



CITY OF FERNLEY

CITY COUNCIL AGENDA REPORT

Meeting Date: November 3, 2021

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

FINANCIAL IMPACT:

Yes: No:

CURRENTLY BUDGETED:

Yes: No:

FUND/ACCOUNT:

ACTION REQUESTED: Consent Ordinance Resolution Motion Receive/File

AGENDA ITEM: Discussion and possible action for the Business Impact Statement regarding commercial rates for the Water and Sewer Utilities.

Agenda Item Brief: Upon review of the draft staff report to recommend that the FCC accepts the May BIS, there was an error that became apparent. Based on the error and under advisement of the outside counsel for water rights, the recommendation is to perform a new Business Impact Statement due to the proposed increase in connection fees and the fact that the connection fees were inadvertently omitted from the May BIS.

Recommended Motion:

"I move to recommend that staff completes a new Business Impact Statement regarding commercial rates for the Water and Sewer Utilities."

Business Impact (per NRS Chapter 237):

- A Business Impact Statement needs to be 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:

- The City Council may not accept the recommendation and provide further direction to the city manager.

BACKGROUND:

The City operates its water and wastewater services via two “enterprise” funds. An enterprise fund is separate from the City’s general fund and operates similar to a private business enterprise. Operating and capital expenses are paid for by fees charged to the customers who use the system, not by general tax revenues (see NRS 354.517 defining “enterprise fund”).

Because enterprise funds are operated solely by fees paid by the customers of the system, the rate schedules need to be evaluated on a regular basis to ensure that the fund will have enough money to support the utility’s operations. The primary goals in setting rates are to ensure that: (1) customers are paying their fair share of the costs of the system, (2) new development is fully reimbursing the enterprise funds for the costs of adding new connections to the system, and (3) the utilities have adequate revenues to fund needed expenses over the long-term.

To meet these goals the City contracted with Hansford Economic Consulting (“HEC”) in 2016 to perform a rate study. At that time both the water and wastewater enterprise funds were operating at significant annual losses that, if continued, would have rendered the funds financially insolvent. After reviewing the 2016 study, the City Council approved resolutions establishing new rate structures for each of the funds. The implementation of those new rate structures has resulted in both funds achieving financial stability (revenues greater than or equal to system costs) over the last three years. On September 16, 2020, the City Council approved a new contract with Hansford Economic Consulting to conduct a 5-year rate study.

On April 21, 2021, Fernley City Council heard the Draft Study recommendations by Hansford Economic Consulting LLC (HEC) and provided feedback to complete a Business Impact Statement and refine the Draft plan with the anticipated American Recovery Plan Act (ARPA) grant funding.

The BIS should be presented and accepted by FCC at the meeting prior to the meeting for the rate change. Upon review of the draft staff report to recommend that the FCC accepts the May BIS, there was an error that became apparent. Based on the error and under advisement of the outside counsel for water rights, the recommendation is to perform a new Business Impact Statement due to the proposed increase in connection fees and the fact that the connection fees were inadvertently omitted from the May BIS. A quick recap of the rate study project:

In accordance with NRS 237.080, on May 5, 2021, a letter was sent to 324 local businesses soliciting comments on the proposed rate increase and notifying the recipients of two workshops that were to be held on May 18 and 25, 2021. City staff prepared a Business Impact Statement pursuant to NRS 237.090. The connection fees were inadvertently left out of the BIS letter. The draft Business Impact Statement concluded that the proposed rates will not (1) place a direct and significant economic burden on area businesses, or (2) directly restrict the formation, operation, or expansion of any area businesses. Three written comments were received, and no persons were present at either of the public workshops in May.

On August 18, 2021, Fernley City Council heard the revised recommendations (to include ARPA funding) by Hansford Economic Consulting LLC and provided recommendations to increase water and wastewater rates and connection fees by resolution. The Council moved to adopt rates that were lower than the rates presented in the May 5th BIS letter. Proposed connection fees, however, were increased over the draft HEC report recommendations by motion of the city council. The HEC rate study was revised with the new recommendations and finalized on September 24th and presented to staff to review.

A staff report to accept the BIS at the November meeting was drafted as well as a staff report to

make changes to the rates and connection fees by resolution. Both reports were presented for outside legal review. Upon receipt the special water attorney reviewed the two staff reports and indicated it would be advisable to administer a new BIS study since the new connection fees were higher than the HEC report recommendations and were left out of the May BIS advertisement letter.

To revisit the BIS for the project, staff will need additional time to prepare advertisement for a new BIS and hold additional workshops. The timeline to adjusting the rates and connection fees by January 1, 2022, will need to be adjusted (staff suggests April 1, 2022, in order to adjust rates while water use is still low). Staff will start immediately on the new BIS using the data below, as this was the direction given by FCC at the August 18th meeting and is the data used in the final draft of the HEC Rate Study.

The revised HEC rate study is also attached for your review. The report has been revised to reflect the recommendations of the August 18th meeting.

Sewer Rates:	Increase yearly by 3% for the next five years. Connection fees will be \$5,000 per EDU.
Water Rates:	Increase yearly by 2.25% the first year and then 3% for the next four years. Connections fees will be \$7,000 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.
- On August 18, 2021, Fernley City Council heard the revised recommendations by Hansford Economic Consulting LLC and provided recommendations to increase water and wastewater rates and connection fees by resolution.

LEGAL IMPLICATIONS:

Nevada Statutes: NRS 266, 354, 361

Fernley Municipal Code : Title 28

FINANCIAL IMPLICATIONS :

ATTACHMENTS:

1. *City of Fernley 2021 Utility Rate Study (Final) dated September 24, 2021.*