

Mayor
John Murray
Mayor Pro Tem
John Grego
Councilmember
Mary Hornsby
Ed Martin
Willard Rodarmel



**Public Works
Department**

711 Cinnamon Drive
Lemoore • CA 93245
Phone • (559) 924-6735
FAX • (559) 924-6708

Item # _____

To: Lemoore City Council
From: JP Prichard, Administrative Analyst
Date: March 16, 2007
Subject: Discussion – Wastewater & Water Utility Rates

DISCUSSION ITEM

Background:

Due to changes in State regulations, the City of Lemoore faces major changes to both its water supply infrastructure and wastewater treatment and disposal 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. Testing is now occurring to determine what portion, if any, of our existing wells can be retrofitted to reduce arsenic, and estimates have been provided by our City Engineer. Estimated costs for these improvements range between \$12M and \$23M. The State has provided the City an extension to its 2006 deadline for meeting arsenic requirements, but that extension will end January 1, 2009.

Additionally, the City of Lemoore is no longer in compliance with State regulations with respect to the wastewater effluent being discharged into a “waterway of the state”. The City faces the dual challenge of needing to treat discharged wastewater beyond current treatment levels, but also needing to find a more suitable location to discharge the treated effluent. While the City is currently anticipating Economic Development Administration funding to study possible solutions to the discharge location challenge, building a suitable wastewater treatment plant will be a fiscally daunting task, with costs ranging as high as \$15M per million gallons per day capacity. The total cost estimate would be approximately \$90M, based on 6M gal/day.

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 capital improvements in both of these service areas, for example. Development impact fees have also been examined as potential sources of funding for improvements. Current fund balances alone are not sufficient to pay for needed improvements.

Increasing rates to pay for current or future improvements can be challenging as well. Proposition 218 has protest hearing requirements that could potentially affect the City's ability to collect higher utility rates. Also, raising utility rates exclusively for current needs may make it difficult in the future to raise rates once future improvements are required.

Please note that while water and wastewater rates are independent of one another, they are combined, along with refuse rates, in a single monthly invoice sent to residences. Therefore, increasing water and wastewater at separate times may be seen as multiple increases to the same resident's utility bill. For example, while increasing the rates for one particular service to meet a legitimate need at any given point in time may be met with wide public approval, an increase to meet current needs followed by an increase for future needs for water and wastewater separately would be viewed as multiple, and unpopular, increases to the same utility bill.

Budget Impact:

None at this time.

Recommendation:

Staff seeks Council's direction for how to proceed with acquiring funding for this project. Would the Council prefer to consider multiple utility rate changes, if needed, as needed? Should utility rates be set once to ensure that funding for current and future projects? Would the Council consider rates that allow for long-term savings, to be used as future projects are needed?