SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-A**

FROM: Steve Mack, General Manager

Meeting Date: May 2, 2013

SUBJECT: APPROVAL OF FISCAL YEAR 2013-2014 WATER RATES

RECOMMENDED ACTION:

A. Hold a public hearing on the proposed Fiscal Year 2013-2014 (FY14) Water Rates;

B. Approve Resolution 13-10 which establishes water rates for FY14, increasing the Base Rate, Water Usage Charge, and Capital Debt Reduction Charges by 3%.

FISCAL IMPACT: Adopts water rates that will increase water sales revenues by approximately $56,000 to fund District operations and capital programs in FY14.

DISCUSSION:

Sweetwater Springs Water District's current financial condition is good with one exception – lack of sustainable funding for ongoing capital improvements. The District has adequate revenues to fund operations, and debt repayment is covered mostly by the annual Flat Charge that appears on the property tax bill and by the Capital Debt Reduction Charge (CDRC). In recent years, after payment of all other expenses, the District has had approximately $250,000 in revenues from water rates to contribute towards capital expenses. This amount is too small to fund the capital programs needed by the District to bring its infrastructure up to standard. Recent capital programs have been funded by loans or by funding assistance from the Russian River Redevelopment Committee (RRROC) and the Sonoma County Community Redevelopment Agency. More loans are not advisable and RRROC funding assistance has ended with the termination of the Redevelopment program.

There's no question that the District's infrastructure is substandard. Even with the capital programs of the past several years, the District averages approximately 200 leaks per year, 26% system losses, and requires many service interruptions to repair leaks. Most of the facilities inherited by Sweetwater Springs Water District when it took over Citizen's Utilities in 1992 were constructed in a haphazard manner and all of it needs replacing, except that replaced or constructed in the last twenty years. The District's 2014-19 Capital Improvement Program (CIP) is a "catch-up" CIP which aims to bring the District's water system up to an acceptable standard, as measured by water quality, system leaks, system losses, and fire protection. Beyond the 2014-19 CIP, additional capital expenses

will be needed to continue the catch up and to maintain the water system to an acceptable standard.

To address this situation, in 2011 the Board directed Staff to investigate how to get to a funding level that will provide for a sustainable CIP. Sustainable CIP funding is defined as at least $500,000 in a net operating revenue surplus that can be transferred to the Capital Program.

The proposed 3% rate increase being considered would follow the current rate structure which is based on the 2007 Rate Study. That study recommended annual increases of up to 4% to the Base Rate and Water Usage Charges, and increases to the Capital Debt Reduction Charge (CDRC). In 2011 several alternatives were investigated based on a financial planning model that forecast District finances through FY 2020. That investigation and accompanying Board meetings recommended a series of relatively small (3%) annual increases to the Base Rate and Water Usage Charges. The analysis showed that nine years of 3% increases would bring Capital Program funding to the target sustainable level. The recommended FY14 3% increase will be the 3rd year of 3% increases to those charges.

The CDRC was put in place to cover District capital debt not covered by the Flat Charge and has not been fully raised to cover the debt costs of the 2008 Private Placement Loan (annual payments of $404,314 versus CDRC revenue of approximately $236,000). The District promised not to increase the CDRC as a part of receiving RRROC funding support in 2010 and that promise ran through this current fiscal year. Redevelopment and its support for District capital projects has ended but District debt payments continue. After discussion and recommendation by the Budget Committee, the Board has agreed to keep CDRC increases equal to the Base Rate Charge increase (3%) instead of an earlier plan to increase it at a rate to match debt payments in 3 years which would have meant approximately 20% increases per year.

Table 1 shows the proposed Base Rate, Water Usage and Capital Debt Reduction Charges for various customer classes and tiers. Table 2 shows the effects of the proposed 3% rate increase on typical District water customers based on the various rate classes and median 90th percentile water use for those classes. The table shows the effect on the FY 2014 water bills ($2.25 bimonthly for median single family residential).

Observations:

- The proposed water rates are rounded to the nearest 5 cents (this makes calculations and change making easier for staff). That slightly increases the Tier 1 charge and slightly decreases the Tier 2 charge.

- The proposed 3% increase for the Base Rate, Water Use Rate, and Capital Debt Reduction Charges results in a 3.2% increase for the median residential customer because of the rounding effect on Tier 1 rate.

- The initial analysis for developing sustainable capital funding was done during a declining sales trend and that trend was expected to continue. If water sales continue to increase, as happened in this past year, or are flat, the sustainable capital funding target will be reached sooner than expected and future planned small increases perhaps can be skipped.

