# SWEETWATER SPRINGS WATER DISTRICT

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

**FROM:** Steve Mack, General Manager

Meeting Date: March 3, 2011

**SUBJECT: FY 2011-2012 BUDGET/POSSIBLE WATER RATE INCREASE**

**RECOMMENDED ACTION:** Receive a report on the District FY 2011-2012 Budget possible water rate increase and provide direction to staff and the *ad hoc* Budget Committee.

**FISCAL IMPACT:** An increase to water rates will increase revenues to the District.

**DISCUSSION:**

Staff have presented information to the Board about possible increases for the Base Rate and the Water Usage Rate for FY 2012. The rate increases 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%. Several alternatives have been presented based on a financial planning model the forecasts District finances through FY 2020. Using the model the analyses show:

- Having no rate increase during the planning period (2012-2020) depletes District revenues such that capital improvements would not be possible after District reserves are brought down to policy levels.

- A 3% annual increase during the planning period develops approximately $500,000 in revenues available for capital expenses at the end of the planning period. Staff consider that amount appropriate for a sustainable capital program.

- The rate increase discussion is not about funding the 2012-2018 CIP. The 2012-2018 CIP is a catch up CIP needed to bring the District's dilapidated infrastructure up to an appropriate functioning level. Staff's opinion is that the District cannot raise rates fast enough and high enough to fund this CIP (see later comments on this). Funding assistance is needed.

At the February meeting the Board asked for more information. Specifically the Board asked to see impacts of a rate increase on typical District customers, wondered how high rate increases would need to be to fund the approved CIP, and asked staff and the Budget Committee to review the effects of 2.5% and higher than 3% increases.

Table 1 shows current District water rates. Table 2 shows District rates for various customer classes and tiers should the Base Rate and Water Use Rate be increased 3%. Table 3 shows the effects of a 3% rate increase on typical District water customers based on the various rate classes and median water use for those classes. The table shows the effect on the FY 2012 water bills ($1.85 bimonthly) and the effects in nine years ($25.53 bimonthly) should a 3% annual increase be approved through the nine-year planning period. Observations:

- A 3% increase for the Base Rate and the Water Use Rate results in a 2.7% increase for the median residential customer because water bills include the Capital Debt Reduction Charge which is not being changed.

- The nine-year projection is more than a 3% annual increase because the analysis assumes that the CDRC will be increased to full recovery at some point during the planning period (and over a 3 year period).

- The FY 2012 examples assume the water rates will be 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.

Staff and the Budget Committee reviewed the results of analyses for 2.5% and 4% rate increases and also discussed the possibility of multiyear rate increases for the purposes of compliance with Proposition 218 which requires a specifically structured notice to property owners for any water rate increase. Points of discussion included:

- Water rate increases higher or lower than 3% result in higher and lower revenues available for capital improvements and have proportionate effects on water rates for typical customers.

- A multiyear Proposition 218 notice could be done with the wording something like “a water rate increase for the Water Use Rate and Base Rate of up to 3% (or some other amount) and the District could raise rates to that amount without additional notice.

- If the District uses this approach it would still notice customers of any potential water rate increase in every year proposed through water bill inserts. And the District will do this in years that a Proposition 218 notice is done because the Proposition 218 notice only goes to property owners. Customers who are not property owners do not get the Proposition 218 notice.

- The current discussion does not include increasing the CDRC, but the District does plan to increase the CDRC to cover full cost of debt payments. The District promised not to increase the CDRC for two years as a part of receiving RRROC funding support in 2010 and that promise runs through FY 2012. Staff is assuming the CDRC would not be increased for 2013 should the Sonoma County Community Development Commission approve the RRROC funding support for the 2012 and 2013 CIP. At some time in the not too distant future, funding support from RRROC will cease and it will be appropriate to increase the CDRC. An increase to the CDRC will also require Proposition 218 notice and that makes less useful a multi-year Proposition 218 notices for the 3% (or any other amount) in the length of the planning model (nine years, for example).

- Staff consider a sustainable CIP to be one that is approximately one half the size, in terms of annual cost, to the currently approved CIP. The current CIP is a catch- up CIP designed to accelerate the replacement and repair of the dilapidated infrastructure the District inherited when it took over from Citizens Utilities.

Analysis by the financial planning model shows that the rate increase needed to fully fund the approved CIP is 7.2% through 2018. This analysis includes the recent funding support approved by RRROC. This would result in a bimonthly $4.30 increase for the median residential user for next year and an approximate $57 bimonthly increase over 9 years.

