



City of Lincoln

Water, Wastewater, Solid Waste

Verdera Community Meeting
June 7, 2023



Utility Rates Studies

- Lincoln customers are paying 2013 and 2017 rates.
- Revenues from the current rates and fee structures are not fiscally sustainable.
- Rates must keep up with costs to operate the systems.
- Conducting much-needed rates studies to develop a new 5-year rate structure to financially support the utilities' current and future needs.

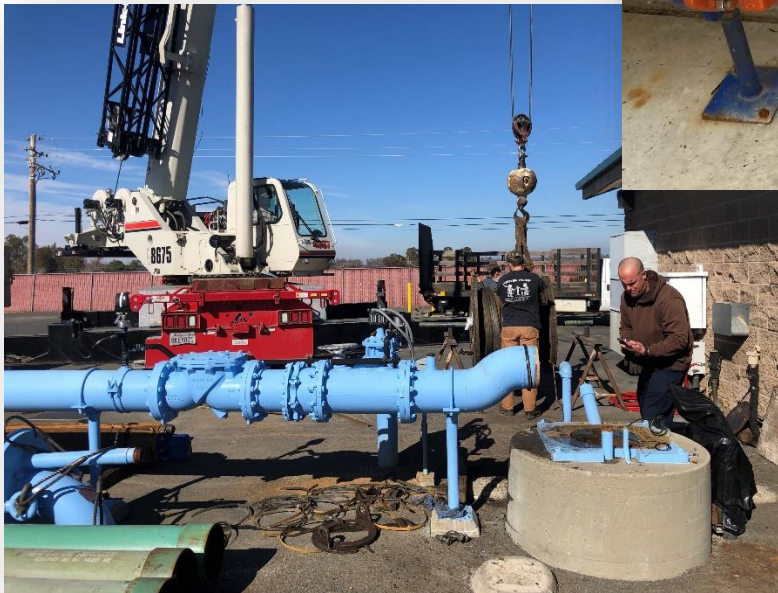
Public Works Department - Utilities

The Lincoln Public Works Department provides sustainable infrastructure and essential public health and safety management services.

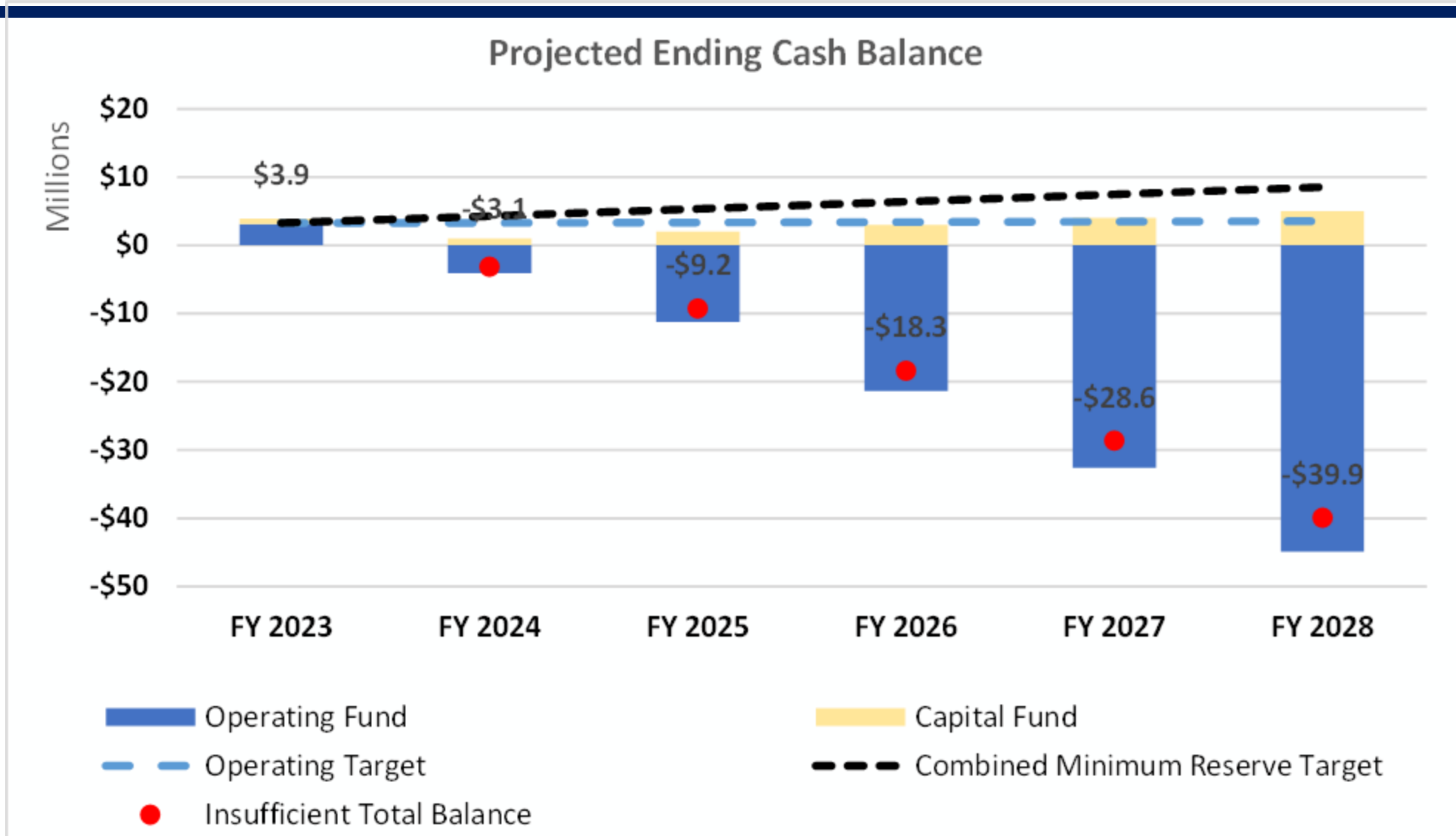
The Department is responsible for the operations, maintenance, management, and regulatory compliance of a variety of fundamental city services including the Water Quality, Wastewater Collection (sewer), and Solid Waste (trash and recycling) utilities.

