City of Calistoga Frequently Asked Questions
Water and Wastewater Rate Study (*updated 10/20/22*)

1. **What is a water/wastewater utility rate study? How often are they done?**

   A utility rate study is a financial review that projects future revenues and expenses, usually for the next 5-10 years. The ultimate purpose of a utility rate study is to determine whether operating revenues are sufficient to meet expenses, the cost of operations and maintenance, upcoming or needed replacements and debt service, and to help you make capital improvements during the implementation plan period. Ideally, rate studies should be performed every 3-5 years and coincide with that year's public works budgeting process.

2. **Why is the City conducting a water and wastewater rate study?**

   Performed regularly, utility rate studies provide transparency into what the City can expect in the years ahead and ensure we have the financial resources to meet our budget, maintain our infrastructure, manage system capacity for growth, implement new technologies, address existing and new state and federal regulations, and implement our capital improvement plan (CIP). Other elements of the rate studies include the development of a reserve policy that considers the different types of risks we face, including future drought conditions, and ensures revenue stability while maintaining affordability and communicating the intention of conservation.

3. **Didn't we just get done with 5 years of water/wastewater rate increases? Why do we need to revisit this?**

   Regular rate studies are critical to a utility's healthy operation. Utility systems must keep up with rising costs and be able to implement critical capital projects that are mandated or necessary for the health and safety of their customers. Cost escalations related to operation and maintenance costs increases, increased water costs from the state/City of Napa, capital costs, general inflation, and material cost increases affect the performance of the utility.

   Calistoga has a significant amount of critical capital projects over the next few fiscal years that are cease-and-desist orders or state-mandated projects that must be completed to maintain compliance with permits. Even though many are covered by grants, they still require utility contributions that must be incorporated into the rate study.

4. **Does the City inflate forecasted expenses when setting rates to stockpile cash reserves? Are excess reserves used to fund other City expenditures?**

   The City's objective is to have 20% cash reserves in both the water and wastewater Enterprise Funds because adequate reserves are necessary for Calistoga to meet debt covenants for grants/loans and reserves are necessary to address emergency failures of the water or wastewater system due to unforeseen conditions. Rate revenues must cover these reserves. Reserves are not used to fund other City expenditures and must be utilized for the appropriate water or wastewater Enterprise Fund.

   Calistoga's rate study will include projected expenses and forecasted cost increases over the next

five-to-ten-year period. The City of Napa treatment and wheeling costs will increase, along with increases to the State Water Project (SWP) supply costs. Cost escalations related to operation and maintenance, capital projects costs, general inflation, and material cost increases (e.g., chlorine alone has tripled in cost from just a couple of years ago) go into the rate study to project expenses.

5. Is revenue from water rates used on any non-water projects?

No, water Enterprise Funds can only be used on water projects, and similarly, wastewater Enterprise Funds are only used on wastewater projects.

6. In 2021, Calistoga sold unused water to Napa. How was the money used, and did it help offset costs? Should ratepayers have received a rebate?

The unused water referenced in the question was Advanced-Table-A (ATA) water that the City could not consume in 2021 because it still had unused Carryover and Table A water from the State Water Project (SWP) source. ATA water is last resort water for Calistoga to consume as all your other available Table A and Carryover water allocations have to be used, and any ATA water consumed has to be paid back with equivalent volume to the State of California within five years. The City of Napa needed Calistoga's ATA water in 2021, so Calistoga sold Napa 332 acre feet at a total price of $148,404, for which they are required to pay the water volume back they consumed to the state. Calistoga may need to utilize ATA water in the future, and if needed, it will be an additional cost to the enterprise fund that the revenues from Napa can offset.

The $148,404 revenue went into the water Enterprise Funds and is used to offset expenses. As a frame of reference, the water enterprise expenses are more than $4.6 million annually, and the wastewater enterprise expenses are more than $4.5 million, not including capital expenditures that generally add another $1 - $5 million annually for each fund. The order of magnitude of the Napa revenue without capital is about 3% of expenses, so not very significant. Additionally, the City applies for grants and if successful, utilizes grants revenues that are typically much larger amounts that help reduce capital cost impacts that ultimately slow down the rate of increase that is factored into the cost of running the utility.

