



January 26, 2010

agk for Margaret Falkner

President
Marshall E. Ochylski

TO: LOCSO Board of Directors

Vice President
Steve Senet

FROM: Utilities Supervisor, Margaret Falkner

SUBJECT: Agenda Item 6C - 02/04/10 Board Meeting
Notice of Public Hearing for Proposed Water Rate Adjustment

Directors
Chuck Cesena
Maria Kelly
Joe Sparks

SUMMARY:

In September 2008, the District contracted with FCS Group to conduct a water rate study to determine the revenue required to meet the District's financial obligations in providing water service within the District's Water Division. The conclusions and recommendations of this study were summarized in a final report entitled, "Los Osos Community Services District FY 2009/2010 Water Rate Study," dated February 2009 (FCS Report).

General Manager
Dan Gilmore

District Accountant
Amparo Haber

Administrative Supervisor
Sandi Woods

At the direction of the District, the FCS Report considered several reserve policies, determining the revenue requirement. These included an operating reserve, a rate stabilization reserve, and a capital reserve. In addition to these reserve policies, the FCS Report calculated revenue requirements to provide water service.

Utilities Supervisor
Margaret Falkner

Fire Chief
Matt Jenkins

An ad-hoc subcommittee (Subcommittee) was formed by the Board for the purpose of reviewing the FCS Report and making a recommendation for a new water rate structure that will meet the District's revenue requirements. That Report was completed in October of 2009.

Battalion Chief
Phill Veneris

The Subcommittee Report was then reviewed by the District's Water Committee, the District's Finance Committee and District's staff. This review culminated in a final Staff Report dated December 10, 2009.

Mailing Address:
P.O. Box 6064
Los Osos, CA 93412

The Subcommittee, the District's Water Committee, the District's Finance Committee and District staff recommended the proposed rate adjustment to address revenue deficiencies and the proposed rate structure to address the need for water conservation to address current groundwater contamination and seawater intrusion.

Offices:
2122 9th Street
Suite 102
Los Osos, CA 93402

Pursuant to State law, the rate adjustment will be set by Board resolution. In accordance with California Constitution, Article XIII D, § 6 the District is required to send a notice to all water customers 45 days in advance of the public hearing on water rate adjustments, allowing sufficient time for the

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www.losososcsd.org

District's water customers to review and protest the proposed rate adjustment. If more than half the District's water customers do not protest the proposed rate adjustment, the proposed rate structure would become effective May 1, 2010.

RECOMMENDATION:

By motion, approve the rate adjustment notice and set the date for the public hearing to be at the regularly scheduled Board of Director's meeting on April 1, 2010.

Attachment:
Notice of Public Hearing – Water Rate Increase

**LOS OSOS COMMUNITY SERVICES DISTRICT
WATER DIVISION
NOTICE OF PUBLIC HEARING
WATER RATE INCREASE**

Dear Property Owners and Tenants-customers:

This is a notice to explain proposed increases in water rates for the Water Division of the Los Osos Community Services District ("LOCSD" or "District") and the majority protest procedures. The proposed rate increases will be recommended for adoption by the LOCSD's Board of Directors at the Public Hearing described in this Notice.

NOTICE OF PUBLIC HEARING

A Public Hearing for the Proposed Water Rate Increases within the LOCSD's Water Division will be held on:

Date: April 1, 2010

Time: 7:00 p.m.

Place: South Bay Community Center, 2180 Palisades Ave, Los Osos, CA

At the Public Hearing the Los Osos Community Services District Board of Directors will consider all public comment in support and in opposition of the Proposed Rate Increase and whether or not a Majority Protest exists pursuant to the California Constitution (below). If approved, the Proposed Rate Increase would become effective May 1, 2010.

MAJORITY PROTEST:

Pursuant to Section 6 of Article XIII D of the California Constitution, the following persons may submit a written protest against the Proposed Rate Increase to the District's Secretary before the close of the Public Hearing referenced above.

- An owner(s) of property (parcel(s)) receiving water service within the LOCSD Water Division. If the person(s) signing the protest, as an owner, is not shown on the last equalized assessment roll as the owner of the parcel(s) then the protest must contain or be accompanied by written evidence that such person signing the protest is the owner of the parcel(s) receiving water service; and
- A Tenant(s) whose name appears on the District records as the customer of record for the corresponding parcel receiving water service within the LOCSD Water Division (tenant-customer).

A valid written protest must contain a statement that you protest the increase in water rates, the address and Assessor's Parcel Number (APN) of the parcel or parcels which receive water service and must be signed by either the owner or the tenant-customer of the parcel or parcels. One written protest per parcel shall be counted in calculating a majority protest to the proposed water rate increase subject to the requirements of Section 6 of Article XIII D of the California Constitution. Written protests will not be accepted by email or by facsimile. Verbal protests will not be counted in determining the existence of a majority protest. To be counted, a protest must be received in writing by the District Secretary before the close of the Public Hearing referenced above.

