SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: May 7, 2015

SUBJECT: APPROVAL OF FISCAL YEAR 2015-2016 WATER RATES

RECOMMENDED ACTION:

A. Hold a public hearing on the proposed Fiscal Year 2015-2016 (FY6) Water Rates;

B. Approve Resolution 15-05 which establishes water rates for FY16, increasing the Base Rate, Water Usage Charge, and Capital Debt Reduction Charges by 3% and raises fees for District labor costs.

FISCAL IMPACT: Adopts water rates that will increase water sales revenues by approximately $60,000 to fund District operations and capital programs in FY16.

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. The District has 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, other grant sources have not appeared, and capital projects are now funded solely by the District.

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 150 leaks per year (down from over 300 prior to the 2008 startup of capital improvements), 23% 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 capital funding (net operating funds minus debt payments not are not covered by the capital debt reduction charge revenue and the annual assessment) 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) 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 FY16 3% increase will be the 5th year of 3% increases to those charges.

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 FY15 water bills ($2.35 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, and Tier 3 charges, and slightly decreases the Tier 2 and Tier 4 and Base Rate charges.

- The proposed rate increases are not in response to drought water sales reductions or 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 when the drought is over, 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.

- The fee increases for District labor apply to fees charged for performing work for customers or others requiring work by District staff. These haven't been changed since 2006 and reflect current actual costs for these labor categories.

Table 1. Sweetwater Springs Water District Water Rates for 2015-16 Base Rate, Water Usage Rate, and Capital Debt Reduction Charge

		Tier 1	Tier 2	Tier 3	Tier 4	
Water Usage Rate		**$ 1.35**	**$ 2.65**	**$ 4.00**	**$ 5.80**	
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	$ 57.95	8	20	80	>80	$10.60
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	$ 89.82	12.4	31	124	>124	$16.43
3 units	$ 121.70	16.8	42	168	>168	$22.26
4 units	$ 153.57	21.2	53	212	>212	$28.09
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	$ 57.95	8	20	80	>80	$10.60
1	$ 144.88	20	50	200	>200	$26.50
1.5	$ 289.75	40	100	400	>400	$53.00
2	$ 463.60	64	160	640	>640	$84.80
D. Fees for District Labor: $75/hour maintenance worker; $125/hour with backhoe and operator; $75/hour inspection services.						

Table 2. 3% Water Rate Increase Effect on Typical Water Users' Water Bills by Class (100 cubic feet (Units), FY15-16

	Single Family Residential		**Multi-Family Residential, 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	$ 75.65	$ 115.85	$ 118.75	$ 171.48	$ 95.15	$ 350.35
Median Bill Proposed	$ 78.00	$ 119.15	$ 122.45	$ 176.28	$ 97.90	$ 362.75
Bimonthly Difference	$ 2.35	$ 3.30	$ 3.70	$ 4.80	$ 2.75	$ 12.40
% Increase	3.1%	2.8%	3.1%	2.8%	2.9%	3.5%

Proposition 218 Notice

Notice for proposed water rate increases were mailed to all property owners by March 23, 2015. 3,504 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 2016 and included the proposed rate schedules and a protest form. At the time of this agenda report writing (April 29, 2015), 238 protests had been received. Below are specific comments received with the protest votes:

Please reduce your labor costs to be more efficient. We are all struggling to live within our budgets.

I'm on a fixed budget and can't afford this!

Spendthrift!

We are just summer residences, why should we pay the same as all year residence! I would like to know if this ballot really helps. I don't think so!!!

This is the 4th year of drought. Why not make changes that provide incentives for conservation? Raise the usage rate more instead of the base rate.

Are these truly counted? Every year I protest and every year the rates go up. We have HORRIBLE water that can't be drunk. We are only summer residents. We should not be made to pay more when we only use it 3months a year. It's wrong!

Across-the-board fee increases make life easier for YOU but not for low-income, responsible customers. We all want clean, abundant water sources and many of us are already doing our part to achieve this. Here are the things I'm doing to help you: I live alone, flush my toilets only every 3rd use, limit my showers, keep no lawn or garden, water container plants from a kitchen bucket of run-off water, don't use my garbage disposal, wash my car only once a year. What are you doing besides closing your budget gap by beginning with a total dollar amount then just dividing it? You must make an effort to equalize assessments by increasing the percentages of the BIG CONSUMERS, not the little ones.

That sounds like a pretty big salary increase!

This is a summer cabin and only used May 30-Oct. 1. Very little water is used. There should be no reason to increase the water rate at the above address! No plants, washing machine, etc.!!

One of my compaints is there are several leaks on Woodland and Sunset Aves. They are always leaking which is a waste of water. They are fixed temporarily by a bandaid approach. When is Capital Improvement (cut off, ed)

Why do I protest you ask. My home is not protected by a fire hydrant. 2 homes have burned to the ground in the last 6 years due to no hydrants near by - an outrage!

This is only a summer cabin fo our family.

Excerpt - I find the labor fee increases in REsolution 15-05 to be exorbitant: 50% wage hike for inspectors and maintenance workers, and 15% wage hike for backhoe operators. The fact that these increase are

convenient multiples of 15% makes it clear to me, in my experience as a project manager, that these are unconsidered numbers that are not backed up by real costs or thorough research data on labor shortages...

Only protesting the 50% increase in District Labor and Inspection from $50 to $75 per hour, and the 25% increase in fees for backhoe and operator from $100 to $125 per hour. Increases are not substantiated.

Very limited income, cannot afford.

Resolution No. 15-05

A Resolution of the Board of Directors of the Sweetwater Springs Water District Adopting Water Rates for Fiscal Year 2015-2016

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 2015 District staff sent formal notices of the public hearing on the proposed rate structure for Fiscal Year 2015-2016 (FY16) 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 7, 2015 to hear public testimony on the proposed water rate structure for FY16, and heard all testimony regarding the proposed water rates and accepted all related comments and protests for FY16; 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 FY16; 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, 2015, 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 7, 2015, by the following vote.

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

_____
Gaylord Schaap
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, 2015

The rates indicated below shall be effective on all bills issued on or after July 1, 2015, and these fees, rates and charges shall supercede and replace those in Resolution 14-05.

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D. Fees for District Labor: $75/hour maintenance worker; $125/hour with backhoe and operator; $75/hour inspection services.						

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.