

**SACRAMENTO COUNTY WATER AGENCY
CALIFORNIA**

For the Agenda of:
February 3, 2009
Timed: 11:00 a.m.

To: Board of Supervisors
Board of Directors
Sacramento County Water Agency

From: Department of Water Resources

Subject: Receive And File Report Regarding Sacramento County Water Agency Utility Rates And Direct Staff To Proceed With Necessary Actions To Comply With Legal Requirements To Enact The Proposed Monthly Rate Increases

Supervisorial
District: All

Contact: Susan Purdin CPA, Chief Financial and Administrative Officer 874-3190

Overview

The Department of Water Resources (DWR) manages utility services that include potable water delivery operated by the Sacramento County Water Agency (SCWA) and stormwater collection, detention, treatment and disposal operated by the Stormwater Utility (SWU). SCWA is proposing a water rate increase effective July 2009 and 2010, respectively, and a change in rate structure to offset increases in debt service and operating costs. No change is being requested by SWU.

Recommendations

1. Receive and file this report
2. Direct staff to proceed with all actions necessary to comply with the legal requirement to enact a monthly water utility rate increase of up to \$8.00 per month in Fiscal Year 2009-10 and \$6.50 a month in Fiscal Year 2010-11 for the typical unmetered residential customer. Metered residential and commercial will increase as presented on the attached tables. In addition, metered residential will be eligible for conservation discounts up to 20%. This action includes holding a public hearing on April 7, 2009, to consider any protests to the rate increase.

Measures/Evaluation

Not applicable to this agenda item.

Fiscal Impact

This action would 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. Public outreach costs for the Proposition 218 process approximate \$40,000. This item is consistent with applicable elements of the 11-Point Budget Plan.

BACKGROUND

DWR manages utility services that include potable water delivery operated by SCWA and stormwater collection, detention, treatment and disposal operated by SWU.

During the mid 1990s the Boards adopted a policy of coordinating the rate setting for all County administered utilities. Commencing in July 2006, each Board established July 1st of each year as the effective date for any approved rate changes. That action eliminated the practice of implementing increases for different utilities at various times throughout the year.

The most recent water rate increase adopted by the Boards occurred in April 2007. As recommended in the 2007 Bond Feasibility Report (Report), the Boards passed a \$7.00 per month increase effective July 1, 2007, and another \$7.00 per month increase effective July 1, 2008. At that time the Feasibility Report and the Proposition 218 presentation projected an additional \$7.00 per month increase in July 2009, July 2010, and July 2011.

Currently, the monthly fee for a typical single-family un-metered residential water customer is \$42.80. A typical customer located outside the Zone 40 service area pays \$26.33 per month.

Proposition 218

The provisions of Articles XIIC and XIID of the California Constitution (also referred to as Proposition 218) establish the procedures required to adopt changes for certain property-related charges. The procedures applicable to County administered utilities include: (1) individually mailed notification to all affected ratepayers, (2) a noticed hearing, and (3) a protest process. While these requirements do not change our established practice of informing our customers of changes, and welcoming their input, the procedures do lengthen the required timeline and increase notification costs. An action to proceed today does not approve any proposed rate increase, but it would result in the commitment of time and money to complete the Proposition 218 notification and public hearing process.

DISCUSSION

Sacramento County Water Agency

SCWA Zone 41 serves as the retail water service provider to eight separate service areas in unincorporated Sacramento County as well as the Cities of Elk Grove and Rancho Cordova. SCWA also provides wholesale water supply to much of the Elk Grove Water Service retail service area. The primary source of revenue for Zone 41 is a monthly water user charge to the water customers.

SCWA Zone 40 provides funding for the planning, design, and construction of major water supply infrastructure and facilities for new development in most, but not all, of the same service area as Zone 41. Zone 40 has two principal revenue sources: a monthly service fee paid by water customers and a one-time connection fee paid by new customers (developers/builders). Additional capital funding is derived from the revenue bonds issued in 2003 and 2007. The proceeds of SCWA's \$418.7 million in outstanding bond debt are being used to finance the construction of several major improvements to the Zone 40 water system, most notably the

Receive And File Report Regarding Sacramento County Water Agency Utility Rates And Direct Staff To Proceed With Necessary Actions To Comply With Legal Requirements To Enact The Proposed Monthly Rate Increases

Page 3

Freeport Regional Water Project (FRWP), which includes the Vineyard Surface Water Treatment Plant (VSWTP). Debt service associated with SCWA's first bond issue amounts to approximately \$3.5 million a year. SCWA's second and most recent bond issue increases total annual debt service to \$25 million per year, with the first full year of debt service occurring in Fiscal Year 2009-10.