The Enterprise Funds have projected annual fiscal budgets with anticipated revenue and expenses. There are situations like the Napa revenue that are not anticipated just as there are expenses that are not anticipated (e.g., chlorine costs tripled in price last year, fuel, supply and material increases, main breaks/repairs, emergencies, etc.). The budget for Enterprise Funds will have unanticipated revenue and expenses that occur over the year. Enterprise Funds are not operated to pass along unanticipated revenue as a rebate to customers, just as the Enterprise Funds do not send out additional bills for unanticipated expenses. Both unanticipated revenues and expenses are accounted for in the Enterprise Funds each year and offset each other. If there is additional revenue or expenses the fund will either be slightly in the positive or slightly in the negative, with the objective of a healthy Enterprise Fund to balance revenues with expenses over multiple years. Enterprise Funds must pay for themselves and meet minimum debt and reserves to maintain a healthy utility. The purpose of five-year rate studies is to reconcile these differences in projected expenses and revenues and factor actual expenses and surpluses or deficits into the projected revenue needs for the next five years.

7. Can you explain the capital costs required to catch up with needed maintenance to existing assets and new projects?

The water and wastewater Enterprise Funds have historically been underfunded to keep up with the significant amount of deferred maintenance to the utility systems. The City has a significant amount of aging infrastructure, and over 10% of the water pipes and 14% of the wastewater pipes will be over 75 years old by 2027. Additionally, Calistoga has a significant amount of critical capital projects over the next several fiscal years that are cease-and-desist orders or state-mandated projects that must be complied with to maintain our permits.

The 10-year outlook on CIP for the water system is more than $40 million, and more than $30 million for the wastewater system.

8. What is the rates study process, and will the community be kept informed?

The city hired Raftelis Inc., a consulting firm with expertise in water and wastewater rate studies across the country. Their scope of work consists of the following:

- Data collection
- Develop long-range financial plans for Water, Wastewater, and recycled water service
- Design rates for the City's water, wastewater, and recycled water users
- Conduct a Capacity Fee Study (fees paid by new development wishing to connect)
- Attend, present at, and help facilitate several meetings with City staff, the ratepaying public, and City Council
- Assist in the Proposition 218 process and public hearing for rate adoption

The rate study consists of a series of steps involving data evaluation, performing technical analyses, deriving customer rates, and understanding customer impacts of any modifications. Once a rates proposal is determined, the complete study is documented in a Study Report to serve as part of the City's administrative record to justify the proposed rates.

In California, all parcels connected to a utility system must be given notice of any rate changes with the ability to protest the proposed rates. The notice details the proposed rates, the basis for calculating the proposed rates, the reason for the proposed rate increase, the details of the public hearing, and the ratepayers' or property owners' right to protest. Protests may be submitted by either the property owner or the customer of record, but only one protest per parcel will be counted. After a protest period of no less than 45 days, the City Council can conduct a Public Hearing. Absent a majority protest to the rate proposal, the City Council may choose to adopt the rates as noticed.

The anticipated schedule to complete the rate study and adopt the new rates is about nine months, and to adopt rates in spring 2023 and implement the new rates on July 1, 2023, the beginning of the City's fiscal year.

A community meeting was held on Wednesday, October 5, 2022, before kicking off the study to receive community input at the beginning of the rate study process. The meeting had about 60 community members in attendance. There will be two additional stakeholder meetings and three City staff and City Council work sessions for the rate study, with some scheduled as virtual and others in person. We encourage the community to stay informed about the rates studies through

the City's website here. The website will be updated for future stakeholder and City Council meeting dates. Additionally, residents are encouraged to submit questions or comments, to ratestudy@ci.calistoga.ca.us or call the Public Works Department at (707) 942-2780.