Water System Overview

- 236 miles of water system pipelines
- 3 water storage tanks (total capacity 13 MG)
- 5 groundwater wells
- Catta Verdera booster pump station
- 13 pressure regulating valves
- 25,000 service connections



Water Enterprise – Status Quo



Water – Proposed Adjustments

Effective Date	Adjustment
Oct. 1, 2023	84.0%
July 1, 2024	3.0%
July 1, 2025	3.0%
July 1, 2026	3.0%
July 1, 2027	3.0%
July 1, 2028	3.0%
July 1, 2029	3.0%
July 1, 2030	3.0%
July 1, 2031	3.0%
July 1, 2032	3.0%

Effective Date	Adjustment
Oct. 1, 2023	50.0%
July 1, 2024	10.0%
July 1, 2025	10.0%
July 1, 2026	10.0%
July 1, 2027	5.0%
July 1, 2028	5.0%
July 1, 2029	5.0%
July 1, 2030	5.0%
July 1, 2031	5.0%
July 1, 2032	5.0%

Water – Consequences of Status Quo

Operations

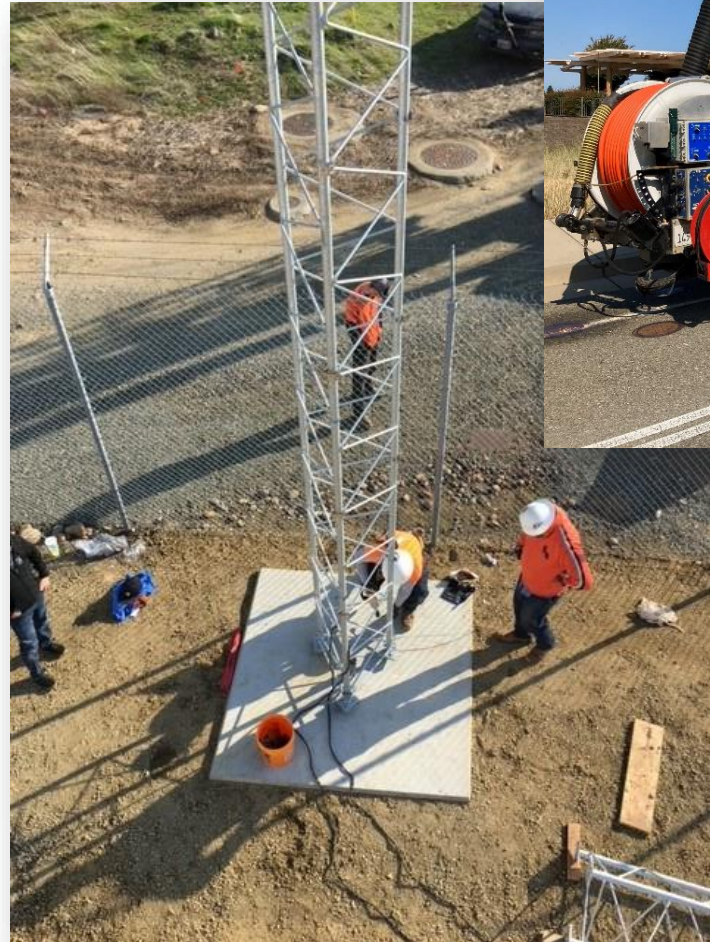
- Inadequate maintenance of isolation valves leads to large-scale outages.
- Limited water system flushing compromises freshwater quality.
- Cross-Connection Program deficiency and non-potable utility intertie contamination
- Spending time on unplanned costly system repairs instead of routine work.
- The State Water Board may cite the City if any violations of the California Safe Drinking Water Act occur.

