

**CITY OF DUNSMUIR
WATER MASTER PLAN AND RATE STUDY
PROGRESS UPDATE
WATER AD HOC COMMITTEE MEETING NO. 6
September 15, 2015**

OVERVIEW

CHANGES SINCE AUGUST 18, 2015 AD HOC MEETING

While auditing City financial records in preparation for determining future budgets, City staff has determined the City has considerably more cash available than previous records revealed. For example, prior to now, it was believed the City began FY 2014-15 with about \$63K in available cash and was projected to end the year with about \$49K in cash. Based on the City's internal audit efforts, the City began FY 2014-15 with about \$456K cash and ended (on June 30, 2015) with about \$697K.

This is a "game changer" in terms of implementing future projects. With this much cash, and the proposed rate increases, the City could implement over 90% of the recommended improvements, identified in the master plan, within the next five years.

10 VERSUS 5 UNITS IN BASE RATE

At the last ad hoc committee meeting, there was discussion and concern by some public speakers regarding the recommendation to reduce from 10 to 5 units in the base rate. We were asked to quantify the number of water connections that use less than 5 units of water. Based on the total number of water bills issued by the City during FY13-14, we separated the number of bills by units of consumption, refer to Attachment No. 1. As indicated, there were 14,400 bills issued over the 12-month period. Of this amount, 5,353 bills consumed between 1 and 5 units of water, representing about 37% of the total water bills.

Also, we reviewed the number of water services during July 2013 that consumed 5 or less units of water. Based on City records, 280 customers (out of 1,053) consumed between 1 and 5 units of water, representing about 27% of the customer base. For comparison purposes, 261 customers consumed 6 to 10 units, and 512 customers consumed more than 10 units of water.

If the base units remain at 10, the City would collect about \$267K less revenue over the five-year planning period. To make up for this, base rates would need to increase about 7.5% over the planning period. If the City decided to keep 10 units as the base rate, and not increase rates by 7.5%, the City would lose the ability to fund about \$1.4M worth of capital projects during the planning period.

It is our opinion justification for reducing the base allocation from 10 to 5 units has more to do with fairness to those that use less water (27% to 37% of customers), than any impacts to revenue. Therefore, our recommendation is to reduce the base rate allocation from 10 units to 5 units.

ALTERNATIVE RATE SCENARIOS

During the August 18 ad hoc committee meeting, a number of rate scenarios were discussed, and PACE was directed to review the impacts of each of them. The auditing efforts leading to increased cash amounts in the water fund have changed the relevancy of some of the rate scenarios discussed. However, to close the loop, we thought it advantageous to discuss them. See below:

1. Proposed: Reduce to 5 units in base allocation and increase rates from \$26 to \$40 over five years.
2. Use 10 units in base and increase rates from \$26 to an amount in five years that generates the same revenue as Scenario 1.
3. Use 10 units in base and increase rates from \$26 to \$40 in first year and \$1/year through five years.
4. Use 5 units in base and increase rates from \$26 to \$40 in first year and \$1/year through five years.
5. Use 8 units in base and increase per Scenarios 1 and 2.

Scenario 1: Scenario 1 is the recommended scenario because it more equitably apportions the charges to those who use more water. As indicated in the discussion above, about 1/3 of water users within the City consistently use less than 5 units of water. This rate recommendation would allow the City to complete over 90% of recommended improvements in the next five years, or possibly all of the improvements if a \$1.0M grant can be obtained with the Phase 2 project. With the \$1.22M CDBG grant, likely \$1.25M Prop 84 IRWM grant, and potential \$2.917M Prop 1 IRWM grant, the City will need about \$10.78M in funding to complete the remaining infrastructure improvements. Under this scenario, the City could implement a \$5.5M and \$4.29M project within the next five years, leaving it about 0.992M short, if no grant is obtained with the Phase 2 project.

It is advantageous to pursue the projects in phases for the following reasons:

- USDA Rural Development can approve up to \$5.0M loans at a local level without obtaining approval from Washington D.C.
- The entire town is not torn up at the same time.

- The phased rate proposal coincides with the cash requirements to fund each project.
- There is less impact on the rate payers; i.e. the rate increase occurs over five years instead of all in one year.

Attached Tables 1 and 2 reflect the new financial numbers and recommended capital improvement project implementation schedule.

