*UPDATED
City of St. Helena
Ad Hoc Committee
Special Meeting

St. Helena Library, 1492 Library Lane, St. Helena, CA 94574

Wednesday, May 31, 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. CONSENT ITEMS:

4.1. Minutes of: April 10, 2017, April 17, 2017, April 24, 2017, April 26, 2017, May 8, 2017, May 17, 2017, May 20, 2017 and May 26, 2017. — 3 - 18

04.10.17 Ad Hoc Utility Rate Committee Minutes
04.17.17 Ad Hoc Utility Rate Committee Minutes
04.24.17 Ad Hoc Utility Rate Committee Minutes
04.26.17 Ad Hoc Utility Rate Committee Minutes
05.08.17 Ad Hoc Utility Rate Committee Minutes
05.17.17 Ad Hoc Utility Rate Committee Minutes
05.20.17 Ad Hoc Utility Rate Committee Minutes
05.26.17 Ad Hoc Utility Rate Committee Minutes

5. NEW BUSINESS

5.1. Discussion and Committee direction regarding recommendations to the City Council based on Council Direction to Ad Hoc Rate Committee — 19 - 34

Bonnie Long.Draft Recommendations to City Council from Ad Hoc Utility Rate Committee 2
Mark Smithers.Ad Hoc Committee recommendations
Tom Vence recommendation to Council re Ad Hoc
Chris Dann.SHWWW Findings 25 May 2017
*NEW - Lester Hardy Recommendations
*NEW - Doug Cutting.AdHocWaterRateStatement

*NEW - Mayor Galbraith Comment

6. ADJOURNMENT

This agenda was posted at City Hall, 1480 Main Street, and at St. Helena Library, 1492 Library Lane, St. Helena, California on May 27, 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

Minutes
City of St. Helena
Ad Hoc Committee
Special Meeting
Vintage Hall Board Room - Second Floor
465 Main Street, St. Helena
Monday, April 10, 2017 @ 9:00 AM

A complete video recording of this meeting can be found at https://sthelena.civicweb.net/Portal/ or by calling the City Clerk at (707) 967-2792. The video is the official record of the meeting.

1. CALL TO ORDER

2. ROLL CALL

Present: Committee Members: Bonnie Long, Tom Vence, Lester Hardy, Chris Dann, Joel Gott, Doug Cutting, Mark Smithers and 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.

Pat Dell, Tom Belt, Grace Kistner and Lana Ivanoff addressed the committee members.

4. NEW BUSINESS

4.1. Brown Act over view

City Clerk Cindy Black provided an overview of the Brown Act

4.2. Committee appointment of Chair and Vice Chair

A motion was made by Committee Member Vence to nominate Bonnie Long as Chair. Committee Member Smithers seconded the nomination and unanimously passed.

A motion was made by Committee Member Smithers to nominate Tom Vence as Vice Chair. Committee Member Cutting seconded the nomination and unanimously passed.

4.3. Review Council direction and Council Liaison roll

Mayor Galbraith and Councilmember Koberstein addressed the committee members.

4.4. Ad Hoc Utility Committee materials binder over view

Finance Director April Mitts provided an overview of the following items:

1. Council Adopted Goals and Direction to Ad Hoc Utility Rate Committee
2. Rate Study Adopted November 29, 2016
3. In Depth Financial Staff Report from February 28, 2017 City Council Meeting
4. Regional Water Quality Control Board Cease and Desist Order No. R2-2016-0004
5. Capistrano Taxpayers Assoc., Inc vs. City of San Juan Capistrano
6. City of St. Helena Capital Improvement Plan (CIP) 2016-2021
7. Open-Public V-Guide to the Brown Act-Revised April 2016

4.5. Review all Waste Water and Water Capital Improvement Plan (CIP) projects

Acting Public Works Director Erica Ahmann Smithies provided an overview.

4.6. Highlight critical projects and timelines

Acting Public Works Director Erica Ahmann Smithies provided an overview.

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

a. Review of meeting dates and discussion of currently scheduled meetings

b. Schedule meetings with consultants

c. Committee member questions for staff following binder review

d. Overview of Capistrano Taxpayers Association Prop 218

e. CIP List

6. ADJOURNMENT

Chair Long adjourned the meeting at 10:55 am.