Capital

- Deferred maintenance leads to more leaks, equipment failures, and costly emergency repairs.
- Water delivery may become unreliable, frequent outages and pressure losses.
- Loss of water pressure allows contamination infiltration into the drinking water system.
- Property damage may be caused by catastrophic failures (water leaks), which may cause street washouts, dangerous sinkholes, flooding, and compromised fire protection.

Wastewater Collection Overview

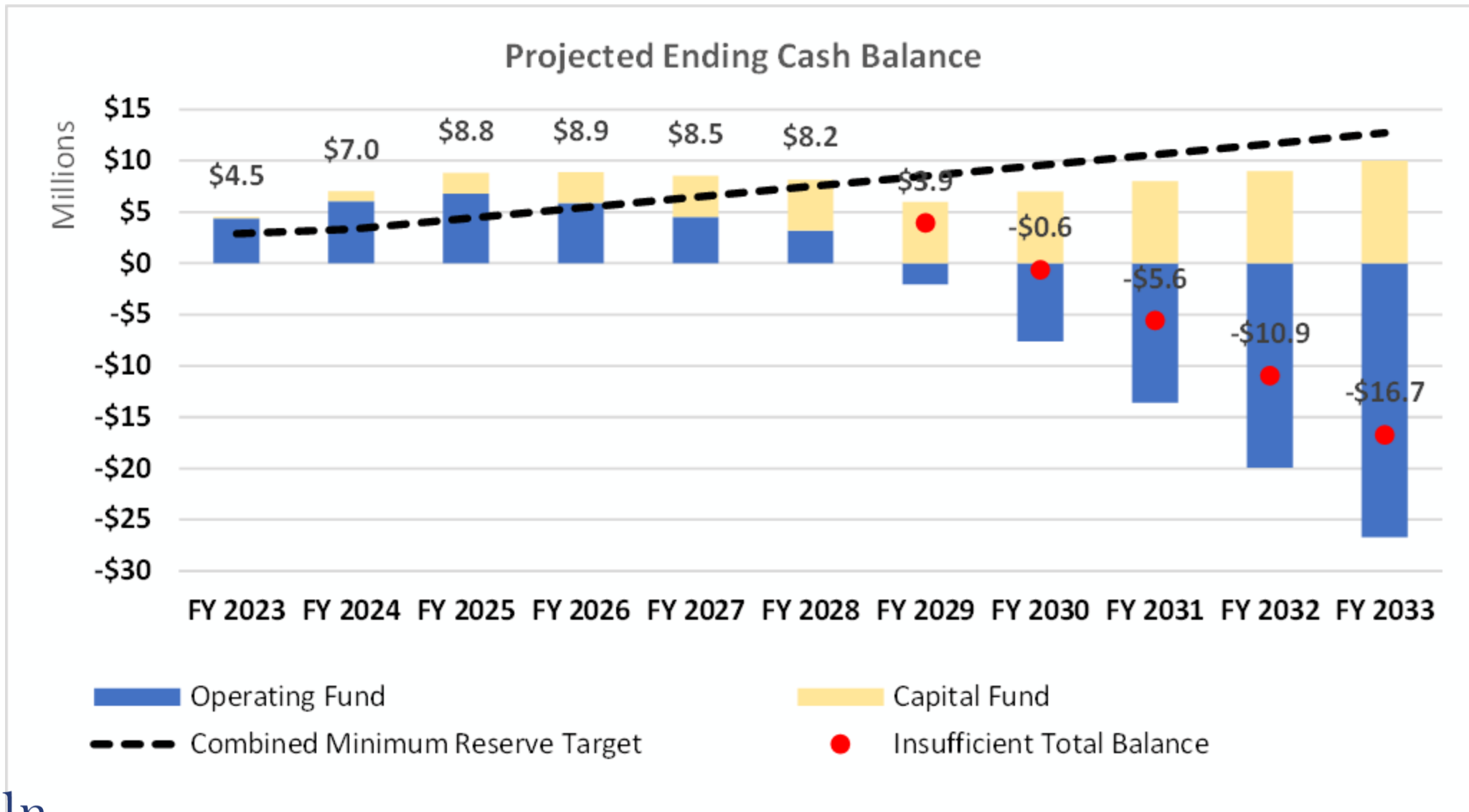
- More than 200 miles of sewer main lines
- 58 miles of laterals
- 3 miles of force mains
- 3,558 manholes
- 9 sewer lift stations



