



CITY OF LODI

COUNCIL COMMUNICATION

AGENDA TITLE: Water Rate Analysis

MEETING DATE: April 5, 1995

PREPARED BY: Public Works Director

RECOMMENDED ACTION: That the City Council review the courses of action on implementing a water rate increase and provide the appropriate direction to staff. Staff recommends Option A be selected.

BACKGROUND INFORMATION: At its March 15, 1995 meeting, the City Council set a public hearing for April 19, 1995 to consider an increase in water rates to be effective June 1, 1995. More details of the proposed rate increase were presented at the March 21, 1995

Shirtsleeve Session. In addition, future rate studies and increases were discussed. Toward the end of the Shirtsleeve Session, the discussion lead to some options suggesting that possibly the public hearing should be canceled. The options involve two main issues: 1) implementing an "interim" rate increase before doing a detailed rate analysis, and, 2) whether the analysis should be done by an outside professional or by City staff.

On the first issue, it is certain we are looking at overall revenue needs that cannot be raised in one rate adjustment. Comments received from large industrial customers have supported planned, staged rate increases rather than fewer large increases. Therefore, staff is recommending the series of increases be started now.

On the second issue, some of the items that should be considered in a rate analysis are listed in Exhibit A. For comparison purposes, an outside analysis would cost up to \$15,000 and would entail roughly 160 hours of professional services and at least 40 hours of staff time over the course of two months. An in-house study would take 300 to 350 hours of staff time, although this is difficult to estimate since Public Works staff has not done this type of study before. Also, since City staff time is not available in week long blocks due to other on-going tasks, the overall duration of the analysis would be longer and the work accomplished less efficiently. This will also delay action on other projects currently underway (see Exhibit B).

The two issues combine to make four options. They are:

- A. Proceed with the public hearing on the recommended interim rate increase for June 1, 1995 and plan to have a rate analysis performed by a qualified professional firm for implementation in 1996.

APPROVED: _____

THOMAS A. PETERSON
City Manager



recycled paper

- *Under this option, the only immediate Council action required will be to conduct the public hearing on April 19. The Council could then adopt the rate increase or take some other action. If the Council does not provide other direction, staff will include the necessary funds for a rate analysis in the fiscal year 1995/96 budget. A recommendation as to the firm to do the work would be presented in summer 1995.*
- B. Proceed with the public hearing on the recommended interim rate increase and direct staff to perform a rate analysis for implementation in 1996.
- *This is the same as Option A except the rate analysis would be done in-house.*
 - *This option will take significantly more time to implement and would not have the depth and quality of analysis that could be provided by an outside professional.*
 - *The in-house analysis will involve the Public Works and Finance departments and the City Manager's office (including a new City Manager).*
- C. Cancel the public hearing and plan to have a rate analysis performed by a qualified professional firm for implementation in late 1995.
- *Under this option, we should start on the rate analysis as soon as possible in order to maintain the financial health of the water utility. Using the recommended flat rate increase of 22%, a 6-month delay means approximately \$250,000 in lost revenue.*
 - *The rate analysis will be complicated by the issue of the inappropriate water allowance in the metered rate if it is not addressed now.*
 - *The rate increases coming out of the analysis will be somewhat higher and/or more prolonged due to the time delay between June 1, 1995 and final action on the analysis.*
- D. Cancel the public hearing and direct staff to perform a rate analysis for implementation some time in late 1995 or early 1996.
- *This Option has all the disadvantages of both Options B and C.*
 - *Staff sees no advantages in this Option.*

FUNDING: None required at this time.



Jack L. Ronsko
Public Works Director

Prepared by Richard C. Prima, Jr., City Engineer

JLR/RCP/lm

cc: Water/Wastewater Superintendent
City Engineer

EXHIBIT A

- 1) Revenue requirements - cash needs approach vs. Utility approach
- 2) Revenue requirement projections
- 3) In-lieu tax policy
- 4) Miscellaneous operating revenue projections
- 5) Non-operating revenue projections
- 6) Cost allocation - base/extra capacity method vs. commodity-demand method
- 7) Current and short-term financial conditions of water utility
- 8) Future cost projections - operations and maintenance, capital, other costs
- 9) Inside City/outside City service cost allocation
- 10) Establish customer classes
- 11) Special customer classes - fire service, wholesale, irrigation, other
- 12) Units of service - meter size, demand rates
- 13) Establish unit costs
- 14) Distribute costs to customer classes
- 15) Block rates - single vs. declining vs. inverted
- 16) Rate adjustment options - customer acceptance, revenue lag
- 17) Seasonal, peak period rates
- 18) Conservation issues
- 19) Flat rates - equity with metered rates
- 20) Fire service rates
- 21) Lifeline rates
- 22) Connection charges
- 23) Miscellaneous service charges such as turn on/off, construction water
- 24) Unauthorized water use charges
- 25) Cross connection/backflow device charges
- 26) Develop computer rate model to simplify future updates
- 27) Rate options/analysis and projections
- 28) Public education and input process - throughout above steps
- 29) Public presentation and Council action

City Engineer 1995 Projects and Tasks

Projects (twelve to fifteen weeks minimum)

- 1) SP Kentucky House Branch abandonment - work with SP
- 2) ISTEPA funding applications, next cycle
- 3) Central City revitalization - assessment district formation, design firm liaison
- 4) Water infrastructure/DBCP/rates presentation
- 5) Development Impact Mitigation Fee update
- 6) Encroachment Permit fees/policies, downtown sidewalk encroachments
- 7) Capital budget for FY 95/97
- 8) Lower Sacramento Road widening - outside engineering firm selection and management
- 9) Highway 12 Widening at Highway 99 - outside engineering firm selection and management
- 10) Water storage tank - outside engineering firm selection and management

Ongoing Tasks (average two to three weeks per month)

- 11) Public Works staff meetings
- 12) Council of Government Technical Advisory Meetings, brief Board representative
- 13) Multimodal Station - work with consultant and liaison to Central City Revitalization Task Force
- 14) Economic Development Meetings
- 15) Review responses to traffic complaints
- 16) Direct and review CIP project designs
- 17) Direct and review development project designs, preliminary requirements and inquiries