

**ITEM: FIVE-YEAR WATER AND SEWER RATE PLAN REVIEW**

**RECOMMENDATION: Council to Consider a Resolution Postponing the Scheduled Rate Increase for both the Water and Wastewater Funds for 2020**

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**SUMMARY:**

In January 2016, a water and wastewater (sewer) rate study proposing a five-year rate increase for years 2016 through 2020 was approved by Council. Rate increases took effect in March 2016 and were schedule to escalate automatically every January starting in 2017 through 2020. Staff reviews the performance of the Water and Sewer Funds annually to assess the funds' fiscal health.

The City has followed the approved Water and Sewer Fund rate increase schedule for the first three (3) years for Water and four (4) years for Sewer. The next scheduled rate increase is programmed for January 2020.

The ability to keep rates low is at the forefront of every action that staff has control over. Over the last several years, staff has worked diligently to reduce expenses and make informed policy decision for both the water and the sewer funds to keep rate increases to a minimum. The following are some cost saving policy decisions and expense reductions that the City has implemented:

- **Sustainable Groundwater Management Act (SGMA)** - Water Fund cost savings emerged in the policy decisions surrounding the City's ability to negotiate its destiny in the Sustainable Groundwater Management Act (SGMA). The City overlies two groundwater subbasins of the San Joaquin Valley Basin designated by the Department of Water Resources (DWR); the Tracy Subbasin, and the Eastern San Joaquin Subbasin (ESJS). The City successfully lobbied for a Basin Boundary Modification Request to Align the Eastern San Joaquin and Tracy Subbasins with the City's Limit. This basin boundary modification allowed the City of Lathrop to disassociate with the overdrawn ESJS and allowed the City to avoid having to do costly capital expenditures that would have been required had the City still been a participating agency in the ESJS.
- **Water Meter Reads** - The decision was made to start upgrading the meter reading system from a labor-intensive manual process to the ability to remotely read meters digitally. This has improved efficiencies and allowed staff to spend time more effectively and efficiently. All new development, will install the new remote read meters, and the City will begin replacing older meters in the City beginning in 2020.

- **Economy of Scale** - The Crossroads Wastewater Treatment Facility (WWTF) was nearing the end of its service life and staff proposed/ council adopted the Crossroads decommissioning project. This action permanently shut down the Crossroads Wastewater Treatment Facility and sent its influent flow to the adjacent, existing Lathrop Consolidated Treatment Facility (LCTF). Combining the two facilities into one has broadened and diversified the rate base for those customers located in the Crossroads industrial area as well as those businesses and residents located West of I-5.
- **Surface Water Discharge Project** - Another example of Sewer Fund savings materializing over fiscally sound policy making has recently been approved at the October 14, 2019 Council meeting. Through the creation of CIP WW 20-17 Surface Water Discharge Project. This Project lays the ground work for the City to construct the necessary infrastructure needed to obtain a National Pollutant Discharge Elimination System (NPDES) permit from the Central Valley Regional Water Quality Control Board (RWQCB) to allow discharge of tertiary treated effluent from the Lathrop CTF to the San Joaquín River. The ability to dispose of effluent from the LCTF to surface water is necessary to minimize future rate increases and support growth as the City's wastewater flows increase and land becomes unavailable for the storage and disposal of recycled water.

Value engineered capital improvements paired with fiscally sound policy making decisions has materialized in the ability to keep rates flat in both the Water and Sewer Funds. Staff recommends postponing the approved water and sewer rate increases scheduled for January 2020. A review will be conducted in the Fall of 2020 to evaluate the Water and Sewer fund's fiscal performance to determine if additional rate increases are necessary.

#### **BACKGROUND:**

Regulations of Proposition 218, the "Right to Vote on Taxes Act" require Municipalities to increase utility rates through a specific set of guidelines. This includes preparing rate studies, providing notification to customers of the proposed rate increases, allowing for protests, holding a public hearing, and having a majority council approval. In February 2014, the City entered into a contract with Municipal Financial Services (MFS) to perform a water and sewer rate study for the next five-year period (2016-2020).

In January 2016, MFS prepared a water and sewer rate study, proposing rate increases for years 2016 through 2020. The rate study showed expenses increase in both the water and sewer funds, yet revenues continue to decrease due to diminishing consumption based on mandated water conservation measures. Council adopted the rate increases for years 2016 through 2020 beginning in March 2016 and escalating every January thereafter.

**CITY MANAGER'S REPORT  
DECEMBER 9, 2019 CITY COUNCIL REGULAR MEETING  
WATER AND SEWER RATE PLAN REVIEW**

Staff monitors the performance of the Water and Sewer Funds annually to assess the funds' fiscal health. Due to the importance of utility rates and the sensitivity of the impacts that increases may have on rate payers, staff is recommending the following actions. The City has followed the approved Water and Sewer Fund rate increase schedule for the first three (3) years for Water and four (4) years for Sewer. The next scheduled rate increase is programmed for January 2020 as shown on the table below.