**Flushable wipes
clog pipes!**



Wastewater Enterprise – Status Quo



Wastewater – Proposed Adjustments

Effective Date	Adjustment
Oct. 1, 2023	4.0%
July 1, 2024	5.0%
July 1, 2025	5.0%
July 1, 2026	5.0%
July 1, 2027	5.0%
July 1, 2028	5.0%
July 1, 2029	5.0%
July 1, 2030	5.0%
July 1, 2031	5.0%
July 1, 2032	5.0%

Effective Date	Adjustment
Oct. 1, 2023	0%
July 1, 2024	0%
July 1, 2025	0%
July 1, 2026	0%
July 1, 2027	0%
July 1, 2028	25.0%
July 1, 2029	25.0%
July 1, 2030	5.0%
July 1, 2031	5.0%
July 1, 2032	5.0%

Wastewater Collection– Consequences of Status Quo

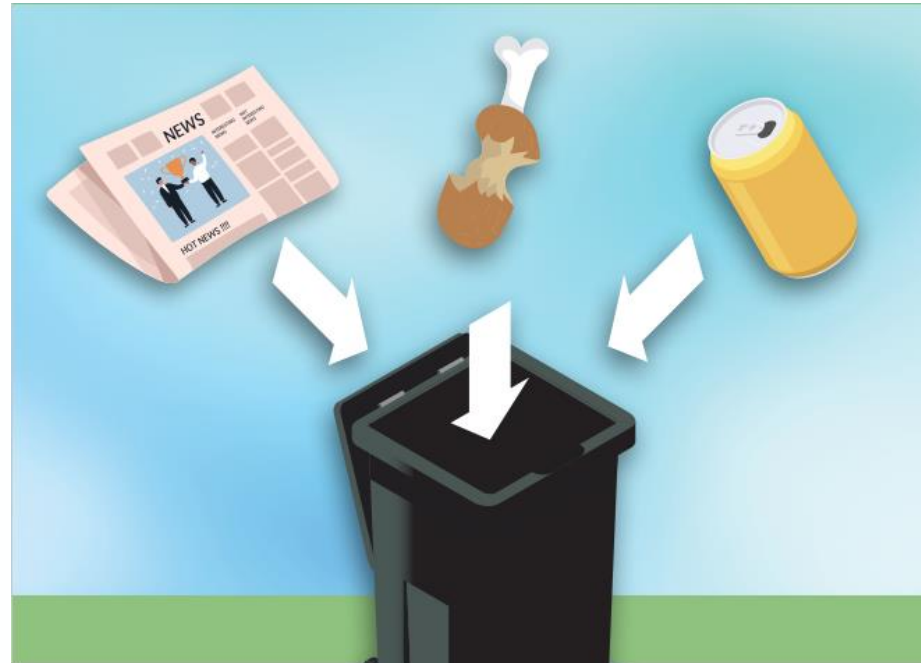
Operations

- Lack of maintenance can result in untreated sewage escaping into the environment and waterways.
- Heavy rain overwhelms older sewer systems with stormwater infiltration, releasing untreated sewage.
- If fats, oils, and greases (FOG) is not controlled, State fines or lawsuits may be incurred.
- Limited system flushing which will reduce the system capacity.
- Limited video inspections which leave root intrusion and/or collection system problems unidentified and unrepaired.

Capital

- Deferred capital can cause frequent leaks and sanitary sewer overflows, equipment failures, and costly emergency repairs.
- Sanitary sewer overflows cause environmental contamination, which may contaminate communities, creeks, streams, open space, and fish and wildlife.
- Community health and safety can be affected by inadequate capacity from clogging pipes.
- Environmental contamination from major spills could result in State fines or lawsuits from non-government organizations (NGOs) or private citizens.

Solid Waste (trash & recycling) Overview



1 & Done.
Put Waste in its Place!

