



COUNTY OF SONOMA

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

SUMMARY REPORT

Agenda Date: 11/2/2021

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

Supervisorial District(s): Fifth

Title:

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

Recommended Action:

1. Conduct a hearing of the Board of Supervisors pursuant to Proposition 218 for the CSA #41 Freestone Zone of Benefit ("Zone") to consider proposed water rate increases for providing water service.
2. If no majority protest exists, introduce and adopt an amendment to Ordinance No. 4025 of the Board of Supervisors for the Zone to adopt proposed water rate increases, effective January 1, 2022.
(Fifth District, 4/5th Vote Req)

Executive Summary:

The Department of Transportation and Public Works (TPW) is conducting a hearing for consideration of rate increases to water service, for the County Service Area (CSA) #41 Freestone Zone of Benefit ("Zone") of up to 4% per year for a five-year period, as well as an annual minimum inflationary adjustment to the Base Rate and Water Usage components. In addition, the Base Rate component will now be the same for each customer, regardless of meter size. The County provides water services to the community of Freestone and maintains the water system with revenues received from the sale of water and monthly meter charges. Rates are analyzed every 5 years and approved by the Board through a Proposition 218 process. This ensures rates are equitable and sufficient to fund water utility operations and capital improvements. In January 2021, County staff reviewed and analyzed the existing rates, costs to the system, and existing fund balance. The analysis determined existing rates may not be sufficient enough to sustain water system operations and maintenance in order to provide water service to the residents of Freestone.

Staff is introducing and recommending the approval of an amendment to Ordinance No. 4025 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 in a manner that complies with safe drinking water laws.

Background

The Freestone Zone of Benefit is located in the unincorporated County off the Bodega Highway (see Attachment #3). The Zone has 28 customers - 25 of the customers have a 5/8" meter, 1 customer has a 1" meter, 1 customer has a 1-1/2" meter, and 1 customer has a 2" meter. The current rate structure is comprised 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 component is based on how much water a customer consumes (per 1,000 gallons) in three tiers: 0 to 6,000 gallons; 6,001 to 12,000 gallons; and over 12,000 gallons. These rates, costs to the system, and existing fund balance were reviewed and analyzed by County staff in January 2021. 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. After 5 years of implementing the recommended rates, Freestone's fund balance has decreased during that period of time due a variety of factors including: unanticipated expenditures primarily due to costly non-routine repairs such as a replacement pressure booster pump), Replacement for a treatment plant booster, a breaker replacement for a well pump (\$6,035), a fire hydrant replacement coupled with less revenue collected as a result of decrease water usage from 2018 onward and most recently, the temporary closure of Freestone's largest water user due to Covid-19 commercial restrictions, which represents approximately over thirty percent of total water usage of Zone. Based on this, County staff have determined that the revenue received during the last five years was insufficient to accumulate the necessary revenue for providing water service to residents, which includes the cost of operations and maintenance of the Zone.

Proposed Rate Increase

The proposed multi-tiered rate structure for the Zone remains similar to the existing rate structure with the following changes: a) the Base Rate component will now be the same for each customer, regardless of meter size; and b) Water Usage tier rates will be increased to more equitably reflect the cost impacts associated with larger consumptions of water. The proposed rates is for up to 4% per year over a five-year period. The rate increase on Water Usage and Base Rate would be applied if warranted after a financial review by County staff. At a minimum, an annual inflationary increase will be assessed to both the Base Rate and Water Usage components. If approved, proposed rates would become effective January 1, 2022.

The rate proposals were presented to the Freestone community on July 26, 2021. At this meeting, the community was provided with a summary of the last 5 years of financials, charts which depicted the average monthly change to a customer's bill, and 5-year projections with the proposed rate structure and anticipate

future capital expenditure of the Zone. The proposed rates will increase each year by CPI and be subject up to an additional 4% increase, if warranted, based on a financial review by County staff. The rate structure presented below is supported by the Freestone Community Water Committee and County staff. If approved, proposed rates would become effective January 1, 2022.

The following table summarizes the current rates and proposed tiered restructure and rates:

CSA #41 Freestone Zone of Benefit - Rates	Current FY 21-22	Proposed increase (effective 1/1/22)	Proposed 4% increase (effective 7/1/22)	Proposed 4% increase (effective 7/1/23)	Proposed 4% increase (effective 7/1/24)	Proposed 4% increase (effective 7/1/25)	Proposed*
Base Rate (Meter Charge)							
5/8" meter	\$ 76.84	\$ 77.00	\$ 80.08	\$ 83.28	\$ 86.61	\$ 90.08	\$ 93.68
1" meter	\$ 79.44	\$ 77.00	\$ 80.08	\$ 83.28	\$ 86.61	\$ 90.08	\$ 93.68
1-1/2" meter	\$ 82.05	\$ 77.00	\$ 80.08	\$ 83.28	\$ 86.61	\$ 90.08	\$ 93.68
2" meter	\$ 84.65	\$ 77.00	\$ 80.08	\$ 83.28	\$ 86.61	\$ 90.08	\$ 93.68
Water Usage (per 1,000 gallons consumed)							
1 to 6,000	\$ 27.80	\$ 32.03	\$ 33.31	\$ 34.64	\$ 36.03	\$ 37.47	\$ 38.97
6,001 to 12,000	\$ 30.50	\$ 39.53	\$ 41.11	\$ 42.76	\$ 44.47	\$ 46.24	\$ 48.09
Over 12,000	\$ 42.50	\$ 48.96	\$ 50.92	\$ 52.96	\$ 55.07	\$ 57.28	\$ 59.57

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

County staff recently completed a financial analysis, which projected annual revenue requirements over the next five years, allocated costs to water customers served, and evaluated and recommended a rate structure to collect service charges sufficient to meet the District’s financial needs.

