



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Department of Public Works



Date: April 20, 2012
Board Meeting Date: May 8, 2012
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: James C. Porter, Director of Public Works

Subject: Water Rates and Charges for County Service Area No. 11, Pescadero Area

RECOMMENDATION:

Acting as the governing board of County Service Area No. 11, adopt a Resolution:

- A) Setting June 26, 2012 at 9:00 a.m. at your regularly scheduled Board meeting, as the time and place for a public hearing on the water rates and meter service charges for County Service Area No. 11; and
- B) Directing the Director of Public Works to send a notice of the proposed water rates and meter service charges to each property owner within County Service Area No. 11.

BACKGROUND:

County Service Area No. 11 (CSA 11) was formed in 1988 to provide potable water service to the portion of Pescadero included within the urban rural boundaries. Water for CSA 11 customers is provided from an underground aquifer over 230 feet below ground and is delivered to 99 water service connections through approximately 2.2 miles of water mains. CSA 11 water usage and service charges are collected every two months based on rates approved by your Board. Revenue collected through water sales and meter service charges must be sufficient to support CSA 11 operations.

On September 9, 2003, your Board adopted Resolution No. 066229 adopting the current water service rates and meter service charges for CSA 11. Revenue generated from these rates is not sufficient to adequately operate, maintain, and administer CSA 11.

The Coastal Development Permit (CDP) approved in 1990 for CSA 11 system stated that the proposed water source had a limited life, water rates should be set to encourage water conservation, water should be used for domestic purposes with limited

landscape usage, and alternate sources of water should be evaluated. In 2001, CSA 11 retained consultants to evaluate the estimated remaining life of the aquifer. The conclusions reached in 2002 were that the two (2) existing wells serving CSA 11 could fail due to lack of water in eight (8) to fifteen (15) years or in 2010 to 2017. The analysis also concluded that the installation of a deeper well in the vicinity of the existing wells would extend the life of the CSA 11 water supply for at least 38 years.

In 2002, your Board directed the Director of Public Works to submit an application to the United States Department of Agriculture (USDA) for a grant to fund a portion of the construction cost of a new deeper well. The USDA offered a grant in the amount of \$135,000 to CSA 11. On September 9, 2003, your Board adopted Resolution No. 066230 authorizing the execution of an agreement between CSA 11 and the County that provided a General Fund loan in the amount of \$165,000 to help finance the construction of the well.

On February 3, 2004, the Department conducted an informational meeting in Pescadero with the CSA 11 property owners regarding construction of a deeper well. A result of the meeting was that the Department would survey the CSA 11 property owners to determine the level of support for construction of a deeper well. The survey indicated that 92% of the property owners that returned surveys did not support construction of a deeper well. On June 8, 2004, your Board adopted Resolution No. 066706 rescinding the Agreement for a loan from the General Fund and Resolution No. 066707 authorizing the Director of Public Works to decline the USDA grant.

The process to be followed for adopting the water rates and meter service charges includes:

1. Adopt a Resolution of the proposed water rates and meter service charges.
2. Hold a public hearing and receive testimony on the proposed water rates and meter service charges.

Article XIII C and XIII D of the State Constitution (Proposition 218) requires that notices be sent to property owners alerting them of the public hearing to consider any new or increased property related fees, and a mechanism for rejecting the fees via a “majority protest” at the public hearing. We are recommending that your Board direct us to notify each affected property owner in CSA 11 of the proposed water rates and meter service charges by mail and to explain that protests to the rates and meter charges must be in writing.

DISCUSSION:

Water Rates and Meter Service Charges

The water rates and meter service charges have been adjusted once (2003) since the initial rates were established. The current charges are comprised of a water rate charged per unit of water consumed (1 unit = 100 cubic feet or 748 gallons of water)

and a meter service charge. Customers are billed every two months or six times per year.