APPROVED:	ATTEST:
______________________	______________________
Bonnie Long, Chair	Cindy Black, City Clerk

Minutes
City of St. Helena
Ad Hoc Committee
Special Meeting
Vintage Hall Board Room - Second Floor, 465 Main Street, St. Helena
Monday, April 17, 2017 @ 9:00 AM

A complete video recording of this meeting can be found at https://sthelena.civicweb.net/Portal/ or by calling the City Clerk at (707) 967-2792. The video is the official record of the meeting.

1. CALL TO ORDER

2. ROLL CALL

Present: Committee Members: Bonnie Long, Tom Vence, Lester Hardy, Mark Smithers and City Council Liaisons: Mayor Galbraith and Councilmember Mary Koberstein

Absent: Committee Members: Chris Dann, Joel Gott and Doug Cutting

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

Pat Dell, Anthony Micheli and Debbie Fradelizio addressed the committee members.

4. NEW BUSINESS

4.1 Review of meeting dates and discussion of currently scheduled meetings

The committee members discussed scheduled meetings.

4.2 Schedule meetings with consultants

It was the consensus of the committee to invite the consulatnts to the April 26, 2017 meeting.

4.3 Committee member questions for staff following binder review

It was the consensus of the committee to submit questions directly to Finance Director April Mitts to compile and submit to the consultants.

4.4 Overview of Capistrano Taxpayers Association Prop 218

Finance Director April Mitts provided an overview on this item.

4.5 CIP List

Acting Public Works Director Erica Ahmann Smithies provided a CIP presentation.

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

5.1 Item Tentative Meeting Date

a. Hansford Consulting, Bond Counsel, and Municipal Financial Advisor at Ad Hoc Meeting - April 26, 2017
b. What is an assessment District and how does it work? - April 26, 2017
c. Funding Schedule/Forecast - April 26, 2017
d. Funding Sources and Options - April 26, 2017
e. Classifications - April 26, 2017
f. Bond Covenants - April 26, 2017

PUBLIC COMMENT:
Grace Kistner, Charles Hall, Bobbi Monnette, Councilmember Koberstein and Mayor Galbraith addressed the committee.

6. ADJOURNMENT

Chair Long adjourned the meeting at 10:38 am.

APPROVED:	ATTEST:
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Bonnie Long, Chair	Cindy Black, City Clerk

Minutes
City of St. Helena
Ad Hoc Committee
Special Meeting
Vintage Hall Board Room - Second Floor
465 Main Street, St. Helena
Monday, April 24, 2017 @ 9:00 AM

A complete video recording of this meeting can be found at https://sthelena.civicweb.net/Portal/ or by calling the City Clerk at (707) 967-2792. The video is the official record of the meeting.

1. CALL TO ORDER

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

Pat Dell, Jan Flynn, Grace Kistner, Dale Grossman and Tom Belt addressed the committee.

3. ROLL CALL

Present: Committee Members: Bonnie Long, Tom Vence, Lester Hardy (arrived at 9:18am), Chris Dann, Joel Gott, Doug Cutting, Mark Smithers and City Council Liaisons: Mayor Galbraith and Councilmember Mary Koberstein

4. NEW BUSINESS

4.1. Report on City of Napa Water Agreement
Prepared By: April Mitts, Finance Director

Finance Director April Mitts reported on this item.

4.2. Discussion and Possible Addition of Questions for Hansford Economic Consulting; David Fama, Bond Counsel; and Kenneth Decker, Municipal Financial Advisor

A round table discussion transpired regarding questions for the consultants.

PUBLIC COMMENT:

Grace Kistner, Mayor Galbraith, Councilmember Koberstein and Dale Grossman addressed the committee.

5. LIST OF FUTURE MEETING AGENDA ITEMS:

5.1. April 26, 2017 Hansford Economic Consulting, Bond Counsel and Municipal Financial Advisor to respond to questions developed at the April 24, 2017 Ad Hoc meeting. (Please note, the April 26, 2017 meeting will not be limited to two hours. This will allow for all committee questions to be answered.)

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

5.3. Updated CIP list

5.4. Visual overview of water and wastewater systems

5.5. CIP project prioritization

5.6. Update cost and timing for each CIP project

6. ADJOURNMENT

Chair Long adjourned the meeting at 9:49 am.

APPROVED:	ATTEST:
______________________________	__________________________
Bonnie Long, Chair	Cindy Black, City Clerk

Minutes
City of St. Helena
Ad Hoc Committee
Special Meeting
St. Helena Fire Station, 1480 Main St., St. Helena, CA 94574
(Entrance on Railroad Avenue)
Wednesday, April 26, 2017 @ 2:00 PM

A complete video recording of this meeting can be found at https://sthelena.civicweb.net/Portal/ or by calling the City Clerk at (707) 967-2792. The video is the official record of the meeting.

