



CITY OF FERNLEY

CITY COUNCIL AGENDA REPORT

Meeting Date: August 18, 2021

REPORT TO:	Mayor and City Council
REPORT THRU:	Daphne Hooper, City Manager
REPORT FROM:	David Whalen, Public Works Director
REVIEWED BY:	Brandi Jensen, City Attorney
REVIEWED BY:	Denise Lewis, City Treasurer

FINANCIAL IMPACT: Yes: <input checked="" type="checkbox"/> No: <input type="checkbox"/>	CURRENTLY BUDGETED: Yes: <input type="checkbox"/> No: <input checked="" type="checkbox"/>	FUND/ACCOUNT:
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ACTION REQUESTED: Consent Ordinance Resolution Motion Receive/File

AGENDA ITEM: Staff report (For possible action) Direction on proposed water and sewer utility rate changes presented by Hansford Economic Consulting, LLC.

Agenda Item Brief: A contract for a Water and Sewer Utility Rate Study Update was awarded to Hansford Economic Consulting LLC on 9/16/20. This firm assisted the city with a study performed in 2016 for the five-year plan that is expiring this fiscal year. The intention of the rate study is to create a plan to be able to adequately cover expenses for each of the enterprise funds and to cover proposed five-year Capital Improvement Projects for the funds. Enterprise funds are required by NRS 354 to be run as a business and expenses are required to remain below revenues. The attached memo proposes a revised rate change based on an anticipated allocation of a portion of the American Rescue Plan Act (ARPA).

Recommended Motion:
"I move to accept the recommendations presented by Hansford Economic Consulting LLC and direct staff to prepare resolutions for implementation of the water and sewer rate increases for approval by City Council."

Business Impact (per NRS Chapter 237):

A Business Impact Statement was performed.

A Business Impact Statement is not required because this is not a rule (term excludes vehicles by which legislative powers are exercised under NRS Chapters 271, 278, 278A, or 278B).

See attached report for background, analysis, alternatives.

ALTERNATIVES:

- No action - Rates will remain stagnant and the enterprise funds will be out of compliance with NRS.
- Alternative action can be presented to the city manager.

BACKGROUND:

Hansford Economic Consulting LLC was hired by the city in 2016 & 2021 to provide a Water and Sewer Utility Rate Study to assist Council and Staff in determining a course of action by ensuring the City was collecting enough revenue to sustain operations and cover the costs associated with capital expenses which are necessary to replace aging infrastructure.

A rate study for the Water and Wastewater Enterprise funds was prepared and presented to Council at a special Council meeting by Hansford Economic Consulting LLC. on 11/14/2016. At that time, the City had nearly a decade of operating losses in both the Water and Wastewater funds prior to the study. Failing to increase rates would have bankrupted the Water and Wastewater Enterprise Funds and was in violation of NRS.

By Definition of NRS 354.517:

NRS 354.517 “Enterprise fund” defined. “Enterprise fund” means a fund established to account for operations:

1. Which are financed and conducted in a manner similar to the operations of private business enterprises, where the intent of the governing body is to have the expenses (including depreciation) of providing goods or services on a continuing basis to the general public, financed or recovered primarily through charges to the users; or

2. For which the governing body has decided that a periodic determination of revenues earned, expenses incurred and net income is consistent with public policy and is appropriate for capital maintenance, management control, accountability or other purposes.

(Added to NRS by [1971, 200](#); A [1981, 1761](#))

In FY 2016/17, City Council approved the adoption of Resolutions 16-023, 16-024 and 16-025 to increase the City of Fernley’s water bond debt fee as well as residential water and wastewater rates as a result of this study’s findings presented on November 14th, 2016.

Utility rates must be studied on a routine basis to ensure that the utility enterprise funds are achieving revenue sufficiently, in the most equitable fashion, which enables the City to operate enterprise funds appropriately. The 2021 study provides city council and customers with a better understanding of the water and wastewater services and the revenue that is required for operations.

The 2021 utility rate study provides the following:

1. Calculated rates that recover the revenue required to operate the utilities in a safe manner, in compliance with existing and anticipated regulations, including ongoing operations and maintenance. The rates also cover the completion of system rehabilitation and new capital improvement projects, and debt service payments.
2. Document the cost allocation methodologies such that calculated rates are understandable to customers, as well as Staff and Council.
3. Provide a finance plan for timely completion of planned capital improvements.
4. Calculate five years of rates that will provide for the financial stability of the enterprise funds during normal and drought conditions, including periods of water conservation.

July 2, 2021, Memo Changes:

The American Rescue Plan Act of 2021 (ARPA) established the Coronavirus State and Local Fiscal Recovery Funds under sections 602 and 603 of the Social Security Act to help states and localities address the

economic and health consequences of the pandemic. The Coronavirus Local Fiscal Recovery Fund (Fund) provides for payments to non-entitlement units of local government (NEUs), which are local governments typically serving a population under 50,000.

The City of Fernley (City) contracted Hansford Economic Consulting LLC (HEC) to prepare a Water and Wastewater Utilities Rate Study (Study). The Draft Study was completed and presented to City Council April 21, 2021. Following the input from Fernley City Council members, and subsequent notification of grant monies that the city will be receiving under the American Rescue Plan Act, the City directed HEC to perform the following updates to the Draft Study.

1. Change the implementation date of new rates from July 1, 2021, to January 1, 2022.
2. Apply \$8 million of ARPA grant funding to the wastewater fund.

In addition, both the water and wastewater connection fees were updated to reflect reduced outstanding debt from the change in implementation date, and refinement of identified bond funded projects. This memorandum presents the results of the model changes.

Based on the revisions made to the model the following summary of changes is recommended:

Sewer Rates:	Increase yearly by 3% for the next five years.
	Connection fees will be \$4,268 per EDU.
Water Rates:	Increase yearly by 3% for the next five years.
	Connections fees will be \$6,825 per EDU.

PRIOR COUNCIL ACTION

- On December 15, 2014, the Fernley City Council established that a rate study was a top priority for the Water and Sewer Funds.
- On December 16, 2015, Fernley City Council approved a contract with Hansford Economic Development.
- On September 14, 2016, Hansford Economic Consulting presented the water and sewer utility rate study to Council.
- On October 5, 2016, Fernley City Council Approved Addendum B to the contract with Hansford Economic Development for additional services related to the water utility rate study.
- On November 14, 2016, Fernley City Council adopted Resolutions 2016-023, 2016-024 and 2016-025 implementing the water ancillary fee, increasing wastewater utility rates and water utility rates, respectively.
- On September 16, 2020, Fernley City Council approved award of a contract to Hansford Economic Consulting LLC to provide a five-year planning Water and Sewer Utility Rate Study Update for an amount not to exceed \$35,000.
- On April 21, 2021, Fernley City Council heard the Draft Study recommendations by Hansford Economic Consulting LLC and provided feedback to complete a Business Impact Statement and refine the Draft plan with the anticipated American Recovery Plan (ARP) grant funding.

LEGAL IMPLICATIONS:

Nevada Statutes: NRS 266, 354, 361

Fernley Municipal Code :

FINANCIAL IMPLICATIONS :

ATTACHMENTS:

- 1.) HEC LLC Memo dated July 27- *Changes to the draft water and wastewater Utilities Rate Study.*
- 2.) Aug 18 HEC Rates Presentation council mtg.