

**M E M O R A N D U M  
CITY OF CHINO  
FINANCE DEPARTMENT**

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**COUNCIL MEETING DATE: MAY 1, 2018**

**TO: MATTHEW C. BALLANTYNE, CITY MANAGER**  
**FROM: ROB BURNS, DIRECTOR OF FINANCE**  
**SUBJECT: UTILITY RATE STRUCTURE.**

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**RECOMMENDATION**

1) Adopt Resolution No. 2018-023 setting time and place for the public hearings to consider majority protest proceedings on proposed increases to the rates, fees, and charges for water and sanitary sewer, and refuse and recycling services; 2) Adopt Resolution No. 2018-024 setting time and place for the public hearings to consider majority protest proceedings on proposed increases to the rates, fees, and charges for refuse and recycling services.

**FISCAL IMPACT**

Implementation of the proposed rates will provide for the long term stability and physical integrity of the utility funds.

Revenue:	Expenditure:
Transfer In:	Transfer Out:

## **BACKGROUND**

Per the City of Chino Municipal Code, staff is required to review the condition of the enterprise funds, related capital projects, and the rates charged to our customers every five years under the adopted rate model, and present an analysis for City Council consideration.

In 2016, the City Council authorized staff to utilize Raftelis Financial Consultants, Inc. (Raftelis) to perform a Five-Year Rate Analysis for the Water Utility and to convert the current flat rate structure to a Water Budget Based Rate Structure. This Water Budget Based Rate Structure was presented and approved by the City Council on December 20, 2016. This analysis provided a comprehensive review of all regulatory and operating requirements, including such items as: a long-range infrastructure replacement program and establishment of adequate operating and capital reserves.

Additionally, staff reviewed rates for Sewer and Refuse and Recycling services to assess the adequacy of the revenues to maintain the physical integrity of these systems and to comply with all required health standards.

These reviews indicate that adjustments to the current rate structures are necessary to achieve the goals as outlined in the preceding paragraph. To implement these rate adjustments, the City is required to meet specific noticing requirements under the provisions of Proposition 218. Staff, in conjunction with the City Attorney, is recommending that separate Public Hearings be established; one for the water and sewer rates, and one for the refuse and recycling service rates. Therefore, the following actions will occur for both water and sewer rates and for refuse and recycling services rates to facilitate the proposed rate structure recommended by staff:

1. The City must notify rate payers of the proposed rate structure as well as the date, time, and location of the public hearing on the proposed rate structure.
2. The City must hold a public hearing on the proposed rate structure not less than 45 days after the notice to the rate payers.
3. At the public hearing, the City must consider all written protests to the proposed rate structure.
4. If the majority of all existing customers submit a written protest to the City against the proposed rate structure, the City may not impose the rate structure.

## **ISSUES/ANALYSIS**

The rate structure shown in the Public Notice (Exhibit A) is the result of the following review:

### **Water Utility System**

To eliminate as much confusion as possible during the transition from a flat rate structure to the Budget Based Rate structure, no increase in the overall revenue into the Water Fund has been included in the rate development for 2018. However, several components of the water rates will be higher under the Budget Based Rate Structure. These components include dedicated landscape meter charges and recycled water charges. Recycled water charges are increasing due to increases implemented by our third party recycled water supplier, Inland Empire Utilities Agency (IEUA).

The Budget Based Rate structure being presented has the following general characteristics:

<b>Customer Class</b>	<b>Tier 1 Usage</b>	<b>Tier 2 Usage</b>	<b>Tier 3 Usage</b>
Single Family	Indoor use based on people per household	Outdoor use based on irrigation area	Usage above Tier 2
Multi-Family	Indoor use based on people per household	Outdoor use based on irrigation area	Usage above Tier 2
Commercial	Flat Rate	N/A	N/A
Landscape	Budget based on irrigated area	Usage above Tier 1	No Tier 3
Recycled Water	Flat rate	N/A	N/A

The Budget Based Rate structure being presented has the following projected impact on customers based on current consumption patterns:

<b>Projected Cost Increase</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>	<b>&gt;10%</b>
Single Family	77.9%	11.7%	6.1%	4.3%
Multi-Family	82.3%	9.3%	4.3%	4.1%
Commercial	74.1%	15.9%	4.6%	5.4%
Landscape	13.3%	33.1%	11.6%	42%

Customers will be able to eliminate or reduce these projected increases by reducing water consumption to what is referred to as efficient water usage. The purpose of the Budget Based Rate Structure is to provide customers with the amount of water needed, or an efficient amount of water. Anything above that amount can be obtained by the customer but at a higher cost.

