

**SACRAMENTO COUNTY WATER AGENCY
CALIFORNIA**

For the Agenda of:
April 7, 2009
Timed: 11:15 a.m.

To: Board of Directors
Sacramento County Water Agency

From: Department of Water Resources

Subject: Introduction Of An Ordinance Amending Chapter 3.50 Of Title 3 Of The Sacramento County Water Agency Code Increasing Rates For Water Service For Zones 40 And 41 Of The Sacramento County Water Agency; Waive Full Reading And Continue For Adoption On April 21, 2009

Supervisory District: All

Contact: Susan R. Purdin, CPA, Chief Financial & Administrative Officer, 874-3190

Overview

The Sacramento County Water Agency (SCWA) proposes to increase typical single family residential unmetered water rates by \$8.00 per month beginning July 1, 2009, and another \$6.50 per month beginning July 1, 2010. Water rates for metered customers and all other unmetered customers will be increasing, also. The primary reason for the rate increase is to meet SCWA's bond debt obligation and the increased operating costs for new water facilities presently under construction that will be completed during the next the two years.

Recommendations

Introduce the attached ordinance amending Chapter 3.50 of Title 3 of the Code;

1. Waive full reading of said ordinance;
2. Open the public hearing and consider all testimony and protests related to increasing water service rates and fees in Zones 41 and 40 of SCWA;
3. Make a finding that the protests related to the proposed service charge increase do not meet the threshold level required to prohibit the imposition of these fee increases;
4. Close the hearing and continue adoption of the ordinance to April 21, 2009, at 9:30 a.m.; and
5. Approve the revised guidelines for the Water Lifeline Rate Assistance Program (WLRAP) effective July 1, 2009.

Measures/Evaluation

The additional revenues from this amendment will further SCWA's goals of delivering reliable, safe drinking water to its customers.

Fiscal Impact

If approved, the proposed fee increase will provide additional revenues to the SCWA Enterprise Fund of approximately \$5.2 million and \$4.6 million in Fiscal Years 2009-10 and 2010-11, respectively. The fiscal impact of the proposed change in income guidelines for the WLRAP is unknown at this time but is anticipated to be within SCWA's revenue limitations. This item is consistent with applicable elements of the 11 Point Budget Plan.

BACKGROUND

On February 3, 2009, the Board received a report which provided five-year cost and rate estimates for SCWA. At that time the Board directed staff to proceed with the rate-setting process. Key elements of that process, which are prescribed by State law, include individual written notification of proposed actions to all affected ratepayers, a protest process, and today's hearing. All notification requirements have been complied with.

DISCUSSION

In 2007 SCWA issued over \$400 million in revenue bonds to fund the construction of the Freeport Regional Water Project Intake and water pipelines (Freeport Project) and the Vineyard Surface Water Treatment Plant (VSWTP). The treatment plant will have the initial capacity to treat up to 50 million gallons per day of river water to supplement well water and to provide our customers with reliable water supplies for decades to come. Construction of these long-planned facilities began over two years ago and will be completed by the end of 2011. The terms of the bond issuance require repayment by revenue generated from developer fees and charges to our water customers. The bond payment cannot be deferred to subsequent years. Because of the unexpected steep decline in building and the corresponding decline in revenue from developer fees, we have no alternative but to increase water rates.

The projected rate increases are driven by three major factors: legal debt service coverage requirements, increases in operating expenses along with general inflationary increases, and capital expenditures and reinvestments. While SCWA has cut projected operating costs for the VSWTP and the Freeport Project intake, some increased expenditures are necessary. These operating costs will partially begin in Fiscal Year 2010-11.

SCWA not only is facing a huge increase in debt service but also a change in the way it collects monthly water user charges. SCWA is mandated to convert from flat rate billing to metered billing. As seen in other jurisdictions, if not structured correctly such a change can have the result of not collecting sufficient revenues to operate and maintain the water system due to increased conservation on the part of the water customer. To address this area of concern as well as others, in late 2007 SCWA retained the services of FCS to undertake a formal rate design study focused on the ongoing shift from primarily flat rate revenue generation to revenue generated by fixed and variable rates associated with metered consumption and billing. The study also considered the cost of providing water service to different classes of customers and conservation pricing associated with Conservation Best Management Practices. FCS scrutinized cash flow projections for realistic financing, operating expense, and revenue assumptions. As a result, it has recommended a strategy to implement water rate increases over the next several years.