Scenario 2: Leaving 10 units in the base would require raising rates an additional 7.5% on every customer over five years. Thus, those that consistently use 5 units or less would pay more, while those that use 5 to 10 units would pay less because the additional 5 to 10 units would not be subject to consumption charges. It does not seem fair to the bottom 1/3 of customers to raise their rates so that those using more water can pay less. If the City decides to keep 10 units in the base rate and not increase rates beyond \$40 per month, the City will generate about \$267K less revenue over five years. This would reduce the City's ability to construct infrastructure improvements by about \$1.4M.

Scenario 3: Since the City has more cash reserves than originally anticipated, it has the cash to implement planning/environmental/design/bidding for a phased implementation approach. Thus, there is no advantage to raising rates from \$26 to \$40 in the first year.

Scenario 4: For the reasons described in Scenario 3 above, this is no longer a viable scenario.

Scenario 5: Reducing the base unit allocation from 10 units to 8 units was viewed as a compromise to the 5 unit reduction. We believe the water bill data supports reducing the base unit allocation from 10 units to 5 units. A reduction to 8 units is not well supported by the water consumption data presented in Attachment No. 1. Therefore, this scenario was not considered further.

ATTACHMENTS

Scenario 1 - Table 1 – Projected Expenditures and Transfers

Scenario 1 – Table 2 – Summary of Enterprise Fund Financial Plan

Attachment 1 – Water Bill Usage

M:\Jobs\0204\0204.52 CDBG MWP Update & Water Rate Study\AdHoc Committee Meetings\Meeting 6-Sep-15-15\MTG-Agenda_Adhoc_9-15-15.docx

TABLE 1

City of Dunsmuir -- Water Enterprise Fund
Projected Expenditures and Transfers

	Inflation Factor	Budget (FY 14-15)	Projected (FY 15-16)	Projected (FY 16-17)	Projected (FY 17-18)	Projected (FY 18-19)	Projected (FY 19-20)	COMMENTS
O&M Expenses								
71XX Salaries and Benefits	1.0%	\$126,419	\$127,683	\$128,960	\$130,250	\$131,552	\$132,868	
7200 Training and Education	1.0%	\$516	\$521	\$526	\$532	\$537	\$542	
7210 Meetings and Travel	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
7230 Subscriptions/Memberships/Dues	1.0%	\$2,510	\$2,535	\$2,560	\$2,586	\$2,612	\$2,638	
7240 Clothing/Cleaning	1.0%	\$609	\$615	\$621	\$627	\$634	\$640	
7300 Professional Services	1.0%	\$5,262	\$5,315	\$5,368	\$5,421	\$5,476	\$5,530	
7310 Contract/Special Services	1.0%	\$1,565	\$1,581	\$1,596	\$1,612	\$1,629	\$1,645	
7330 Contract Lab Analysis	1.0%	\$1,541	\$1,556	\$1,572	\$1,588	\$1,604	\$1,620	
7410 Adv/Notices	1.0%	\$236	\$238	\$241	\$243	\$246	\$248	
7480 Management/Administration Charges	1.0%	\$89,837	\$90,735	\$91,643	\$92,559	\$93,485	\$94,420	
7600 Equipment/Replacement (<\$1,000)	1.0%	\$59	\$60	\$60	\$61	\$61	\$62	
7610 Equipment Maint & Replacement (Tank Insp & Pipe Loc.)	1.0%	\$462	\$467	\$471	\$476	\$481	\$486	
7620 Vehicle Fuel	1.0%	\$4,525	\$4,570	\$4,616	\$4,662	\$4,709	\$4,756	
7630 Vehicle Maintenance	1.0%	\$6,114	\$6,175	\$6,237	\$6,299	\$6,362	\$6,426	
7640 Radio Rep/c/Repair	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
7710 Property Taxes	1.0%	\$2,125	\$2,146	\$2,168	\$2,189	\$2,211	\$2,233	
7720 Maintenance Buildings/Grounds	1.0%	\$292	\$295	\$298	\$301	\$304	\$307	
7730 Utilities	1.0%	\$16,442	\$16,606	\$16,772	\$16,940	\$17,110	\$17,281	
7750 Phone	1.0%	\$950	\$960	\$969	\$979	\$989	\$998	
7760 Leases/Rentals	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
7830 Valve Hydrant Repair	1.0%	\$374	\$378	\$382	\$385	\$389	\$393	
7840 Pump Station Maintenance	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
7860 Depreciation	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
7860 Depreciation	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
7900 Office Supplies	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
7920 Supplies/Materials	1.0%	\$1,372	\$1,386	\$1,400	\$1,414	\$1,428	\$1,442	
7930 Postage	1.0%	\$2,792	\$2,820	\$2,848	\$2,877	\$2,905	\$2,934	
7950 Water Main Repairs	1.0%	\$18,323	\$18,506	\$18,691	\$18,878	\$19,067	\$19,258	
7960 Roadbase asphalt	1.0%	\$2,013	\$2,033	\$2,053	\$2,074	\$2,095	\$2,116	
8100 Liability Insurance-Assessment	1.0%	\$12,217	\$12,339	\$12,463	\$12,587	\$12,713	\$12,840	
8100 Liability Insurance	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
8110 Property Insurance	1.0%	\$2,258	\$2,281	\$2,303	\$2,326	\$2,350	\$2,373	
8130 Permits & Licenses	1.0%	\$6,631	\$6,697	\$6,764	\$6,832	\$6,900	\$6,969	
8200 Equipment-Replacement-Handheld meter readers (See Capital Outlay)	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
8270.10 Water Engineering Report	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
8270.17 Hydrant Repair	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
8300 Interest	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
8270.01 Water Main Projects	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
8600 Operating Transfers Out	1.0%	\$0	\$0	\$0	\$0	\$0	\$0	
Water Department Operator		\$0	\$75,000	\$75,750	\$76,508	\$77,273	\$78,045	
Debt Services								
35 Debt Repayment - Princ./Int. - '94 Water COP's		\$35,499	\$34,833	\$35,166	\$34,499	\$35,199	\$35,199	
36 Debt/Debt reserve/SA reserve - Phase 1 Water Project (Note 1)								
37 Debt/Debt reserve/SA reserve - Phase 2 Water Project (Note 2)								
Subtotal		\$340,943	\$418,331	\$422,499	\$698,256	\$702,868	\$920,905	