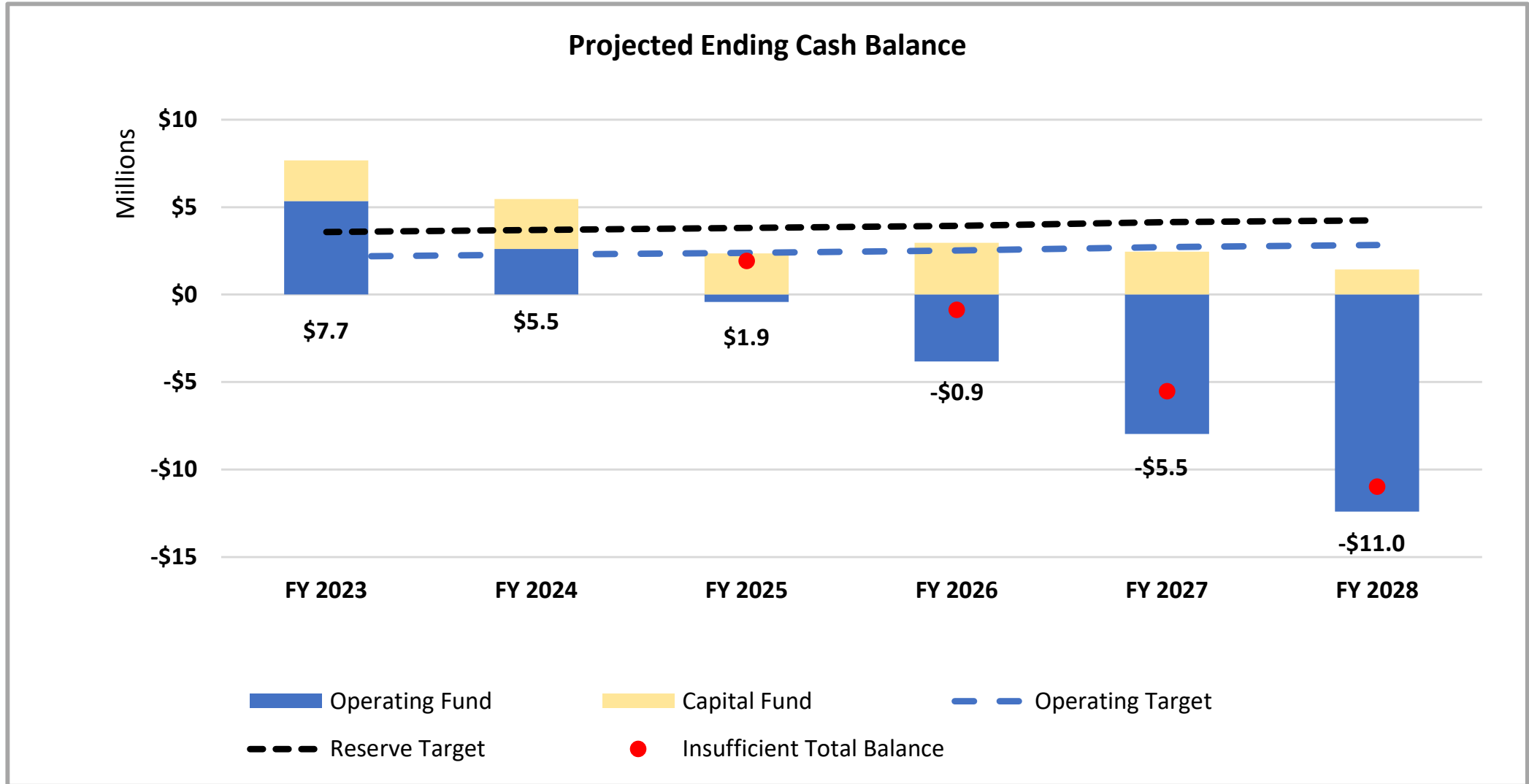


**Green Bin
System Biweekly**



Commercial Service

Solid Waste Enterprise – Status Quo



Solid Waste – Proposed Adjustments

Effective Date	Adjustment
Oct. 1, 2023	13.0%
July 1, 2024	13.0%
July 1, 2025	13.0%
July 1, 2026	3.0%
July 1, 2027	3.0%
July 1, 2028	2.5%
July 1, 2029	2.5%
July 1, 2030	2.5%
July 1, 2031	2.5%
July 1, 2032	2.5%

Solid Waste– Consequences of Status Quo

Operations

- Potential reduction in the frequency of the pickup of waste, recyclables, etc.
- Less frequent pickups may lead to health and safety issues including disease, unwelcomed odors and pests, and may increase illegal dumping.
- Recycling centers for cardboard could be eliminated. Residents would need to take cardboard to the local Material Recovery Facility.
- Disposal fees set by the Western Placer Waste Management Authority are passed to the City.