Over the last several years, SCWA's expenses have grown, particularly in the areas of electricity costs and labor. SCWA has cut expenses by deferring \$16 million in construction projects, reducing staff costs by leaving vacant positions unfilled, extending maintenance intervals, and scaling back discretionary programs. Regardless, SCWA's financial obligations will continue to

grow due, in part, to the cost of operating and maintaining new water supply facilities which will help ensure that we have adequate drinking water for decades.

The proposed Zone 41 rate increase will provide funding to meet increased operating costs and to provide for a capital replacement reserve. The proposed Zone 40 rate increase will provide the necessary funding to meet bond coverage requirements, pay future debt service payments, and sustain the approved capital improvement program which has been substantially pared back to reflect the decline in development.

This is a two-year rate increase approval process for SCWA, with increases being effective July 1, 2009, and July 1, 2010. The next two-year fee increase approval process will start in early 2011 for fee increases that, if necessary, will become effective July 1, 2011, and July 1, 2012.

In accordance with the 2009 Water Rate Study, SCWA staff recommends:

- Effective July 1, 2009:
 - Increase Zone 41 water service fees by \$3.29 per month for a typical unmetered single family residence and increase the Zone 40 Special Capital Development Fee by \$4.71 per month for a typical single family residence (metered or unmetered). The total increase for those unmetered residential water customers receiving benefits from both Zones 40 and 41 is \$8.00 per month.
 - Increase the quantity rate by 28.6 percent for metered residential and 2.4 percent for commercial customers. In addition, increases to the fixed metered service charge assessed each individual customer class are based on cost of service proportional to the customer service size.

See the attached Ordinance for detailed rates by category.

- Effective July 1, 2010:
 - Increase Zone 41 water service fees by \$3.70 per month for a typical unmetered single family residence and increase the Zone 40 Special Capital Development Fee by \$2.80 per month for a typical single family residence (metered or unmetered). The total increase for those unmetered residential water customers receiving benefits from both Zones 40 and 41 is \$6.50 per month.
 - Increase the quantity rate by 12.5 percent for metered residential and 12.5 percent for commercial customers. In addition, increases to the fixed metered service charge assessed each individual customer class are based on cost of service proportional to the customer service size.

See the attached Ordinance for detailed rates by category.

➤ Conservation Discount

- Residential customers using 14 CCF or less (approximately 10,472 gallons) per two-month billing cycle will receive a discount of 20 percent off the total Monthly Service Charge and Quantity Rate. Residential customers using more than 14 CCF and up to 30 CCF (more than 10,472 gallons and up to 22,440 gallons) per two-month billing cycle will receive a discount of 10 percent off the total Monthly Service Charge and Quantity Rate.

Water Lifeline Rate Assistance Program

Staff is also recommending an increase in income eligibility levels from 200 percent to 225 percent of Federal Poverty Guidelines, effective July 1, 2009. This is consistent with the changes that Sacramento Regional County Sanitation District and Waste Management and Recycling are proposing for their low income programs. Guidelines are attached. Program costs will be funded with SCWA revenue derived from the lease of SCWA land to cell phone companies for tower placement and miscellaneous revenue

CONCLUSION

If approved, the monthly charge for a typical single-family residential unmetered water customer receiving benefits from both Zones 40 and 41 will be \$50.80 in Fiscal Year 2009-10 and \$57.30 in Fiscal Year 2010-11. The monthly fee for a typical residential unmetered customer receiving benefits from only Zone 41 will be \$29.62 in Fiscal Year 2009-10 and \$33.32 in Fiscal Year 2010-11.

Today's hearing meets the final procedural requirement of Proposition 218. If a majority of SCWA's water customers protest the increase, SCWA will be prohibited from imposing the fee change. As of March 17, 2009, 82 written protests have been received (out of more than 50,000 accounts). Final numbers will be available at the time of the hearing. In addition to the legally required notification, SCWA developed an interactive web page that includes a rate calculator that allows customers to individually assess the potential impact of the proposed rate increase.

A strikethrough version of the ordinance amending Title 3 of the Code is included herein.

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Page 5

FINANCIAL ANALYSIS

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Respectfully submitted,

APPROVED:
TERRY SCHUTTEN
County Executive

KEITH DEVORE, Director
Department of Water Resources

By: _____
PAUL J. HAHN, Administrator
Municipal Services Agency

Attachments: Ordinance Amending Title 3 of the Sacramento County Water Agency Code
Strikethrough Version of Ordinance Amending Title 3 of the SCWA Code
Water Lifeline Rate Assistance Program Guidelines

cc: K. DeVore, J. Coppola, D. Underwood, D. Eck – DWR
Wendy Randolph – CUBS
Laura S. Gill – City Manager, City of Elk Grove
Ted Gaebler – City Manager, City of Rancho Cordova