



City of  
**Los Banos**  
At the Crossroads of California

**TO:** Mayor & City Council Members

**FROM:** Brent Kuhn, Vavrinek, Trine, Day & Co., LLP  
Public Works

**DATE:** April 18, 2012

**SUBJECT:** Utility Rates Increase for FY 2012-13

**TYPE OF REPORT:** Agenda Item/Informational Only

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**Recommendation:**

To review the approved rate increase effective July 1, 2012 and the continued necessity of the increase for fiscal year 2012-13 per the City Council approved rate model. This report is informational only; no action is required by council.

**Background:**

After an extensive review of revenues and expenditures assumptions and the operating and capital needs of water, wastewater, and solid waste funds Staff has concluded that there is a continued need to increase utility rates for the ensuing fiscal year (2012-13) per the rate model approved by the City Council on July 20, 2011. The percentage increases should be applied across-the-board to the existing utility rates on July 1 of this fiscal year (Per the adopted rate increases noted in Table1) - with these increases, the rates will enable the City to be in a good position at the end of the five-year rate period to continue to fund an on-going level of capital improvements on a pay-as-you-go basis and be able to handle additional debt service on the larger utility capital projects.

In November of 2011, the need for increased rates was evident in the emergency sewer line replacement performed by Public Works. On Saturday, November 20, 2011, the main twenty-seven (27) inch sewer pipe at the Influent Pump Station collapsed and failed. This is the line which transports the City's 3.0 million gallon/per day sewer influent to the pump station at the Wastewater Treatment Plant. Emergency design and construction, with Council approval, was begun immediately. The main element of the design was to install a parallel thirty-six (36) inch line next to the failed one, and after the new line was functioning, to abandon the old one.

The construction of this new line was completed on January 10, 2012. The total cost of this project, including design, was \$124,980. This was funded out of the Wastewater Enterprise; specifically from the 502 contingency and capital line items. Eighty percent (80%) of this emergency construction will be a part of the Influent Pump Station construction project which is scheduled to be constructed 6 – 8 years from now.

**Discussion:**

The City engaged HF&H Consultants, LLC to prepare the rate models for water, wastewater, and solid waste. These models were presented to the Council and the rates were adopted as follows:

<b>Table 1. Recommended and Adopted Rate Increases</b>						
Fiscal Year	2011-12	<b>2012-13</b>	2013-14	2014-15	2015-16	
Effective Date	9/1/2011	<b>7/1/2012</b>	7/1/2013	7/1/2014	7/1/2015	
<b><u>Water</u></b>						
Recommended	5%	<b>5%</b>	5%	5%	7%	
Adopted	1%	<b>9%</b>	5%	5%	7%	
<b><u>Wastewater</u></b>						
Recommended	55%	<b>7%</b>	7%	7%	5%	
Adopted	41%	<b>18%</b>	7%	7%	5%	
<b><u>Solid Waste</u></b>						
Recommended	5.5%	<b>5.5%</b>	5.5%	5.5%	5.5%	
Adopted	1.3%	<b>9.9%</b>	5.5%	5.5%	5.5%	
<b>Table 2. Summary of Minimum Single-Family Bills</b>						
Fiscal Year	2010-11	2011-12	<b>2012-13</b>	2013-14	2014-15	2015-16
Effective Date		9/1/2011	<b>7/1/2012</b>	7/1/2013	7/1/2014	7/1/2015
<b><u>Water</u></b>						
Minimum Bill	\$ 16.34	\$ 16.47	<b>\$ 18.01</b>	\$ 18.91	\$ 19.86	\$ 21.25
Incremental Increase		\$ 0.13	<b>\$ 1.54</b>	\$ 0.90	\$ 0.95	\$ 1.39
% Increase in Rate*		1%	<b>9%</b>	5%	5%	7%
<b><u>Wastewater</u></b>						
Minimum Bill	\$ 13.68	\$ 19.29	<b>\$ 22.69</b>	\$ 24.27	\$ 25.98	\$ 27.27
Incremental Increase		\$ 5.61	<b>\$ 3.40</b>	\$ 1.58	\$ 1.71	\$ 1.29
% Increase in Rate*		41%	<b>18%</b>	7%	7%	5%
<b><u>Solid Waste</u></b>						
Minimum Bill	\$ 29.07	\$ 29.44	<b>\$ 32.36</b>	\$ 34.14	\$ 36.01	\$ 37.99
Incremental Increase		\$ 0.37	<b>\$ 2.92</b>	\$ 1.78	\$ 1.87	\$ 1.98
% Increase in Rate*		1.3%	<b>9.9%</b>	5.5%	5.5%	5.5%
<b><u>Totals</u></b>						
Minimum Bill	\$ 59.09	\$ 65.20	<b>\$ 73.06</b>	\$ 77.32	\$ 81.85	\$ 86.51
Incremental Increase		\$ 6.11	<b>\$ 7.86</b>	\$ 4.26	\$ 4.53	\$ 4.66
% Increase in Rate*		10.4%	<b>12.0%</b>	5.8%	5.9%	5.7%

\*percentages are rounded

### **Overview of Rate Increase for Fiscal Year 2012 -13**

The City Council's action at the July 20, 2011 City Council meeting generally reduced the amount of the initial rate increases by deferring them to FY 2012-13, and then followed the recommended rate increases for the remainder of the five-year period as modeled by HF&H.

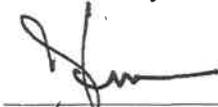
With the exception of the increase in wastewater rates for FY 2012-13, the rate increases are below 10 percent. The larger percentage increase in wastewater rates in FY 2012-13 is driven by the need to meet the coverage requirement in City's wastewater bond covenant. With the proposed increase, the City will achieve the legally required coverage, which will improve its credit worthiness.

Water and refuse bills increase gradually in order to maintain their current financial positions. Without these increases, these funds would operate in deficits and deplete their reserves. The combined affect on bills is an 11.4% increase in FY 2012-13 in average and equates to an approximate increase of \$9.46 on average.

#### **Fiscal Impact:**

The City has started the budgeting process for all the municipal utilities. The public works department has accounted for capital projects and expenditures per the approved rate model. The City has not included in its projections the revenues per the approved rate models. Without the rate increases, the City would have to adjust its projections for future capital need. The budgeted net operating income projection would have to be lowered as well for fiscal year 2012-13. This would reduce capital reserves and make it difficult for the City to comply with the wastewater utility's bond covenants.

Reviewed by:



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Steve Rath  
City Manager