



# CITY OF WHEATLAND

## CITY COUNCIL MEETING STAFF REPORT

August 11, 2020

**SUBJECT:** Water Fund Fiscal Update  
**PREPARED BY:** Susan Mahoney, Finance Director

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### **Recommendation**

Receive and file this fiscal update of the City's Water Fund as of June 30, 2020.

### **Background**

A thorough analysis of the Water Fund's ability to fund ongoing operational needs, existing debt service, and fund critical capital needs was conducted in 2018 by the City's consultant, Terry Madsen of ClearSource. The result of the analysis was presented to Council on January 22, 2019. It was determined that the rate structure did not support projected operational, debt and infrastructure needs, and that rate increases were required for continued operation of the water system. The rate increases were approved following a public hearing and the absence of sufficient protest to prevent the increases.

The rate adjustment implemented in April 2019 included modifications to the rate structure to meet best practice trends in utility rate setting. These modifications resulted in lower rates for customers using less than 12 units per month and more equitable rates for customers using greater than 12 units per month. The scheduled rate increase for October 2019 was implemented and future increases are scheduled for October 2020, October 2021, and October 2022. The objective of the increases was to set rate levels sufficient to sustain ongoing operations and maintenance, pay debt service obligations and build adequate cash operating reserves. The rates did not provide for investment or replacement of capital infrastructure.

A unit of water equals 100 cubic feet or 748 gallons. 12 units is equal to 8,976 gallons. Typical indoor water usage is 80-100 gallons per person per day. Outdoor usage varies depending on weather and landscaping.

### **Discussion**

#### Operating Reserve

The Water Fund experienced deficit spending in eleven of the past sixteen years. These deficits depleted cash operating reserves and in 2016, a \$250,000 loan from the sewer fund was needed to maintain a positive cash balance. The rate increases have produced a slow but steady increase

in the Fund's cash operating reserves. At June 30, 2020 cash operating reserves were \$410,000 up from \$144,000 in 2018. These amounts include the debt service reserve that was previously required for the USDA loans. The target cash operating reserve identified in the ClearSource study is 180 days of operating expenses. For fiscal year 2021 that amount is \$498,000. It is important to note that the operating reserve is not sufficient to pay for investment or replacement of capital infrastructure.

#### Net Position (Fund Balance)

The Water Fund net position at June 30, 2020 is \$485,000. Net Position (called fund balance in other fund types) is the difference between the assets of the Fund (cash, receivables, net fixed assets) and the liabilities of the Fund (payables, debt service). Ideally, the net position would be sufficient to replace worn or obsolete infrastructure without incurring debt. To meet that goal the net position would need to total approximately \$2.8 million. The current rate structure will not produce a significant increase in net position.

#### Debt Service

The Fund recently issued low interest bonds to pay off its two USDA loans. Annual debt service payments were reduced without extending the amortization period. Despite this savings, the Fund currently does not have the capacity (adequate ongoing revenues) to support additional debt that may be required for future system repair and/or rehabilitation.

#### Rate Structure Evaluation

Prior to the rate structure modification in April 2019, a base rate was charged each month for water usage of 15 units or less. A volume rate was charged for usage in excess of 15 units. This rate structure generated about 92% of the Fund's revenue from the base charge and represented an over-recovery of costs from low water users. Industry best practice suggests that revenue generation should be about 60% from base rates and about 40% from volume rates. The ClearSource analysis suggested that a base rate that included 12 units would generate approximately 70% of total water revenue and move Wheatland closer to the industry best practices. The 12-unit base rate currently generates 62% of water revenue which is closer to the industry best practices than originally projected.

#### COVID-19

In response to the COVID-19 pandemic, Governor Newsom issued an executive order suspending water shutoffs for non-payment. To date, past due accounts total \$52,454 and approximately \$15,000 in penalties and interest has been forfeited. We anticipate that the past due amount and loss of penalty and interest revenue will increase each month as the pandemic continues.

#### Summary

- Rate increases are increasing operating reserves towards the goal of 180 days of operating expenses and, as projected, are providing revenue to sustain operations and debt service payments.
- As anticipated, the rate increases do not provide funds needed to pay for infrastructure repair and replacement.
- Rate modifications have resulted in 62% of revenue being derived from the base rate which is in line with industry best practices.
- The Fund does not have the financing capacity to support additional debt that may be required for future system repair and/or rehabilitation.

**Alternatives**

Direct staff to provide additional information.

**Fiscal Impact**

None

**Attachments**

None