9. **Is there an appeal process? Who is allowed to appeal recommended rates?**

   Proposition 218 provides a process for property owners to protest a proposed rate increase before the rates can be adopted. Written notice will be provided to all customers of record at least 45 days before the public hearing (the City will also broadly notify the public). The public is invited to provide public comment at the hearing. A written protest must contain a statement of opposition to the rate increase, the property assessor's parcel number or property address, and the name and original signature of the property owner or utility customer of record registering the protest. Per California Government Code section 53755(b), only one protest will be counted for each parcel or address. This means that a parcel that has multiple dwelling units but only one customer of record will be limited to one protest. Since protests must include an original signature, electronic protests via email, social media, etc., will not qualify as a written protest. At the public hearing, written protests will be considered and tallied. If a majority of the service accounts protest the charge, the City shall not adopt the increase(s).

10. **Can you give us a forecast as to how much rates will go up?**

    A lengthy rate studies process begins in October 2022 with several community engagement and listening sessions for residents to learn about the water and wastewater rates study process. The City hopes to gather valuable resident feedback on water issues and input on what priorities any future rate structure should help accomplish (i.e., fairness, water conservation, water system reliability, resiliency, etc.). Although the City will use those community values to guide the rate study structure, Proposition 218 requires the City to adopt a rate structure that reflects the City's actual costs of serving each customer class. As of October 2022, financial calculations have not begun, so there is no way to forecast rates until spring 2023. Throughout the rates study process, the community is encouraged to provide input. Questions and comments can be submitted via email to ratestudy@ci.calistoga.ca.us or call the Public Works Department at (707) 942-2780. Updates and information about the rates studies are posted on the City's website here.

11. **Why don't we charge the resorts and more extensive users more and small-scale users less? It seems more equitable.**

    The rate study has to follow California law, and Proposition 218 requires that rates are proportionate to the cost of services being provided. To be fair and equitable, higher rates must be justified by higher costs of service. Accordingly, the City can only charge resorts and bigger users more if it can demonstrate, through the rate study analysis, that those users cost more to serve.

12. **Where do the vineyards get their water? How much do they use? How much do they pay?**

    Vineyards typically irrigate with private well systems or under-drain systems that capture stormwater and store irrigation water in large earthen reservoirs for irrigation use. Unfortunately, City recycled water is not usable for vineyards as it is high in boron content (above what vineyards can tolerate) and the recycled water piping and delivery system is limited to within city limits. There are very few large vineyards within Calistoga city limits, with most of them located in the county or unincorporated areas that are outside municipal city limits but have a Calistoga mailing address.

13. **Can you explain the different rates groups, or classes, and how they're determined?**

In the existing rate structure, water bills do not have different groups or classes, but wastewater bills do. Currently, all water customers regardless of class (i.e., Residential, Transient Rates, Other nonresidential rates, and Industrial/Bottling & Groundwater) pay $10.76 / unit (1 unit = 748 gallons). The only difference between water customer costs is the service fee that is based on water meter size – the larger the meter, the more customers are served, which incurs a higher cost based on the capacity the meter can draw on the water system).

Wastewater generation has different categories for Residential, Transient Rates, Other nonresidential rates, and Industrial/Bottling & Groundwater users because it is strength-based. In other words, wastewater levels of pollutants are higher or lower based on their category, with higher-strength waste being more expensive to treat. There are sub-category differences that can also be higher or lower based on volume or typical discharge amounts (i.e., higher volume higher cost, lower volume lower cost). The existing rate structure follows City Municipal Code section 13.18.020 for water billing and 13.18.030 for wastewater billing, linked here for reference.

14. Other similarly sized or even smaller towns in Napa Valley have lower rates both in service charges and unit costs. If economy of scale is the issue, why does Calistoga have the highest rates/cost per unit?