1. CALL TO ORDER

2. ROLL CALL

Present: Committee Members: Bonnie Long, Tom Vence, Lester Hardy, Chris Dann, Joel Gott (arrived at 2:09 pm), Doug Cutting, Mark Smithers and 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.

Lois Battuello, Pat Dell and Mayor Galbraith addressed the committee.

4. NEW BUSINESS

4.1. Questions for and Discussions with Hansford Economic Consulting; David Fama, Bond Counsel; and Kenneth Dieker, Municipal Financial Advisor in regard to the St. Helena Utility Rate Study

An interactive discussion regarding committee questions occurred between the committee members and consultants.

Chair Long called for a beak at 4:15pm.

Chair Long reconvened the meeting at 4:30 pm.

PUBLIC COMMENT:

Pat Dell addressed the committee.

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

5.1. TBD - What is an assessment district and how does it work?

5.2. Updated CIP list

5.3. Visual overview of water and wastewater systems

5.4. CIP project prioritization

5.5. Update cost and timing for each CIP project

6. INFORMATIONAL MATERIAL:

6.1. FY 2014/15 and FY 2015/16 Audited Financials

PUBLIC COMMENT:

Tom Belt, Pat Dell, Debbie Fradelizio, citizen and Bobbi Monnette addressed the committee.

7. ADJOURNMENT

Chair Long adjourned the meeting at 5:19 pm.

APPROVED:	ATTEST:
______________________________	_________________________
Bonnie Long, Chair	Cindy Black, City Clerk

Minutes
City of St. Helena
Ad Hoc Committee
Special Meeting
Vintage Hall Board Room - Second Floor, 465 Main Street., St. Helena, CA 94574
Monday, May 8, 2017 @ 6:00 PM

A complete video recording of this meeting can be found at https://sthelena.civicweb.net/Portal/ or by calling the City Clerk at (707) 967-2792. The video is the official record of the meeting.

1. CALL TO ORDER

2. ROLL CALL

Present: Committee Members: Bonnie Long, Tom Vence, Doug Cutting, Lester Hardy, Mark Smithers and
City Council Liaisons: Mayor Galbraith and Councilmember Mary Koberstein

Absent: Committee Members: Chris Dann and Joel Gott

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

Pat Dell, Lana Ivanoff, John Morrison, citizen, Daniel Villasenor, citizen and Doug Barr addressed the committee.

4. NEW BUSINESS

4.1. Presentation by Public Works Director Erica Ahmann Smithies - Updated CIP List/Project Prioritization/Costs

Public Works Director Erica Ahmann Smithies reported on this item.

Lowell Smith address the committee.

4.2. Visual Overview presentation of Water and Wastewater Systems by Public Works Director Erica Ahmann Smithies

Public Works Director Erica Ahmann Smithies reported on this item.

4.3. Committee discussion of various rate scenarios, questions and direction for Rate Study Consultant Catherine Hansford

Hansford Economic Consultant Catherine Hansford reported on this item.

An interactive discussion regarding committee questions occurred between the committee members and consultant.

PUBLIC COMMENT:

Lois Battuello, Mayor Galbraith and Councilmember Koberstein addressed the committee.

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

5.1. 1. What is an assessment district and how does it work?
2. Escalation Rates
3. Questions
4. Model Update by Catherine Hansford

6. ADJOURNMENT

Chair Long adjourned the meeting at 8:38 pm.

APPROVED:	ATTEST:
Bonnie Long, Chair	Cindy Black, City Clerk

Minutes
City of St. Helena
Ad Hoc Committee
Special Meeting
Carnegie Building, 1360 Oak Ave.,
St. Helena, CA 94574
Wednesday, May 17, 2017 @ 9:00 AM

A complete video recording of this meeting can be found at https://sthelena.civicweb.net/Portal/ or by calling the City Clerk at (707) 967-2792. The video is the official record of the meeting.

1. CALL TO ORDER

2. ROLL CALL

Present: Committee Members: Bonnie Long, Tom Vence, Chris Dann, Lester Hardy, Mark Smithers and City Council Liaisons: Mayor Galbraith and Councilmember Mary Koberstein

Absent: Committee Members: Joel Gott and Doug Cutting

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

Pat Dell, Tom Belt, Lois Battuello and Mayor Galbraith addressed the committee.