Capital

- Deferred maintenance may result in frequent fleet breakdowns and cause overtime costs and service disruptions.
- Non-compliance with new legislation for electric vehicles, diverting waste, etc. may lead to fines.
- Inadequate recycling facilities may result in overflows and illegal dumping.



Utility Rates 101



RAFTELIS



Key Takeaways



RAFTELIS

- How Utilities are Funded
- Utility Rate Studies
- CA Regulatory Framework
- Cost of Service Analysis & Rate Design
- Rate Approval Process



How Utilities Are Funded

- Water, wastewater, and solid waste utilities are Enterprise Funds.
- Enterprises are funded primarily by customer rate revenue.
- Enterprise Funds are not like other government services that are funded by tax dollars from the General Fund, such as libraries, parks, and public safety.



Utility Enterprise Fund



General Fund



General Fund



Funding a Utility Enterprise

- Rates must keep up with costs to operate the Enterprise.
- Funded by customer rate revenue, Enterprise utilities DO NOT earn profits.



Legal process for setting utility rates

- CA law (Proposition 218) requires that rates must be based on the cost to provide the Enterprise's service.



What is a Rate Study?

- Critical to the healthy operation of the utility
- Utility systems must keep up with rising costs
- Must be able to implement critical capital projects
- Reserve Policies for emergencies
- Performed every 3-5 years by expert financial analysts



Rates and Fees Must:



Fund Operations



Fund Capital Projects



Maintain Reserves



Ensure Customer Rate Equity



How We'll Get There



Fund Operations



Fund Capital Projects



Maintain Reserves



Ensure Customer Rate Equity



Rate Design



Cost-of-Service



Financial Plan



What is a Rate Study?

A financial planning process to set rates that consider:



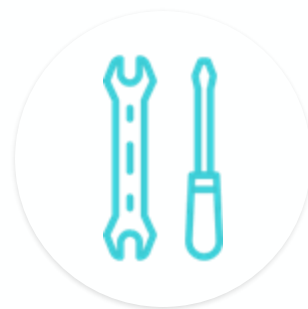
**Fairness
& Equity**



**Community
Values**



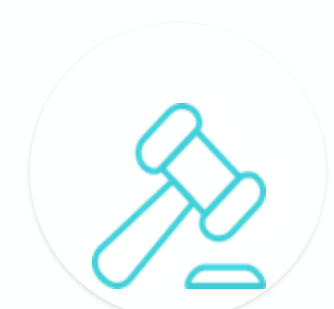
**Utility Financial
Viability**



**Operations &
Maintenance**



**Infrastructure
Investment**



**Legally
Defensible**



Objectives of Rate Setting

- Transparency and Financial Planning
- Budgeting Tool
- Manage System Capacity
- Plan for and Meet State/Federal Regulations
- Operations and Maintenance Upkeep
- Implement Capital Improvement Plan (CIP)



Capital in Need of Rehabilitation



Legal Framework

- California - 1996
- Voters approved *Right to Vote on Taxes Act*, known as Proposition 218
- Established requirements for setting local government fees and charges, including utility rates



Proposition 218 Substantive Requirements

Revenues cannot exceed the funds required to provide the service.



Revenues cannot be used for any purpose other than to pay for the service for which it was charged.



The amount of the fee cannot exceed the **proportional cost of providing service.**



Task:

- **Set rates proportional to the cost of providing the service**
- **Reasonably allocate amongst grouped rate payers based on a cost-of-service**
- **Use reliable data**



Proposition 218 Procedural Requirements

Identify parcels subject to the charge.



Calculate the amount of the charge to be imposed.



Provide written notice to all record owners including:

- The amount
- The basis upon which the amount was calculated.
- The reason for the charge.
- The date, time, and location of a public hearing on the charge.



Hold a public hearing no less than 45 days from mailing the notice.

- Consider all protests to the charge.
- If a majority of property owners and customers protest the charge, the agency shall not adopt it.



Steps in Conducting a Rate Study

Start

Completion

1.

Rate Setting Framework

- Financial goals and policies
- Pricing objectives
- Alternative rate structures for evaluation

3.

COS & Rate Design

- Cost of Service Analyses (Cost allocations)
- Alternative rates design
- Rate calculations & customer impact analyses

5.