The most similar community comparison is St. Helena, as we have similar-sized communities and infrastructure that we own, operate, and maintain (water/wastewater treatment plants, lift stations, aging infrastructure, etc.). St. Helena currently has about 1,000 more metered services than Calistoga and sells about 1,500-acre feet (1 AF = 326,000 gallons) of water annually, more than double what Calistoga sells. Even with twice the amount of water sales, Calistoga's rates are very similar to St. Helena's (just slightly less), but St. Helena is also undergoing a rate study in 2022-23, and most likely will see its rates increase.

There are smaller communities with lower rates, such as Yountville, but this is because they do not have a similar infrastructure to Calistoga that they own, operate, and maintain. The State of California Department of Veterans Affairs owns, operates, and maintains Rector Reservoir, a dam and water treatment plant that supplies water to Yountville. The wastewater treatment plant is also a shared cost with the state. Additionally, Yountville has a lot less piping infrastructure and facilities because the city limits are about half the size of Calistoga, and the state owns, operates, and maintains the infrastructure for almost half of its city limit area. It's important to note both Yountville and St. Helena have higher fixed costs for water ($55 & $70 respectively) and lower fixed costs for wastewater ($62 to $64 respectively).

15. Why does Calistoga have unusually high rates?

It's mostly due to economies of scale and the fact that Calistoga has all the same infrastructure, including rules/regulations that the big cities have, with an extremely small community to cover these costs. Furthermore, Calistoga is in a remote area with water supplies coming in as far away as 65 miles. The costs of water transmission include multiple pump stations, paying into the State Water Project (SWP) system, and City of Napa costs to treat and wheel 70% of our water supply up to Calistoga. The SWP and City of Napa also have annual increases in their water supply transmission and treatment costs that Calistoga has to pay for and keep up with their increases.

Calistoga's water system alone consists of over 40 miles of water mains, Kimball dam/reservoir and Water Treatment Plant, 2 water storage tanks (2.5 million gallons), and three water booster pump

stations. The City's wastewater system consists of over 18 miles of wastewater collection mains, 3,000 feet of force main, four lift stations, and a wastewater treatment plant. In addition, the City operates and maintains a recycled water system that consists of six miles of distribution piping throughout the city, two booster pump stations, and storage of over 46 million gallons.

Additionally, for the past 10 years across California and the U.S., water and wastewater bills have been rising faster than inflation. Cities across the country are grappling with aging systems that are costly to repair and have fewer resources. Climate change is also playing a role in higher treatment costs. In California, drought is straining water sources to critical levels, making it more expensive to find other sources of water or spend more on treatment and advanced purification, for instance.

16. How have recent building projects/developments helped our water rates or prevented them from being even higher?

We project the new developments will pay approximately $1,000,000 for water and $1,100,000 for wastewater when they are fully active in the next 3 to 5 years. However, it is always difficult to predict revenues from development projects because the projects may be abandoned or delayed.

17. Are the new resorts and developments adding to my residential rate?

No, because the City is able to sell more water and wastewater services to more customers, generating more revenue than would have otherwise existed had these additional customers not been added to the system. More customers help spread the utility's fixed costs across more ratepayers, therefore reducing total costs to existing customers. Resorts, not ratepayers, are also responsible for paying the costs of any utility extensions required to serve their projects. Additionally, new development pays for connections that help reduce the costs of capital projects.

18. Why do service charges differ based on the size of the meter, but the price per unit of water is the same for all customers?

Larger meters have higher service charges because they typically service significantly higher populations and therefore must pay their proportional share of the larger volume of water they convey. Typically, commercial users and mobile home parks have larger-sized meters because they require more water on average, and in certain instances, to meet peak demands. Stated differently, larger meters have the potential to draw a larger share of capacity from the water system and the differential in fixed charges reflects this. The per-unit price is the same for everyone based on the cost-of-service analysis performed in 2017/2018. Water bills include the service meter charge, plus unit(s) consumed multiplied by the unit rate, currently set at $10.76.

19. I live in a single-family home and pay more for water than my friends living in a mobile home park. Am I paying a higher rate for water than residents in mobile home parks?

