

M E M O

TO: Board of Directors

FROM: District Manager

SUBJECT: WATER RATES

DATE: April 2, 2007

RECOMMENDATION

It is recommended that the Board of Directors review this memo and provide direction to Staff to initiate all necessary actions required to increase the water service rate schedule by ten percent (10%).

BACKGROUND:

At the March 15, 2007 Board of Directors Meeting, Staff recommended that your Board consider a minimum seven percent (7%) increase to the current water service rate schedule. Your Board discussed the recommendation and referred the matter to the March 22, 2007 Finance Committee Meeting for further consideration.

At their March 22, 2007 meeting, the Finance Committee received a presentation from the District's consultant, Municipal Financial Services, relative to water service fees. The Finance Committee discussed this matter and concluded that the Committee would recommend a ten percent (10%) increase to the current water service rate schedule. Further, the Committee directed Staff to consider and develop a proposed potential plan for a three (3) year sequence of increases to the water service rate schedule. Staff worked with Municipal Financial Services relative to development of a multi-year plan. At this time, Staff believes that it has insufficient information regarding possible future operational and capital improvement expenditures to properly establish a multi-year plan. Therefore, Staff is recommending that your Board move forward with the recommended ten percent (10%) increase to the current water service rate schedule instead of a proposed multi-year plan. Staff will continue to move forward with development and preparation of the Capital Improvement Plan and Program (CIP). A properly developed CIP will allow for coordination between capital improvement needs, fiscal capacity and water service rate schedules.

In order to amend the existing water service rate schedule the District must comply with the requirements of Proposition 218. As a result of the recent California Supreme Court decision in the case of Bighorn – Desert View Water Agency v. Verjil, domestic water delivery through a pipeline is a “property – related” service within the meaning of Proposition 218. Therefore, the District must undertake the following actions prior to increasing water service rates:

- Mail information regarding the proposed increase to water service rates to every property owner.
- Hold a public hearing at least 45 days after the mailing.
- Reject the proposed increase to the water service rates if written protests are presented by a majority of the affected property owners.

The current water service rate schedule was established by Resolution No. 18 (01-02) adopted by your Board on February 7, 2002. Resolution No. 18 (01-02) included a one percent (1%) increase to the Basic Water Service Charge on January 15th of subsequent calendar years following adoption of said resolution. Based upon current customer usage characteristics the current water service rate schedule brings forth approximately \$2,860,000 in annual revenue. The following minimum bi-monthly basic water service charge and consumption (quantity) charges constitutes the current water service charges:

Basic Water Service Charge

The minimum bi-monthly water service charge per meter is:

<u>Meter Size</u>	<u>Basic Water Service Rate</u>
5/8 – inch	\$32.50
3/4 – inch	\$32.50
1 – inch	\$54.15
1 ½ - inch	\$109.10
2 – inch	\$173.65
3 – inch	\$325.85
4 – inch	\$542.25

Consumptive Charges

The schedule of consumptive charges is based upon a measured unit quantity of 100 cubic feet (748 gallons) per unit. The unit Charge for delivered water is:

<u>Tier</u>	<u>Quantity</u>	<u>Consumptive Charge</u>
Tier 1	0-10 Units	\$1.75/Unit
Tier 2	11-40 Units	\$2.30/Unit
Tier 3	41-100 Units	\$2.75/Unit
Tier 4	101-200 Units	\$3.00/Unit
Tier 5	201 + Units	\$3.25/Unit

The recommended ten percent (10%) increase to the water service rate schedule would increase total annual revenue to approximately \$3,180,000. This represents an increase of approximately \$303,700/year. Please note that the final digits for all Basic and Consumptive Charges are rounded to the nearest five hundredths. See Attachment 1. Based upon Proposition 218 requirements, the effective implementation date for the proposed increase in the water service would tentatively be scheduled for June 21, 2007. Should the recommended ten percent (10%) increase be implemented, the bi-monthly Basic Water Service Charge and Consumptive Charges would be as follows:

Basic Water Service Charge

The minimum bi-monthly water service charge per meter is:

<u>Meter Size</u>	<u>Basic Water Service Rate</u>
5/8 – inch	\$35.75
3/4 – inch	\$35.75
1 – inch	\$59.60
1 ½ - inch	\$120.00
2 – inch	\$191.00
3 – inch	\$358.45
4 – inch	\$596.50

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Tier 1	0-10 Units	\$1.95/Unit
Tier 2	11-40 Units	\$2.55/Unit
Tier 3	41-100 Units	\$3.05/Unit
Tier 4	101-200 Units	\$3.30/Unit
Tier 5	201 + Units	\$3.60/Unit

The District's average single family residential customer uses approximately twenty (20) billing units per bi-monthly period. One (1) billing unit equals 100 cubic feet or 748 gallons. Approximately seventy percent (70%) of all District water bills are for twenty (20) consumptive units or less. The impact of the proposed increase in water service rates on the average Districts customer is illustrated on Attachment 2. In addition, Attachment 2 also provides a comparison of District rates with the other water service providers in Santa Cruz County. The average customer (20 units bi-monthly) will experience an increase in their bi-monthly water bill form

\$73.00 to 80.75. This represents an increase of \$7.75 per bi-monthly billing period or approximately \$46.50/year.