With the completion of FRWP comes an increase in not only debt service, but maintenance and operating expenses to run the facilities as well. In order to meet this large increase in costs, the Report projected rate increases of \$7.00 per month in each of the following five years (2007 through 2011). At that time it was anticipated that these increases would be sufficient to cover future debt service, reserve requirements, and operating expenses. To address various future growth scenarios, the Report took into account three different rates of growth: High, Moderate, and Low. Unfortunately, growth related to development fees has not even met our lowest expectations; and therefore, the \$7.00 per month increase SCWA anticipated for Fiscal Year 2009-10 is not sufficient to meet our debt service requirements.

SCWA not only is facing a huge increase in debt service but also a change in the way it collects monthly water user charges. As you know, it is required to convert to metered billing from flat rate 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 Financial Consulting Solutions Group (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. The rate structure approved by SCWA will also provide for inflationary increases thereafter.

Staff continues to monitor and closely track SCWA revenue streams. The revenue required to operate SCWA must be sufficient to cover operations and maintenance costs, capital improvements, and to provide adequate reserve and unreserved fund balances. In addition, revenues must be at a level that ensures required bond coverage will be met. More specifically, SCWA Enterprise Fund operating revenues, less operating expenses, must equal or exceed 125 percent of annual debt service. Failure to meet the bond coverage requirement would constitute a technical default. Per bond covenants, SCWA is required to increase rates to meet coverage requirements.

Staff has also worked diligently to reduce projected expenses and continues to look for opportunities to reduce expenses. Over the last several years, SCWA's operations and maintenance expenses have grown significantly, particularly in the areas of electricity costs and labor, which make up 43 percent of those expenses. Staff has aggressively reduced future staff projections and incorporated substantial revisions to the short-term and long-term Capital Improvement Program (CIP) in both Zones 40 and 41. Furthermore, in an additional effort to reduce costs, staff has extended maintenance intervals between servicing on components of the

Receive And File Report Regarding Sacramento County Water Agency Utility Rates And Direct Staff To Proceed With Necessary Actions To Comply With Legal Requirements To Enact The Proposed Monthly Rate Increases
Page 4

water supply and delivery system along with reductions in discretionary programs, while maintaining full compliance with regulatory and mandatory programs. Regardless, the revenue required to support SCWA's obligations is projected to grow from the \$42.7 million annually in Fiscal Year 2007-08 to over \$78.9 million in Fiscal Year 2013-14. The majority of the increase is due to the expected increase in debt service and the cost to operate and maintain the Freerport Project and VSWTP.

At present the typical bill for a single-family flat rate customer in Zones 40 and 41 is \$42.80 per month. A typical residence in Zones 40 and 41 with metered service pays an average of about \$42.50 per month. The proposed increases would result in a typical bill of \$50.79 per month for a single-family flat rate customer in Zones 40 and 41 and \$57.29 per month in the following year. A typical residence with metered service would pay an average of about \$53.24 per month for the first year and \$60.05 per month the following year. This represents an increase of 18.7 percent in the first year for a flat rate residential customer and a 25.3 percent increase for a single-family metered customer.

Staff requested, and FCS compiled, a rate design which rewards conservation. Therefore, staff is proposing a conservation discount for those metered customers that demonstrate a reduction in use. Staff's proposal offers a 20 percent discount in Zone 41 charges to customers who use less than 7 ccf per month (1 ccf = 100 cubic feet of water = 748 gallons; 14 ccf/two month billing period or an average of 175 gallons per day over the billing period) and a 10 percent discount to those customers who use less than 15 ccf per month (30 ccf/two month billing period).

Despite the SCWA's efforts to reduce costs, SCWA (in accordance with the rate study) recommends the following increases:

1. Increase the monthly water user charge by \$8.00 per month for the typical unmetered residential water customer effective July 1, 2009. Increase the quantity rate by 28 percent for metered residential and 2 percent for commercial customers. For those residential customers whose usage falls below 7ccf in any given month, provide a discount of 20 percent on their total Zone 41 charge. For those residential customers whose usage falls between 7 and 15ccf, provide a discount of 10 percent on their Zone 41 charge.
2. Increase the monthly water user charge by \$6.50 per month for the typical unmetered residential water customer effective July 1, 2010. Increase the quantity rate by 13 percent for metered residential and 13 percent for commercial customers. For those residential customers whose usage falls below 7ccf in any given month, provide a discount of 20 percent on their total Zone 41 charge. For those residential customers whose usage falls between 7 and 15ccf, provide a discount of 10 percent on their Zone 41 charge.