Mobile home parks (MHPs) are on master meters, so their service charge is typically less because the meter charge is spread over more customers, otherwise, the usage cost is the same for everyone. These types of master-metered developments benefit from sharing capacity on one connection whereas a single-family home has a single connection to serve the property's indoor and outdoor needs.

20. Why doesn't Calistoga have tiered water rates that promote conservation like other cities in our region and across California?

At the time Calistoga last conducted its water rate study in 2017/18, several lawsuits were filed in California over tiered rates. We eliminated tiered rates at that time to avoid liability. The City Attorney's office is actively involved in this current rate study and will be evaluating whether or not we can consider a tiered billing system.

21. Why is the service charge portion of my bill more than the volume charge for the water I use? How does this incentivize conservation?

This is typically not the case. Depending on water use, service charges for residential customers generally are less than the cost of the water. A typical single-family residential (SFR) water bill for a conserving household is around 7 units/month (about 5,400 gallons) or $75.32, plus a meter or service charge of $50.12/month on a normal SFR, so the service charge is 65% less than the usage charge. A utility needs to have a reasonably high service charge because there is a high fixed cost associated with running the utility. With fewer customers, this cost is higher in Calistoga due to economies of scale. The facilities' costs do not decrease substantially if less water is produced. Treatment plants run 365 days/year continually, 24/7, even as flows ebb and peak. The City operates and maintains the pipes and pumps used to convey resources to your tap or down your drain. Service charges also capture the costs to serve vacation or second homes, which are fairly prevalent in Calistoga, and ensure that all accounts connected to the system are paying the City's full costs of providing them capacity in the system, regardless of their water usage.

22. Does citywide conservation impact water prices?

Yes, less water used means less water sold and lower revenues for the Enterprise Fund.

23. If I conserved water, why didn't my bill go down substantially?

Even when water is conserved or use goes down, there is a meter service charge of $50/month for a typical ¾" or 5/8" diameter, single-family residential household meter. Based on the current rate structure, for every unit of water conserved/not used, the usage fee will go down by $10.76 per unit (748 gallons). For example, a three-person household averaging around 80 gal/day/person is equivalent to about 10 units/month with a volume cost of $108. If this same household conserves 20% per stage II water conservation requirements they would use 8 units/month at a cost of $86, saving $22/month.

24. Given the current drought, do you penalize or fine customers for high/excessive water use?

The City of Calistoga currently warns customers of their high water use but has not issued fines.

25. Due to drought and water shortages, if the City had to buy additional water supplies, how would that affect my bill?

An essential purpose of the utility rate study is to project future cost and financial impacts on the water and wastewater utility to provide customers with predictable rates over multiple years. Utility rate studies provide transparency into what the City's ratepayers can expect in the years ahead and the different risks our utilities face, including future drought conditions and water supplies.

26. Why is there a difference in price between water and wastewater?

Typically, water costs are higher than wastewater. A typical single-family residential (SFR) water bill for a conserving household is around 7 units/month or about 5,400 gallons/month, which equates to a usage charge of $75.32 plus a meter or service charge of $50.12/month (standard SFR service charge) for a total water bill of $125.44/month. The total wastewater cost is currently $97.87/month. Therefore, the water cost is 1.28 times higher than the wastewater cost. Furthermore, it's important to note that we have two separate systems with separate costs, regulatory standards, system size, etc.

27. Is there a discounted rate for fixed and low-income customers?

For individuals and families experiencing financial hardship, visit the City's website and click on Low Income Rate Adjustment (LIRA).

28. Why are residential customers billed bimonthly when commercial customers are billed monthly?

The City of Calistoga has a much higher number of residential meters than commercial meters. Most of the residential meters are read manually, which takes more time to collect readings and issue bills through the Finance Department. Whereas most of the commercial meters have been converted to remote monitoring, reducing the time to process and thus enabling a monthly billing cycle for commercial customers. The City has been converting manual meters to remote, as budgets allow each year, and continues to seek grants that could help convert all of our meters. Additionally, the billing software is fairly old and in need of an upgrade. Improving and automating billing becomes easier to do with technology advancements, which require funding, evaluation of software solutions to identify the right program, and training to implement a new invoice system in our Finance Department.

