



COUNTY OF SAN MATEO
Inter-Departmental Correspondence
Public Works and Parks



Date: January 3, 2013
Board Meeting Date: January 29, 2013
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: James C. Porter, Director of Public Works and Parks

Subject: Water Rates and Charges for County Service Area No. 7, La Honda Area

RECOMMENDATION:

Acting as the Governing Board of County Service Area No. 7:

- A) Introduction of an Ordinance amending Sections 4.104.010 and 4.104.020 of Chapter 4.104 of Title 4, of the San Mateo County Ordinance Code, setting the water rates for FYs 2012-13 through 2014-15 for County Service Area No. 7 and waiver of reading the Ordinance in its entirety; and
- B) Adopt a Resolution setting Tuesday, March 26, 2013, at 9:00 a.m., at your regularly scheduled Board meeting, as time and place for a public hearing on the water rates and meter service charges for County Service Area No. 7.

BACKGROUND:

The La Honda water system was originally constructed in the 1920's to serve summer homes located near La Honda, Alpine and San Gregorio Creeks. The County acquired the system in conjunction with the acquisition of Sam McDonald Park in 1958, and formed County Service Area No. 7 (CSA 7) in 1965. CSA 7 was formed to provide potable water service to approximately 69 residential customers in the La Honda community within the boundaries of CSA 7 and to the County owned and operated Camp Glenwood Boys Ranch and Sam MacDonald Park located outside of the CSA 7 boundaries.

On June 24, 1997, your Board adopted Ordinance No. 03781 adopting the water regulations and rates for CSA 7. The Ordinance established a CSA 7 Customer Advisory Committee (Committee) to be an advisory group to the Director of Public Works and review future rate and operational changes proposed for CSA 7.

On June 1, 1999, your Board adopted Ordinance No. 03909 adopting the current water rates and charges for CSA 7. The cost to operate and maintain the water treatment plant is shared between CSA 7 and the County's Probation Department for providing potable water to the Camp Glenwood Boys Ranch facility. Revenue generated from the residential customers with the current rates is not sufficient to adequately operate, maintain, and administer the CSA 7 water system and pay their share of the treatment costs.

Your Board is being asked to take the following actions to set the water rates and meter service charges in CSA 7:

1. Amend the Ordinance Code to set the water rates and meter service charges for FY 2012-13 through FY 2014-15.
2. Set the second reading and adoption of Amended Ordinance for March 26, 2013.
3. Hold a public hearing and receive testimony on the water rate and meter service charge increases for CSA 7.
4. After considering all written and oral objections to the water rates and meter service charges for CSA 7, close the public hearing and determine if there is a majority protest to the proposed water rates and meter service charges.
5. If there is a majority protest, terminate your consideration of imposing the water rate and meter service charge increases and set the water rates and meter service charges for CSA 7 at the same levels currently in effect.

Article XIIC and XIID of the State Constitution (Proposition 218), requires notices be sent to property owners and tenants directly liable for payment 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 and customer in CSA 7 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.

If there were a successful majority protest, the Board would be prevented from setting the water rates and meter service charges.

DISCUSSION:

Water Rates and Meter Service Charges

The most recent adjustments to the CSA 7 water rates and meter service charges were made in 1999. 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 monthly meter service charge. Customers are billed every three months or four times per year. Water billings are the only revenue source for CSA 7. The current water rate is \$4.80 per unit

of water and \$20.00 for the monthly meter service charge for a residential meter. The current and proposed water rates and meter service charges for CSA 7 are as follows:

WaterService Description	Current Rates	Proposed Rates		
		FY 2012-13	FY 2013-14	FY 2014-15
Monthly Meter Service Charge	\$20.00	\$33.20	\$44.16	\$58.73
Water Rate per Unit (1 Unit=748 gallons)	\$4.80	\$7.97	\$10.60	\$14.10

The proposed rate increase is significant, but necessary to adequately support CSA 7. The average residential customer that uses 10 units of water per month currently pays \$68.00 per month, which is comprised of \$48.00 (10 units @ \$4.80) for water and \$20.00 for the monthly meter service charge. With the proposed rate increase the same customer using the same number of units of water per month would pay \$112.90, which is comprised of \$79.70 (10 units @ \$7.97) for water and \$33.20 for the monthly meter service charge. Without the substantial rate increase, the fund balance will be entirely exhausted by 2014. The significant factors influencing the need for a rate increase are summarized below.

CSA 7 System and Compliance

The County improved the system serving CSA 7, Camp Glenwood, and Sam McDonald Park by constructing a 500,000-gallon steel water storage tank in 1967 and a water treatment plant in 1993 to meet Federal and State regulations. A master plan was completed by Brown and Caldwell in 1998 for CSA 7, which recommended replacement of various sections of the distribution system with larger diameter pipes and repairs to the storage tanks and treatment plant. The source of water for the system is Alpine Creek. Water is pumped from the Creek, treated and delivered to customers through approximately 13,000 feet of water mains predominantly located in rugged terrain, including the Park, and varying in size from ¾" to 4" in diameter.

The California Department of Public Health (DPH) assumed regulatory responsibility for small water systems from the County's Environmental Health Division on July 1, 2011. CSA 7's water system consist of old small diameter pipes throughout the system that do not supply adequate pressure to remote service areas and are prone to breaks that cause water service interruptions, which require customer notifications as mandated by the DPH.