Table 1. Sweetwater Springs Water District Water Rates for 2013-14
Base Rate, Water Usage Rate, and Capital Debt Reduction Charge

		Tier 1	Tier 2	Tier 3	Tier 4	
Water Usage Rate		**$ 1.20**	**$ 2.45**	**$ 3.65**	**$ 5.30**	
A. Residential Single Family; no meter multiplier						
	Base Rate	Tier 1 Max Usage (Hcf)	Tier 2 Max Usage (Hcf)	Tier 3 Max Usage (Hcf)	Tier 4 Max Usage (Hcf)	**Capital Debt Reduction Charge (CDRC)**
Any meter size	$ 54.65	8	20	80	>80	$10.00
B. Residential Multiple Family – Multiple Unit Multiplier is 0.55 for every extra unit; no meter multiplier; charges for 2-4 units below.						
Any meter size	**Base Rate**	**Tier 1**	**Tier 2**	**Tier 3**	**Tier 4**	**CDRC**
2 units	$ 84.71	12.4	31	124	>124	$ 15.50
3 units	$ 114.77	16.8	42	168	>168	$ 21.00
4 units	$ 144.82	21.2	53	212	>212	$ 26.50
C. Commercial and Public – meter multiplier based on meter size; no multiple unit multiplier.						
Meter Size (in)	**Base Rate**	**Tier 1**	**Tier 2**	**Tier 3**	**Tier 4**	**CDRC**
0.625	$ 54.65	8	20	80	>80	$10.00
1	$ 136.60	20	50	200	>200	$ 25.00
1.5	$ 273.20	40	100	400	>400	$ 49.95
2	$ 437.10	64	160	640	>640	$ 79.95

Table 2. Effect of 3% Water Rate Increase Effect on Typical Water Users by Class (100 cubic feet (Units))						
	SFR		**MFR, 2 Units**		**Commercial 5/8 Meter**	
Number of Accounts	**3092**		**252**		**132**	
	Median	90%	Median	90%	Median	90%
Median Water Use	7	22	12	32	15	82
Median Bill Current	$ 71.15	$ 109.05	$ 111.65	$ 161.35	$ 89.50	$ 331.35
Median Bill Proposed	$ 73.40	$ 112.15	$ 115.21	$ 165.96	$ 92.15	$ 340.55
Bimonthly Difference	$ 2.25	$ 3.10	$ 3.54	$ 4.60	$ 2.65	$ 9.20
% Increase	3.2%	2.8%	3.2%	2.9%	3.0%	2.8%

Proposition 218 Notice

Notice for proposed water rate increases were mailed to all property owners by March 18, 2013. 3,981 notices were mailed. The Notice provided for an increase to the Base Rate, Water Usage and Capital Debt Reduction Charges of up to 3% for FY 2014 and included the proposed rate schedules and a protest form. At the time of this agenda report writing (April 25, 2013), 176 protests have been received. Below are specific comments received with the protest votes:

If it makes a difference you guys are doing a wonderful job at present. How about next year for an increase as it's really tight right now.

Stop increasing fees to the homeowners! Perhaps you should consider eliminating some of the overpaid administration positions instead.

When you took over Citizens Utiliies in the early 90's you promised to replace all the old pipes. You lied then and you lie now. You just patch up the rusty pipes and we also pay extra to cover the lawsuit you lost on Neeley Rd. Not to mentinon back in 2002? when putting in new plant, you must have had 50 dump trucks a day on Neeley yet you never included repaving Neeley Rd. as part of the project. Now, all of us are driving down the road to hopefully miss the pot holes to limit damage to our cars. No, No, No.

a. Rate reduction requested
b. Capital rate reduction charge eliminated

The water service in Guerneville, CA is already too expensive. The water rate increase will stop owners and tenants from watering the lawns and plants which will dry up and cause more fires. I receive a tax bill from the fire department $115 for last years forest fires cost. Mother nature provides the water and your job is to get to customer and make sure it's drinkable.

I am a summer resident, 3 months, use very little water.

Single disabled person: cannot afford more $. I hardly use ANY water.

Raising the rates is outrageous!

Rate increase is not justified – There was an increase just last year.

The water is not drinkable due to strong taste and odor. I am required to purchase drinkable water 'Poor Service"

☺ - this was a comment (ed)

Resolution No. 13-10

A Resolution of the Board of Directors of the Sweetwater Springs Water District Adopting Water Rates for Fiscal Year 2013-2014

WHEREAS, pursuant to Water Code Section 31007, the District Board of Directors is authorized to establish rates and charges sufficient to pay for operating expenses, provide for repairs and depreciation of works and pay for the principal and interest on debt; and

WHEREAS, pursuant to Water Code Section 31025, the District shall fix and through the General Manager collect water rates; and

WHEREAS, based on the 2007 Rate Study conducted by Brelje and Race ("2007 Rate Study") and other information provided to the Board of Directors, the Board of Directors has evaluated the anticipated revenues and expenditures necessary to operate the District and cover the costs of providing water services to customers of the District; and