It is recommended that the Board of Directors review this memo and provide direction to Staff to initiate all necessary actions required to increase the water service rate schedule by ten percent (10%).

James A. Mueller
District Manager

JAM/bsb

Table 7
Projected FY 2008 Basic Charges and Revenue

Basic Charges and Revenue

Meter Size	Adopted FY 2006	Adopted FY 2007	Annual Increase	Recommended Increase	Basic Charge	FY 2008 Accounts	Revenue
5/8-inch	\$31.90	\$32.50	1.88%	10.00%	\$35.75	5,082	\$1,090,089
5/8A-inch	\$53.05	\$54.15	2.07%	10.00%	\$59.55	321	\$114,693
5/8B-inch	\$106.90	\$109.10	2.06%	10.00%	\$120.00	8	\$5,760
5/8C-inch	\$170.25	\$173.65	2.00%	10.00%	\$191.00	1	\$1,146
3/4-inch	\$31.90	\$32.50	1.88%	10.00%	\$35.75	106	\$22,737
3/4A-inch	\$53.05	\$54.15	2.07%	10.00%	\$59.55	3	\$1,072
1-inch	\$53.60	\$54.15	1.03%	10.00%	\$59.55	110	\$39,303
1A-inch	\$106.90	\$109.10	2.06%	10.00%	\$120.00	1	\$720
1B-inch	\$170.25	\$173.65	2.00%	10.00%	\$191.00	1	\$1,146
1F-inch	\$31.90	\$32.50	1.88%	10.00%	\$35.75	92	\$19,734
1-1/2-inch	\$106.90	\$109.10	2.06%	10.00%	\$120.00	13	\$9,360
1-1/2A-inch	\$170.25	\$173.65	2.00%	10.00%	\$191.00	1	\$1,146
1-1/2C-inch	\$531.60	\$542.25	2.00%	10.00%	\$596.50	0	\$0
1-1/2F-inch	\$53.05	\$54.15	2.07%	10.00%	\$59.55	1	\$357
1-1/2G-inch	\$31.90	\$32.50	1.88%	10.00%	\$35.75	1	\$215
1-1/2S-inch	\$340.50	\$347.30	2.00%	10.00%	\$382.00	1	\$2,292
2-inch	\$170.25	\$173.65	2.00%	10.00%	\$191.00	18	\$20,628
2A-inch	\$319.40	\$325.85	2.02%	10.00%	\$358.45	1	\$2,151
2G-inch	\$53.05	\$542.25	922.15%	10.00%	\$596.50	1	\$3,579
3-inch	\$319.40	\$325.85	2.02%	10.00%	\$358.45	2	\$4,301
4-inch	\$531.60	\$542.25	2.00%	10.00%	\$596.50	0	\$0
Total						5,764	\$1,340,429

Quantity Charges and Revenue

Tier	Adopted FY 2006	Adopted FY 2007	Annual Increase	Recommended Increase	Quantity Charge	FY 2008 Sales	Revenue
Tier 1	\$1.75	\$1.75	0.00%	11.43%	\$1.95	281,030	\$548,009
Tier 2	\$2.30	\$2.30	0.00%	10.87%	\$2.55	261,739	\$667,434
Tier 3	\$2.75	\$2.75	0.00%	10.91%	\$3.05	83,471	\$254,587
Tier 4	\$3.00	\$3.00	0.00%	10.00%	\$3.30	28,867	\$95,261
Tier 5	\$3.25	\$3.25	0.00%	10.77%	\$3.60	75,936	\$273,370
Total						731,043	\$1,838,660

Total Revenue

	Estimated FY 2007	Projected FY 2008	Change
Basic Charges	\$1,218,610	\$1,340,429	\$121,819
Quantity Charges	\$1,656,740	\$1,838,660	\$181,920
Total	\$2,875,351	\$3,179,089	\$303,739

**COMPARATIVE WATER RATES
20 UNITS BIMONTHLY (14960 Gal)
250 GPD**

