



## Legislation Text

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**File #:** 2022-0465, **Version:** 1

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**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:**

County Service Area #41 (CSA #41) Freestone Zone of Benefit Financial Assistance

**Recommended Action:**

Approve a grant of interest earnings from the Small Water Systems Loan Assistance Fund to the Freestone Water Operations Fund in the amount of \$20,217. (4/5<sup>th</sup> Vote Required) (Fifth District)

**Executive Summary:**

The Department of Transportation and Public Works seeks approval of a grant of interest earnings from the Small Water Systems Loan Assistance Fund to the Freestone Water Operations Fund in order to resolve an estimated negative cash balance of \$20,217 by Year-End of Fiscal Year 2021-22.

**Discussion:**

**Background**

The County Service Area #41 Freestone Zone of Benefit ("Zone") is located in unincorporated Sonoma County off the Bodega Highway. 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 County provides water services to the Zone and maintains the water system with revenues received from the sale of water and monthly meter charges. The County's broad objective is to develop fair and equitable water rates that adequately fund water utility operations and capital improvements in order to continue to provide water service to residents in a manner that complies with safe drinking water laws.

**Financing**

The water system receives revenue from two main sources: the Base Rate component and the Water Usage component. The Base Rate is a monthly water meter charge that applies to all customers connected to the system and is the same for each customer regardless of meter size. 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.

On November 2, 2021, after a public hearing held in compliance with Proposition 218, this Board adopted Ordinance No. 4025 with a no majority protest, approving a rate increase for the Zone. The initial rate increase took effect on January 1, 2022, with annual increases scheduled for July 1 (commencing with July 1,

2022) for the next five (5) years by a rate of up-to 4% plus an inflationary adjustment, as published by the Bureau of Labor Statistics. These increases are intended to provide the Zone with sufficient revenues to meet all operational and system maintenance obligations.

### **Additional Financing**

An additional source of financing for the small water systems (Fitch Mountain, Freestone, Jenner, and Salmon Creek) was established through an agreement dated June 23, 1992, by and between the County of Sonoma and the Sonoma County Water Agency. This agreement established the Small Water System Loan Assistance Fund (“Fund”) with a balance of \$500,000. Assistance to the small water systems may be provided in the form of either a loan, which would need to be paid back to the Fund, or a grant, which is limited to funds available from the interest earnings of the assets of the program and is not required to be paid back to the Fund. Available interest on pooled cash from the Fund is currently \$27,326.20.

Staff has continued to monitor revenues and expenditures from the Zone, and after analysis of the Zone’s fund balance and current fiscal year budget, it is anticipated there will be a negative cash balance of \$10,217, and an estimated fiscal year-end deficit of \$20,217. The estimated deficit is attributed to a combination of lower water sales this year, and a negative cash balance resulting from an increase of utilities and maintenance expenditures. For this reason, Staff recommends approval of a one-time grant from the Fund in order to provide the Zone with sufficient funds to continue providing residents of the Freestone community with safe drinking water, provide temporary bridge funding while the Proposition 218 rate increase on July 1, 2022 becomes effective, and resolve the projected negative fund balance. After July 1<sup>st</sup>, 2022, and every year after that for four more years, a 4% water rate increase plus an inflationary adjustment is projected to provide the water system with sufficient cash to fund operate and maintain the water system. In the event revenues do not keep up with expenses, Staff will need to come back to the Board for approval for another grant funding or loan request from the Fund.

### **Strategic Plan:**

N/A

### **Prior Board Actions:**

11/02/21: Pursuant to Proposition 218 public hearing, Board approved rate increases for the CSA #41 Freestone Zone of Benefit.

09/28/21: Board adopted Resolution 21-0406 ordering the annual water charges to be collected on the County of Sonoma tax roll for the total amount of \$14,143 for Fiscal Year 2021-2022.

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**

<b>Expenditures</b>	<b>FY 21-22 Adopted</b>	<b>FY22-23 Projected</b>	<b>FY 23-24 Projected</b>
Budgeted Expenses	\$20,217		
Additional Appropriation Requested			
<b>Total Expenditures</b>	<b>\$20,217</b>		
<b>Funding Sources</b>			
General Fund/WA GF			
State/Federal			
Fees/Other	\$20,217		
Use of Fund Balance			
Contingencies			
<b>Total Sources</b>	<b>\$20,217</b>		

**Narrative Explanation of Fiscal Impacts:**

The Fiscal Year 2021-22 adopted budget for CSA #41 Freestone Water Operations projected revenues at \$71,222. At the time the budget was prepared, staff was working with the Freestone community and examining funding sources as part of the Proposition 218 Public Hearing process. On November 2, 2021, this Board adopted Ordinance #4025 which allows for an annual water rate increase of 4% plus an inflationary adjustment every July 1<sup>st</sup> for five years starting July 1, 2022. Although Ordinance #4025 was adopted by the Board, revenues are still estimated at \$10,217 under what was originally projected due to lower sale of water usage revenue. In addition, the water system has a negative cash balance of \$10,217 attributed to an increase of expenditures. A one-time \$20,217 grant from the Fund would provide Freestone with the funds needed to close the Fiscal Year with a positive cash balance.

Should there not be sufficient funds to operate and maintain the water system in the Fiscal Year 2022-23, Staff will need to come back to the Board for approval for either another grant or loan request from the Fund.

**Narrative Explanation of Staffing Impacts (If Required):**

None.

**Attachments:**

None.

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

Exhibit A - Resolution 92-1010; Small Water Systems Eligibility Criteria for Assistance