Based on the rate analysis, the Zone is moving to a single Base Rate, or meter charge. Currently rates are collected using a monthly Base Rate that increases with meter size for all customers within the Zone, and three-tiered Water Usage (volumetric) rates (per 1,000 gallons). New Base Rates for all water users will be the same monthly rate, and the water consumption ranges of the three-tiered Water Usage rate will remain unchanged.

The following additional details are provided:

a. Consolidation of Base Rate charges: This component is a consolidation of existing meter charges to a single rate, regardless of meter size. The current charge to each water user is based on the meter size located at the property with increased costs for larger meters. However, based the analysis by staff, it was determined the effort to provide fixed services was the same for each customer, regardless of meter size, such that consolidating to one rate was more equitable. The new proposed consolidated base meter rate will result in a 0.6% increase for 5/8" meters and will result in the following decreases: 3.07% on 1" meters, 6.15% on 1.5" meters, and 9.04% on 2" meters.

b. Increase to the Water Usage Rates: This component is an increase to the Water Usage component (per 1,000 gallons). For the past five years, the Zone has been operating at a deficit. A significant portion of the deficit, approximately \$48,000, is attributed to numerous large non-routine maintenance repairs on the aging water system. Revenues from the sale of water to customers do not cover the increased costs for operations, maintenance and other services requiring the use of reserves, thereby reducing the overall balance of reserves. Water Usage tiers will remain the same as shown on the table in Section 2, but the rate increase per tier will increase as follows: Tier 1, 15.2% increase; Tier 2, 29.6% increase; and Tier 3, 15.2% increase. These increases will allow the system to charge customers more equitably, as larger consumption of water places a bigger strain on the water system and therefore higher costs to the system as a whole. Staff's analysis shows that the percentage increases for the three tiers will provide the Zone with sufficient revenue to cover the expenses that the system incurs, and provide a reasonable level of additional funds to cover unanticipated expenses.

c. Multi-Year Increases to Base Rate and Water Usage Rates: A multi-year rate increase of up to four (4%) percent per year is proposed subject to an annual financial review by County staff. The rate analysis shows that these proposed rate increases, provide sufficient revenues to meet expenses and to increase reserves. In addition, the proposed rates will, at a minimum, increase by an annual inflationary factor and shall be increased by an amount equal to the percentage increase, if any, in the Bureau of Labor Statistics consumer price index for all urban consumers (CPI-U), Series CUUR0000SA0, based on the most recent year-end increase.

d. Average Increase to monthly bills: On an average, the increase to a customer's combined monthly billing, which includes Base Rate and Water Usage charges, is as follows: Tier 1 users, 9% increase; Tier 2 users, 14% increase; and Tier 3 users, 22% increase. The average increase to higher water users will allow expenses be more equitable as higher water usage results in higher maintenance and operational costs to the water system.

The proposed rate structure increases the first year revenue by 4%; pro-rated by the six months such rates will be in place for Fiscal Year 2021-22, this equates to an increase of \$2,849 for the fiscal year.

Staff will monitor FY 21/22 revenues and use of fund balance until proposed rates become effective to ensure Freestone has sufficient funds to meet its financial obligations. Staff may seek Board approval of a one-time grant funding from the Small Water Systems Fund later this Fiscal Year to provide bridge funding should expenses exceed revenues through the end of the calendar year.

Proposition 218 Procedures

The financial analysis performed by the County and proposed rates demonstrate 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 Freestone 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 (more than 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. 4025, as amended, of the Board of Supervisors for the Freestone Zone of Benefit approved on September 13, 2016.

Prior Board Actions:

09/13/16: Pursuant to Proposition 218 public hearing, Board approved rate increases for the CSA #41 Freestone Zone of Benefit and adopted the resolution ordering the annual water charges to be collected on the County of Sonoma tax roll for the total amount of \$14,666.40 for Fiscal Year 2016-2017.

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 Zones of Benefit.

7/22/14. Board conducted a public hearing pursuant to Proposition 218 majority protest procedures, and did not approve the proposed rate increase due to a successful majority protest.

2/1/11: Board adopted Ordinance No. 5922 amending Ordinance No. 4025. 1/25/11: Board conducted a public hearing pursuant to Proposition 218 majority protest procedures.

10/14/08: Board approved a resolution authorizing the purchase of water.

FISCAL SUMMARY

Expenditures	FY 21-22 Adopted	FY22-23 Projected	FY 23-24 Projected
Budgeted Expenses	\$2,849	\$4,444	\$4,711

Additional Appropriation Requested			
Total Expenditures	\$2,849	\$4,444	\$4,711
Funding Sources			
General Fund/WA GF			
State/Federal			
Fees/Other	\$2,849	\$4,444	\$4,711
Use of Fund Balance			
Contingencies			
Total Sources	\$2,849	\$4,444	\$4,711

Narrative Explanation of Fiscal Impacts:

The Zone primarily received its revenue through monthly Base Rate and Water Usage charges. The Fiscal Year 2021-22 adopted budget for CSA #41 Freestone Water Operations projected revenues at \$71,222, which includes sources from sale of water, as well as anticipated interest revenue. If the rate increases are approved effective January 1, 2022, revenues for Fiscal Year 2021-22 are anticipated to increase by approximately 4% for the six months remaining in the Fiscal Year, or \$2,849. Anticipated revenue increase for Fiscal Year 2022-23 is \$4,444.

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. 4025, as amended, of the Board of Supervisors for the CSA #41 Freestone Zone of Benefit.
2. Notice to All Property Owners of the CSA #41 Freestone Zone of Benefit.
3. Map of the Freestone Zone of Benefit.
4. Rate Analysis
5. Power Point Presentation.

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

None.