WHEREAS, the funding assistance for the District Capital Improvement Program (CIP) from the Russian River Redevelopment Oversight Committee and the Sonoma County Community Redevelopment Agency has allowed the District to delay increases in the Capital Debt Reduction Charge; and

WHEREAS, the District cannot rely on these funding sources to fund the District's CIP in the future; and

WHEREAS, in March of 2013 District staff sent formal notices of the public hearing on the proposed rate structure for Fiscal Year 2013-2014 (FY14) in accordance with the requirements of Article XIII-D, Section 6(b) of the California Constitution, and has included other rate information on the District's website; and

WHEREAS, the formal notices advised ratepayers and property owners of the new proposed rate structure and the process for submitting protests to said rate structure to the District, in accordance with the requirements of Article XIII-D, Section 6(b) of the California Constitution; and

WHEREAS, the District Board of Directors conducted a public hearing on May 2, 2013 to hear public testimony on the proposed water rate structure for FY14, and heard all testimony regarding the proposed water rates and accepted all related comments and protests for FY14; and

WHEREAS, at the conclusion of the public hearing the District Clerk tabulated the number of protests and reported that there was not a majority protest of the proposed water rate structure for FY14; and

WHEREAS, based on the evidence and testimony provided at the time of the public hearing on this matter, the Board of Directors finds as follows:

1. The proposed rate increases set forth in Exhibit "A" follow the recommendations of the 2007 Rate Study that was commissioned by the District Board of Directors as a basis for restructuring water rates commencing in May 2009.

2. Pursuant to the analysis and recommendations contained in the 2007 Rate Study, the proposed water rates are directly related to the District's actual cost of providing water service and are not levied for general revenue purposes.

3. Based on the 2007 Rate Study, the proposed water rates needed to cover those costs of operation, repair, and maintenance costs of the District's water system are neither excessive nor discriminatory.

4. Proper notice of the proposed rate structure and notice of a public hearing on the matter has been given to all ratepayers and owners of identified parcels within the District, in accordance with applicable law.

5. The proposed water rates, as described in Exhibit "A", attached, were not protested by a majority of the persons eligible to protest said rate structure.

NOW, THEREFORE BE IT RESOLVED that the Board of Directors of the Sweetwater Springs Water District adopts the following:

Section 1. Base Rate, Water Usage, and Capital Debt Reduction Charges. Effective on all bills issued on or after July 1, 2013, the bi-monthly Base Rate, Water Usage Rate, and Capital Debt Reduction Charges shall be as shown in Table 1 of Exhibit "A", attached.

Section 2. Severability. If any section, subsection, sentence, clause of phrase or this Resolution is for any reason held by a court of competent jurisdiction to be invalid or unconstitutional, such decision shall not affect the validity of the remaining portions of the Resolution. The District Board of Directors hereby declares that it would have passed this Resolution and each section, subsection, sentence, clause and phrase thereof irrespective of the fact that one or more sections, subsections, sentences, clauses or phrases may be held invalid or unconstitutional.

I hereby certify that the foregoing is a full, true, and correct copy of a Resolution duly and regularly adopted and passed by the Board of Directors of the SWEETWATER SPRINGS WATER DISTRICT, Sonoma County, California, at a meeting held on May 2, 2013, by the following vote.

Director	Aye	No
Sukey Robb-Wilder	_____	_____
Tim Lipinski	_____	_____
Richard Holmer	_____	_____
Gaylord Schaap	_____	_____
Victoria Wikle	_____	_____

_____
Richard Holmer
President of the Board of Directors

_____
Attest: Julie A. Kenny
Clerk of the Board of Directors

Exhibit A

Sweetwater Springs Water District
Water Service Base Rate, Usage Charges and Capital Debt Reduction Charge

Effective on all bills issued on or after July 1, 2013

The rates indicated below shall be effective on all bills issued on or after July 1, 2013, and these fees, rates and charges shall supercede and replace those in Resolution 12-08.

Table 1. Sweetwater Springs Water District Water Rates for 2013-14 Base Rate, Water Usage Rate, and Capital Debt Reduction Charge						
		Tier 1	**Tier 2**	**Tier 3**	**Tier 4**	
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1.5	$ 273.20	40	100	400	>400	$ 49.95
2	$ 437.10	64	160	640	>640	$ 79.95

USER CLASSIFICATIONS. For the purposes of assessing water charges provided for in this exhibit, user classifications shall be as follows:

1. Residential Single Family: Applicable to all accounts serving one detached dwelling unit.
2. Residential Multiple Family: Applicable to all accounts serving two or more living units, as defined by District Policy 3010.70.
3. Commercial and Public: Applicable, without regard to meter size, to all accounts serving mercantile buildings, motels and other short term lodging establishments, office buildings, institutional buildings, parks, schools, churches, and other commercial and public agency establishments.