SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: May 3, 2018

SUBJECT: APPROVAL OF FISCAL YEAR 2018-2019 WATER RATES

RECOMMENDED ACTION:

A. Hold a public hearing on the proposed Fiscal Year 2018-2019 (FY19) Water Rates;

B. Approve Resolution 18-06 which establishes water rates for FY19, 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 $90,000 to fund District operations and capital programs in FY19 and beyond.

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. In the past the District had funding support for its capital projects from the Russian River Redevelopment Committee (RRROC) and the Sonoma County Community Redevelopment Agency but that source of support has ended and capital projects are now funded by the District.

In the current fiscal year the District is funding the 2018 Capital Improvement Project (CIP) (Phases 2 and 3 of the 2017 Capital Improvement Project) with a loan from the USDA. This project is estimated to cost approximately $1.2 million, is needed to protect the water supply delivery to Rio Nido, and sufficient reserves were not available to fund this project and would not be available for several years without outside funding assistance. That loan will need to be repaid and the District is still in the position of needing more funding for annual capital improvements. For the FY19 CIP, the District plans a smaller project - replacement of the green sand filter at the Monte Rio Treatment Facility - and will use the additional revenues to fund capital projects in coming years.

There's no question that the District's infrastructure is substandard. Even with the capital projects of the past several years, the District averages approximately 110 leaks per year (down from over 300 prior to the 2008 startup of capital improvements), 25% 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 2017-24 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 2017-24 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. We define sustainable CIP funding as at least $500,000 in net capital funding (net operating funds minus debt payments not covered by the capital debt reduction charge revenue and the annual assessment) that can be transferred to the Capital Program. This would allow the District to fund $1 million capital projects, the approximate size of the District's typical capital projects, every other year.

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) to fully cover debt costs. 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, Water Usage Charges, and Capital Debt Reduction Charge (CDRC). The analysis showed that nine years of 3% increases would bring Capital Program funding to the target sustainable level. The recommended FY19 3% increase will be the 8th year of 3% increases to those charges.

District staff also recommend raising the fee for weekend and holiday service calls and turn-ons from $70 to $100, and use of hydrant water (water truck or meter) from $4/unit to the Tier 4 water rate in effect (which is $6.35/unit with the proposed FY19 water rates). These fee increases will not have a substantial impact on revenues but are proposed to keep these fees more in line with the water rates District regular customers pay and the actual cost of water.

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 FY19 water bills ($2.55 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 rates because last year the rounding slightly decreased the tier rates.

- The proposed rate increases are not in response to drought water sales reductions and are not increases to specifically encourage reducing water use. The District's rate structure does include tiers that do encourage efficient use of water regardless of where we are in a drought cycle. If water use continues to fall, the District will not achieve the desired increase in revenues, but we believe that now that this drought is over (but another will return some day), water will return to near pre-drought levels and the continued program of small annual increases will have the desired effect of building capital funding to the $500,000 target.

Table 1. Proposed Sweetwater Springs Water District Bimonthly Water Rates for FY 2018-19, 3% Increase for Water Usage and Base Rates, and CDRC

Meter Size (in)	Base Rate	Water Usage Rate				Capital Debt Reduction Charge	Base Rate + CDRC
		Tier 1	Tier 2	Tier 3	Tier 4		
		1.45	2.90	4.35	6.35		
		Max Usage (Hcf)	Max Usage (Hcf)	Max Usage (Hcf)	Max Usage (Hcf)		
0.625	$ 63.35	8	20	80	>80	$ 11.60	$ 74.95
1	$ 158.40	20	50	200	>200	$ 29.00	$ 187.38
1.5	$ 316.75	40	100	400	>400	$ 58.00	$ 374.75
2	$ 506.80	64	160	640	>640	$ 92.80	$ 599.60

- *The Base Rate and Capital Debt Reduction Charge (CDRC) increases for meter sizes larger than 0.625 apply only to Commercial and Public accounts.*
- *The Base Rate and CDRC are also increased by the Multiple Unit Multiplier of 0.55 for Multi-Family accounts. For examples, with a 2 unit account, the Base Rate is $98.19 and the CDRC is $17.98.*

