



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 10/26/2021

To: Board of Supervisors

Department or Agency Name(s): Transportation and Public Works

Staff Name and Phone Number: Johannes J. Hoevertsz, 707-565-2231

Vote Requirement: 4/5th

Supervisory District(s): Fifth

Title:

1:30 P.M. CSA #41 Water - Salmon Creek/ Proposition 218 Hearing/ Adoption of Amended Water Service Ordinance

Recommended Action:

- A) Conduct a hearing of the Board of Supervisors pursuant to Proposition 218 for CSA #41 Salmon Creek Zone of Benefit ("Zone") to consider proposed rate increases for providing water service.
- B) If no majority protest exists, introduce and adopt an amendment to Ordinance No. 4024 of the Board of Supervisors for the Zone to adopt proposed water rate increases, effective July 1, 2022.

(4/5th Vote Required)(Fifth District)

Executive Summary:

The Department of Transportation and Public Works will conduct a hearing to consider proposed annual increase of up to 3% over a five-year period and a continuance of an annual Consumer Price Index (CPI) increase for providing water service to the County Service Area (CSA) #41 Salmon Creek Zone of Benefit. The County provides water services to the community of Salmon Creek and maintains the water system with revenues received from the sale of water and monthly meter charges. As part of the Proposition 218 process, rates are analyzed approximately every 5 years. This process ensures rates are equitable and sufficient to fund water utility operations and capital improvements. In November 2020, County staff reviewed and analyzed the existing rates, costs to the system, and existing fund balance. The analysis determined that existing rates may not be sufficient enough to sustain water system operations and maintenance in order to provide water service to the residents of Salmon Creek.

Staff is introducing and recommending the approval of an amendment to Ordinance No. 4024 to allow for annual rate increases to Base Rates, Water Usage Rates, and other system fees over the next 5 years.

Discussion:

The County's broad objective is to develop fair and equitable rates that adequately fund water utility operations and capital improvements in order to continue to provide water service to the residents of the Salmon Creek community in a manner that complies with safe drinking water laws.

Background

Salmon Creek is located in the unincorporated County along Highway 1 (see Attachment #3). The Zone has 99

customers - 94 have a 5/8" meter and 5 have a 1" meter. The current rate structure is made up of two components: the Base Rate component and the Water Usage component. The Base Rate applies to all customers and is dependent on the size of the installed water meter; the Water Usage applies to each customer per 100 cubic feet consumed within a three-tiered rate structure. These rates, costs to the system, and existing fund balance were reviewed and analyzed by County Staff in November 2020. The analysis demonstrated that the current rates might not meet the County's broad objective over the next 5 years.

Financial Plan and Rate Study Findings

On December 8, 2015, the Board executed an agreement with NBS Government Finance Group, Inc. (NBS) for a Financial Plan and Rate Update Study for the four County Service Area (CSA) #41 Zones of Benefit: Fitch Mountain, Freestone, Jenner and Salmon Creek Zones of Benefit (Zones). The goal of the project was to independently assess and evaluate each of the four zones' existing financial situations and provide recommendations on water rates that would provide each zone with financial stability. Due to a negative protest at the September 13, 2016 Public Hearing, the County did not implement NBS proposed rates.

The Zone's 2021-2022 budget details estimated costs, including operating, debt service obligations, and capital rehabilitation and replacement. County Staff reviewed and analyzed rates, costs to the system, and existing fund balance. The analysis (Attachment #4) projected annual revenue requirements over the next five years, allocated costs to water customers, and evaluated the existing rate structure to collect service charges sufficient to meet the District's financial needs. Based on the analysis, the Zone is not changing how rates are being collected from customers. Currently, rates are collected using a monthly Base Rate (or meter charge) that increases with meter size, and three-tiered Water Usage (volumetric) rates (per 100 cubic feet). The analysis also revealed that existing rates may not cover projected costs required to provide water service unless adjusted for inflation and other rising costs over the next 5 years.

Even though the Salmon Creek water treatment plant and associated distribution network was upgraded with new equipment in the last 10 years, reserves are necessary to be accumulated to replace system components when they come to the end of their useful life. Additional reserves are also necessary to account for unforeseen operating costs that can occur over time. Evaluating these items, the rate analysis determined that up to a 3% increase may be necessary to generate revenue for day-to-day operations and maintenance, and account for necessary reserves to service the system over the next 5 years.

Proposed Rate Increase

The current multi-tiered rate structure is proposed to remain unchanged but includes a rate increase of up to three percent (3%) per year over a five-year period. The rate increase on Water Usage and Base Rate (meter charges) would be applied if warranted after a financial review by County staff. At a minimum, an annual inflationary increase will be assessed to the Base Rate and Water Usage components of monthly fees as well as other system fees, such as water connection fees, administrative fees, etc. The rate proposals were presented to the Salmon Creek Community Water Committee on November 10, 2020. At this meeting, the Community Committee was provided with a financial summary of the Zone's last five (5) years; five (5) year projections with the proposed rate structure and anticipated costs; and charts which depicted the average monthly change to a customer's bill. The proposed rate structure is supported by the Community Committee and County staff. If approved, proposed rates would become effective July 1, 2022, and revenues would increase by up to 3% plus CPI, or \$6,248.

The following table summarizes the current and proposed rates which do not include the automatic annual inflationary increase.