Rate Adoption- 218 Procedures

- Notice to customers
- Public Hearing

2.

Financial Plan

- Evaluate operating and capital costs
- Cash flow analysis for revenue sufficiency
- CIP Financing Options
- Scenario Analysis

4.

Rate Adoption

- Documentation
- Study Report
- Review by legal counsel

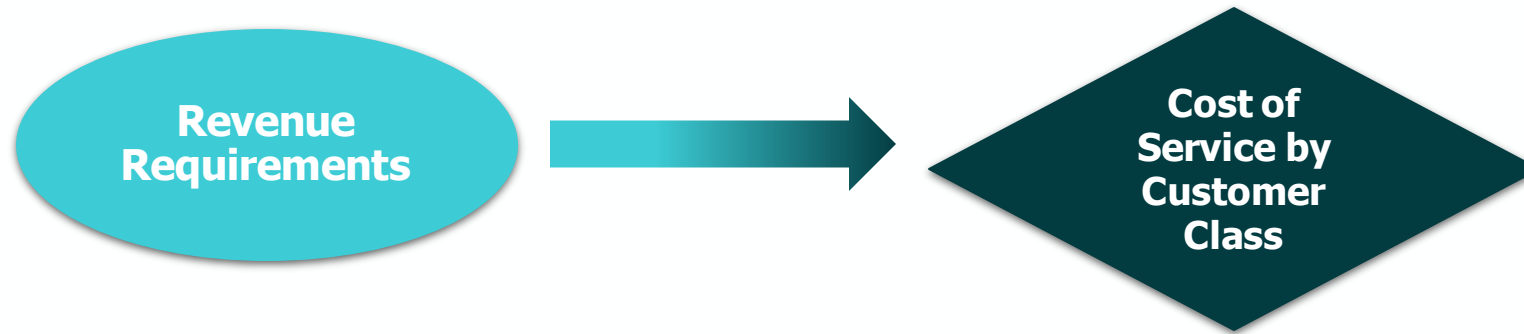


Financial Plan

- Project revenues and expenses to assess if revenue is sufficient to fund operations (expenses)
- If not sufficient, more revenues are needed to fund anticipated costs:
 - › O&M – chemicals, labor, parts, supplies
 - › Capital – large projects
 - › Reserves – O&M, Capital, Emergency reserves



What is Cost of Service?