29. Can the City utilize other sources of revenue besides customer payments to help cover water/wastewater costs, for example Transient Occupancy Taxes (TOT), sales and property taxes?

TOT revenue supports the General Fund, which is a separate fund altogether from the water and wastewater Enterprise Funds. Enterprise Funds are intended to support themselves financially and not be subsidized or borrow from other funds. Although General Fund revenues can be loaned or used to subsidize Enterprise Funds with City Council approval, Enterprise Funds that are not financially self-sustaining eliminate the City from State Revolving Fund (SRF) loans and grants that can be used to help fund critical utility infrastructure projects, because they need to see a financially stable fund that can support themselves. In the past, the City has been prevented from obtaining funding from these sources because its Enterprise Fund was not self-sustaining and had unrepaid debt that it borrowed from the general fund. For these reasons, it is the City's policy, and the policy of most cities across the state, to ensure that the water and wastewater Enterprise Funds are financially self-sustaining and able to pay for all expenses with the revenue generated by its customers.

30. What can be done to lower water rates?

Utility costs typically do not decrease, especially in a high inflationary environment. Therefore, water rates are not likely to decrease unless the utility brings on significantly more customers who generate more revenue while staying within supply, treatment, and resource limits.

31. The community was informed that new commercial developments like resorts and hotels will help spread costs (economies of scale) and thereby reduce pressure on rates; why then are rates increasing?

Several of the larger developments have experienced delays (specifically 400 Silverado and Calistoga Hills) that were initially anticipated to add revenues beginning in 2018/19. The total anticipated revenue to the water enterprise was $550,000 and $630,000 to the wastewater enterprise. 400 Silverado just began paying utility bills in 2021 and Calistoga Hills is still under construction and will not begin paying a utility bill for several years. These developments will add more revenue to both Enterprise Funds to help reduce increases from what they would have been without these developments.

32. What do recycle water users pay?

The City of Calistoga currently only charges for truck-out recycled water use. Customers have historically not been charged for recycled water because the high boron content in the water limits how this water can be used to irrigate. Since the City needs this water to be utilized as much as possible, it has been providing it at no charge.

33. Are there plans to charge more for recycled water?

This rate study will look into potential charges for use of this water. However, the City must balance the desire to raise revenues with the need to maintain recycled water consumption because the City has limited disposal and storage facilities for this large continuous volume of recycled water, so if recycled water use decreases, costs will increase.

34. Will higher rates result in a higher quality of water/fix problems with Haloacetic acids (HAAs)?

Yes, that's one of the objectives. Haloacetic acids (HAAs) are a type of chlorination disinfection by-product (CDBP) that are formed when the chlorine used to disinfect drinking water reacts with naturally occurring organic matter or total organic compounds (TOCs) in water. HAAs are a relatively new regulation to reduce disinfection by-products in drinking water. The rate study will include funding projects like the Dunaweal Pump Station improvements that include advanced filtration with granulated activated carbon filters to reduce HAAs and improve overall water quality, including taste and odor issues.

35. Why do we pay so much for water yet have issues like Haloacetic acids (HAAs)?

Chlorination disinfection by-products (CDBPs) are mostly out of our control as they are caused by higher concentrations of total organic compounds (TOCs) in the raw water (pre-treated source). The current drought and low reservoir water levels, along with fires, added organics to the watersheds resulting in increased raw water TOCs. Adjacent communities are having similar challenges. Advanced treatment systems can be used to filter out these constituents, but they are expensive, and it is important that rates keep up so projects to improve water quality can be afforded. Calistoga has begun the design of granulated activated carbon advanced filtering that will reduce CDBPs, but it is critical rates cover these expensive costs to support these types of improvements.