To help customers under the new rate structure, staff has or will perform the following public information items:

- 1) Include a Budget Based Rate page on the City's website. This page will contain videos, graphics, as well as a water rate calculator that customers can use to estimate their new bill.
- 2) Staff has performed personal presentations at several Chino Service Clubs and Homeowner Association meetings over the past year.
- 3) An informational brochure will be mailed to every rate payer in the City along with the Proposition 218 notice that will explain the new rate structure in detail and provide contact information should they have questions.

In years two through five, each Tier in the Water Budget Based Rate Structure is increasing by 3% (Exhibit A).

In addition, as provided for under the provisions of Proposition 218, the City will also have the authority to increase water rates equal to any increase for the cost of purchased water from its wholesale water suppliers, such as Water Facilities Authority or Inland Empire Utilities Agency, if it is deemed necessary for a period of up to five (5) years, unless extended again following another Proposition 218 process. Provided, however, that any such rates shall not increase by an

amount that exceeds the cost of the increased water purchases. The City of Chino will provide written notice of any increases in wholesale costs prior to passing these costs to customers.

### **Sanitary Sewer System**

A review of the Sewer Fund has determined that a rate restructuring is needed to generate sufficient ongoing revenues to maintain the physical integrity of the sanitary sewer system. It is recommended that the sanitary sewer rate be increased by 2% for Fiscal Years 2018 to 2020 with 3% increases for the remaining years. This increase brings the rate to \$13.82 per Equivalent Dwelling Unit for FY 2018 and \$14.10 per Equivalent Dwelling Unit for FY 2019. These increases will provide sufficient revenues to cover operating costs and infrastructure repairs in the coming years.

Customers will also see an increase in the Sewage Treatment pass-through chargers for IEUA, which were approved in 2015 and are, therefore, not included in this rate adjustment process. The Sewage Treatment charge will be \$19.59 for FY 2019 and \$20.00 for FY 2020.

The rate structure shown in the Public Notice (Exhibit B) is the result of the following review:

### **Waste Management Refuse and Recycling Charge**

The City of Chino contracts with Waste Management, Inc. (WM) for refuse and recycling services. As allowed under the current contract, WM submitted its Annual Rate Adjustment Request for Fiscal Year 2018. The allowable increase for FY 2017 was 1.97% based on the annual monthly averages of the Consumer Price Index (CPI) for December to December. However, the 2017 CPI increase was not passed on to customers in 2017. The actual 2018 CPI is 3.36%. Therefore, the increase currently being proposed is the compounded rate of 5.4% effective July 1, 2018. For 2019 and beyond, a not-to-exceed rate of 4% is proposed while only the actual CPI will be implemented.

For single family customers, there will be an increase of only 31 cents per month. This is due to lower landfill disposal costs that are being passed along to customers. In addition, single family customers will see a decrease of \$2.34 per month, as the monthly charge for street sweeping services will be eliminated. Street Sweeping services will continue, however, this cost will be borne by Waste Management at no cost to customers under the terms of the new contract.

Commercial customer refuse and recycling service increases will vary depending on the services they receive, with some of this cost increase being off-set through the elimination of street sweeping monthly charges to commercial customers.

New fees for FY 2019 include: 1) an organic waste pickup fee; 2) set-up fees for residential and commercial new accounts; and 3) a recycling program administration fee.

### **CONCLUSION**

Upon approval of the proposed rate adjustments, staff will begin the steps necessary to comply with the provisions of Proposition 218. In order to inform the rate payers of the proposed rate adjustments, staff will mail to all rate payers a Notice of Public Hearing for Water and Sewer rates (Exhibit A) and a Notice of Public Hearing for Refuse Collections rates (Exhibit B), stating the proposed rates, and the date, time, and place of the public hearing. It is staff's recommendation the City Council adopt Resolution No. 2018-023 and Resolution No. 2018-024, setting the time and place for the public hearings to consider majority protest proceedings on the proposed increases to the rates, fees, and charges for water, sanitary sewer, and refuse

and recycling services.

Attachments: Resolution No. 2018-023  
Resolution No. 2018-024  
Exhibit A – Water and Sewer Proposition 218 Notice  
Exhibit B – Refuse and Recycling Proposition 2018 Notice  
Exhibit C - 2018 Sewer Rate Analysis  
Exhibit D - 2016 Water Budget Allocation Cost of Service Study