

SPECIAL MEETING OF THE MADERA CITY COUNCIL

205 W. 4th Street, Madera, California 93637

NOTICE AND AGENDA

**Tuesday, October 23, 2018
6:00 p.m.**

**Council Chambers
City Hall**

CALL TO ORDER

ROLL CALL: Mayor Andrew J. Medellin
Mayor Pro Tem Jose Rodriguez, District 2
Council Member Cece Gallegos, District 1
Council Member William Oliver, District 3
Council Member Derek O. Robinson Sr., District 4
Council Member Charles F. Rigby, District 5
Council Member Donald E. Holley, District 6

INVOCATION: Council Member Holley

PLEDGE OF ALLEGIANCE:

PUBLIC COMMENT:

The first fifteen minutes of the meeting are reserved for members of the public to address the Council on items which are within the subject matter jurisdiction of the Council. Speakers shall be limited to three minutes. Speakers will be asked to identify themselves and state the subject of their comment. If the subject is an item on the Agenda, the Mayor has the option of asking the speaker to hold the comment until that item is called. Comments on items listed as a Public Hearing on the Agenda should be held until the hearing is opened. The Council is prohibited by law from taking any action on matters discussed that are not on the Agenda, and no adverse conclusions should be drawn if the Council does not respond to public comment at this time.

Agenda Items

1. Discussion and Direction to Staff Regarding Water Conservation Revenues and Related Expenditures and an Update to the City's Water Enterprise Revenue Requirements and Financial Plan (Report by David Merchen)
2. Council Reports

[continued on next page]

3. Closed Session

3A. Closed Session Announcement – City Attorney

3B. Conference with Labor Negotiators Pursuant to Government Code §54957.6

Agency Designated Representatives: David Merchen, Andy Medellin, Jose Rodriguez,
Donald Holley

Unrepresented Positions: City Manager, City Attorney and City Clerk

3C. Closed Session Report – City Attorney

ADJOURNMENT – Next regular meeting November 7, 2018

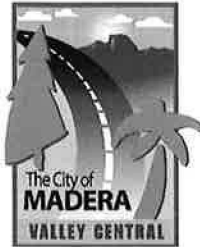
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- Please silence or turn off cell phones and electronic devices while the meeting is in session.
 - Regular meetings of the Madera City Council are held the 1st and 3rd Wednesday of each month at 6:00 p.m. in the Council Chambers at City Hall.
 - Any writing related to an agenda item for the open session of this meeting distributed to the City Council less than 72 hours before this meeting is available for inspection at the City of Madera Office of the City Clerk, 205 W. 4th Street, Madera, California 93637 during normal business hours.
 - The meeting room is accessible to the physically disabled, and the services of a translator can be made available. Request for additional accommodations for the disabled, signers, assistive listening devices, or translators needed to assist participation in this public meeting should be made at least seventy two (72) hours prior to the meeting. Please call the Human Resources Office at (559) 661-5401. Those who are hearing impaired may call 711 or 1-800-735-2929 for TTY Relay Service.
 - Questions regarding the meeting agenda or conduct of the meeting, please contact the City Clerk's office at (559) 661-5405.
 - Para asistencia en Español sobre este aviso, por favor llame al (559) 661-5405.
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I, Sonia Alvarez, City Clerk for the City of Madera, declare under penalty of perjury that I posted the above agenda for the special meeting of the Madera City Council for October 23, 2018, near the front entrances of City Hall at 1:30 p.m. on October 19, 2018.



Sonia Alvarez, City Clerk

REPORT TO THE CITY COUNCIL



COUNCIL MEETING OF:
October 23, 2018

AGENDA ITEM NUMBER:
1

Approved By:

Community Development Director

Director of Finance

SUBJECT:

Discussion and Direction to Staff Regarding Water Conservation Revenues and Related Expenditures and an Update to the City's Water Enterprise Revenue Requirements and Financial Plan

RECOMMENDATION:

Staff recommends that the City Council consider the information contained in this report, the presentation by staff and Raftelis Financial Consultants, and the public comment portion of the special meeting and provide direction to staff regarding the use of conservation revenues as well as any future actions desired in relation to the financial plan for the Water Fund.

