



Report and Recommendations
Reviewed and Approved

8.2

City Manager

AGENDA ITEM

City Council

TO: Mayor and City Council Members

FROM: Jessaca Lugo, City Manager

Presentation By: Sanjay Gaur, Principal Consultant/Water Resources Economics

DATE: March 5, 2024

SUBJECT: **CONSIDERATION OF UTILITY RATE STUDY RESULTS FOR THE WATER ENTERPRISE FUND, AND AUTHORIZATION TO PROCEED WITH THE PUBLIC NOTIFICATION AND SETTING A PUBLIC HEARING FOR THE ADOPTION OF NEW WATER UTILITY RATES**

FILE NO.: W-100-755-_____

RECOMMENDATION

Staff recommends that City Council adopt a resolution accepting the results of the Water Utility Rate Study report completed by Water Resources Economics (WRE), direct staff to prepare notification of the proposed rates in accordance with Proposition 218, and to set a public hearing for consideration of adoption of the proposed rates for May 21, 2024.

BACKGROUND

The City is dedicated to maintaining affordable rates by maintaining lean staffing levels and utilizing reserves when necessary. However, similar to other utilities such as wastewater, electricity, and gas, the expenses associated with purchasing, pumping, treating, and delivering water, as well as maintaining the water system infrastructure, are continually increasing. To mitigate the impact on water utility customers, the City has actively pursued grant funding for essential capital projects. Recently, the City secured over \$6.3 million in grants to construct a new water tank at Centimudi. As a result, the City has not increased rates on our customers since 2021, even though inflation has increased 18% during the three-year period. Failure to adjust rates could lead to a deficit in the water fund by 2026, necessitating support from the General Fund, potentially resulting in cuts to vital services like law enforcement and parks.

Over the past few months, the City has conducted a thorough analysis of its water costs, revenues, and rates, engaging independent financial experts for an accurate assessment of

water service costs and their impact on customer bills. Several factors have led to proposed adjustments in water rates and charges:

- Transition from a tiered water rate system to a uniform water rate as authorized by the City Council.
- Increase in the fixed revenue percentage from 46% to 55%.
- Rising unfunded regulatory costs to meet federal and state compliance mandates include, but are not limited to, U.S. Environmental Protection Agency's Lead and Copper Rule Revisions, where water suppliers are required to prepare and maintain an inventory of service line materials by October 16, 2024. Section 7584 of the California Code of Regulations requires that each public water system have a cross-connection control program by July 1, 2025. UCMR5 testing completion by January 2025 with an increase of base unit rates of 5.9% with a nominal increase in standard fees and surcharges on all samples at Pace Analytical Laboratory effective January 1, 2024. General operating supplies such as chemicals, reagents, analytical equipment services, replacement parts, and maintenance services have increased exponentially.
- Planned expenditure of \$11 million over the next five years for capital projects addressing aging infrastructure, tank maintenance, and the addition of a new raw water tank at the City's Water Treatment Plant. Improvements to the City's distribution system include the replacement of water meter transmitters (city-wide), aging pressure-reducing valves, and aging water distribution mains.
- Increased rates and charges are needed to cover the water system's fixed costs, which do not vary with water sales.
- The increased rates fund capital investment projects that maintain system reliability and water quality.
- Establishment of prudent long-term capital reserves aligned with industry standards.
- Escalating wholesale water costs and unpredictable water supply, with the City relying entirely on Shasta Lake water due to the absence of groundwater

The City remains committed to providing reliable and safe drinking water from source to tap. Recognizing that rate increases may pose financial challenges for some customers, various assistance programs such as Lifeline rates, SHHIP, SHARES, and LiHEAP are available. Customers can inquire about these programs by contacting our customer service staff at 530-275-7400.

The City of Shasta Lake (City) is subject to the California Water Code and Proposition 218 and therefore is required by law to charge its customers only what is necessary to provide water services.

Summary of proposed rate increases:

The City's proposed water rate structure includes the following changes:

- Rate revenue adjustments of 25% in FY 2025 and 6% annually from FY 2026 through FY 2029
- Lifeline program discount of \$4 per customer per month, applied on the monthly service charge
- Uniform consumption charges per hcf of water use for all customer classes
- Increasing fixed revenue recovery percentage from 45% to 54% for financial stability

- Drought rates based on six drought stages from the City's Water Shortage Contingency Plan to recover lost revenue during periods of government-mandated usage cutbacks
- Pass-through water supply surcharges to recover additional costs associated with purchasing ACID and McConnell water during constrained water supply years

Monthly Service Charges	Current	Effective 7/1/2024	Effective 7/1/2025	Effective 7/1/2026	Effective 7/1/2027	Effective 7/1/2028
Lifeline	\$31.08	\$40.29	\$42.95	\$45.77	\$48.76	\$51.93
5/8"	\$31.08	\$44.29	\$46.95	\$49.77	\$52.76	\$55.93
1"	\$70.45	\$108.89	\$115.43	\$122.36	\$129.71	\$137.50
1.5"	\$136.06	\$216.55	\$229.55	\$243.33	\$257.93	\$273.41
2"	\$214.79	\$345.75	\$366.50	\$388.49	\$411.80	\$436.51
3"	\$398.52	\$647.23	\$686.07	\$727.24	\$770.88	\$817.14
4"	\$660.97	\$1,077.89	\$1,142.57	\$1,211.13	\$1,283.80	\$1,360.83
6"	\$1,317.12	\$2,154.57	\$2,283.85	\$2,420.89	\$2,566.15	\$2,720.12
8"	\$2,104.51	\$3,446.57	\$3,653.37	\$3,872.58	\$4,104.94	\$4,351.24
10"	\$3,810.49	\$6,245.90	\$6,620.66	\$7,017.90	\$7,438.98	\$7,885.32
12"	\$5,647.71	\$9,260.58	\$9,816.22	\$10,405.20	\$11,029.52	\$11,691.30

