS BALANCE	1,218.85
Thank you for your payment.	-1,218.85
ADJUSTMENTS	10.18
ADDITIONAL BILLING	0.00
CURRENT CHARGES	1,279.35
TOTAL AMOUNT DUE	**1,289.53**