**PROP 218 APPROVED UTILITY RATES**

YEAR	East Lathrop Monthly Bill Increase from Previous Year			West of I-5 Monthly Bill Increase from Previous Year		
	Water	Sewer	Total	Water	Sewer	Total
MARCH 2016	\$5	\$3	\$112	\$5	\$6	\$106
JANUARY 2017	\$6	\$4	\$122	\$6	\$6	\$118
JANUARY 2018	\$6	\$4	\$132	\$6	\$7	\$131
JANUARY 2019	\$8	\$4	\$144	\$8	\$5	\$144
JANUARY 2020	\$8	\$4	\$156	\$8	\$3	\$155

**COUNCIL APPROVED / STAFF PROPOSED UTILITY RATES**

YEAR	East Lathrop Monthly Bill Increase from Previous Year			West of I-5 Monthly Bill Increase from Previous Year		
	Water	Sewer	Total	Water	Sewer	Total
MARCH 2016 (APPROVED)	\$5	\$3	\$112	\$5	\$6	\$106
JANUARY 2017 (APPROVED)	\$6	\$4	\$122	\$6	\$6	\$118
JANUARY 2018 (APPROVED)	\$6	\$4	\$132	\$6	\$7	\$131
JANUARY 2019 (APPROVED)	\$0	\$4	\$136	\$0	\$5	\$136
JANUARY 2020 (PROPOSED)	\$0	\$0	\$136	\$0	\$0	\$136

During the 2019 annual review, staff determined that the Sewer Fund revenues were trending at levels equal to the rate study's projection. Sewer rates are based on a flat rate rather than unit consumption and staff will continue to monitor increased development activity that contributes to a larger rate base for the Sewer Fund. Therefore, staff is recommending to postpone the previously approved rate increase of \$4.

In contrast, the Water Fund was outperforming the rate study's projections mainly due to increased development activity and the lifting of drought restrictions. The study conducted in 2015 took a conservative approach to projecting the City's water consumption since the region had strict drought conservation mandates. Since 2015, drought conservation mandates have been lifted and water usage has returned to a new normal. Normalization in water consumption equates to the Water Fund meeting revenue requirements without the need for additional rate increases at this time.

Close monitoring of fiscal, usage and policy trends for the Water Fund will be kept to determine the need to implement additional rate increases in the future.

It is important to note that rates are directly impacted by short term and long term outside influences, such as changes in Federal or State regulations and declining revenues due to mandatory water conservation. In the City's case, both of these factors directly impact the water and sewer enterprise funds operational costs. In the short term, revenues could drastically decline if drought conditions appear due to conservation measures. In the long term, State and Federal regulations, such as sustainable groundwater legislation and hazardous materials disposal (arsenic) could increase expenses to the water and sewer funds.

**REASON FOR RECOMMENDATION:**

Postponing the 2020 water and sewer rate increases will have an economic benefit to our residents while still supporting each fund's ongoing operations and debt obligations.

**FISCAL IMPACT:**

Postponing the scheduled rate increase for the Water and Sewer fund will be offset by revenue generated through the City's growing customer base. A review will be conducted in the Fall of 2020 to evaluate the Water and Sewer Fund's fiscal performance, to determine if future rate increases are warranted.

**ATTACHMENTS:**

- A. Resolution Postponing the 2020 Rate Increases for the Water and Sewer Fund Approved by Council on January 11, 2016.

**CITY MANAGER'S REPORT  
DECEMBER 9, 2019 CITY COUNCIL REGULAR MEETING  
WATER AND SEWER RATE PLAN REVIEW**

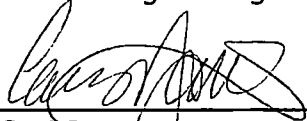
**APPROVALS:**



Thomas Hedegard  
Accounting Manager

11/20/19

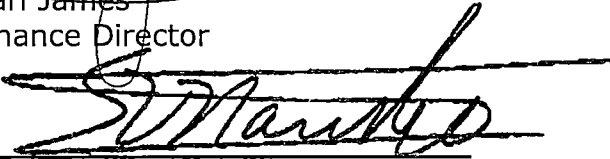
Date



Cari James  
Finance Director

11/26/19

Date



Salvador Navarrete  
City Attorney

11/27/19

Date



for Stephen Salvatore  
City Manager

12/4/19

Date

**RESOLUTION NO. 19-\_\_\_\_\_**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LATHROP  
POSTPONING THE CITY'S WATER AND SEWER RATE INCREASE FOR 2020**

**WHEREAS**, Chapters 13.04 and 13.16 of Title 13 of the Lathrop Municipal Code permit the City Council of the City of Lathrop to set the City's water and sewer charges; and

**WHEREAS**, pursuant to Article XIID, Section 6 of California Constitution and applicable state law, notice of the public hearing was mailed to each customer and property owner affected by the proposed increases; and

**WHEREAS**, on January 11, 2016, the City Council held a full and fair public hearing and approved the Five-Year Water and Sewer Rate increases effective March 2016 and escalating every January thereafter through 2020; and

**WHEREAS**, a full fiscal review of the Water and Sewer Funds was conducted at the end of fiscal year 2018/19 concluding the Water and Sewer fund's fiscal performance met projections;

**NOW, THEREFORE, BE IT RESOLVED** that the City Council of Lathrop does hereby postpone the Water Rate increase scheduled for 2020; and

**BE IT FURTHER RESOLVED** that the City Council of Lathrop does hereby postpone the Sewer Rate increase scheduled for 2020;

**PASSED AND ADOPTED** at a regular meeting of the City Council of the City of Lathrop on the 9<sup>th</sup> day of December, 2019, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

ATTEST:

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SONNY DHALIWAL, MAYOR

APPROVED AS TO FORM:



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Teresa Vargas, City Clerk

\_\_\_\_\_  
Salvador Navarrete, City Attorney