

City of Colfax Wastewater Rate Study



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GLOSSARY OF ACRONYMS

ACS	American Community Survey: An ongoing survey by the U. S. Census Bureau that regularly gathers information about the population such as income, education, and employment.
RCAC	Rural Community Assistance Corporation: A not for profit organization dedicated to assisting rural communities in the thirteen western states achieve their goals.
O&M	Operating and Maintenance Expenses: The usual day to day expenses of providing wastewater disposal to customers.
FY	Fiscal Year: A year as recognized for taxing or accounting purposes. The City's fiscal year runs from July 1 to June 30.
SWRCB	State Water Resources Control Board: One of six branches of the California Environmental Protection Agency. Besides regulatory authority, SWRCB provides financial assistance to local governments and nonprofit agencies to build or rejuvenate wastewater treatment plants.
CWSRF	The Clean Water State Revolving Fund: A self-perpetuating loan assistance authority for water quality improvement projects in the United States. The fund is administered by the Environmental Protection Agency and state agencies. Congress established the fund in the Water Quality Act of 1987.
CIP RESERVE	Capital Improvement Reserve: A fund reserved by a utility for long term replacement and improvement of the wastewater system assets as they become worn out or obsolete.
MHI	Median Household Income: Refers to the income level earned by a given household where half of the homes in the area earn more and half earn less. It's used instead of the average or mean household income because it can give a more accurate picture of an area's actual economic status. Median household incomes are frequently used to determine a community's eligibility for grants and/or low interest loans.
EDU	Equivalent Dwelling Unit: An equivalent unit is established based on a single family dwelling. Each customer is charged based on the number of EDU's that have been assigned to his or her connection. For example a single family residence may be assigned one EDU while a laundromat, due to the nature of its business, may be assigned four EDU's.
BOD	Biochemical Oxygen Demand: Wastewater from sewage treatment plants often contains organic materials that are decomposed by microorganisms which use oxygen in the process. The amount of oxygen consumed by these organisms in breaking down the waste is known as the biochemical oxygen demand or BOD.

PART I: INTRODUCTION

1.1 City of Colfax (The City)

Colfax, California is a city located in Placer County at the crossroads of interstate 80 and State Route 174. Originally inhabited by the Maidu and Miwok Tribes in the mid-19th century, The City has a long and noteworthy history. It became a hub for gold prospectors during the gold rush, and Colfax was the site of the first gold country stagecoach robbery in 1852. It was renamed from Illinoistown to Colfax, in honor of U.S. Vice President Schuyler Colfax (1869–73). The City is the site of the only known statue of Vice President Colfax. The Vice President visited the town in 1865 while inspecting the progress of construction of the Central Pacific Railroad, the western portion of the first transcontinental railroad. One of The City’s prominent features is the restored Southern Pacific Railroad colonnade-style depot, which houses the Colfax Museum and Chamber of Commerce. Colfax is mentioned in Jules Verne’s book, *Around the World in Eighty Days*.

The City incorporated in 1910, under the laws and regulations of the State of California. According to the 2016 American Community Survey (ACS) estimates, Colfax has an estimated population of 2,189 and a Median Household Income (MHI) of \$44,004. It currently operates under a Council-Manager form of government. The Council oversees a number of services including: public safety, highways and streets, sewer, culture and recreation, public improvements, planning and zoning, and general administrative services.

1.2 Rural Community Assistance Corporation (RCAC)

RCAC provides training, technical and financial resources and advocacy so rural communities can achieve their goals and visions. As a nonprofit organization established in 1978, RCAC has provided services to low-income residents of Native American, Native Alaskan, Native Hawaiian and rural communities in 13 western states and the Western Pacific. The RCAC program areas include environmental infrastructure (drinking water, wastewater, solid waste), affordable housing, community development finance, and economic and leadership development.

PART II. PURPOSE AND OBJECTIVE

2.1 Wastewater System

The City owns and operates three sewer infrastructure systems that serve the community and some out-of-city-limits residents. The systems include a wastewater treatment plant, a sewer collection system and sewer lift stations. The systems provide primary and secondary treatment of sanitary wastewater as well as treatment and conditioning of the solids removed at the treatment plant. RCAC was contracted by the City to complete a comprehensive analysis of the sewer enterprise’s current service rates. The analysis includes detailed review of historic and budgeted costs, with an eye toward cost savings.

2.2 Fiscal Sustainability

An accurate and useful rate analysis not only identifies the total annual revenue required by a utility to conduct its normal day-to-day operations, but it also anticipates and plans for future operating and capital needs. Furthermore, the analysis attempts to determine whether the projected revenue under existing rates will satisfy those needs. The primary objective of this process is to ensure community health and safety, and that the utility has the ability to obtain sufficient funds to develop, construct, operate, maintain and manage its sewer system on a continuing basis, in full compliance with federal, state and local requirements.

DISCLAIMER

The recommendations contained in this rate analysis are based on financial information provided to RCAC by The City. Although every effort was made to ensure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein.

PART III. FINANCIAL PLANNING

3.1 Objective of Financial Plan

The objective of developing a financial plan for a wastewater system is to determine cash needs, revenue requirements and anticipated timing of utility costs to ensure that adequate funds are available to meet operational and maintenance needs as they occur. These are necessary elements to ensure continued adherence to community health and safety standards and government regulations. Financial planning for a small wastewater system normally includes an examination of:

- Operating revenues
- Operation and maintenance (O&M) expenses
- Debt service (principal and interest payments) on borrowed funds
- Reserve requirements

The financial plan calculates the minimum revenues necessary to maintain a viable and self-sustaining enterprise.

3.2 Operating Revenues:

Revenues are the main sources of income to a utility and are typically thought of as operating and non-operating. Operating revenue is the stable and reliable income that comes from customer rates or user charges. Non-operating revenue, such as interest on checking and reserve accounts, connection fees, late payments, penalties and reconnection fees may also be considered operating revenue, if they are stable and dependable revenue sources. For example, a utility with consistent growth that is expected to continue, may consider connection fees as an operating revenue source. In reviewing financial statements, it was determined that most of the sewer enterprise's

revenue is from charges for services. Therefore, for purposes of this analysis, the FY 2017/2018 rates and number of equivalent dwelling units (EDUs) information was used for operating revenue.