SUMMARY:

The City Council set a special meeting to discuss and provide direction on two items associated with the Water Fund, as follows:

- Status update and Council direction on water conservation revenues and related expenditures. An update will be provided describing revenues collected and expenditures made to date. Prospective projects and programs that have tentatively been identified for funding in the future if desired by the Council will also be presented.
- Presentation and discussion of an update to the revenue requirements and financial plan for the Water Fund, prepared by Raftelis Financial Consultants. Raftelis will present an update to the analysis and financial plan originally completed for the Water Fund in 2015. An agreement between the City and Raftelis to complete this work was executed in May of this year.

DISCUSSION:

The City's water utility rates are based on a study completed by Raftelis Financial Consultants in 2015. The City Council reviewed alternate financial scenarios in March of 2015 and a complete cost of service study was presented in May of 2015. The analysis presented during these review sessions described the cost factors for the water system and summarized the potential approaches to covering those costs. For example, the requirement to meet debt coverage ratios was identified, along with the need to fund certain capital improvements and maintain adequate reserves. A

public notice was distributed to all property owners and utility customers describing a proposed rate adjustment and a five-year rate plan was ultimately adopted by the Council on July 15, 2015. Noteworthy changes incorporated into the new water rates in 2015 include the conversion to tiered water rates for residential accounts and the incorporation of a specific cost component to cover the cost of water conservation projects and programs.

Water Conservation Program Revenues

As noted above, included in the financial plan and rate structure is a specific component for water conservation. Facing state requirements to meet aggressive water conservation goals, the Council provided direction to set a revenue generation target for water conservation at approximately \$1,000,000 per year. The Water Conservation Program dollars are intended to be used to provide rebates to customers who make certain improvements to conserve water, to implement a program to educate the public on water conservation matters, and to monitor and enforce adherence to water conservation ordinances and policies. The Conservation Program also funds capital projects and programs that help to reduce water consumption and recharge the groundwater aquifer within the City of Madera.

Unlike the other components of the water rates, the water conservation component was not programmed to increase in years two through five of the Prop 218-approved rates. Water consumption has decreased since the 2015 financial plan was prepared, resulting in the collection of less revenue than originally projected. The City collected roughly \$877,000 in conservation revenues in Fiscal Year 2017/2018, with the same amount projected in the current fiscal year. As shown in the table below, by the end of the current fiscal year a total of approximately \$3.1 Million in conservation revenues is projected to be collected since the inception of the program. Of this amount, approximately \$1.8 Million (about 58%) will have been spent by year end.

	Actual FY 15/16	Actual FY 16/17	Actual FY 17/18	Budgeted FY 18/19	Projected Total
Revenues	611,912	752,417	876,946	876,946	3,118,221
Expenses					
Water Conservation Division (Meter Maint, Patrol, Educ.)	117,238	213,369	228,406	256,411	815,424
Water Rebates to Customers	24,195	30,976	110,003	100,000	265,174
Water Conservation in Parks		60,000	60,000	60,000	180,000
Water Conservation Projects	54,362	316,678	120,147	100,000	591,187
TOTAL EXPENDITURES	195,795	621,023	518,556	516,411	1,851,785
Cumulative Dollars Projected to be Available at End of FY 18/19					1,266,436

Until the current fiscal year budget, Water Conservation Program revenues and expenditures were not tracked within a separate budget unit. They were tracked within other departmental/division budgets, primarily the Water Utility and Water Quality budgets. The Finance Department established a separate budget for the Water Conservation Program in Fiscal Year 2018/2019 (Org Code 20303820) to make it easier to understand and track revenues and expenses specifically related to the Program. Revenues are calculated by identifying Tier 2 and Tier 3 water usage figures and then applying the portion of each tiered rate that specifically funds the Water Conservation Program.

For descriptive purposes, Water Conservation Program expenses are summarized into several categories:

1. Costs related to the *Water Conservation Division* cover staff in the Public Works Department and related miscellaneous expenses for water patrol, water meter inspection and trouble-shooting, and water conservation education in various forums.
2. *Water Rebates* are monies paid or credited to customers for the installation of water conserving features such as appliance changeouts and turf replacements. Overall rebate activity experienced a sharp increase when rebate amounts were increased last year.
3. Expenses related to *Water Conservation in Parks* go towards parks maintenance staffing which is used to help minimize the inefficiencies and water wasting that otherwise occurs within irrigated areas at City parks and public landscaping.
4. *Water Conservation Projects* encompasses capital improvement projects and programs designed to reduce water usage and enhance recharge. Projects completed thus far include installation of drought tolerant median island landscaping (4th Street, Pine & Pecan), percolation improvements to improve recharge at multiple drainage basins, and approval of the Madera Unified Large Landscape Grant.