**Proposition 218 Notice**

Based on the review of District budgetary needs and analysis by the financial planning model which has been shared with the Board and Budget Committee, discussions with the Budget Committee and prior discussions with the Board, staff recommends a 3% Base Rate and Water Use Rate increase for FY 2012. The financial planning model indicates that annual water rate increases of approximately that amount are necessary to build revenues to a point where a sustainable capital program can be achieved.

Proposition 218 requires that 45 day notice be given to property owners within the District for rate increases. Questions have been asked about having one Proposition 218 notice for a multiple year rate increase, for example, an annual rate increase up to 3% for the nine-year planning period. Water rates must be collected in amounts appropriate for the operations of the water utility. Staff has shown that a 3% water rate increase would develop revenues for a sustainable capital improvement program – the finding can be made that the rate increase is necessary for sustainable District operations. However, the District has plans to increase the CDRC in future years, possibly as soon as FY

2014. Because of the possible CDRC increase, staff recommends a Proposition 218 notice of no more than two years. Regardless of the Proposition 218 notice, staff will also include water bill inserts for March and April in every year the Board considers water rate increases as part of the annual budget adoption.

| Table 1. Current Sweetwater Springs Water District Rates, FY 2011 | | | | | | |
|---|---|---|---|---|---|---|
| **Meter Size (in)** | **Base Rate** | **Water Usage Rate** | | | | **Capital Debt Reduction Charge** |
| | | Tier 1 | Tier 2 | Tier 3 | Tier 4 | |
| | | 1.15 | $2.30 | $3.45 | $5.00 | |
| | | Max Usage (Hcf) | Max Usage (Hcf) | Max Usage (Hcf) | Max Usage (Hcf) | |
| 0.625 | $50.00 | 8 | 20 | 80 | >80 | $9.70 |
| 1 | $125.00 | 20 | 50 | 200 | >200 | $24.25 |
| 1.5 | $250.00 | 40 | 100 | 400 | >400 | $48.50 |
| 2 | $400.00 | 64 | 160 | 640 | >640 | $77.60 |

| Table 2. Proposed Sweetwater Springs Water District Rates for 2011-12, 3% Increase for Water Usage and Base Rates | | | | | | |
|---|---|---|---|---|---|---|
| **Meter Size (in)** | **Base Rate** | **Water Usage Rate** | | | | **Capital Debt Reduction Charge** |
| | | Tier 1 | Tier 2 | Tier 3 | Tier 4 | |
| | | 1.20 | 2.35 | 3.55 | 5.15 | |
| | | Max Usage (Hcf) | Max Usage (Hcf) | Max Usage (Hcf) | Max Usage (Hcf) | |
| 0.625 | $51.50 | 8 | 20 | 80 | >80 | $9.70 |
| 1 | $128.75 | 20 | 50 | 200 | >200 | $24.25 |
| 1.5 | $257.50 | 40 | 100 | 400 | >400 | $48.50 |
| 2 | $412.00 | 64 | 160 | 640 | >640 | $77.60 |

**Table 3. Estimate of 3% Water Rate Increase Effect on Typical Water Users by Class (100 cubic feet (Units))**

| | SFR | MFR, Number of Dwelling Units | | | | Commercial, Meter Size (in) | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | 2 | 3 | 4 | 5 | 5/8 | 1 | 1.5 | 2 |
| **Median Water Use** | 7 | 12 | 18 | 22 | 33.5 | 15 | 47 | 192 | 174 |
| **Number of Accounts** | 3,092 | 252 | 44 | 18 | 6 | 132 | 12 | 1 | 9 |
| Median Bill Current | $67.75 | $106.34 | $139.17 | $172.01 | $204.84 | $85.00 | $234.35 | $799.90 | $820.30 |
| Median Bill Proposed | $69.60 | $109.26 | $142.92 | $176.58 | $210.24 | $86.90 | $240.45 | $821.60 | $841.70 |
| Bimonthly Difference | $1.85 | $2.93 | $3.75 | $4.57 | $5.40 | $1.90 | $6.10 | $21.70 | $21.40 |
| % Increase | 2.7% | 2.8% | 2.7% | 2.7% | 2.6% | 2.2% | 2.6% | 2.7% | 2.6% |
| **9-Year Analysis - Estimated FY 2020 Water Bills** | | | | | | | | | |
| 2020 Bill @3%/yr | $93.28 | $142.45 | $186.86 | $231.28 | $275.69 | $112.44 | $308.45 | $1,031.64 | $1,075.17 |
| Bimonthly Difference | $25.53 | $36.11 | $47.69 | $59.27 | $70.85 | $27.44 | $74.10 | $231.74 | $254.87 |
| % Increase | 38% | 34% | 34% | 34% | 35% | 32% | 32% | 29% | 31% |