3.3 Operating Expenses:

This is the first cost category that is considered when developing a financial plan. Operating and maintenance costs include the day-to-day expenses of providing wastewater disposal to customers. Expenses include labor, insurance, materials, electricity and chemicals. Historic actual costs and the approved budget for FY 2017-2018 were the sources for cost assumptions in this analysis. An assumed annual inflation rate of 3% was projected for a five year period.

3.4 Wastewater System Reserves:

Reserves are an accepted way to stabilize and support utility financial management. Small systems usually fund the operating expenses, but don't often consider putting money aside for a specific upcoming financial need or project, or for an amount that can be used to provide rate stabilization in years when revenues are unusually low or expenditures are unusually high. The rationale for maintaining adequate reserve levels is two-fold. First, it helps to ensure that the utility will have adequate funds available to meet its financial obligations in times of varying needs. Secondly, it provides a framework around which financial decisions can be made to determine when reserve balances are inadequate or excessive, and what specific actions need to be taken to remedy the situation.

Utility reserve levels can be thought of as a savings account. Reserve balances are funds that are set aside for a specific cash flow requirement, financial need, project, task, or legal covenant. Common reserve balances are established around the following four areas: operating reserve, capital improvement and replacement reserve, emergency reserve, and debt service reserve. These balances are maintained in order to meet short-term cash flow requirements, and at the same time, minimize the risk associated with meeting financial obligations and continued operational needs under adverse conditions.

3.4.1 Debt Service Reserve:

Wastewater utilities that have issued debt to pay for capital assets will often have required reserves that are specifically defined to meet the legal covenants of the debt. Normally, debt service reserve represents an amount equal to one full annual loan payment, and can be accumulated to this level over a period of five to ten years. The City has fully funded the required debt reserves.

On September 19, 2011, the City entered into a loan agreement with the California State Water Resources Control Board State Revolving Fund (CWSRF) in the amount of \$12,825,600 at an interest rate of 1%. Proceeds were utilized to fund collection system inflow and infiltration repair and replacement of wastewater treatment plant reservoir pond lining and the restructure of a prior CWSRF loan to provide resources for the district to acquire and construct capital improvements to the wastewater system. Subsequently, \$3,319,000 of the debt

was forgiven. Principal and interest payments are due annually in the amount of \$438,974. The debt service reserve in that amount has been fully funded. On June 30, 2017, the unpaid balance on the loan was \$8,630,391, scheduled to be paid in full by October, 2038.

3.4.2 Short Lived Asset Reserve:

Pursuant to USDA grant covenants in conjunction with the above referenced loan, the City is required to fund a reserve account in the amount of \$37,500 annually for short lived assets. The Community Services Director maintains a schedule of projected replacements for short lived assets for a five year period. Unlike the debt service reserve, the funds in this account may be utilized for those replacements.

3.4.3 Operating Reserve:

Operating reserves are established to provide the utility with the ability to withstand short term cash flow fluctuations. There can be a significant length of time between when a system provides a service and when a customer pays for that service. In addition, a system's cash flow can be affected by weather and seasonal demand patterns. A 45-day operating reserve is a frequently used industry norm. Because of potential delays in collecting payment, many utilities attempt to keep an amount of cash equal to at least 45 days or one-eighth of their annual cash operating and maintenance (O&M) expenses in an operating reserve, to mitigate potential cash flow problems. Because the City bills on a bi-monthly basis, a larger operating reserve, perhaps 90 days (or 25 percent) is recommended. The City has funded operating reserves at 17 percent of annual operating costs.

3.4.4 Emergency Reserve:

In addition to operating reserves, emergency reserves are an important tool for financial sustainability. Emergency reserves are intended to help utilities deal with short-term emergencies which arise from time to time, such as main breaks or pump failures. The appropriate amount of emergency reserves will vary greatly with the size of the utilities and should depend on major infrastructure assets. An emergency reserve is intended to fund the immediate replacement or reconstruction of the system's single most critical asset; an asset whose failure will result in an immediate threat to public safety. The City Community Services Director has stated that \$50,000 in emergency reserves would be adequate for the facility. This has been funded in full.

3.4.5 Capital Improvement Reserve (CIP):

A capital improvement reserve is intended to be used for replacing system assets that have become worn out or obsolete. Annual depreciation is frequently used to estimate the minimum level of funding for this capital reserve, but it is important to understand that depreciation expense is an accounting concept for estimating the decline in useful life of an asset and does not represent the current replacement cost of that asset. As an example, a brand new system with a

construction cost of \$1,000,000 and a service life of 100 years should (in theory) be setting aside \$10,000 per year to fully capitalize the replacement cost of the infrastructure as it wears out. Many smaller systems find this to be impossible, because of the effect on rates, which explains the large number of small systems that are falling into disrepair.

To initiate a capital improvement plan (CIP), a small sewer system will start with a list of assets that includes the original purchase costs, the expected service life at the time it was put into service, theoretical replacement costs in today's dollars and the remaining service life. It then calculates the monthly and annual reserve that must be collected from each customer to fully capitalize the replacement cost of each asset. In reality, the assets will fail and be replaced gradually, but the replacement cost of sewer system assets is often a shock to small systems who are struggling to keep rates reasonable. Larger systems often have sufficient non-operating revenue to fund these reserve levels without affecting rates, but smaller systems often do not, leaving them to fund their CIP reserves from rates alone. The City periodically reviews and updates its reserve policy and budgeted reserve amounts, to ensure that the Wastewater Enterprise has sufficient resources to adequately provide for capital projects and unforeseen emergencies. The equipment depreciation schedule indicates total purchase costs of \$22,210,322 as of June 30, 2017. The following assumptions were made to calculate the annual CIP contribution that should be made for the sewer plant, collection system, disposal facilities, subsurface lines and other equipment:

- Future replacement costs will have a 2 percent inflation factor.
- 20 percent of the replacement costs will be funded through grants.
- 60 percent of replacement costs will be funded with loans.
- 20 percent of replacement costs will be funded by CIP reserves.
- The annual CIP contribution should be \$265,247.
- Due to the impact on the customers' rates, an alternative budget was created assuming only \$100,000 annual contribution to CIP reserves. Funding the reserves in that amount will be dependent on estimated growth. It is anticipated the sewer enterprise will incur losses for the first few years, which will be recovered in subsequent years. Non-operating revenues, not included in this analysis, may be available to offset the reserve funding shortfall.