Categories 1 through 3 listed above include costs that should be relatively constant now that the program is up and running, though some variation will likely occur over time. Category 4, Water Conservation Projects, has the greatest potential to vary according to which projects are selected for construction. There is now sufficient funding in place to proceed with one or more projects if desired by the Council. Staff has held off on recommending any specific project until the long-term status of the Water Conservation Program is better understood. Examples of potential projects identified by staff are summarized below. Cumulatively, these projects reflect several million dollars in expenses, and potentially tens of millions depending on how much existing landscaping would be converted to a drought tolerant design. However, these projects can be prioritized, and each project is scalable, allowing more-or-less to be spent at any one time.

- Smart Irrigation Controller Conversions on City Facilities
- Percolation Basin Connections to Madera Irrigation District Canals
- Leak Detection – City Infrastructure Analysis
- Drought tolerant landscaping conversion, existing City landscaping
- Drought tolerant demonstration project and design/idea center
- Grey water system installation in new development

Staff is prepared to initiate work on one or more of these conservation projects, or to bring back more detail on any project the Council is interested in pursuing. The Council may also identify any other project or program it wishes to construct or implement. Alternatively, if the Council does not wish to actively fund new projects or programs, the City can focus on its core water conservation activities (rebates and Water Conservation Division). This would allow a reduction in the revenue generation target for water conservation and ultimately a proportional reduction in Tier 2 and 3 rates.

Update of Financial Plan for the Water Fund

At the January 17, 2018 City Council meeting, the Council directed staff to utilize the services of Raftelis to revisit the City's Water Rate Study that was completed in 2015 and to update the Water Fund's revenue requirements and financial plan. The update provides an opportunity to incorporate current costs and water usage figures and to determine the degree to which the original financial plan and rate structure can or should be modified. Raftelis has completed an independent review of the City's revenue needs based on Fiscal Year 2017/2018 mid-year financials and updated the financial model with the current fiscal year as the base year and forecasting projections for the next 5-10 years. During the presentation, Raftelis will walk the City Council through their analysis. Staff has made several general observations based on our understanding of the work performed by Raftelis.

- The financial plan for the Water Fund is most impacted by the capital improvements that need to be funded. Variation in the number or cost of projects to be constructed can change revenue requirements and the overall financial plan for the Water Fund.
- Based on the 2015 Proposition 218 process, the City has the ability to implement or defer the adopted rate schedule, or to adopt lower rates utilizing the same tiered system and rate design. If the City desires a modification of the tiered system or to change the method of calculating rates, a new Prop 218 Process will be required.
- The Water Fund has the ability to delay/postpone the 10% rate increase that had been scheduled for implementation on July 1, 2018. (In conjunction with the preparation and adoption of the Fiscal Year 2018/2019 Budget, a decision was made to defer the scheduled rate increase until the results of the financial plan update were available for review by the Council.)
- Absent substantive changes to the Water Fund's revenue requirements, the Water Fund does not have the ability to delay future increases without negatively impacting the financial status of the fund.
- Changes in the assumptions regarding revenue requirements for the Water Conservation Program can ultimately affect water rates, including reducing Tier 2 and 3 rates if revenue requirements for this program are lowered. Such changes can be made without requiring undertaking a new Prop 218 process.

FISCAL IMPACT:

The postponement of the Prop 218-approved water rate increase will result in approximately \$1.2 million less revenue in Fiscal Year 2018/2019 than would have been collected if the approved water rate had become effective on July 1, 2018. However, no rate increase was anticipated in the 2018/2019 Budget, and detrimental impacts to operations are not expected. Additional fiscal impacts may occur if revenue requirements for the Water Fund are modified in conjunction with Council direction. Any impacts which might occur are specific to the Water Fund and do not impact the City's General Fund.

CONSISTENCY WITH THE VISION MADERA 2025 PLAN:

Action Item #115.5: Insure the physical and financial sustainability of the City's existing and expanding sewer and water infrastructure.

- A. Develop a comprehensive detailed inventory of the existing water and sewer collection systems that forecasts the probable life, and periodic major maintenance and/or replacement of all the individual elements.
- B. Provide a long term financial plan that forecasts the required capital repairs to the existing system and corresponding revenues.
- C. Where feasible, include appropriate funding in annual and CIP budgeting and determination of user rates.