The current water rate is \$1.38 per unit of water and \$22.00 for the meter service charge for a residential meter. The existing flat rate charged per unit of water consumed does not encourage water conservation. The Department is recommending that a tiered rate structure, one in which the rate charged per unit of water used increases as a customer's usage increases, be adopted for CSA 11. Attachment A includes the current and proposed water rates and meter service charges for CSA 11, as well as, the rates currently charged by nearby water agencies. This comparison indicates that a tiered rate structure is used by the other water agencies and that the current water rates for CSA 11 are significantly lower than the rates charged by other agencies.

The proposed rate increase is significant, but necessary to adequately support CSA 11. The average residential customer that uses 12 units of water per month currently pays \$38.56, which is comprised of \$16.56 (12 units @ \$1.38) for water and \$22.00 for the monthly meter service charge. With the proposed rate increase the same customer would pay \$61.63, which is comprised of \$33.63 (11 units @ \$2.69 plus 1 unit @ \$4.04) for water and \$28.00 for the monthly meter service charge. This large rate increase is necessary because CSA 11 expenditures exceed revenues and the fund balance will be entirely exhausted by the end of the calendar year absent the rate adjustment.

CSA 11 System and Compliance

The Department has monitored the water surface elevation in the supply well for the past several years. The results indicate that it has been dropping by approximately 0.7 feet per year. These measurements support the consultants' conclusions that construction of a deeper well will be warranted. In August 2011, CSA 11 experienced a water outage due to the failure of the pump in the supply well. It is believed that the lowered water surface elevation caused the two year old pump to fail because it was not fully submerged in water while it was pumping. The reliability of the water supply source for CSA 11 and the limited water storage capacity have become issues of major concern.

The California State Department of Public Health (DPH) assumed regulatory responsibility for small water systems from the County's Environmental Health Division on July 1, 2011. As a result of the DPH's involvement and the recent water outage, CSA 11 is required to perform specific water testing more frequently, implement an Operation and Maintenance Plan (Plan), provide 24 hour supervision by a certified operator, and make necessary improvements to the system to prevent future water outages. The requirements of the Plan are specific and require that additional staff time and contract services be utilized to ensure compliance with the Plan. The Plan requires that specific activities be performed by a certified operator for water systems. It is not feasible for the Department to retain certified operators on staff and instead we are currently relying on contract services for specific activities outlined in the Plan. The Department operates two small water supply systems, namely CSA 7 in the La Honda

area with approximately 70 connections and CSA 11. Both systems have small customer bases, limited revenue to support required operations and maintenance, and are located a significant distance from County offices. The limited revenue and work required for both systems does not support having staff that are certified operators.

Public Input Process

Staff has been communicating with customers, property owners, and the Pescadero Municipal Advisory Council (PMAC) regarding the water outage, improvements that should be made to the system, the need for a rate increase, and proposed rates. These communications have taken place through letters, public meetings, electronic mail, and telephone conversations. A “Ratepayers Group” was established by the community and has been comprised of CSA 11 property owners, PMAC members, and participants representing the interests of CSA 11 customers. Staff has met with the “Ratepayers Group” and provided them with detailed information regarding CSA 11 operations, requirements, budgetary information, and the need for a rate increase. The “Ratepayers Group” also submitted a broad Public Records Request to the Department, as well as, other County Departments regarding CSA 11. The Department dedicated significant staff time responding to the Public Records Request between December 2011 and February 2012 and provided information relative to CSA 11 finances, operations and maintenance records.

Staff met with representatives from the community on August 30, 2011 at the request of the PMAC Chair to specifically discuss the water outage and events that occurred. Staff has attended the monthly PMAC meetings in September and December of 2011 and January, February, March, and April of 2012 to specifically discuss CSA 11 or to be available for discussion. Staff met with the “Ratepayers Group” in Pescadero at the CSA 11 well site on February 15, 2012 and in our office on February 17, 2012 to discuss the proposed rates. Additionally, the Department sent letters to all property owners and customers of CSA 11 informing them of two public meetings held by the Department at the Pescadero Elementary School on October 19, 2011 and February 21, 2012.

