SWEETWATER SPRINGS WATER DISTRICT

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

FROM: Steve Mack, General Manager

Meeting Date: May 5, 2011

SUBJECT: APPROVAL OF FISCAL YEAR 2011-2012 WATER RATES

RECOMMENDED ACTION:

A. Hold a public hearing on the proposed Fiscal Year 2011-2012 (FY12) Water Rates;

B. Approve Resolution 11-08 which establishes water rates for FY12, increasing the Base Rate and Water Usage Charges by 3%.

FISCAL IMPACT: Adopts water rates that will increase water sales revenues by approximately $44,000 to fund District operations and capital programs in FY12.

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 will not continue indefinitely.

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 250 leaks per year, 28% 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 2012-18 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 2012-18 CIP, additional capital expenses will be needed to maintain the water system to an acceptable standard.

To address this situation the Board directed Staff to investigate how to get to a funding level that will provide for a sustainable CIP. The Board has discussed possible rate increases to the Base Rate and Water Usage Charges at the past 3 meetings using a financial planning model developed for this purpose. 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% to the Base Rate and Water Usage Charges, and increases to the Capital Debt Reduction Charge (CDRC). Several alternatives have been presented based on a financial planning model that forecasts District finances through FY 2020. Figure 1 shows some of the results of the financial planning model. 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.

- An annual rate increase of approximately 1.5% during this would be needed to keep net operating revenue near current levels.

Table 1 shows the proposed Base Rate and Water Usage Charges for various customer classes and tiers. Table 2 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 for median single family residential) and the effects in nine years ($23.08 bimonthly for same classification) 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 CDRC 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 recommended 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 recommended water rate increases do not include increasing the CDRC. The CDRC was put in place to cover District capital debt 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 $216,000). 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. Because of renewed RRROC funding support, the CDRC increase will be kept off for at least two more years.

Analysis by the financial planning model shows that the rate increase needed to fully fund the approved CIP without additional funding support beyond the recently approved RRROC funding is 7.2% through 2018. 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

Notice for proposed water rate increases were mailed to all property owners by March 21, 2011. The Notice provided for an increase to the Base Rate and Water Usage Charges of up to 3% for FY 2012 and FY 2013 and included the proposed rate schedules and a protest form. At the time of this agenda report writing, 229 protests have been received. The protests include:

AS OF 4/27/2011
TOTAL (VALID) PROTESTS RECEIVED: 229

By Location:
Guerneville: 147
Rio Nido: 35
Monte Rio: 37
Villa Grande: 10

By User Classification:
Single Family: 196
Multi-Family: 25 (total of 80 units)
Commercial: 5
Public: 3

SPECIFIC COMMENTS:

- We feel the increase should not be on the base rate but on the water use charge
- It is high enough already
- If you can include an envelope with a bill, why can't you include one with a vote? Seems you don't want responses. Manipulating an election like this more than petty and not worthy of a community owned water company
- I live here alone on $845 – SSI. I am disabled and am broke by mid-month every month
- You were just awarded a big Redevelopment fund

- Shame shame shame on you
- If you would like me to determine where you could do belt tightening I would be happy to consult
- Who is counting the votes? You?
- You already have the highest water rates in California. Enough is enough. Start laying off water department employees
- Please consider this: I would imagine this is a very difficult time for a great many people and that rather than asking for $ for improvements, you might consider conservatively operating the Water District and actually roll back your fees. Just an opinion!
- Your water is not fit to drink. I always buy spring water for drinking purposes. IN the past, my husband always had a filter going. When he would remove it to replace it with a new one it was always a rusty orange! Water quality is awful!
- Every bill we receive these days is increasing. All of our cost of living expenses are going up, but not our paychecks. It seems as though every business is in debt, and guess who's paying for it. I do appreciate Sweetwater Springs giving us (the community) a voice in this matter. I strongly oppose a rate increase at this time with our economy in its current condition. Thank you
- This property is a summer cottage, used only May, June, July, August and September. For seven months each year we use NO water at all . . . , yet we still must pay the "base" rate. We pay for NOTHING for seven months per year!
- We have a small place and a 2nd home. We are older people and a minimum water usage. Please do not raise our water bill!!