Monthly Private Fire Charges	Current	Effective 7/1/2024	Effective 7/1/2025	Effective 7/1/2026	Effective 7/1/2027	Effective 7/1/2028
2" or Less	\$5.53	\$16.93	\$17.95	\$19.03	\$20.18	\$21.40
3" or Less	\$16.06	\$46.17	\$48.95	\$51.89	\$55.01	\$58.32
4" or Less	\$34.22	\$96.60	\$102.40	\$108.55	\$115.07	\$121.98
6" or Less	\$99.42	\$277.62	\$294.28	\$311.94	\$330.66	\$350.50
8" or Less	\$211.86	\$589.82	\$625.21	\$662.73	\$702.50	\$744.65
10" or Less	\$381.00	\$1,059.43	\$1,123.00	\$1,190.38	\$1,261.81	\$1,337.52
12" or Less	\$615.41	\$1,710.30	\$1,812.92	\$1,921.70	\$2,037.01	\$2,159.24

Consumption Charges (\$/hcf)	Current	Effective 7/1/2024	Effective 7/1/2025	Effective 7/1/2026	Effective 7/1/2027	Effective 7/1/2028
Residential						
Tier 1	\$2.44	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Tier 2	\$2.79	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Tier 3	\$3.50	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Lifeline						
Tier 1	\$1.94	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Tier 2	\$2.79	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Tier 3	\$3.50	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Multi-Family & Mobile	\$2.58	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Commercial & Industrial	\$2.63	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Comm. Irr. & Govt.	\$2.86	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Schools	\$3.07	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63

Drought Rates	Effective 7/1/2024	Effective 7/1/2025	Effective 7/1/2026	Effective 7/1/2027	Effective 7/1/2028
Stage 1 - 10% Reduction	\$0.32	\$0.34	\$0.37	\$0.40	\$0.43
Stage 2 - 20% Reduction	\$0.72	\$0.77	\$0.82	\$0.87	\$0.93
Stage 3 - 30% Reduction	\$1.23	\$1.31	\$1.39	\$1.48	\$1.57
Stage 4 - 40% Reduction	\$1.90	\$2.02	\$2.15	\$2.28	\$2.42
Stage 5 - 50% Reduction	\$2.85	\$3.03	\$3.22	\$3.42	\$3.63
Stage 6 - 60% Reduction	\$4.28	\$4.54	\$4.82	\$5.11	\$5.42

Pass-Through Supply Surcharges	Effective 7/1/2024
Constrained Year Water Supply	
McConnell Water Surcharge	\$0.17
ACID Water Surcharge	\$0.24
Combined Surcharge	\$0.41

The Council has the following alternatives to consider:

1. Provide staff with direction to implement the Proposition 218 noticing process for holding a public hearing on May 21, 2024 on recommended changes to the Water utility rates; or
2. Provide alternate direction to staff.

FISCAL IMPACTS:

There is no fiscal impact for moving forward with a Prop 218 Public Hearing. There may be a fiscal impact depending on the outcome of the ballots.

ATTACHMENTS

2024 Water Rate Study (Water Resources Economics)

DISTRIBUTION

City Council
City Attorney
Finance Department

RESOLUTION CC-2024-17

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SHASTA LAKE ACCEPTING THE RESULTS OF THE WATER UTILITY RATE STUDY COMPLETED BY WATER RESOURCES ECONOMICS DIRECT STAFF TO PREPARE PUBLIC NOTIFICATION OF THE PROPOSED RATES IN ACCORDANCE WITH PROPOSITION 218, AND TO SET A PUBLIC HEARING FOR CONSIDERATION OF ADOPTION OF THE PROPOSED RATES ON MAY 21, 2024

WHEREAS, Water Resources Economics were engaged by the City for the completion of the 2024 Water Rate Study; and

WHEREAS, Water Resources Economics has completed the 2024 Water Rate Study; and

WHEREAS, the City Council accepts the results of the 2024 Water Rate Study Update; and

WHEREAS, prior to implementing the water rates, the City must prepare public notification of the proposed rates in accordance with Proposition 218 and set a public hearing for consideration of the adoption of the proposed rates.

NOW, THEREFORE, BE IT RESOLVED, the City Council of the City of Shasta Lake hereby accepts the results of the 2024 Water Rate Study completed by Water Resources Economics, directs staff to prepare public notification of the proposed rates in accordance with Proposition 218, and sets a public hearing for consideration of the adoption of the proposed rates on May 21, 2024.

PASSED, APPROVED, AND ADOPTED this 5th day of March 2024, by the following vote:

AYES: Jones, Morgan, Powell, Watkins

NOES: Eisenbeisz

ABSENT: None

JANICE POWELL, Mayor

ATTEST:

CHARITY TATLOW, Deputy City Clerk