TRANSFER TO WATER CAPITAL PROJECTS FUND											
Capital Outlay											
Downtown Tank Relocation & Replacement Project											
- Planning/surveys/Enviro/permits/ROW Aquis (Note 3)											
- Final design and bidding (Note 4)											
Phase 1 - Water Main Replacement Project								\$350,000			
- Planning/Design/Environmental/Funding Acquisition/Bidding (Note 5)											
Phase 2 - Water Main Replacement Project											
- Planning/Design/Environmental/Funding Acquisition/Bidding (Note 6)											
Subtotal							\$0	\$493,252	\$300,000	\$120,000	\$0
Total Expenditures and Transfers							\$340,943	\$911,583	\$998,256	\$822,868	\$920,905

NOTES:

1. Debt service for Phase 1 Water Project begins in FY 2017-18, and reflects dept service (principal and interest), 10% debt service reserve and short-lived asset reserve. Total Project Cost is \$5.5M.
2. Debt service for Phase 2 Water Project begins in FY 2019-20, and reflects dept service (principal and interest), 10% debt service reserve and short-lived asset reserve. Total Project Cost is \$4.285M.
3. Reflects work necessary to acquire easements and tank site and complete environmental in order to position the City to apply for Proposition 1 grant funding during the first IRWM allocation - solicitation expected in spring 2016.
4. If the Downtown Tank project is invited by the Upper Sac/McCloud IRWM Region to submit a final funding application, the City will need to initiate design and bidding prior to receiving a formal funding commitment.
5. Reflects expenditures for planning, design, environmental, and bidding in order to construct Phase 1 - Water Main Replacement Project (\$5.5M), beginning in FY 2016-17.
6. Reflects expenditures for planning, design, environmental, and bidding in order to construct Phase 2 - Water Main Replacement Project (\$4.285M) in FY 2018-19.

TABLE 2

City of Dunsmuir -- Water Enterprise Fund
 Summary of Enterprise Fund Financial Plan with 100% of Normal Water Use