CSA #41 Salmon Creek Zone of Benefit - Rates	Current FY 21-22	Proposed 3% increase (effective 7/1/22)	Proposed 3% increase (effective 7/1/23)	Proposed 3% increase (effective 7/1/24)	Proposed 3% increase (effective 7/1/25)	Proposed 3% increase (effective 7/1/26)
Base Rate (Meter Charge)						
5/8" meter	\$ 71.85	\$ 74.01	\$ 76.23	\$ 78.51	\$ 80.87	\$ 83.29
1" meter	\$ 74.63	\$ 76.87	\$ 79.18	\$ 81.55	\$ 84.00	\$ 86.52
1-1/2" meter	\$ 78.36	\$ 80.71	\$ 83.13	\$ 85.63	\$ 88.19	\$ 90.84
2" meter	\$ 82.05	\$ 84.51	\$ 87.04	\$ 89.65	\$ 92.34	\$ 95.11
Water Usage Charges (per 100 cubic feet consumed)						
1 to 2,000 cf.	\$ 15.46	\$ 15.92	\$ 16.40	\$ 16.89	\$ 17.40	\$ 17.92
2,001 to 2,700 cf.	\$ 19.45	\$ 20.03	\$ 20.63	\$ 21.25	\$ 21.89	\$ 22.54
Over 2,700 cf.	\$ 34.63	\$ 35.67	\$ 36.74	\$ 37.84	\$ 38.98	\$ 40.15

Note: Rates do not include the annual inflationary increase that will be extended by the proposed Ordinance amendment. The CPI has not yet been published by the Bureau of Labor Statistics as of the preparation of this notice.

Based on the water usage analysis of the Salmon Creek system over the last five years, the proposed rate structure for the Zone is recommended to remain a three-tiered rate structure to recover the cost to provide existing levels of water service to customers. The difference in cost to water users will be based on monthly water consumed and the respective meter servicing each customer. Customers will pay a monthly fee according to the three-tier structure for water consumption.

Proposition 218 Procedures

The Rate Analysis demonstrates compliance with Proposition 218's requirements as follows: (1) Revenues from the rates do not exceed the funds required to provide the service; (2) Revenues derived from the rates will not be used for any purpose other than that for which the rate is imposed; (3) The amount of the rate imposed on any parcel or person does not exceed the proportional cost of the service attributable to the parcel; and (4) No rate will be imposed for a service unless that service is used by or immediately available to the owner of the property.

A "Notice to All Property Owners of the CSA #41 Salmon Creek Zone of Benefit" regarding this public hearing and the proposal to adjust water rates was mailed to all property owners and tenants on September 10, 2021 (over 45 days prior to the public hearing) according to the provisions and requirements of Proposition 218 (Constitution of California, Article XIII D, Section 6 (2)). Under Proposition 218, owners of record for a parcel or tenant directly liable for payment of fees subject to the proposed rate increases may submit a written protest regarding the proposed rate increases no later than the close of the public hearing. If there is a majority protest of 50% plus 1 of the current property owners, then the new rates would not be adopted by the Board, and the rates would remain unchanged.

The Summary of Ordinance for CSA #41 Zones of Benefit was published five days before this public hearing.

Staff is recommending the approval of the amendment to the Ordinance No. 4024.

Prior Board Actions:

12/8/15: Board approved Agreement with NBS Government Finance Group, Inc., to prepare a financial plan and rate update study for the CSA #41 Zone of Benefit.

7/30/13: Board adopted Resolution No. 13-0299 providing for the incurrence of indebtedness for the CSA #41 Salmon Creek Zone of Benefit and Resolution No. 13-0300 approving the issuance, sale and delivery by the Sonoma County Public Finance Authority of its water revenue bonds. Sonoma County Public Finance Authority Approved Resolution No. 13-301 providing for the sale and issuance of water revenue bonds for \$792,000 and \$191,000 from the U.S.D.A. 6/18/13: Board adopted Ordinance No. 6038 amending Ordinance 4024, as amended, to include increases to the meter rates, water usage rates, and the new charge levy to be placed on the Sonoma County tax roll for the U.S.D.A. loan repayment.

6/4/13: Board held a Proposition 218 public hearing to adjust the water service charges for operations and maintenance of the water system and to place a charge levy for the system improvements on the tax roll.

FISCAL SUMMARY

Expenditures	FY 21-22 Adopted	FY22-23 Projected	FY 23-24 Projected
Budgeted Expenses	\$0	\$6,248	\$6,561
Additional Appropriation Requested			
Total Expenditures	\$0	\$6,248	\$6,561
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other	\$0	\$6,248	\$6,561
Use of Fund Balance			
Contingencies			
Total Sources	\$0	\$6,248	\$6,561

Narrative Explanation of Fiscal Impacts:

The Fiscal Year 2021-22 adopted budget for CSA #41 Salmon Creek Water Operations projected revenues at \$124,969, which includes revenues from sale of water, as well as anticipated interest revenue. FY 2021-22 revenues were projected conservatively, as water usage was difficult to estimate during the COVID-19 pandemic. Water usage may also be impacted by recent drought conditions. If the proposed increase of up to 3% and CPI are approved, revenues are anticipated to increase by approximately \$6,248, effective July 1, 2022, and would be included in the FY 2022-23 recommended budget.

Staffing Impacts:

Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

None.

Attachments:

1. Ordinance amending Ordinance No. 4026, as amended, of the Board of Supervisors for the CSA #41 Salmon Creek Zone of Benefit.
2. Notice to All Property Owners of the CSA #41 Salmon Creek Zone of Benefit.
3. Map of the Salmon Creek Zone of Benefit.
4. Rate Analysis
5. Board presentation power point

Related Items "On File" with the Clerk of the Board:

None.