Projected fee increases shown in the following table are for typical unmetered single-family residential customers. For metered residential and commercial customers see Attachment I.

Receive And File Report Regarding Sacramento County Water Agency Utility Rates And Direct Staff To Proceed With Necessary Actions To Comply With Legal Requirements To Enact The Proposed Monthly Rate Increases
Page 5

Five-year forecast for unmetered customers:

Year	Increase	Reason	Monthly Service Charge	% Increase
2008-09 (July 2007)		Zone 41 - Current	\$26.33	
		Zone 40 - Current	\$16.47	
	total		\$42.80	
2009-10 July 1, 2009	\$ 3.29	Zone 41 - Increased operating costs.	\$29.62	12.5
	\$ 4.70	Zone 40 – Capital Improvements. Increased debt service for second bond issue for Freeport Project.	\$21.17	28.5
	total		\$50.79	18.7
2010-11 July 1, 2010	\$ 3.70	Zone 41 - Increased operating costs.	\$33.32	12.5
	\$ 2.80	Zone 40 – Capital Improvements. Increased debt service for second bond issue for Freeport Project.	\$23.97	13.2
	total		\$57.29	12.8
2011-12 Projected	\$ 1.67	Zone 41 - Increased operating costs.	\$34.99	5.0
	\$ 1.83	Zone 40 – Capital Improvements. Increased debt service for second bond issue for Freeport Project.	\$25.80	7.6
	total		\$60.79	6.1
2012-13 Projected	\$ 1.75	Zone 41 - Increased operating costs.	\$36.74	5.0
	\$ 0.00	Zone 40 – Capital Improvements. Increased debt service for second bond issue for Freeport Project.	\$25.80	0.0
	total		\$62.54	2.9
2013-14 Projected	\$ 1.84	Zone 41 - Increased operating costs.	\$38.58	5.0
	\$ 0.00	Zone 40 – Capital Improvements. Increased debt service for second bond issue for Freeport Project.	\$25.80	0.0
	total		\$64.38	2.9

Comparisons with Local Water Purveyors

Attachments IIa and IIb present comparable rates for other local water purveyors within the County.

Stormwater Collection, Detention, Treatment and Disposal

SWU provides maintenance and operation of an extensive storm drainage and flood control system in the urban and urbanizing areas of Sacramento County and in the Cities of Citrus Heights and Rancho Cordova. SWU currently serves approximately 195,735 customer households and businesses.

Since the formation of SWU in 1995, staff has managed a proactive drainage program that includes the following:

- Development of phased preventative maintenance for piped and channel drainage systems
- Response to service requests in a timely and efficient manner
- Development of a consolidated system for tracking and accounting of drainage maintenance and service request efforts
- Design and construction of improvement projects that include major capital improvements (CIPs) to the drainage system's backbone and smaller remedial projects (Projects in the Ground – PIGs)
- Compliance with state and federal stormwater quality requirements
- Development of hydraulic plans for solving flooding problems in older developed areas
- Advanced planning for flood preparedness
- Improved parity in SWU service across the County and the cities of Citrus Heights and Rancho Cordova.
- Increased public information and outreach
- Development of cooperative relationships with Citrus Heights and Rancho Cordova to jointly undertake SWU services and address the needs of city residents.

The current fee for a typical single-family residential customer is \$5.85 per month. Rates for multiple-family, commercial, and industrial customers will vary and are based on relative benefits received. There have been no fee increases since 1998. No rate increase is proposed for Fiscal Year 2009-10. The County is implementing the recently renewed National Pollutant Discharge Elimination System (NPDES) Municipal Stormwater Permit, which became effective in January 2003. The restrictive language in this permit has had a significant impact on the County's ability to prioritize and implement activities for best performance. Staff is in the process of exploring alternative funding mechanisms in order to comply with the permit requirements, but if these mechanisms do not provide sufficient resources, the SWU service fee may need to be increased in the future to cover some of the elements of the NPDES requirements.