PART IV: AFFORDABILITY INDEX

4.1 Median Household Income

The affordability index measures the burden of costs passed from the utility to the users against the median household income (MHI) for the area and is used by funding agencies to determine grant and low interest loan eligibility. Many funding organizations look for an affordability ratio of a minimum of 1.5 percent before approving grant money to low income communities. According to the 2016 American Community Surveys (ACS),

Colfax had an estimated MHI of \$44,004. The City currently has a sewer service rate of \$126.76 monthly. This would put the current rate affordability index at 3.46 percent.
Affordability Index = average annual residential bill for wastewater/annual MHI.

PART V: WASTEWATER RATE BASICS

5.1 Rate Structures

The following are types of rates structures common to wastewater systems:

5.1.1 Uniform Flat Rate: All customers pay the same amount. This type of rate is easiest to administer; however, it may not be fair to those producing less waste.

5.1.2 Equivalent Dwelling Unit (EDU): In this type of structure, customers are charged by the number of EDUs determined by the type or size of the specific class of connection. An equivalent unit is established based on a single family dwelling. Each customer is charged based on the number of EDU's that have been assigned to his or her connection. For example, a single family residence may be assigned one EDU, while a laundromat (by the nature of its business) may be assigned four EDU's.

5.1.3 Biochemical Oxygen Demand (BOD): BOD is the amount of dissolved oxygen needed by aerobic biological organisms in a body of water to break down organic material present. In this type of rate structure, the rate is based on waste strength commonly associated with a particular type of connection and the necessary effort to break down the waste.

5.1.4 Water Usage: Wastewater rates are often based on water usage. The assumption in this case is that the more water that is used by a connection, the more wastewater that connection will produce. With this type of rate, a base rate is established and a commodity rate is charged based on water usage. Because the City does not provide the water service to the community and does not have access to usage records, this method is not an option.

5.2 Colfax's Rate Structure

The City's current rate structure is based on EDUs. One EDU is billed at \$126.76 per month. Commercial and other non-residential users are based on standard strength characteristics and average sewer flows provided by the State Water Resources Control Board. In comparing the City's EDU schedule with EPA's suggested schedule, RCAC found the EDU assignments very similar. The City's EDU structure is listed on Table 2 of this study.

5.3 Colfax EDUs

Based on 1,161.05 EDU's at the current rate of \$126.76, the Wastewater Enterprise can expect service revenue in the amount of \$1,766,096 annually, as illustrated in Table 1 of this study.

5.4 Potential Growth

The City anticipates growth in the short-term and long-term future. Based on conservative estimates of planned development, the EDUs are expected to increase in 2019 to 1,189.75 and to 1,205.75 in 2020. Further growth is expected beyond 2023.

TABLE 1: Revenue under Current Rate

Current rate	# EDU's	Monthly Rate	Average Bi-Monthly Revenue - Sewer	Average Annual Revenue - Sewer
Single Family Residential	818.20	\$ 126.76	\$207,430.06	\$ 1,244,580.38
Multi-Family Residential	21.40	\$ 126.76	\$ 5,425.33	\$ 32,551.97
Church	15.00	\$ 126.76	\$ 3,802.80	\$ 22,816.80
Commercial	202.77	\$ 126.76	\$ 51,406.25	\$ 308,437.50
Government	8.08	\$ 126.76	\$ 2,048.44	\$ 12,290.65
Schools	58.30	\$ 126.76	\$ 14,780.22	\$ 88,681.30
Railroad Property	35.50	\$ 126.76	\$ 8,999.96	\$ 53,999.76
Other	1.80	\$ 126.76	\$ 456.34	\$ 2,738.02
Total Revenue	1,161.05		\$294,349.40	\$ 1,766,096.38

