SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: May 1, 2014

SUBJECT: APPROVAL OF FISCAL YEAR 2014-2015 WATER RATES

RECOMMENDED ACTION:

A. Hold a public hearing on the proposed Fiscal Year 2014-2015 (FY15) Water Rates;

B. Approve Resolution 14-05 which establishes water rates for FY15, 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 $62,000 to fund District operations and capital programs in FY15.

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 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 recent startup of capital improvements), 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 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). 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 FY15 3% increase will be the 4th 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 $238,000 in FY13). In FY14 (last year) 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. The 3% increase for the CDRC is continued for FY15.

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 ($2.25 bimonthly for median single family residential).

Table 1. Sweetwater Springs Water District Water Rates for 2014-15
Base Rate, Water Usage Rate, and Capital Debt Reduction Charge

		Tier 1	Tier 2	Tier 3	Tier 4	
Water Usage Rate		**$ 1.30**	**$ 2.60**	**$ 3.85**	**$ 5.60**	

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	$ 56.25	8	20	80	>80	$10.30

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	$ 87.19	12.4	31	124	>124	$ 15.97
3 units	$ 118.13	16.8	42	168	>168	$ 21.63
4 units	$ 149.06	21.2	53	212	>212	$ 27.30

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	$ 56.25	8	20	80	>80	$10.30
1	$ 140.63	20	50	200	>200	$ 25.75
1.5	$ 281.25	40	100	400	>400	$ 51.50
2	$ 450.00	64	160	640	>640	$ 82.40

Table 2. 3% Water Rate Increase Effect on Typical Water Users by Class (100 cubic feet (Units), FY14-15

	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	$ 73.40	$ 112.15	$ 115.21	$ 165.96	$ 92.15	$ 340.55
Median Bill Proposed	$ 75.65	$ 115.85	$ 118.75	$ 171.48	$ 95.15	$ 350.35
Bimonthly Difference	$ 2.25	$ 3.70	$ 3.55	$ 5.52	$ 3.00	$ 9.80
% Increase	3.1%	3.3%	3.1%	3.3%	3.3%	2.9%

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, Tier 2 and Tier 3 charges and slightly decreases the Tier 4 and Base Rate charges.

Proposition 218 Notice

Notice for proposed water rate increases were mailed to all property owners by March 17, 2014. 3,213 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 24, 2014), 183 protests had been received. Below are specific comments received with the protest votes:

As a summer resident and a short one at that, I object strongly paying even more for my minimal use!

It is an outrage, every year the base price goes up, the service is the same. We at the end of the street get water that is often black or tinted. We live hear 21 years, we save intensely and yet the prices go up and up.

Property located at xxxx Rio Nido is a summer cottage, used only June thru September. I still am forced to pay a base rate for 8 month per year, even though no water is turned on during those months. I currently pay $32.33/month for 8 months and receive nothing!

This is not a fair vote method. How about placing a check box stating "____ I agree to the proposed rate increase?" Let's see if 51% agree to increase rates. I'd like to see an audit of time, materials and salary of all involved in the operation of Sweetwater Springs Water District, along with any grants or government subsidies and account received. Where is that website?

I'm retired and am living (surviving) on a small amount of money as are so many elders. Right now I pay all bill for little water! You are great people doing a good job! But please consider giving us oldsters a break! No No No No Increase.

The direct charge for Sweetwater Springs Imp. On property taxes is $198.00. I'm a widow, 93 years of age trying to manage all these expenses. Enough is enough.

No allowance made for senior citizens or those who are only intermittent residents and are required to may monthly fees even though no water is provided/used.

I have a new fire tax of $115. What next?

I am writing to formally register my protest against the proposed water rate increases. While I agree that the water system certainly needs upgrades and repairs to the infrastructure I don't believe it should be only the customers responsibility to bear that cost in their water bills. We

pay very high property taxes and the water district receives funds from those taxes. (much more follows, ed)