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Item # 7A

**To: Lemoore City Council**  
**From: JP Prichard, Administrative Analyst**  
**Date: December 13, 2007**  
**Subject: Public Hearing – Water Rate Increase**

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## STAFF REPORT

### **Background:**

Due to changes in State regulations, the City of Lemoore faces major changes to its water supply infrastructure. Effectively planning for these changes requires not only meeting current regulatory requirements and anticipating future capacity needs, but also taking steps to ensure that such projects can be funded as needed.

Currently, the City water supply faces the challenge of becoming compliant with respect to the levels of arsenic that can be found in our drinking water. Careful planning and estimates have been provided by our City Engineer which we believe represent the best course for bringing the City's water supply into compliance.

Costs for arsenic-related water improvements are estimated to be approximately \$6.07M. This does not include approximately \$1M in sunk costs already spent for Well #6. Anticipated funding from the Department of Water Resources in the form of a low-interest \$5M loan is expected to be available for the project.

It was in 1998 when the City last set water rates; inflation has caused water fund expenses to exceed current revenue. Adjusting water rates to meet anticipated expenses, including debt service, would result in an approximately 35% increase.

Cities typically are forced to debt finance improvements of this size and scope, which almost invariably require an increase in the utility rates for residents receiving services. Existing utility rates are already "used up" for maintenance and operations, as well as for previous improvements. The City of Lemoore is currently paying for bonds used for previous water system capital improvements. Current fund balances alone are not sufficient to pay for needed improvements.

Attached are: A) an estimate of the impact of current rate increases on future needs, and B) a comparison of current and proposed rates against other local jurisdictions.

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Any utility rate increases are subject to Public Hearing requirements of Prop 218. All parcel owners and ratepayers have been noticed by mail, and the hearing was properly noticed in the Lemoore Advance as well. Should the majority of property owners submit objection to the proposed increases in writing, Council will be unable to increase rates at this time. The City Clerk will make available current information regarding the number of protests received at the time of the hearing.

**Budget Impact:**

While revenue from water system user fees will vary dependant on number of ratepayers and amount of usage, it can be assumed that water system revenue will increase by 35-37% in future years.

**Recommendation:**

Staff recommends holding a protest hearing in keeping with the requirements of Proposition 218. Further, if a majority protest does not exist, the passage of Resolution 2007-51 will allow for Council to raise water user rates as needed.