TABLE 2: Current EDU Structure

Customer Type	Base	Add'l	Description for Additional Charges:
Single Family Dwelling	1.0	0.8	Additional "Granny House"
Apartments/Duplex/Triplex	1.0	0.8	For each additional dwelling unit
Bed & Breakfast, Boarding House	1.0	0.4	For each additional rental/sleeping room
Convalescent Homes, Community	1.0	0.6	For each additional rental/sleeping room
Hotels, Motels, Resorts	1.0	0.3	Per Unit
Trailer Parks, Mobile Home Parks	1.0	0.8	Per Pad or Space
Auto Dealership (New & Used)	1.0	0.2	1.0 EDU min, to 1,000 sq. ft.; 0.2 EDU each additional 1,000 sq. ft. gross floor area
Banks & Financial Institutions	1.0	0.3	1.0 EDU min., to 1,000 sq. ft.; 0.3 EDU each additional 1,000 sq. ft. gross floor area
Bakeries	2.0	1.7	2.0 EDU min to 1,000 sq. ft.; 1.7 EDU each additional 1,000 sq. ft. gross floor area
Bars & Taverns	1.0	1.0	1.0 EDU min. to 1,000 sq. ft.; 1.0 EDU each additional 1,000 sq. ft.
Bowling Alleys	1.0	0.4	1.0 EDU min; plus 0.4 EDU each additional 1,000 sq. ft. gross floor area
Car Wash	1.0		1.0 EDU min. (if stand alone) plus:
Self Service		1.0	1.0 EDU per stall
Automatic		3.0	3.0 EDU per wash rack
Dry Cleaners, Commercial/Industrial Laundries	1.7	1.7	1.7 EDU per 1,000 sq. ft. floor space
Fire Stations	1.0	0.6	1 EDU up to 1,000 sq. ft.; 0.6 EDU each additional 1,000 sq. ft.
Garages & Equipment Rental/Service yard	1.0	1.0	1 EDU min. (if stand alone), plus 1.0 EDU per 10 repair bays
Halls, Lodges, Auditoriums	1.0	0.3	1.0 EDU min. plus 0.3 each 1,000 sq. ft. floor space
Health Studios, Beauty Salons, Spas & Gyms	2.0	1.0	2.0 EDU up to 1,000 sq. ft.; 1.0 EDU each additional 1,000 sq. ft.
Hospitals, Medical Clinics, EMT Facilities	2.0	1.0	2.0 EDU min. (if stand alone) plus 1.0 EDU per 10 licensed beds or equivalent care stations
Laundries; Self-Service Laundromats	1.0	0.3	1 EDU min. (if stand alone), plus 0.3 EDU per washing machine
Markets & Mini-Marts	1.0	0.5	1.0 EDU min, plus 0.5 EDU each additional 1,000 sq. ft.
Medical & Dental Offices	1.0	0.5	1.0 EDU min, plus 0.5 EDU each additional 1,000 sq. ft.
Mortuaries	1.0	1.0	1.0 EDU min plus 1.0 EDU per "slumber room"
Office Buildings	1.0	0.2	1.0 EDU min (if stand alone) plus 0.2 EDU per 1,000 sq. ft. gross floor area
Parks & Fairgrounds	1.0	1.0	1.0 EDU min plus 1.0 EDU per restroom, comfort room & janitor supply
Places of Worship	2.0	0.2	2.0 EDU per facility up to 10,000 sq. ft gross floor space, plus 0.2 EDU per each additional 1,000 equ ft. 1.0 additional EDU per each residence on site
Take Out Only	1.0	1.0	1.0 EDU per 1,000 sq. ft. gross floor areas
Full Service	2.0	2.0	2.0 EDU per 1,000 sq. ft. gross floor space
Retail Stores	1.0	0.5	1.0 EDU min; .05 EDU additional per each 1,000 sq. ft. floor area
Elementary School	1.0	1.0	1.0 EDU min, 1.0 EDU per 20 students (ADA) plus staff
High School	2.0	1.0	2.0 EDU min, 1.0 EDU per 10 students (ADA) plus staff
Service Stations	1.0	0.1	1.0 EDU min.; plus 0.1 EDU per pump
Theaters	1.0	0.4	1.0 EDU min, plus 0.4 EDU per 1,000 sq. ft. - Snack Bar included in base allocation
Warehouses & Storage Facilities	1.0	1.0	1.0 EDU per 10,000 sq. ft. plus 1.0 EDU if manager's quarters on-site
Non-defined Commercial	1.0		1.0 EDU min. plus additional allocation on per-case basis
Industrial & Manufacturing	2.0		2.0 EDU min plus additional allocation on per-case basis, plus additional applicable industrial wastewater fees

Part VI: BUDGETED COSTS

6.1 Amended Budget

The council-approved budgeted costs for the wastewater utility for fiscal year ended (FYE) June 30, 2018, was in the amount of \$2,060,968. To calculate operating costs, capital expenditures were eliminated as it was assumed those would be paid from the Capital Improvement Reserve Fund. In reviewing the projected equipment repairs and maintenance schedule, it was determined that \$67,187 of those repairs were eligible for payment by the Short Lived Asset Reserve Fund. Those items reduced the operating budget to \$1,746,301. The required Short Lived Asset Reserve Fund in the amount of \$37,500 and Capital Improvement Reserve Fund in the amount of \$100,000 were then added to the budget to bring the true costs for providing wastewater service to \$1,883,531, a shortfall in revenue of \$117,435 in FYE 6/30/2018. Subsequent years assume a 3% inflation factor, except equipment repairs and maintenance, which are based on the Community Services Director's schedule.

6.2 Significant Costs

Typically the highest costs for operating a wastewater facility are usually salaries and utilities. The City's costs follow that convention.

6.2.1 Electricity

Beginning in 2018, the City will be purchasing electricity from an alternate provider, Pioneer Energy. The new provider is expected to bill at a minimum of 3 percent below the current provider. That savings is reflected in FYE 2019 projections. It is assumed that the costs will rise due to inflation, but will remain at 3% below the current provider.

6.2.2 Salaries

Salaries and employee benefits for the enterprise are assumed to increase by 3 percent annually. The enterprise is exceptionally well managed and no reduction and/or addition in staff is anticipated. To account for all direct and indirect activities, the City utilizes an allocation system to record salaries and benefit expenses. Current staff allocations to the wastewater enterprise are:

- Chief Plant Operator – 100%
- (2) Sewer Operator II – 100%
- City Manager – 45% (after revised March 2018)
- Community Services Director – 45% (after revised March 2018)
- City Clerk – 50%
- Customer Service Rep – 50%
- Accounting Technician – 50%
- Public Works Supervisor – 15%
- (4) Maintenance Worker I – 25% each

6.2.3 Debt

The City has formally requested the state consider an amendment to the existing debt owed to CWSRF. The request includes a decrease to the current interest rate of 1 percent, forgiving a portion of the loan principal and an extension of the maturity date. The impact an amendment will have on the rates will depend on to what extent the state will reduce the debt and/or interest rate.

