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Study Session

Item #   3  

**To: Lemoore City Council**  
**From: JP Prichard, Administrative Analyst**  
**Date: September 14, 2007**  
**Subject: Discussion –Water & Sewer Rates**

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**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. 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. The State has provided the City an extension to its 2006 deadline for meeting arsenic requirements, but that extension will end January 1, 2009 so it is critical that these upgrades begin as soon as possible.

Costs for arsenic-related water improvements are estimated to be approximately \$5.01M. 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 loan-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.

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 using 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 higher than \$10M per million gallons per day capacity. This

does not include more than \$4M needed for the land for the WWTP and effluent line to reach the site. The total cost estimate, with financing, would be approximately \$35.8M, based on 3M gal/day capacity. The new wastewater treatment plant is estimated to be needed by 2013.

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 these service areas. Current fund balances alone are not sufficient to pay for needed improvements.

Current operation and maintenance needs could be met with an approximately 6% sewer rate increase. However, a sewer rate increase that would affect the financing of the wastewater treatment plant would need to be significant, as it will cost an additional \$24/mth per residential equivalent in 2013. Attached is an estimate of the impact of current rate increases on future needs.

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.

Staff will present a detailed presentation for Council discussion.

**Budget Impact:**

None at this time.

**Recommendation:**

Staff seeks Council’s direction for what level new rates should be set at for the future, and to what degree (if any) pre-funding for the WWTP should occur. Dates for public hearings for any utility rate increase would need to be set as well.