As a result of the DPH's regulatory involvement, CSA 7 is required to perform specific water quality testing more frequently, implement an Operation and Maintenance Plan (Plan), provide 24 hour supervision by a certified operator during water treatment operations, complete a watershed sanitary survey, implement a cross connection control program, and make necessary improvements to the system to ensure

compliance with Federal and State regulations. These requirements have resulted in a substantial increase in staff time and contract services.

Your Board adopted Resolution No. 072210 on October 23, 2012, executing a three year agreement with Bracewell Engineering Inc. (Bracewell) for operation and maintenance services for County maintained small water and wastewater systems as it is not feasible for the Department staff to be certified operators. Bracewell had been providing certified operators to CSA 7 and CSA 11 since October of 2011, shortly after the Department's certified operator left County employment.

Public Input Process

Department staff have been meeting with the Committee since August 2011 to discuss the operation of CSA 7 and the need to increase water rates. These communications have taken place through letters, Committee and public meetings, electronic mail, and telephone conversations. Staff has met with the Committee and provided them with detailed information regarding CSA 7 operations, regulatory requirements, budget information, and rate increase scenarios. Additionally, the Department sent letters to all property owners and customers of CSA 7 informing them of a public meeting held by the Department at the La Honda Fire Station the evening of December 11, 2012.

The Department's work with the Committee for the past several months has been focused on alternatives to major rate increases and considering different rate increase scenarios. The Committee members understand and agree that it is crucial to CSA 7's fiscal health that rate adjustments be for multiple years and be achieved before the end of this fiscal year. The Committee has, by majority vote, approved the Department's recommendation of a 66% increase during the 1st year after new rates are approved and a 33% increase in the 2nd and 3rd years to the water rate and meter service charge. The Committee also recommended that the Department focus on reducing expenses and develop a policy of periodic rate reviews to ensure CSA 7 achieves and maintains fiscal health.

In cooperation with the Committee, CSA 7 has implemented several cost saving measures which have included the installation of a remote monitoring and alarm system, shut-off valves, replacement of old meters, and enlisted the support of community volunteers in assisting with locating leaks, distribution of important information, and conducting customer outreach.

The San Mateo County Local Agency Formation Commission approved a Municipal Service Review and Sphere of Influence Update for CSA 7 (Update) at their November 16, 2011 meeting. The Update evaluated the CSA 7 past and current budget, included a water rate comparison, and discussed options for shared services. The Update recommended that CSA 7 proceed with a rate increase immediately.

The proposed water rates and meter service charges were communicated to the property owners and customers through a separate mailing by the Department. 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 7 system per the requested Plan by DPH, including the preparation of the Plan.
2. Administration of CSA 7 to comply with reporting requirements, customer support, and customer billing.
3. Upgrades to raw and treated water storage tanks.
4. Upgrades and repairs to raw water intake and treatment plant equipment.
5. Minimum fund reserve to respond to emergency events.
6. Long term capital improvements, including the replacement of existing water mains, the completion and implementation of a cross connection control program and watershed sanitary survey, and addressing water pressure and water quality compliance issues.

The Department is recommending that the proposed rates be approved and be evaluated annually to determine their adequacy. We anticipate that the increased rates 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 intends to continue exploring options for maintaining the system that may be more cost effective while still complying with the requirements of the DPH.

We are proposing that the proposed rates increases be used to calculate charges beginning with the June billings for each fiscal year (June 2013, 2014, and 2015). The June billings will be based on water consumption during the approximate period of April through June of each year. Staff will continue to work with the Committee to evaluate the financial condition of CSA 7 and develop long-term rates that will be acceptable to the ratepayers while adequately meeting the financial obligations of CSA 7.

The water rates, meter service charges, and other associated CSA 7 charges are described in the Ordinance.

County Counsel has reviewed and approved the Ordinance and 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 providing revenue to CSA 7 and allowing for the continuation of service to CSA 7 customers.

FISCAL IMPACT:

The following are the current and proposed water service rates for CSA 7:

WaterService Description	Current Rates	Proposed Rates		
		FY 2012-13	FY 2013-14	FY 2014-15
Monthly Meter Service Charge	\$20.00	\$33.20	\$44.16	\$58.73
Water Rate per Unit (1 Unit=748 gallons)	\$4.80	\$7.97	\$10.60	\$14.10

A residential customer that uses 10 units of water per month currently pays \$68.00 per month and would pay \$112.90 per month with the proposed rates.

We estimate that it will cost approximately \$200 (\$3 per rate payer in CSA 7) to prepare, print and mail individual notices to each property owner and account holder in CSA 7. This cost will be paid from the revenue of CSA 7.

The proposed rates are anticipated to generate the additional revenues required to fund all routine and non-emergency operation and maintenance activities to meet current Federal and State regulations for FY 2012-13 through FY 2013-14 with small amounts for reserves and capital improvements. However, annual evaluations of the rates will need to be conducted to determine the adequacy of the rates. The proposed rates are not sufficient to fund all of the capital improvement projects recommended by the CSA 7 master plan.

There is no direct impact to the General Fund.