Figure 1. District Net Operating Revenues, FY11-FY20, with Annual Rate Increase Scenarios Funds for Capital Improvements

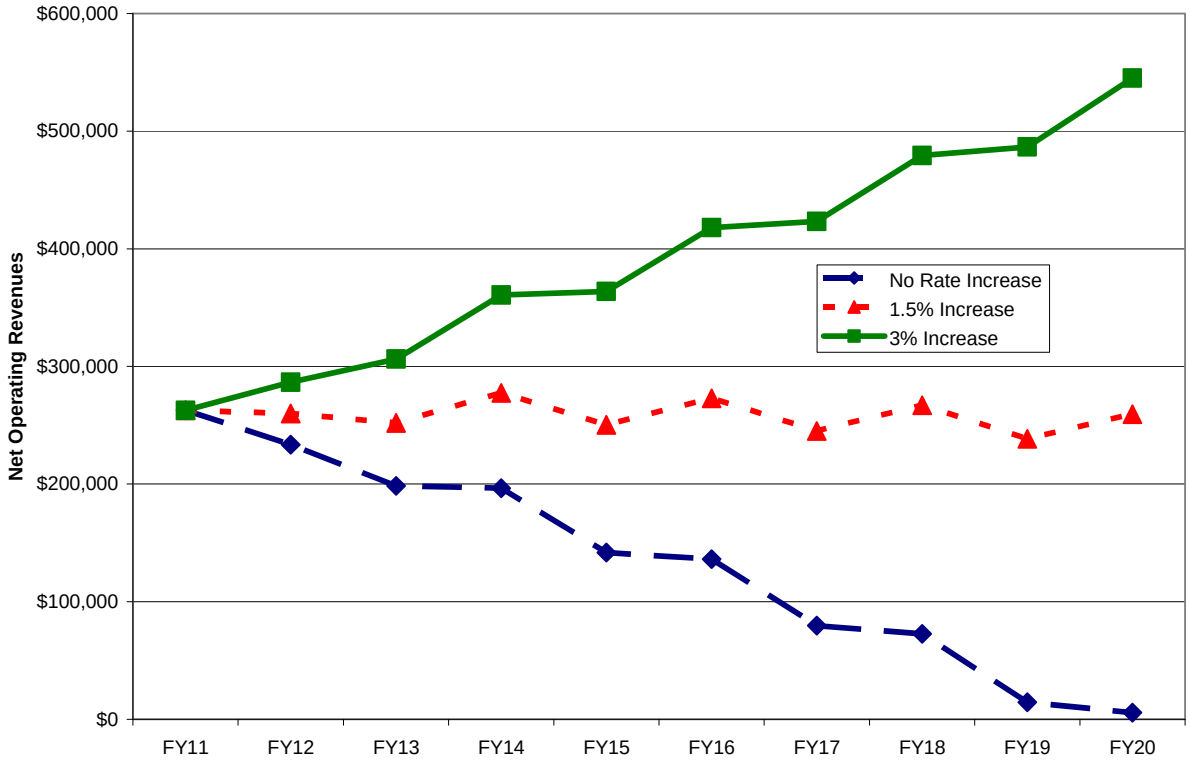

Table 1. Proposed Sweetwater Springs Water District Rates for 2011-12, 3% Increase for Water Usage and Base Rates

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 2. 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	$90.83	$142.45	$186.86	$231.28	$275.69	$112.44	$308.45	$1,031.64	$1,075.17
Bimonthly Difference	$23.08	$36.11	$47.69	$59.27	$70.85	$27.44	$74.10	$231.74	$254.87
% Increase	34%	34%	34%	34%	35%	32%	32%	29%	31%

Resolution No. 11-08

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE SWEETWATER SPRINGS WATER DISTRICT ADOPTING WATER RATES FOR FISCAL YEAR 2011-2012

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 2011 District staff sent formal notices of the public hearing on the proposed rate structure, in accordance with the requirements of Article XIII-D, Section 6(b) of the California Constitution, and provided a water bill insert to all customers explaining the proposed water rate changes 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 5, 2011 to hear public testimony on the proposed water rate structure, and heard all testimony regarding the proposed water rates and accepted all related comments and protests; 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; 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 Charge. Effective on all bills issued on or after July 1, 2011, the bi-monthly Base Rate, Water Usage Rate, and Capital Debt Reduction Charge shall be as shown in Table 1 of Exhibit "A", attached.

Section 2. Severability. If any section, subsection, sentence, clause of phrase of this Ordinance 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 Ordinance. The District Board of Directors hereby declares that it would have passed this Ordinance 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 5, 2011, by the following vote.

Director	Aye	No
Sukey Robb-Wilder	_____	_____
Jim Quigley	_____	_____
Wanda Smith	_____	_____
Gaylord Schaap	_____	_____
Victoria Wikle	_____	_____

_____
Jim Quigley
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, 2011

The rates indicated below shall be effective on all bills issued on or after July 1, 2011, and these fees, rates and charges shall supercede and replace those in Ordinance 39.

Table 1. Sweetwater Springs Water District Water Rates for 2011-12 Base Rate, Water Usage Rate, and Capital Debt Reduction Charge

		Tier 1	Tier 2	Tier 3	Tier 4	
Water Usage Rate		**1.20**	**2.35**	**3.55**	**5.15**	
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	$51.50	8	20	80	>80	$9.70
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	$79.83	12	31	124	>124	$15.04
3 units	$108.15	17	42	168	>168	$20.37
4 units	$136.47	21	53	212	>212	$25.71
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	$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

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.