4. NEW BUSINESS

4.1. Review of CIP Funding Mechanisms and Assumptions – Kenneth Dieker

Municipal Financial Advisor Kenneth Dieker reported on this item.

4.2. Discussion by Ad Hoc Committee members on “Road Map” to recommendations to City Council

Committee Vice Chair Vence reported on this item.

PUBLIC COMMENT:

Pat Dell, Lois Battuello, Tom Belt and Anthony Micheli addressed the committee.

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

5.1. 1. 5/20/17 - Model Update by Catherine Hansford
2. 5/20/17 - Review of Escalation Rate Assumptions included in the Utility Rate Study Adopted on November 29, 2016
3. What is an assessment district and how does it work?
4. Questions

6. ADJOURNMENT

Chair Long adjourned the meeting at 11:16 am.

APPROVED:	ATTEST:
______________________________	______________________________
Bonnie Long, Chair	Cindy Black, City Clerk

Minutes
City of St. Helena
Ad Hoc Committee
Special Meeting
465 Main Street, Vintage Hall Board Room - Second Floor, St. Helena, CA 94574
Saturday, May 20, 2017 @ 9:00 AM

A complete video recording of this meeting can be found at https://sthelena.civicweb.net/Portal/ or by calling the City Clerk at (707) 967-2792. The video is the official record of the meeting.

1. CALL TO ORDER

2. ROLL CALL

Present: Committee Members: Bonnie Long, Tom Vence, Chris Dann, Lester Hardy and City Council Liaisons: Mayor Galbraith and Councilmember Mary Koberstein

Absent: Committee Members: Joel Gott, Mark Smithers and Doug Cutting

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

Pat Dell, Grace Kistner, seven citizens, Tony Holzhauer, Lois Battuello, Gary Rose and Councilmember Koberstein addressed the committee.

4. NEW BUSINESS

4.1. Model Update by Catherine Hansford

Hansford Economic Consultant Catherine Hansford provided a presentation.

An interactive discussion regarding the presentation occurred between the committee members and consultant.

PUBLIC COMMENT:

Lois Battuello, Pat Dell, Tom Belt and a citizen addressed the committee.

4.2. Review of Escalation Rate Assumptions included in the Utility Rate Study adopted 11/29/17 – **This item was tabled to a future date uncertain.**

4.3. Review and discussion of outstanding questions presented at the Wednesday, April 26, 2017 Ad Hoc Utility Rate Committee meeting - **This item was tabled to a future date uncertain.**

4.4. Discussion and providing direction on scheduling an additional Ad Hoc Utility Rate Committee meeting

City Clerk Cindy Black will poll the committee members to find a meeting date.

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

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

6. ADJOURNMENT

Chair Long adjourned the meeting at 11:30 am.

APPROVED:	ATTEST:
______________________________	______________________________
Bonnie Long, Chair	Cindy Black, City Clerk

Minutes
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

A complete video recording of this meeting can be found at https://sthelena.civicweb.net/Portal/ or by calling the City Clerk at (707) 967-2792. The video is the official record of the meeting.

1. CALL TO ORDER

2. ROLL CALL

Present: Committee Members: Bonnie Long, Tom Vence, Chris Dann, Lester Hardy, Joel Gott, Mark Smithers and City Council Liaisons: Mayor Galbraith and Councilmember Mary Koberstein

Absent: Committee Members: Doug Cutting

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

Pat Dell addressed the committee.

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

Chair Long, Vice Chair Vence and committee member Smithers reported on their individual findings and draft recommendations to the City Council that were included in the agenda packet. Committee member Hardy and Gott noted they will finalize their written findings and forward to the City Clerk for inclusion in the next agenda.

Committee member Chris Dann left the meeting room at 10:31 am and did not return.

PUBLIC COMMENT:

Pat Dell and Bobbi Monnette addressed the committee.

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

5.1. Conclude findings and recommendation to the City Council from the Ad Hoc Utility Rate Committee.

6. ADJOURNMENT

Chair Long adjourned the meeting at 10:46 am.

APPROVED:	ATTEST:
______________________________	______________________________
Bonnie Long, Chair	Cindy Black, City Clerk

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.**

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.

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.