**TABLE 3: AMENDED BUDGETED COSTS FYE 6/30/2018 and PROJECTED COSTS
SUBSEQUENT YEARS**

Budgeted/Projected Costs:	2017/2018	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Salaries & Wages	\$ 437,995	\$ 451,135	\$ 464,669	\$ 478,609	\$ 492,967	\$ 507,756
Social Security Taxes	\$ 33,506	\$ 34,511	\$ 35,547	\$ 36,613	\$ 37,711	\$ 38,843
Unemployment & Training Taxes	\$ 2,924	\$ 3,012	\$ 3,102	\$ 3,195	\$ 3,291	\$ 3,390
Workers' Comp	\$ 20,728	\$ 21,350	\$ 21,990	\$ 22,650	\$ 23,330	\$ 24,029
Health Insurance	\$ 102,198	\$ 105,264	\$ 108,422	\$ 111,675	\$ 115,025	\$ 118,475
Uniform/Shoe Allowance	\$ 1,500	\$ 1,545	\$ 1,591	\$ 1,639	\$ 1,688	\$ 1,739
Retirement	\$ 30,123	\$ 31,027	\$ 31,957	\$ 32,916	\$ 33,904	\$ 34,921
Materials/Supplies	\$ 46,000	\$ 47,380	\$ 48,801	\$ 50,265	\$ 51,773	\$ 53,327
Copy Machine	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185	\$ 2,251	\$ 2,319
Equip. Repairs/ Maintenance	\$ 35,550	\$ 65,400	\$ 61,750	\$ 55,550	\$ 62,000	\$ 38,200
Vehicle Repairs/Maintenance	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185	\$ 2,251	\$ 2,319
Gas & Oil	\$ 5,000	\$ 5,150	\$ 5,305	\$ 5,464	\$ 5,628	\$ 5,796
Chemicals	\$ 110,000	\$ 113,300	\$ 116,699	\$ 120,200	\$ 123,806	\$ 127,520
Postage	\$ 2,750	\$ 2,833	\$ 2,917	\$ 3,005	\$ 3,095	\$ 3,188
Telephone	\$ 2,500	\$ 2,575	\$ 2,652	\$ 2,732	\$ 2,814	\$ 2,898
Cell Phones/Pagers	\$ 3,200	\$ 3,296	\$ 3,395	\$ 3,497	\$ 3,602	\$ 3,710
Internet/Website	\$ 1,200	\$ 1,236	\$ 1,273	\$ 1,311	\$ 1,351	\$ 1,391
Printing/Advertising	\$ 1,000	\$ 1,030	\$ 1,061	\$ 1,093	\$ 1,126	\$ 1,159
City Engineering Services	\$ 7,500	\$ 7,725	\$ 7,957	\$ 8,195	\$ 8,441	\$ 8,695
Software Maintenance Contract	\$ 2,500	\$ 2,575	\$ 2,652	\$ 2,732	\$ 2,814	\$ 2,898
Auditors	\$ 10,100	\$ 10,403	\$ 10,715	\$ 11,037	\$ 11,368	\$ 11,709
Professional Services	\$ 33,020	\$ 34,011	\$ 35,031	\$ 36,082	\$ 37,164	\$ 38,279
Legal Fees	\$ 7,500	\$ 7,725	\$ 7,957	\$ 8,195	\$ 8,441	\$ 8,695
Memberships/dues	\$ 2,000	\$ 2,060	\$ 2,122	\$ 2,185	\$ 2,251	\$ 2,319
Education/Training	\$ 7,000	\$ 7,210	\$ 7,426	\$ 7,649	\$ 7,879	\$ 8,115
Travel/Mileage	\$ 500	\$ 515	\$ 530	\$ 546	\$ 563	\$ 580
Rents/Leases	\$ 500	\$ 515	\$ 530	\$ 546	\$ 563	\$ 580
Utilities	\$ 195,000	\$ 195,000	\$ 200,850	\$ 206,876	\$ 213,082	\$ 219,474
Water	\$ 500	\$ 515	\$ 530	\$ 546	\$ 563	\$ 580
Building Repairs/Maintenance	\$ 20,000	\$ 20,600	\$ 21,218	\$ 21,855	\$ 22,510	\$ 23,185
Miscellaneous	\$ 750	\$ 773	\$ 796	\$ 820	\$ 844	\$ 869
Medical Expenses	\$ 1,000	\$ 1,030	\$ 1,061	\$ 1,093	\$ 1,126	\$ 1,159
Sludge Removal	\$ 30,000	\$ 30,900	\$ 31,827	\$ 32,782	\$ 33,765	\$ 34,778
Payments to Other Agencies	\$ 23,500	\$ 24,205	\$ 24,931	\$ 25,679	\$ 26,449	\$ 27,243
Bonds/Insurance	\$ 35,250	\$ 36,308	\$ 37,397	\$ 38,519	\$ 39,674	\$ 40,864
Bacteria/Lab Test Supplies	\$ 68,000	\$ 70,040	\$ 72,141	\$ 74,305	\$ 76,535	\$ 78,831
Total Operating Expenses	\$ 1,284,794	\$ 1,346,271	\$ 1,381,047	\$ 1,414,426	\$ 1,461,643	\$ 1,479,832
Short -Lived Asset Reserves	\$ 37,500	\$ 37,500	\$ 37,500	\$ 37,500	\$ 37,500	\$ 37,500
Capital Replacement/Improvement Reserves	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
Debt Service	\$ 461,237	\$ 466,804	\$ 450,477	\$ 438,974	\$ 438,974	\$ 438,974
Total Costs	\$ 1,883,531	\$ 1,950,575	\$ 1,969,024	\$ 1,990,900	\$ 2,038,117	\$ 2,056,306

Part VII: RATE ANALYSIS

7.1 Current Rates

In reviewing the current rate against the projected costs, it is clear the rates will not cover the costs, even with the reduction in CIP reserve funding and assumption of EDU growth. Table 4, below, compares current rates to projected costs.