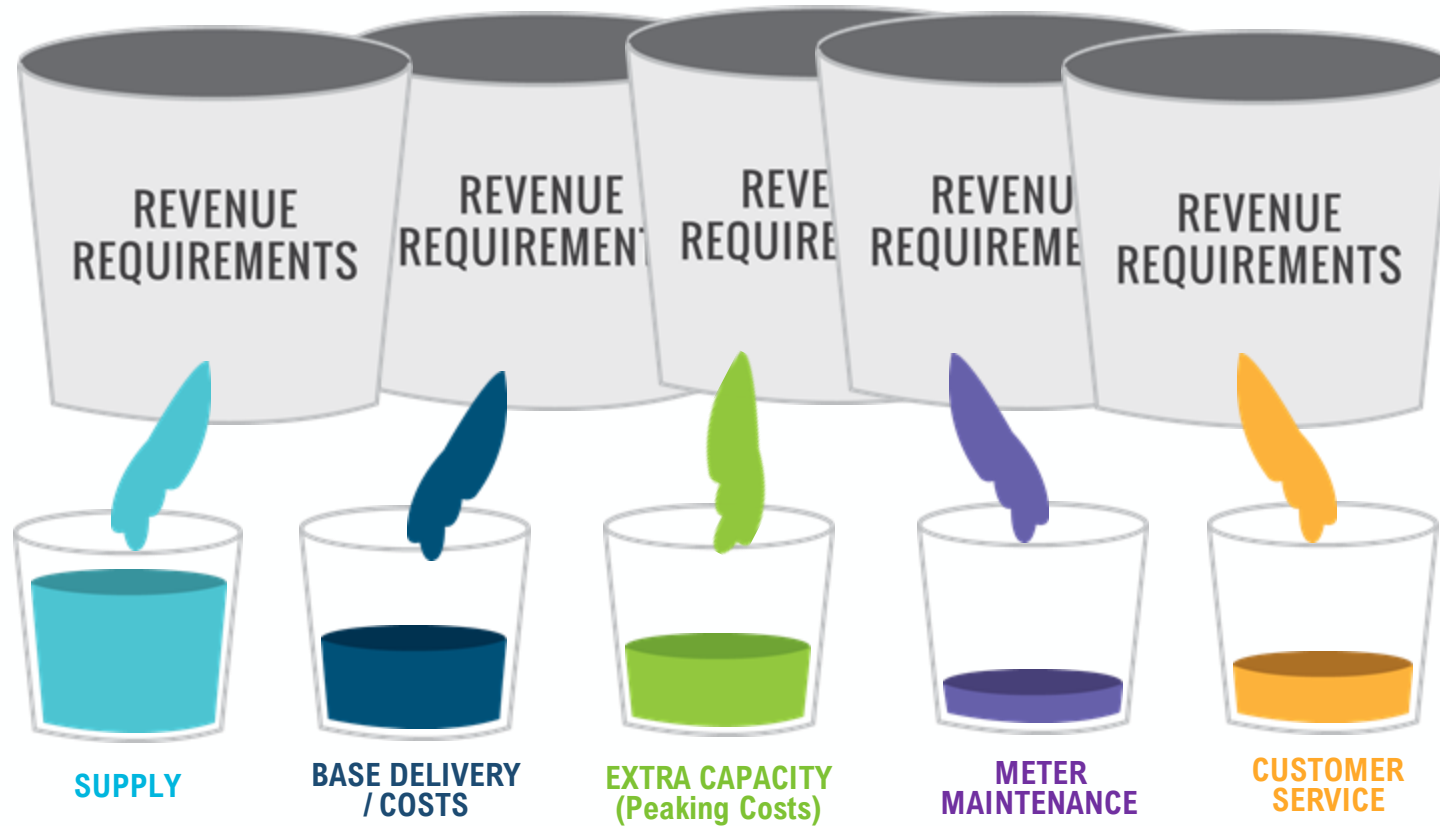


- Method to recover costs from customers in proportion to their use of the system, recognizing the impact of each class on system facilities and operations.
- Best Practices and industry guidance used throughout the U.S. to set utility water, wastewater, and solid waste rates:
 - **Water:** American Water Works Assn. (AWWA) Manual of *“Principles of Water Rates, Fees and Charges”*
 - **Wastewater:** Water Education Foundation (WEF) Manual *“Financing and Charges for Wastewater Systems”*
 - **Solid Waste:** Environmental Protection Agency (EPA)



Cost of Service - Illustration

Allocation of Revenue Requirements for a Water Utility



Cost of Service Rate Design

- **Rates are not arbitrarily picked out of thin air!**
- Results in the cost to serve each customer class based on how that class uses water (peaks).
- Knowing how much each class owes, rates are designed to collect that amount.
- In other words, it allocates the total revenue requirement to each class.

Example of water rates and charges

Customer Class	Example of Costs Assigned to Each Class
Single Family Residential	47%
Multi Family Residential	13%
Commercial	21%
Industrial	5%
Irrigation	12%
Private Fire Connections	2%



Cost of Service and Rate Design

- **Rationale:**

- > Different types of customers generate different costs because of their use characteristics.
- > Cost of service allows the matching of the rates charged to each group with the cost incurred to serve them.
- > Each group will “pay its own way” - no subsidies.



Key Contributors and Decision-Making



Ratepayers



City Staff



Consultant



City Council

COMMENT - STUDY - ADVISE



GUIDE - DECIDE



Summary and Conclusion

- Cities and utility agencies perform rate studies to ensure rates keep up with the cost of providing the service.
- Rate studies are conducted to ensure that a utility's financial health is maintained and set a course toward meeting future financial obligations.
- In California, rate setting is guided by Proposition 218.
- Customers and community members are encouraged to provide input in the rate study process through to the Public Hearing.



City of Lincoln Public Meeting Schedule

Date	Time	Meeting	Location
Tues., June 6	4-5 p.m.	Sun City Lincoln Hills Community	SCLH Orchard Creek Ballroom
Tues., June 6	6-8 p.m.	City Open House	City Hall
Wed., June 7	6-7:30 p.m.	Verdera Community	Catta Verdera Club House
Thurs., June 8	6-7 p.m.	Webinar	Virtual
Tues., June 13	6 p.m.	City Council Meeting	In person & Virtual

For information about these meetings, and how to attend in person or virtually, go to www.LincolnCA.gov/ratestudies.

Rate Studies Webpage

www.LincolnCA.gov/ratestudies

Email: RateStudiesQs@lincolnca.gov

- FAQs
- Videos
- Presentations
- Meeting Schedule
- Rates Study Report



Q&A

**Thank
You!**