City of St Helena

Ad Hoc Utility Rate Committee

5/25/2017

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. Current estimates for the capital improvement projects are preliminary; actual costs are very likely to be higher than the current estimates
6. 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
7. Continuing to defer maintenance and system rehabilitation will make the problems worse, possibly acute, and the costs associated with fixing them will grow
8. Rate reductions from the adopted rates would involve the acceptance of continued risk either operationally or financially or both
9. 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
10. 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
11. Rate structures must be based on the cost of service by law and as a matter of equity; particularly in the case of wastewater, these are based on approximations that will always be imperfect
12. Under the prior rate structure, some customer classes were paying substantially higher than their cost of service (schools, churches, commercial) and some

classes (mobile homes, restaurants) were paying substantially less than their cost of service

13. The new rate structure uses customer classifications that are more equitable and consistent with best practices
14. 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
15. By state and federal guidelines that provide an objective measure of affordability, the new rates are well within affordability thresholds
16. 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
17. 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

LESTER HARDY
RECOMMENDATIONS TO CITY COUNCIL

Some Preliminary Comments

With respect to the financing-related questions, I think it makes the most sense for the City Council to take its advice from the City's municipal finance consultant.

The respect to concerns about how the CIP costs, I agree with Mark Smithers that sewer and water mains should be forecast for replacement at 4%/year. I also agree with Mark's recommendation that 10% be added to the CIP cost estimates as an allowance for increased costs.

Regarding the 10% annual increase in the forecast for maintenance costs, I am inclined to think this is a reasonable figure given the inevitable effects of deferred maintenance.

Waste Treatment Rate Structure

Base Rates:

Outliers (restaurants seem to be a particularly problematic category) need to be reclassified. This should be a straightforward examination of the relevant facts, such as review of water use, visiting site to observe kitchen/menu, et cetera.

Use Charges:

The default use rate for all commercial users should be per HCF of water. The City should evaluate how best to adjust for outdoor water use for those users who have significant landscaping. For example, for TOT generators, water use might be correlated to room-nights – once the correlation is made, use charges can be based on room-nights, rather than water use; for others, water use might be correlated to sales tax returns; in all cases, provisions for installation of a separate water meter for outdoor use should be considered.

Similarly, I believe it makes sense to correlate the public school district sewer use rates to average daily attendance, as the public schools have extensive outdoor irrigation use and very little indoor use when school is not in session. On the other hand, for private schools with little or no landscaping or other irrigation, and especially when the facilities are used for evening and weekend events – regardless of the presence or absence of significant outdoor use - the use rate should the default (per HCF of water). The same principles can and should be applied to churches. Installation (at the property owner's expense) of a separate meter for outside use is always an option.

The winery waste rate study needs to be redone to reflect the fact that wine production waste (which is very "strong") correlates to the volume of wine produced, not the volume of water used (which also includes domestic uses).

Water Rate Structure

I see no particularly good options here. Although distance from the City center may well be a factor in the cost of water delivery, an honest, thorough analysis would take into account the different costs (and distances) associated with each of the City's water sources, with Bell Canyon and the Rutherford pump station being at more or less opposite ends of the system, and the municipal wells somewhere in between. To the extent that distance is a relevant cost-factor, the municipal boundaries, however politically convenient, are otherwise irrelevant. In other words, I believe that if the analysis supports rates tiered according to distance-related costs, the boundaries for each tier of cost should be designed based on the cost analysis without regard to the city limits. To the extent that the consultants, staff, and City Council see enough potential benefit to justify revisiting these parameters now, or in the future, I would support that.

I do recommend that the City revisit the subject of multi-family single meter properties, to determine whether it is better to charge each dwelling unit with a separate base rate, or to charge one base rate per meter/connection. If these two alternative approaches have already been studied, and the comparison can be made with the data on hand, then the decision can be made without further study. Otherwise, the decision should not be made until the total effect on rates of each of these approaches has been calculated and can be compared.

Position Statement for Ad Hoc Utility Rate Committee

Doug Cutting

This committee was convened to determine whether and how the city's new utility rates should be modified. Under the old rate plan, both the water and sewer enterprises were badly underfunded. A number of critical capital improvements were and are required. The old rates were unable to fund these, so significant rate increases were required.

Sources of revenue besides increased rates are impractical. The city's general fund should not be raided for these enterprises. That would be fiscally irresponsible and set a terrible precedent. Nor should the city borrow more. Our current bond covenants are already at risk, and we cannot borrow at good terms. Thus a rate increase remains the most practical solution. Our new rates are higher, but not out of line with other communities in the county.

In addition to raising rates, the city took the opportunity to modernize the rate structure. Law requires equitable rates: billings must be roughly proportional to the costs of services delivered. Our old rate structure for wastewater, based only on water meter size, was not very equitable. Wastewater processing costs may be more accurately estimated using both quantity of wastewater and its content.