TABLE 4: CURRENT RATES AGAINST PROJECTED COSTS

Assumes: Growth for Years 2019 &2020; Current Rate against Budgeted Costs; Funding CIP Reserves at \$100,000 Annually Plus S/L Asset Reserves at \$37,500	# EDU's 2018	# EDU's 2019	# EDU's 2020	2018 Monthly Rate	Average Annual Revenue 2018	Average Annual Revenue 2019	Average Annual Revenue 2020 thru 2022
Single Family Residential	818.20	818.20	818.20	\$ 126.76	\$ 1,244,580	\$ 1,244,580	\$ 1,244,580
Multi-Family Residential	23.20	23.20	23.20	\$ 126.76	\$ 35,290	\$ 35,290	\$ 35,290
Church	15.00	15.00	15.00	\$ 126.76	\$ 22,817	\$ 22,817	\$ 22,817
Commercial	202.77	202.77	202.77	\$ 126.76	\$ 308,438	\$ 308,438	\$ 308,438
Government	8.08	8.08	8.08	\$ 126.76	\$ 12,291	\$ 12,291	\$ 12,291
Schools	58.30	58.30	58.30	\$ 126.76	\$ 88,681	\$ 88,681	\$ 88,681
Railroad Property	35.50	35.50	35.50	\$ 126.76	\$ 54,000	\$ 54,000	\$ 54,000
Estimated Growth		28.70	44.70	\$ 126.76	\$ -	\$ 43,656	\$ 67,994
Total Revenue	1,161.05	1,189.75	1,205.75		\$ 1,766,096	\$ 1,809,753	\$ 1,834,090
Budget Assuming 3% Inflation per year	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023	
Total Monthly Required Reserves Fund	\$ 11,458	\$ 11,458	\$ 11,458	\$ 11,458	\$ 11,458	\$ 11,458	
Total yearly required reserve fund (Reduced)	\$ 137,500	\$ 137,500	\$ 137,500	\$ 137,500	\$ 137,500	\$ 137,500	
Debt Service	\$ 461,237	\$ 466,804	\$ 450,477	\$ 438,974	\$ 438,974	\$ 438,974	
Total Operating Budget	\$ 1,284,794	\$ 1,346,271	\$ 1,381,047	\$ 1,414,426	\$ 1,461,643	\$ 1,479,832	
Total Budget (Including Reserve Funding and Debt Service)	\$ 1,883,531	\$ 1,950,575	\$ 1,969,024	\$ 1,990,900	\$ 2,038,117	\$ 2,056,306	
	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023	
Estimated Annual Revenue From Sewer Service	\$ 1,766,096	\$ 1,809,753	\$ 1,834,090	\$ 1,834,090	\$ 1,834,090	\$ 1,834,090	
Net Revenue Over/(under) Costs	\$ (117,435)	\$ (140,823)	\$ (134,934)	\$ (156,810)	\$ (204,026)	\$ (222,216)	

7.2 Recommended Rate Adjustment

In analyzing the information, a number of alternatives and cost cutting measures were discussed with City Management. The revised budget reflects the result of these endeavors. While it would normally be recommended that a much higher amount in CIP reserves be funded, the impact to the rates was prohibitive. To fund the true costs of providing sewer service with reduced CIP reserves, an annual increase of 2.45 percent for the next five years is necessary. It is expected the first few years will be operated at a loss that will be recovered in subsequent years. Table 5 on the next page illustrates this recommendation.

TABLE 5: RECOMMENDED RATE ADJUSTMENT

Adjusted Rate - Assumes increased EDUs and 2.45% Rate Increase Each Year for Five Years; CIP Reserves Funded at \$100,000 annually, Short Lived Assets Funded at \$37,500 Annually	Estimated #EDU's 2018/2019	Estimated #EDU's 2019/2020 Through 2022/2023	Current Monthly Rate	Monthly Rate 2018/2019	Monthly Rate 2019/2020	Average Annual Revenue 2018/2019	Average Annual Revenue 2019/2020
					2.45%	2.45%	
Single Family Residential	818.20	818.20	\$ 126.76	\$ 129.87	\$ 133.05	\$ 1,275,072.60	\$ 1,306,311.88
Multi-Family Residential	23.20	23.20	\$ 126.76	\$ 129.87	\$ 133.05	\$ 36,154.59	\$ 37,040.38
Church	15.00	15.00	\$ 126.76	\$ 129.87	\$ 133.05	\$ 23,375.81	\$ 23,948.52
Commercial	202.77	202.77	\$ 126.76	\$ 129.87	\$ 133.05	\$ 315,994.22	\$ 323,736.08
Government	8.08	8.08	\$ 126.76	\$ 129.87	\$ 133.05	\$ 12,591.77	\$ 12,900.27
Schools	58.30	58.30	\$ 126.76	\$ 129.87	\$ 133.05	\$ 90,853.99	\$ 93,079.91
Railroad Property	35.50	35.50	\$ 126.76	\$ 129.87	\$ 133.05	\$ 55,322.75	\$ 56,678.16
Estimated Growth	28.70	44.70	\$ 126.76	\$ 129.87	\$ 133.05	\$ 44,725.72	\$ 71,366.59
Total Revenue	1,189.75	1,205.75				\$1,854,091.46	\$ 1,925,061.78
Budget Assuming 3% Inflation per year	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023		
Total Monthly Required Reserves Fund	\$ 11,458	\$ 11,458	\$ 11,458	\$ 11,458	\$ 11,458		
Reserve Funding	\$ 137,500	\$ 137,500	\$ 137,500	\$ 137,500	\$ 137,500		
Debt Service	\$ 466,804	\$ 450,477	\$ 438,974	\$ 438,974	\$ 438,974		
Total Operating Budget	\$ 1,346,271	\$ 1,381,047	\$ 1,414,426	\$ 1,461,643	\$ 1,479,832		
Total Budget (Including Reserve Funding and Debt Service)	\$ 1,950,575	\$ 1,969,024	\$ 1,990,900	\$ 2,038,117	\$ 2,056,306		
	6/30/2019	6/30/2020	6/30/2021	6/30/2022	6/30/2023		
Estimated Annual Revenue From Sewer Service	\$ 1,854,091	\$ 1,925,062	\$ 1,972,226	\$ 2,020,545	\$ 2,070,049		
Revenue Over/(Under) Costs	\$ (96,484)	\$ (43,963)	\$ (18,675)	\$ (17,571)	\$ 13,743		

