



Agenda Date: 3/3/2021

Agenda Placement: 8A

## Napa Sanitation District Board Agenda Letter

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**TO:** Honorable Board of Directors

**FROM:** Timothy Healy - General Manager  
NS-Administration

**REPORT BY:** Cyndi Bolden, Senior Accountant - 258-6001

**SUBJECT:** Introduce and Conduct First Reading of Ordinance to Modify Calculation of Sewer Service Charges and Set Rates

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### **RECOMMENDATION**

Introduce ordinance amending the District Code to modify the calculation of sewer service charges and setting the maximum rate for the next five years, reading Title and waiving First Reading.

### **EXECUTIVE SUMMARY**

Under Proposition 218, NapaSan is required to study its revenue needs for the next five years and calculate the sewer service charge based on that revenue need. If the calculated rates exceed the existing rates, then NapaSan is required to hold a Public Hearing on the rates prior to taking any action.

### **Cost of Service Rate Study**

NapaSan hired Carollo Engineers (Carollo) to perform the Cost of Service Rate Study (Study) in March 2020. The Study brought to light the need for changes in the assumptions and methodologies NapaSan has been using to calculate sewer service charges. It also created an opportunity to ensure that NapaSan customers are being charged appropriately and equitably for sewer service charges. During several board discussions, Carollo presented the findings of the Study, the recommended changes and rate impacts to the Board regarding sewer service charges. After receiving Board feedback from those meetings, Carollo completed its Study and the Board accepted the Study at its November 18, 2020 meeting. The Study is attached to this staff report and is incorporated by reference.

### **Revenue Requirements**

The revenue requirements for NapaSan for the next five years were calculated and are in Chapter 4 of the Study. The recommendation is an annual increase in revenues of 3.0 percent. The revenue requirements include the operations and maintenance costs associated with sewer maintenance and wastewater treatment and resource

recovery at current service levels. The revenue needs include funding and implementing the approved Capital Improvement Plan (CIP). NapaSan plans to continue with investing in the rehabilitation and replacement of aging and deteriorating sewer infrastructure. The revenue requirements also include funding NapaSan's reserves in accordance to its financial policies and meeting its debt coverage per bond covenants.

### **Rate Structure Modification**

The Study gathered water usage data and determined that the methodology and formulas used to calculate the equivalent dwelling unit (EDU) should be modified to distribute the sewer service charges more accurately and fairly to all customer classes. Currently, the assumption is that a single family residential customer's water usage averages about 210 gallons per day (gpd). The analysis found that the average water usage is about 117 gpd. The Study also found that, based on the water usage data, the ratio used among residential classes has changed and should be modified.

EDU calculations include flow, biochemical demand (BOD), and total suspended solids (TSS) in the formula. With the shift in flow to 117 gpd, this impacts the assumptions used for the other two (2) components - BOD and TSS. The impact is an increase in BOD to 314 mg/L and TSS to 359 mg/L. The Study also concluded that the percentage allocation between flow, BOD, and TSS has changed and should be modified to 58% to flow, 15% to BOD, and 27% to TSS. This new formula will change the current strength factors used for commercial and industrial customers.

These modifications to the EDU formula is intended to shift the cost appropriately to each customer class. Some customers will see increases to their sewer service charges. To mitigate the impact of these increases, the Study recommends to phase in the modifications.

### **Rate Recommendations**

Based on the Cost of Service Rate Study analysis, it was determined that the rate for 1.0 EDU would remain the same for the next five (5) years at \$738.60. A single family dwelling unit would remain at 1.0 EDU and the modifications to the other residential customers would be phased in over the next five (5) years.

	<b><u>EDU</u></b>	<b><u>FY 21/22</u></b>	<b><u>FY 22/23</u></b>	<b><u>FY 23/24</u></b>	<b><u>FY 24/25</u></b>	<b><u>FY 24/25</u></b>
Single Family Dwelling	1.00	\$738.60	\$738.60	\$738.60	\$738.60	\$738.60
Duplex	0.80	\$709.06	\$679.51	\$649.97	\$620.42	\$590.88
Apartment	0.80	\$472.70	\$502.25	\$531.79	\$561.34	\$590.88
Condo/Townhome	0.85	\$716.44	\$694.28	\$672.13	\$649.97	\$627.81
Mobile Home	0.85	\$480.09	\$517.02	\$553.95	\$590.88	\$627.81
Accessory Dwelling Unit	0.50	\$369.30	\$369.30	\$369.30	\$369.30	\$369.30

### **Commercial and Industrial Customers**

The new assumptions in the formula will generate more EDUs in the system and will increase sewer service charges for some commercial and industrial customers. The increases will be phased in over six (6) years. Water usage data used to calculate EDUs will also use a rolling three-year average instead of one year. This will mitigate the impact of fluctuations in water usage.

### **Proposition 218 Process**

NapaSan mailed the notices to owner's of every parcel served on or before February 19, 2021. The Prop. 218 Public Hearing will be held virtually on March 31, 2021, starting at 6:00pm via Zoom.

**Recommended Action**

Staff recommends the Board introduce the Ordinance to set the maximum for Sewer Service Charges for the next five years, reading Title and waiving First Reading.

This action does not authorize or approve the proposed rate increase. This action only introduces the Ordinance for consideration at a future board meeting. Action on the proposed rate increase is scheduled for March 31, 2021.

**FISCAL & STRATEGIC PLAN IMPACT**

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	Sewer service charges are collected annually or invoiced monthly to pay for the conveyance, treatment, disposal and beneficial reuse of wastewater.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	NapaSan has determined that the revenue of NapaSan to complete its stated goals and objectives for the next five years necessitates the setting of sewer service charges as stated in the staff report and the attached ordinance.
Is the general fund affected?	Yes
Future fiscal impact:	This action will set the maximum amount that sewer service charges can be assessed for the next five years.
Consequences if not approved:	If the fee is not increased, there will be inadequate revenues to pay for future capital projects and operational costs. Without this action, the Board will have to decrease the size of the capital program, decrease operating expenses, or both.
Additional Information:	

**ENVIRONMENTAL IMPACT**

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

**BACKGROUND AND DISCUSSION**

This item is specifically exempt from the voting requirements of Article XIIC of the California Constitution (Proposition 26) because it is an assessment or property related fee imposed in accordance with the provisions of Article XIID (Proposition 218).

**SUPPORTING DOCUMENTS**

- A . Ordinance - Redline Version
- B . Ordinance - Clean Version
- C . Rate Study
- D . Notice of Public Hearing - Residential
- E . Notice of Public Hearing - Commercial
- F . Rate Brochure

Napa Sanitation District: Approve

Reviewed By: Timothy Healy