Meter size has a low correlation to wastewater quantity. For example, fire-protection codes now require larger meters, so newer structures generally have larger meters, but are no more likely to generate more wastewater. Wastewater quantity is more accurately estimated from seasonal water use. Different types of use (residential, restaurant, office, etc.) generate different types of waste, with very different costs of treatment, and when this is taken into account, rates more accurately represent costs.

The new wastewater rate structure is not perfect, but it is distinctly more equitable than the old rate structure. Thus we should not revert to the old structure, but rather consider improvements to the new structure that ameliorate any identified shortcomings.

The new structure impacts some users more than others. If the new rate structure is significantly overestimating their share of costs then we should work to amend this. Businesses may be miscategorized, or perhaps the seasonal method of estimating usage can be improved. Such changes should be considered by the Council.

My proposed recommendations to the Council are:

- Keep the existing rate structure until further equitable improvements are justified by data;
- Encourage businesses whose rates have increased to check their categorization;
- Ask a consultant to evaluate the accuracy of using winter water usage to estimate business wastewater quantity in a summer-tourist driven community like ours.

Cindy Black

Subject: FW: Your Ad Hoc Committee Comments

-----Original Message-----
From: Alan Galbraith
Sent: May 27, 2017 11:27 PM
To: Tom Vence
Cc: Bonnie Long , Larry Pennell , Erica Ahmann Smithies , Sarah Galbraith
Subject: Your Ad Hoc Committee Comments

1. I agree that the the base rate for wastewater in the newly adopted rates has resulted in (some) unintended consequences. My strong view is that we should align charges and costs as best we can based on actual usage (as opposed to averages). It appears that you do not disagree. Are you willing to support on the non-residential side that the critical criteria, assessed on the basis of each month's usage, are monthly flow and effluent quality (meaning each commercial ratepayer is separately evaluated and assessed)? (Residential wastewater charge would continue to be based on three-month winter average.)

2. Meadowood: see comment on Ms. Long's suggestions. Key point: we have Ctty residents serviced by the Meadowood tanks. Would you treat them differently from residents serviced by the Holmes and Tank 2 tanks (above Lower Reservoir)? What is the principled distinction? FYI, the prior committee after much discussion saw no principled distinction, rolling the costs into the general rate base, and I concurred in their unanimous thinking.

3. Escalator issue: my understanding is that our higher escalator relates to the sorry state of past maintenance -- and "sorry state" is a sad understatement. Of course, i have no problem with further expert review. But I would not want expert review to push us downward toward the apparent norm if not prudent given our across-the-board concession that our facilities are in terrible shape. (Meaning: the lower percentages cited by you may be relevant only to systems that have sought to keep them in reasonable operating shape (not true of us)).

4. Your bullet points. I see that most of them are in fact accomplished in the prior rate study. I profoundly appreciate your recommendation that our enterprise funds have sinking fund and rehabilitation amounts. These were included in the last rate study, and are (in my assessment) a material component of the rate increases. I am pleased you have no difficulty with them.

5. As to your suggestion that reserves on the water side should be less than 12 months operating expense, my memory is that Catherine urged the 12 months, that Ken initially disagreed with her, but Ken came around -- with the risks associated with operating Bell Canyon reservoir being a big factor in Catherine's persuasion of Ken. Am I right about this? If you are in disagreement, please explain your basis for disagreeing with the Committee's experts. For myself, I have little doubt that Bell Canyon, in the event of an inevitable adverse advent, could quickly chew through a year's worth of reserves.

6. The prior rate study stressed that Staff should seek grants and maximize state revolving fund loans. Are you in point 5 seeking direction beyond that previously provided? if so, what was deficient in the prior direction?

7. In point 6, you assert "lack of sufficient regulatory oversight." My perspective is that our City ignored for years specific regualory directives. What is the basis of your assertion that there was a prior lack of regulatory oversight?

8. I absolutely agree with the need for a dedicated Utility manager. My belief is that our budget provides for such a position. But this is subject to check. Erica can respond.

9. Question: do you support that we should factor into our rates (1) that we need to replace water and wastewater pipes at the rate of no loess than 5% per year (as opposed to the 1%, as currently assumed in the last rate increase, if I have my facts straight) and (2) the additional $1.2 million for spray field upgrades at the Wastewater Plant?

I most appreciate your serried, and am confident that you welcome targeted questions from your mayor.

Best, Alan