Five-year forecast:

Year	Increase	Reason	Monthly Service Charge
2009-10	\$0	No service charge increase planned	\$5.85
2010-11	\$0	No service charge increase planned	\$5.85
2011-12	\$0	No service charge increase planned	\$5.85
2012-13	\$0	No service charge increase planned	\$5.85
2013-14	\$0	No service charge increase planned	\$5.85

Notification and Outreach

Proposition 218 requires specific procedures for increasing the utility service charges administered by the Municipal Services Agency (MSA). Those provisions call for formal written notification of each affected property owner of current and proposed charges and the opportunity for a property owner to file a formal, written protest of the proposed fees. Proposition 218 specifies that the proposed increases may not be implemented if 50 percent of SCWA's customers file a written protest. Also, a public hearing on the proposed fees is required to be held not sooner than 45 days after the notices are received.

MSA has historically provided an enhanced outreach effort that exceeds the minimum requirements of Proposition 218 in order to effectively notify customers, address the concerns and questions of the community, and to allow for public comment. Prior to 2005, the DWR, the Department of Water Quality, and the Department of Waste Management and Recycling jointly managed the utility rate outreach program. One of the main elements of the joint outreach program was a professionally prepared notification mailer which came jointly from all five utility providers.

The 2005 outreach program contained two significant changes from previous years. First, each utility proposing an increase (water and sewer) produced its own direct mail notification. Each utility has its own distinct boundaries. Prior to 2005 all customers received information about all proposed rate increases, whether or not the increases applied to them. This was often confusing to customers. For instance, some customers receiving water service from other water purveyors came to outreach meetings about water increases for Zone 40/41 (thinking it was their water purveyor) and were frustrated. Further, utilities proposing no rate increase were often mistakenly viewed as proposing an increase since they were mentioned in the mailer. Changing to individual mailers from each utility proposing a rate increase allowed each utility to target its specific customers with customized information. Although the mailers were separated, coordinated efforts were still conducted on other portions of the outreach, e.g., the interactive Web site, www.sacutilities.com. The web site provided useful information and frequently asked questions, together with downloadable versions of the mailer. The site was monitored and updated as needed during the outreach process.

Second, no special public meetings were scheduled. In previous years an average of three people attended each meeting (with some meetings having zero attendees) despite meeting dates and times being announced in the mailer and via newspaper listings. These meetings cost a minimum of \$1,000 per meeting due to staff and consultant costs. Instead, the mailer noted that staff was available for any meetings upon request by community groups.

The proposed 2009 outreach program includes the following elements:

- SCWA will produce a direct mail piece that includes: current rates and proposed rates; utility program description; reasons for any proposed rate increases; hearing date, time and location and information regarding how to protest the proposed increases.
- Staff will be available to attend group or community meetings upon request.
- Current rate setting information will be included on the SacUtilities.com website. Questions and answers compiled from previous public meetings will be posted in a Frequently Asked

Questions (FAQ) section. The website will continue to be interactive, allowing the public to e-mail questions and comments to the webmaster. We will promptly respond to all e-mails received, and keep a log of all inquiries and comments. The Consolidated Utilities Billing Services' (CUBS) and Utilities' Web sites will be modified to reflect proposed rate adjustments.

- CUBS will send protest letters to the appropriate utility on a weekly basis. All letters will be personally answered by staff. Additionally, copies of all letters and responses will be provided to the appropriate Boards.

The outreach plan for SCWA is expected to cost approximately \$40,000. Estimated costs include printing and mailing notification mailers, paid advertisements, and consultant costs for outreach activities.

Proposed Schedule

The proposed schedule has the following milestones:

- Direct mail notification regarding proposed rate increases, the scheduled public hearing and the protest process received by all impacted customers no later than February 20.
- Public meetings (if requested) and other outreach – February and March.
- Public hearing – April 7.
- Adoption of Ordinances for rate increases – April 21.
- Implementation of any new rates approved by Boards – July 1.

FINANCIAL ANALYSIS

This action would 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. Public outreach costs for the Proposition 218 process approximates \$40,000. The necessary appropriations are included in the SCWA Enterprise Fund Fiscal Year 2008-09 Adopted Final Budget.

Respectfully submitted,

APPROVED:
TERRY SCHUTTEN
County Executive

KEITH DEVORE, Director
Department of Water Resources

By: _____
PAUL J HAHN, Administrator
Municipal Services Agency

Attachment: I Water Rate Increases
IIa, IIb Rate Comparisons
III Monthly Utility Rate Projections
IV Map