	Estimated (FY 14-15)	Projected (FY 15-16)	Projected (FY 16-17)	Projected (FY 17-18)	Projected (FY 18-19)	Projected (FY 19-20)
ASSUMPTIONS USED						
Annual Increase in Water Use		0.0%	0.0%	0.0%	0.0%	0.0%
Annual 5/8" Rate Increase		10.8%	9.7%	8.9%	8.1%	7.5%
WATER RATES USED						
5/8" Meter Monthly Service Charge (Up to 3,750 gallons)	\$26.00	\$28.80	\$31.60	\$34.40	\$37.20	\$40.00
Lifeline 5/8" Meter Monthly Service Charge	\$20.80	\$23.04	\$25.28	\$27.52	\$29.76	\$32.00
All Other Consumption Rate (3,751 to 22,500 gallons)	\$2.92	\$2.10	\$2.20	\$2.30	\$2.40	\$2.50
Consumption Rate (22,501 to 90,000 gallons)	\$2.07	\$2.10	\$2.20	\$2.30	\$2.40	\$2.50
Excess Consumption Rate (over 90,000 gallons)	\$1.15	\$2.10	\$2.20	\$2.30	\$2.40	\$2.50
BEGINNING FUNDS AVAILABLE BALANCE						
	\$455,793	\$697,043	\$403,117	\$659,376	\$397,727	\$372,516
REVENUES						
Fixed Service Charges (Includes 5 Units)	\$480,885	\$447,000	\$491,000	\$528,000	\$578,000	\$621,000
Consumption Charges	\$126,000	\$197,000	\$221,000	\$235,000	\$246,000	\$256,000
Investment Income - LAIF	\$508	\$400	\$350	\$450	\$500	\$800
Other Operation Income - Penalties	\$7,790	\$6,000	\$6,000	\$6,000	\$6,000	\$6,000
Income from Water Connection Fees	\$2,253	\$2,300	\$2,200	\$2,200	\$2,200	\$2,200
Reimbursement from Prop 1 IRWM Grant	\$0	\$0	\$343,252	\$0	\$0	\$0
Total Revenue	\$617,236	\$652,700	\$1,063,802	\$771,650	\$832,700	\$886,000
EXPENDITURES						
Water Enterprise	\$340,943	\$418,331	\$422,499	\$698,256	\$702,868	\$920,905
Transfer to Capital Improvements Fund (From Table 1)	\$0	\$493,252	\$350,000	\$300,000	\$120,000	\$0
Total Expenditures	\$340,943	\$911,583	\$772,499	\$998,256	\$822,868	\$920,905
RESTRICTED RESERVES						
Debt Service Reserve on '94 Water COP's	\$35,043	\$35,043	\$35,043	\$35,043	\$35,043	\$35,043
ENDING BALANCE/OPERATING RESERVE						
	\$697,043	\$403,117	\$659,376	\$397,727	\$372,516	\$302,568
YEAR END OPERATING RESERVE						
	204%	96%	156%	57%	53%	33%

Notes: 1. Excluding unfunded depreciation expense.

**ATTACHMENT NO. 1
WATER BILL USAGE**

Not Including Code: 2 (City Accounts)

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Usage Block Units [750 Gal]	Number of Bills Ending in Block	Cumulative Bills Through Block	Total Use of Bills Stopping in Block [Units]	Cumulative Use of Bills Stopping in Block [Units]	Total Use to this Block if All Bills Passing Through Block [Units]	Cumulative Billed Usage [Units]	Cumulative Billed Usage [%]
0	2,662	14,400	0	0	0	0	0.0%
5	5,353	11,738	15,873	15,873	31,925	47,798	32.0%
10	3,046	6,385	23,719	39,592	33,390	72,982	48.8%
20	1,941	3,339	28,218	67,810	27,960	95,770	64.0%
30	724	1,398	17,922	85,732	20,220	105,952	70.8%
40	261	674	9,153	94,885	16,520	111,405	74.5%
50	146	413	6,604	101,489	13,350	114,839	76.8%
60	63	267	3,447	104,936	12,240	117,176	78.3%
80	65	204	4,410	109,346	11,120	120,466	80.5%
100	28	139	2,480	111,826	11,100	122,926	82.2%
160	44	111	5,478	117,304	10,720	128,024	85.6%
300	39	67	8,592	125,896	8,400	134,296	89.8%
400	8	28	2,722	128,618	8,000	136,618	91.3%
500	1	20	485	129,103	9,500	138,603	92.7%
600	1	19	514	129,617	10,800	140,417	93.9%
700	3	18	1,972	131,589	10,500	142,089	95.0%
800	0	15	0	131,589	12,000	143,589	96.0%
900	1	15	894	132,483	12,600	145,083	97.0%
1,000	0	14	0	132,483	14,000	146,483	97.9%
10,000	14	14	17,101	149,584	0	149,584	100.0%
50,000	0	0	0	149,584	0	149,584	100.0%
100,000	0	0	0	149,584	0	149,584	100.0%

Total: 14,400

NUMBER OF BILLS ENDING IN BLOCK

