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**Office of the
City Manager**

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Staff Report

ITEM NO. 2-3

To: Lemoore City Council
From: Ron Hoggard, Interim City Manager *RH*
Date: May 8, 2015 **Meeting Date:** May 19, 2015
Subject: Budget Adjustment – Water Rate Study

Discussion:

The current widespread drought has had a significant impact on surface water storage, ground water well life and productivity, hydroelectric power production capacity and, in real terms, the whole San Joaquin Valley economy. Looking forward, the type of agricultural plantings and traditional watering options are being challenged and reviewed.

Cities, through the Governor's Executive Order, are tasked to reduce water usage by an average of 25%. Many Valley towns are hit harder. Lemoore is currently looking at a 32% reduction from the 2013 level. That translates to an additional 23% water production reduction on top of the 9% reduction achieved in 2014.

As the groundwater in the San Joaquin Valley has been impacted by prolonged drought, so too are the grounds, well casings, bowls, and pumping depths. These changes can cause water quality issues, additional treatment considerations, storage, and shorter productive well life concerns that have to be addressed. Commercial and domestic (non landscaping) water reductions reduce the amount of used water that goes on and is used for agricultural uses. This in turn causes more water to be pumped by agriculture and/or requires more land to be taken out of production.

While there can be some reduction in costs associated with pumping less water, the factors causing the need to conserve water require the outlay of large amounts of capital to counter the effects receding water tables, changes in water quality, and ground subsidence. These include costly repairs to wells, dropping bowls, changes in water treatment, additional storage to hold and/or blend water, more frequent need to replace wells.

In light of these and perhaps other factors, it is incumbent upon the City of Lemoore to examine its water rates going forward, just as many other communities are doing to stabilize this enterprise fund. When we look at the budget in two weeks the City Council can see, firsthand, that the water fund revenues are down in the current year, and if the City meets the reduction requirements placed on it by the Governor, then the fund will be deeply impacted.

When the water rates were last studied in 2007, it was contemplated that they would be reviewed in five years (2012). While this type of review may not be popular with all persons in the community, providing adequate supply and quality of water is a core function of our community. For this purpose I have included a water rate study proposal from Quad Knopf. The cost of the first phase of the study is \$15,000 and should take approximately 90 days to complete. Any adjustment in rates that might arise out of the study would take the better part of the year to put in place.

Additionally, I have included the updated April 28, 2015 “Fact Sheet” from the State Water Resources Control Board.

Budget Impact:

A budget adjustment to the Water Fund FY 14/15 (4250-4310) in the amount of \$15,000.

Recommendation:

This the City Council, by motion, authorize the Water Rate Study (Phase I) in the amount of \$15,000.



Quad Knopf

May 5, 2015

Ron Hoggard, City Manager
City of Lemoore
119 Fox Street
Lemoore, CA 93245

Subject: Water rate study, proposal for

Dear Ron:

We are pleased to provide to you the attached proposal for your and the City Council's consideration.

Such a rate study, already appropriate since the City last adjusted water rates in 2007, is now even more essential in view of the drought-related State inundate to reduce water usage.

Quad Knopf is qualified to undertake the study. The firm's staff has experience in completing such studies (see typical studies list, attached). The staff is familiar with the City's water system and enjoys an ongoing working relationship with key study-related City personnel – the City's Finance Director, interim Public Works Director and Water Superintendent.

An essential initial component of the rate study process is, as a first step, an analysis of projected water system capital improvement needs and the Council-desired financing program therefore, anticipated operating costs, and existing finds and projected revenues. This portion of the study, as well as the rate study proper, will be based on American Water Works Association (AWWA) guidelines and take into account Proposition 218 constraints, the California regulatory climate and all portions of water system-related Court decisions.

Because of the uncertainties still inherent in the required implementation of the state drought water, it is proposed that study authorization be in two steps: one, an initial authorization for not to exceed \$15,000 in time-and-materials costs to evaluate water use regulation impacts, gather and assess existing water cost and funding data, and scope study needs, and two, a second authorization based on the estimated cost for study completion and assistance in rate adoption.

It is projected, barring any significant change in currently proposed drought regulations, that the total study can be completed in draft form for City review in approximately 90 days from contact authorization. It should, however, be anticipated that staff and Council review, and changes based on that review, public notification and support procedures, Proposition 218 compliance,

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and rate ordinance adoption will result in eight to nine months before any rate revisions will be in effect.

We look forward to working with the City staff and City Council on this project so critical to continuing to provide Lemoore's citizens with an adequate, safe, and healthy water supply.

Sincerely,



Joel R. Joyner, PE, PLS
City Engineer



Steve Brandt, AICP, LEED AP
City Planning Consultant

cc: Cheryl Silva, Finance Director
Frank Rivera, Public Works Director
Richard Pereira, Water Superintendent

HAT/vlw/wbe

**Typical Water Rate Studies
Prepared by Quad Knopf**

Hilmar County Water District

Delhi County Water District

Merquin County Water District

Planada County Water District

Le Grand Community Services District

Winton Sanitary District

South Dos Palos County Water District

City of Huron

City of Farmersville (in progress)

Proposal to the City of Lemoore for a Water Rate Study

Quad Knopf will complete such a study, and assist in preparing a rate adoption ordinance, assist with Proposition 218 procedures and provide such additional professional services essential to the timely adoption by the City of updated and revised water rates.

The services to be provided shall be billed on a time-and-materials basis in accord with the attached fee schedule. They shall be undertaken on the following bases:

Task 1:

- a. Evaluate State drought regulation impacts on the City's existing rate structure.
- b. Review projected water system capital improvements budgeting and make recommendations.
- c. Assess City staff-projected operating costs for five years.
- d. Tabulate and review City staff estimates of existing water system fund balances and projected income.
- e. Scope study needs; submit an interim written report.

Task 2:

- a. Obtain City approval of projected capital improvements and funding methodology.
- b. Based on 1 (c) and 2 (a) develop a complete cost-of-services analyses for a five year period.
- c. Tabulate and summarize non-rate revenues for five years.
- d. Develop, and fully substantiate rate recommendations.
- e. Submit a draft rate study to the City for review.
- f. Make corrections; submit final report for Council and public review, including a draft rate revision ordinance.
- g. Assist City staff and City Council with Proposition 218 procedures and rate ordinance adoption.

It is estimated that Task 1 will be completed within 40 days after contract authorization and at a time and materials cost of not to exceed 15,000 without prior City approval.

It is estimated that Task 2 (1) through Task 2 (e) will be completed within 60 days after the completion of Task 1 and upon the authorization of such services and their cost by Work Order.

It is proposed that a contract incorporating these terms be authorized.

- a. Authorize the work to be completed in Task 1.
- b. Authorize Task 2 work only to be undertaken and completed when a Work Order including a cost estimate for services is provided to and agreed by the City.

All the services to be provided in accord with this proposal will be provided by Quad Knopf personnel familiar with the City of Lemoore's water system or having experience in rate study projects.