Table 2. 3% Water Rate Increase Effect on Typical Water Users by Class (100 cubic feet (Units), FY18-19						
	Single Family Residential		Multi-Family Residential, 2 Units		Commercial 5/8 Meter	
Number of Accounts	**3060**		**284**		**135**	
	Median	90%	Median	90%	Median	90%
Median Water Use	7	22	12	32	15	82
Median Bill Current	$ 82.55	$ 126.65	$129.56	$187.38	$103.90	$ 385.45
Median Bill Proposed	$ 85.10	$130.05	$133.57	$192.44	$106.85	$395.05
Bimonthly Difference	$ 2.55	$ 3.40	$ 4.01	$ 5.06	$ 2.95	$ 9.60
% Increase	3.1%	2.7%	3.1%	2.7%	2.8%	2.5%

Proposition 218 Notice

Notice for proposed water rate increases were mailed to all property owners by March 19 2018. 3,199 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 2019 and included the proposed rate schedules and a protest form. At the time of this agenda report writing (April 26, 2018), 151 protests had been received. Below are specific comments received with the protest votes:

Summer home - $20 more than SF, full time residence for water and sewer.

I protest the base rate increase because it is not fair to owners of small properties like mine. I have a 750 square foot cabin (1 bathroom) and unfair that my base rate is the same as my neighbors who have large houses of 1500 plus square feet and 2+ bathrooms - and much more occupancy!

I hope the Board of Directors will consider not raising the water rates for summer homes only. I would be paying for 8 months of no usage. I think a small percentage for summer homes would be fine. I would like for the Board to rethink this increase. Do the right thing this time. I always protest these water increases but do you listen!!

How can you try to raise our rates every year? Stop!!!

Resolution No. 18-06

A Resolution of the Board of Directors of the Sweetwater Springs Water District Adopting Water Rates for Fiscal Year 2018-2019

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, in March of 2018 District staff sent formal notices of the public hearing on the proposed rate structure for Fiscal Year 2018-2019 (FY19) in accordance with the requirements of Article XIII-D, Section 6(a) 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(a) of the California Constitution; and

WHEREAS, the District also wishes to change certain fees that are not property related to adjust those fees in concert with the water rates and service charges that District customers pay, said fees are for weekend service calls and hydrant water use; and

WHEREAS, the District Board of Directors conducted a public hearing on May 3, 2018 to hear public testimony on the proposed water rate structure for FY19 and heard all testimony regarding the proposed water rates and accepted all related comments and protests for FY19; 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 FY19; 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 revenues derived from the proposed water rates do not exceed the District's actual cost of providing water service, are not used for any purpose

other than that for which the charges were imposed and are not levied for general revenue purposes.

3. Based on the 2007 Rate Study, the proposed water rates do not exceed the proportional cost of the service attributable to the properties receiving service, and the charges are imposed only on those properties actually receiving service or those for which service is immediately available.

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, 2018, 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 or phrase of 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 3, 2018, by the following vote.

Director	Aye	No
Sukey Robb-Wilder	_____	_____
Tim Lipinski	_____	_____
Richard Holmer	_____	_____
Gaylord Schaap	_____	_____
Pip Marquez de la Plata	_____	_____

_____
Pip Marquez de la Plata
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, 2018

The rates indicated below shall be effective on all bills issued on or after July 1, 2018, and these fees, rates and charges shall supercede and replace those in Resolution 17-04.

Table 1. Sweetwater Springs Water District Water Rates for 2017-18 Base Rate, Water Usage Rate, and Capital Debt Reduction Charge						
		Tier 1	Tier 2	Tier 3	Tier 4	
Water Usage Rate		$1.45	$2.90	$4.35	$6.35	
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	$ 63.35	8	20	80	>80	$ 11.60
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	$ 98.19	12.4	31	124	>124	$ 17.98
3 units	$ 133.04	16.8	42	168	>168	$ 24.36
4 units	$ 167.88	21.2	53	212	>212	$ 30.74
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	$ 63.35	8	20	80	>80	$ 11.60
1	$ 158.40	20	50	200	>200	$ 29.00
1.5	$ 316.75	40	100	400	>400	$ 58.00
2	$ 506.80	64	160	640	>640	$ 92.80

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.

Other District Fees:

This section amends parts of Exhibit 1 of Ordinance 29 which establishes certain District fees and Special Charges.

Weekend and holiday service calls and turn-ons: $100
Policy 3020.130

Use of hydrant water (water truck or meter): Tier 4 water rate in effect.
Policy 3090.70 (c and d)