Although staff has been working with the “Ratepayers Group” for the past several months, recent input from the group revealed a suggested revenue scenario in which the expenditure requirements were far from being adequately met. Their proposal included a \$0.12 per unit increase in water rates, which is significantly less than the increase must be to support the system. Based on recent input from other community members, it appears that many customers recognize that a significant rate increase is required and have recommended that the Department move forward with the Department’s proposed rate increase.

The San Mateo County Local Agency Formation Commission approved a Municipal Service Review and Sphere of Influence Update for CSA 11 (Update) at their October 19, 2011 meeting. The Update discussed the water outage, evaluated the CSA 11 past and current budget, included a water rate comparison, and discussed options for shared

services. The Update recommended that CSA 11 proceed with a rate increase immediately.

The proposed water rates and meter service charges were communicated to the property owners and customers through two separate mailings by the Department. Based on feedback from the property owners, the Department has adjusted the first tier of rates from 0-8 units, as originally proposed, to 0-11 units. The proposed water rates and meter service charges must support the following, at a minimum:

1. Continued routine and emergency operation and maintenance of the CSA 11 system per the Plan approved by DPH.
2. Administration of CSA 11 to comply with reporting requirements, customer support, and customer billing.
3. Inspections to determine the condition of the wells and storage tank.
4. Upgrade existing alarm, monitoring, and electrical systems.
5. Minimum fund reserve to respond to emergency events.
6. Long term capital improvements, including addressing the limitations of the aquifer and storage capacity of CSA 11 system.

The Department is recommending that the proposed rates be approved and be evaluated one year after their implementation to determine their adequacy. We anticipate that the tiered rate structure will encourage water conservation and revenue estimates have been based on a reduction in water use. It will be beneficial to review actual usage inclusive of winter and summer consumption patterns. Additionally, the Department will have data regarding the required expenditures to comply with the Plan. During this time period the Department intends to explore options for maintaining the system that may be more cost effective while still complying with the Plan.

We are proposing that the rate increase become effective on July 1, 2012. Staff will continue to work with PMAC and the "Ratepayers Group" to evaluate the financial condition of CSA 11 and develop long-term rates that will be acceptable to the ratepayers while adequately meeting the financial obligations of CSA 11. The County's Ordinance Code allows for the formation of a Customer Advisory Committee for water districts. The committee is advisory to the Director of Public Works and the customers of CSA 11 may be interested in establishing a committee. The Department will work with the community to establish a committee if that is their desire.

The water rates, meter service charges, and other associated CSA 11 charges are described in Exhibit A of the Resolution.

County Counsel has reviewed and approved a Resolution as to form.

Your Board's setting of the water service rates contributes to the Shared Vision 2025 outcome of a Healthy Community by allowing for uninterrupted service to CSA 11 customers and providing revenue to CSA 11.

FISCAL IMPACT:

The following are the current and proposed water service rates for CSA11:

Water Service Description	Current Rates	Proposed Rates
5/8" Monthly Meter Service Charge	\$22.00	\$28.00
1-1/2" Monthly Meter Service Charge	\$33.00	\$42.00
Tier 1 Water Rate (0-11 HCF)	\$1.38	\$2.69
Tier 2 Water Rate (12-25 HCF)	-	\$4.04
Tier 3 Water Rate (26-40 HCF)	-	\$5.45
Tier 4 Water Rate (> 40 HCF)	-	\$7.36

A residential customer that uses 12 units of water per month currently pays \$38.56 per month and would pay \$61.63 per month with the proposed rates.

We estimate that it will cost approximately \$200 (\$2 per rate payer in CSA 11) to prepare, print and mail individual notices to each property owner in CSA 11. This cost will be paid from the revenue of CSA 11.

There is no direct impact to the General Fund. However, water service charges are levied on properties that are either leased or owned by the County and provided water by CSA 11, such as the County Fire Station Number 59 located on Pescadero Creek Road.

Attachment A: Monthly Meter Service Charges and Water Rates Comparison