TABLE 6: MONTHLY RATES INCREASE BY EDUs *

# EDU's	Current Monthly Rate	Monthly Rate 2018	Monthly Rate 2019	Monthly Rate 2020	Monthly Rate 2021	Monthly Rate 2022
1.00	\$ 126.76	\$ 129.87	\$ 133.05	\$ 136.31	\$ 139.65	\$ 143.07
1.20	\$ 152.11	\$ 155.84	\$ 159.66	\$ 163.57	\$ 167.58	\$ 171.68
1.30	\$ 164.79	\$ 168.83	\$ 172.96	\$ 177.20	\$ 181.54	\$ 185.99
1.40	\$ 177.46	\$ 181.81	\$ 186.27	\$ 190.83	\$ 195.51	\$ 200.29
1.50	\$ 190.14	\$ 194.80	\$ 199.57	\$ 204.46	\$ 209.47	\$ 214.60
1.60	\$ 202.82	\$ 207.78	\$ 212.88	\$ 218.09	\$ 223.43	\$ 228.91
1.70	\$ 215.49	\$ 220.77	\$ 226.18	\$ 231.72	\$ 237.40	\$ 243.22
1.80	\$ 228.17	\$ 233.76	\$ 239.49	\$ 245.35	\$ 251.36	\$ 257.52
2.00	\$ 253.52	\$ 259.73	\$ 266.09	\$ 272.61	\$ 279.29	\$ 286.14
2.10	\$ 266.20	\$ 272.72	\$ 279.40	\$ 286.24	\$ 293.26	\$ 300.44
2.20	\$ 278.87	\$ 285.70	\$ 292.70	\$ 299.88	\$ 307.22	\$ 314.75

* Rate Increases are effective July First of each year.

7.3 Impact of Delaying Rate Increases

Often a utility will avoid a rate increase due, because it is felt the utility is doing the community a service by keeping rates artificially low. In fact, it is a disservice to the community. Besides the inability to fund necessary repairs and replacements, the rates will ultimately be higher if they are delayed. Table 7 below, demonstrates the impact rate delays will have on rates. It is assumed the year one rate is \$126.76. The table is color coded to indicate each scenario. In the first scenario, the rates are increased by 2.45 percent annually beginning in year two. This resulted in a 16 percent increase from year one to year seven. In the last scenario, the rates increase is not implemented until year seven. This resulted in a 54 percent increase from year one to year seven. The total amount of dollars collected is the same for each scenario. However, the rates are substantially higher in year seven if the increase is delayed.

TABLE 7: Inflationary Impact on Rates

Assume \$126.76 Base Monthly Rate with an annual 2.45% Compounded Increase								
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Accumulated Dollars Collected
Implementing Rate Increase Immediately - 16% Increase From Year 1 to Year 7								
Rate	\$ 126.76	\$ 129.87	\$ 133.05	\$ 136.31	\$ 139.65	\$ 143.07	\$ 146.57	\$ 955.27
Waiting 4 Years to Increase Rates - 21.16% From Year 1 to Year 7								
Rate	\$ 126.76	\$ 126.76	\$ 126.76	\$ 126.76	\$ 145.54	\$ 149.11	\$ 153.58	\$ 955.27
Waiting 5 Years to Increase Rates - 28.34% From Year 1 to Year 7								
Rate	\$ 126.76	\$ 126.76	\$ 126.76	\$ 126.76	\$ 126.76	\$ 158.79	\$ 162.68	\$ 955.27
Waiting 6 Years to Increase Rates - 54% From Year 1 to Year 7								
Rate	\$ 126.76	\$ 126.76	\$ 126.76	\$ 126.76	\$ 126.76	\$ 126.76	\$ 194.71	\$ 955.27

PART VIII: PROPOSITION 218

California approved Proposition 218 in 1996 requiring agencies to adopt property fees and charges in accordance with a defined public process found in article XIII D or by associated court decision. Water and wastewater rates are user fees under the definition and must meet the following requirements:

- Revenues derived from the fee or charge must not exceed the funds required to provide the property-related service.
- Revenue from the fee or charge must not be used for any purpose other than that for which the fee or charge is imposed.
- No fee or charge may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in substantially the same manner as it is to property owners.
- The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- The fee or charge may not be imposed for service, unless the service is actually used by, or immediately available to, the owner of the property in question.

Written notice should be given to both the record owners and customers within the area subject to the fee or charge. The notice shall include the following:

- The formula or schedule of charges by which the property owner or customer can easily calculate their own potential charge.
- The basis upon which the amount of the proposed fee or charge is to be imposed on each parcel. An explanation of the costs which the proposed fee will cover and how the costs are allocated among property owners.
- Date, time and location of a public hearing on the rate adjustment. The public hearing must occur 45 or more days after the mailing of the notice.

California's Proposition 218 provides that a customer of the District or owner of record of a parcel or parcels subject to the proposed rate increases may submit a protest against any or all of the proposed rate increases by filing a written protest with the District at or before the time the public hearing has concluded. Only one protest per parcel is counted. If written protests are filed by a majority of the affected parcels, the proposed rate increases will not be imposed.

PART IX: CONCLUSIONS AND RECOMMENDATIONS

9.1 Key points to remember with any rate adjustment:

- 9.1.1** Successful utilities are those that strive to be transparent. In day-to-day operations, the City should strive to promote its services (highlights and the low

points), and continuously educate residents on why it is necessary to raise and adjust rates.

- 9.1.2** In order to achieve and maintain long-term viability, wastewater systems should review rates annually, or no less than a minimum of every two years.
- 9.1.3** The City should raise rates immediately to provide sufficient revenues for funding operations, adequately fund reserves and ensure continued service that promotes community health and safety and adheres to governmental regulations.
- 9.1.4** The City should establish policies for reserve accounts as recommended in this analysis and note the individual reserve accounts in the accounting records. While a separate bank account is not necessary for the individual reserves, they should be noted and tracked individually.

PART X: RCAC OBSERVATIONS

- 10.1** In working with City management, RCAC observed a high level of commitment toward providing the best possible services to the community at the most affordable rates.
 - 10.1.1** The City operates in a discernibly professional and organized manner.
 - 10.1.2** All requested documents were readily available for review.
 - 10.1.3** Short-term and long-term planning regarding sustainability of the utility was evident.
 - 10.1.4** Budgets were well thought out and transparent.
 - 10.1.5** The City reviews rates annually when budgets are prepared.
 - 10.1.6** The City has established reserve funds for operations and emergencies and has a significant amount of the CIP reserves funded.
 - 10.1.7** The City maintains a schedule of projected equipment repairs and maintenance, an essential part of extending the life of the equipment.

