

STAFF REPORT

To: Coastside County Water District Board of Directors

From: Mary Rogren, Assistant General Manager

Agenda: June 13, 2017

Report

Date: June 9, 2017

Subject: Public Hearing to Consider Proposed Amendment of Rate and Fee Schedule to Increase Water Base Charges by 0% and Consumption Quantity Charges up to 5%; Consideration of Resolution 2017-01 Amending the Rate and Fee Schedule and finding that the amendments are exempt from the California Environmental Quality Act

Recommendation:

- 1) Conduct a public hearing on a proposed 0% increase on Water Base Charges and up to 5% on Water Consumption Quantity Charges to be effective July 1, 2017.
- 2) Adopt Resolution 2017-01 Amending the Rate and Fee Schedule and finding that the amendments are exempt from the California Environmental Quality Act (Exhibit F).

Background:

Financing Plan

The District utilizes a multi-year financing model (recently updated by the District's Rate Consultants, HF&H Consultants and considered to be an industry standard approach) to evaluate the impact of its rate increases on the financial reserves of the District. In a presentation to the Board, staff will review the model (Exhibit D) and HF&H's attached report, "Water Rate Update FY2017/18" (Exhibit E) which summarizes the series of proposed rate increases needed to fund District operating expenses and capital improvement program and to build and maintain an adequate level of reserves.

As discussed in last year's financing plan discussions and as recommended by HF&H, ideally, the District should target a Cash Reserve Balance at the beginning of the fiscal year to include:

- 25% of Operating Expenses (for ongoing cashflow requirements; equal to 1 ½ billing cycles; *(approximately \$2.1M)*); *plus*
- 100% of annual Debt Service payments (*\$1.1 Million*); *plus*

- 100% of the year's "Pay as you go" Capital Improvement Projects
(averages \$3.3M per year over next five years)

For a total of nearly \$6.5M in targeted cash reserves.

Although the District's projected cash reserves at the end of FY2016/17 (at \$4.6M) will still be \$1.9M short of the ideal target of \$6.5M, cash reserves will have increased approximately \$2M over the prior year-end cash balance primarily due to 1) financing a significant portion of its capital improvements with debt financing vs. from revenue during the year; 2) implementing a 10% rate increase on 7/1/2016; and 3) incurring operating expense savings, particularly given increased use of local water sources vs. purchasing water from the SFPUC.

Given the increase in cash reserves during FY 2016/17, and based on the draft FY2017/18 Operations Budget and draft FY2017/18 to FY2026/27 CIP, staff recommends a moderate increase of 5% on the consumption quantity charge and 0% on the base charge, *resulting in an overall increase in revenue of 3.9%*. The rate increase will result in a small dip in cash reserves in FY 2017/18 (given timing of capital spending between FY 2016/17 and FY2017/18) but should keep the District on course to continue to increase its cash reserve balances over the next five years.

Cost-of-Service Analysis

In developing the Fiscal Year 2015/2016 budget, the District retained HF&H Consultants to evaluate the District's rate structure and to develop cost-of-service-based rates which would comply with the substantive requirements of Proposition 218 as interpreted by the courts, including the April 2015 Appellate Court decision in Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano. Following recommendations in the HF&H analysis, detailed in a report dated May 8, 2015 and presented to the Board at its May 12, 2015 meeting, the District implemented significant changes to its rate structure that resulted in a realignment of the tier breakpoints to reflect service cost allocations among each of the four tiers. The revised rate structure went into effect July 1, 2015.

The District retained HF&H in 2016 in preparing the FY 2016/17 cost-of-service analysis and rate proposal, and again in 2017 in preparing the FY 2017/18 cost of service analysis and rate proposal. HF&H determined that the methodology and cost of service allocations used in the FY 2015/16 budget are still applicable. Therefore, staff proposes to apply the FY 2017/18 proposed 5% rate increase uniformly across the District's consumption quantity charges given:

- Budgeted FY 2017/18 operating expenses differ by only 2% from the expenses used as the basis for the FY 2015/16 cost-of-service analysis.
- The decline in water sales accounting since FY 2015/16 for the majority of the overall rate increase results from increased conservation across all District customer classes.
- Allocation of FY 2017/2018 capital cost funding resulting from the uniform rate increase would be consistent with the FY 2015/2016 cost-of-service analysis because the allocation factors have not changed significantly.

In addition, HF&H noted that “the District can hold its base charges where they currently are and remain compliant with Proposition 218 because the resulting charge is proportionate to the cost of providing service. By not increasing the base service charge and only increasing the quantity charge, cost recovery from the fixed charges shifts slightly to the variable charges without disproportionate effect on customer bills because all customers are treated equally.”

Proposition 218 Compliance

The District has complied with the public notice requirements of Proposition 218. Two ads detailing the proposed rate increase were placed in the April 26 and May 3, 2017 editions of the Half Moon Bay Review, and the notice was placed on the District’s website. Additionally the notice of the public hearing and proposed rate increase was mailed to all District customers on April 19, 2017.

The May 8, 2015 “Water Rate Structure Update”, cost of service analysis, May 17, 2016 Technical Memorandum “Water Rate Update – FY2016-17”, and the April 11, 2017 “Water Rate Update – FY2017-18” were prepared in compliance with the substantive requirements of Proposition 218. Revenues derived from the water rates do not exceed the funds required to provide the service for which the rates are charged, and the amounts of the rates imposed do not exceed the proportional cost of service attributable to the property. The recommended amendments to the Rate and Fee Schedule comply with the requirements of Proposition 218 as interpreted by the courts, including the *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* decision.

Proposition 218 specifies that the District may not adopt the proposed rate increase if written protests are received from a majority of owners of affected parcels, or approximately 3300 District customers. As of the date of this report, staff has received 62 letters regarding the proposed rate increase. Copies of these letters are attached as Exhibit G.