LOCATION MAP



City of Colfax

City Council

Resolution № 42-2018

ADOPTING THE CITY OF COLFAX WASTEWATER RATE STUDY AND ESTABLISHING SEWER SERVICE CHARGES FOR FISCAL YEARS 2018/19, 2019/20, 2020/21, 2021/22, AND 2022/23

WHEREAS, the rates required to be charged to each user of City sewer service for City capital and operating and maintenance purposes in order to raise sufficient revenue for the City to provide sewer service will be referred to herein as the City's Sewer Service Charges; and

WHEREAS, the City prepared and filed with the City Clerk a written report containing a description of each and every parcel of real property receiving sewer service from the City and the amount or rate of the City's Sewer Service Charges for each City customer for the forthcoming fiscal years; and

WHEREAS, the City Clerk has duly and timely given notice of filing of said written report and the City's intention to collect said Sewer Service Charges and of the time and place of hearing thereon ; and

WHEREAS, on June 13, 2018, after due and proper notice was given, the City Council conducted a public hearing at which it heard all oral comments in favor of and in opposition to, and received and tallied all written protests in opposition to the City's proposed Sewer Service Charges for City Fiscal Years 2018/19 through 2022/2023, inclusive; and

WHEREAS, the City received only 21 written protests in opposition to the City's proposed Sewer Service Charges for City Fiscal Years 2018/2019 through 2022/2023, inclusive, which number did not constitute a majority of the City's customers eligible to submit written protests; and

WHEREAS, the City Council hereby makes the following findings and determinations pursuant to the California Environmental Quality Act, Public Resources Code §21000 et seq ("CEQA") and the Guidelines for Implementation of the California Environmental Quality Act published by the State of California Office of Planning and Research ("CEQA Guideline"):

1. Adopting this Resolution and the City's Sewer Service Charges does not constitute a "Project" as that term is defined by or used in CEQA, the CEQA Guidelines or any court or attorney general opinion construing the same, that the provisions of CEQA and the CEQA Guidelines are not applicable.

2. Adopting this Resolution and the City's Sewer Service Charges is covered, if at all, by Public Resources Code §21080(b)(8) and Section 15273 of the CEQA Guidelines which provide that CEQA does not apply to the establishment, modification, structuring,

restructuring or approval of rates, tolls, fares or other charges by public agencies which the public agency finds are for the purpose (1) meeting operating expenses, including employee wage rates and fringe benefits, (2) purchasing or leasing supplies, equipment or materials, (3) meeting financial reserve needs and requirements, or (4) obtaining funds for capital projects necessary to maintain service within existing service areas. Adopting this Resolution and the City's Sewer Service Charges is for the purpose of (1) meeting operating expenses, including employee wage rates and benefits, (2) purchasing or leasing supplies, equipment or materials, (3) meeting financial reserve needs and requirements, or (4) obtaining funds for capital projects necessary to maintain service within existing service areas.

3. Adopting this Resolution and the Sewer Service Charges fall within the "common sense" CEQA exemption provided in 14 CCR 15061(b)(3) in that CEQA applies only to projects which have the potential for causing a significant effect on the environment and, where it can be seen with certainty that there is no possibility that the action may have a significant effect on the environment, the action is not subject to CEQA. In this case, it can be seen with certainty that that there is no possibility that the proposed rate adjustment may have a significant effect on the environment.

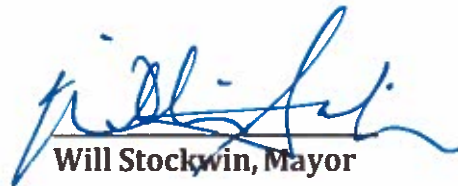
NOW, THEREFORE, BE IT RESOLVED AND THE CITY COUNCIL OF THE CITY OF COLFAX HEREBY FINDS, DETERMINES AND RESOLVES:

1. The City has adopted an approved revenue program as the basis for instituting the Sewer Service Charges to finance operation and maintenance costs, including replacement and certain capital costs as necessary to operate, maintain and repair the City's sewer system.
2. The City has adopted Colfax Municipal Code Chapter 13.08, which provides for the implementation of Sewer Service Charges and their collection.
3. The City Council, after due notice, public hearing and protests heard and received in an open and public meeting hereby finds that the City of Colfax Wastewater Rate Study prepared by Rural Community Assistance Corporation (RCAC) relating to the Sewer Service Charges for Fiscal Years 2018/19 through 2022/2023 are fair and correctly calculated and are hereby adopted and approved.
4. The attached Sewer Service Charges for Fiscal Years 2018/19, 2019/20, 2020/21, 2021/22 and 2022/23, as attached to this Resolution, accurately reflect the reasonable costs of providing the services for which the fees are charged.
5. The Sewer Service Charges adopted by this Resolution are for the purpose of:
 - meeting operational and maintenance expenses, including employee wage rates and benefits,
 - purchasing or leasing supplies, equipment or material,
 - meeting financial reserve needs and requirements, and
 - obtaining funds for capital projects necessary to maintain service within existing areas.

6. All notices, hearings and public data required by law have been duly given, provided and held.
7. The Sewer Service Charges for the various properties of City sewer service customers receiving the benefits from the City, by categories of users, to be applied and collected attached hereto and incorporated herein and are hereby adopted.
8. The above recitals are true and correct statements of fact and are incorporated into this Resolution by this reference.
9. The City Clerk is hereby authorized to file a Notice of Exemption from CEQA with the County Clerk of the County of Placer, California regarding this Resolution and the Sewer Service Charges hereby adopted.

PASSED APPROVED AND ADOPTED at the Regular Meeting of the City Council of the City of Colfax held on the 13th day of June, 2018 by the following vote:

AYES:	Douglass, Harvey, Mendoza, Stockwin
NOES:	None
ABSTAIN:	None
ABSENT:	None



Will Stockwin, Mayor

ATTEST:



Lorraine Cassidy, City Clerk