Written protests regarding the water rate increase may be mailed to:

Los Osos Community Services District
Attn: District Secretary
P.O. Box 6064
Los Osos, CA 93412-6064

Written protests may also be personally delivered to the Board Secretary at the Los Osos Community Service District Office located at 2122 9th St., Suite 102, Los Osos, California.

If valid written protests are presented by a majority of owners and/or tenants-customers of parcels receiving water service within the LOCSO's Water Division, then the District will not adjust/increase the water rates. Only one protest per parcel will be counted in determining whether or not a majority protest exists.

Calculation of Rates & Charges

In September 2008, the District contracted with FCS Group to conduct a water rate study to determine the revenue required to meet the District's financial obligations in providing water service within the District's Water Division. The conclusions and recommendations of this study were summarized in a final report entitled, "Los Osos Community Services District FY2009/2010 Water Rate Study," dated February 2009 (FCS Report).

At the direction of the District, the FCS Report considered several reserve policies, determining the revenue requirement. These included an operating reserve, a rate stabilization reserve, and a capital reserve. In addition to these reserve policies, the FCS Report calculated revenue requirements to provide water service.

An ad-hoc subcommittee (Subcommittee) was formed by the Board for the purpose of reviewing the FCS Report and making a recommendation for a new water rate structure that will meet the District's revenue requirements. That Report was completed in October of 2009.

The Subcommittee Report was then reviewed by the District's Water Committee, the District's Finance Committee and District's staff. This review culminated in a final Staff Report dated December 10, 2009.

The Subcommittee, the District's Water Committee, the District's Finance Committee and District staff recommended the proposed rate increase to address revenue deficiencies and the proposed rate structure to address the need for water conservation to address current groundwater contamination and seawater intrusion.

Revenue Requirements to Fund Operations, Maintenance and Reserves are summarized as follows:

- A. **Operation & Maintenance Expenditures:** Are costs that the District incurs in the day-to-day operations of its water system – examples include employee salaries, administrative costs, power for pumping water, maintenance of District water facilities, chemicals for treating the water and water purchases. The operation requirements for Fiscal Year 2010/2011 are calculated at one million, four hundred sixty-four thousand, one hundred forty dollars (\$1,464,140) annually.
- B. **Debt Service:** Debt service requirements are related primarily to the District's California Infrastructure in Economic Development Bank (CIEDB or I-Bank) loan. Debt service requirements are calculated at two hundred eighty-two thousand, five hundred twenty-two dollars (\$282,522) annually.

- C. District Conservation Program: The purpose of this fund is to provide a revenue source for developing and implementing a District Water Conservation Program. The funding goal for this program is thirty thousand dollars (\$30,000) annually.
- D. Contingency or Operating Reserve: This Reserve provides a funding source for unforeseen circumstances not covered by the District's Operation & Maintenance Budget (see A. above). Examples include natural disasters or other unforeseen system failures that impair the District's ability to provide water service. The funding goal of this reserve is sixty percent (60%) of the District's annual budget for operating expenditures as approved by the Board from time to time. The annual funding goal of this reserve is currently fifty-five thousand dollars (\$55,000) annually with a goal for full funding over a nine (9) fiscal year period.
- E. Capital Reserves: This reserve provides a funding source for planned and unplanned replacement of water infrastructure and facilities as referenced in the District's Water Master Plan or other subsequent water planning documents approved by the District, and emergency repairs. The annual funding goal of this reserve is ninety-four thousand dollars (\$94,000) per annum with a total funding goal of four hundred seventy thousand dollars (\$470,000) adjusted annually for inflation.
- F. Rate Stabilization Reserve: This reserve provides a funding source to mitigate unplanned variations in revenues and expenses. This reserve category does not serve the same day-to-day operating purposes as the contingency reserves. The funding goal of this reserve is thirty-two thousand dollars (\$32,000) annually until such time as this reserve reaches a total of ten percent (10%) of the total annual operation and maintenance expenditures.

Rate Component Methodology

Subject to the above referenced majority protest procedures the District Board of Directors has approved the following methodology to spread Water Department revenue requirements to water customers.

Meter Charge. The proposed rate structure includes the bi-monthly fixed charge of \$35.00 per meter, regardless of meter size. The minimum charge recognizes that there are individual and community-wide benefits of having a public water system and the associated fixed costs of operating a water system regardless of water consumed. Community-wide benefits include the water system's role in providing fire protection within the District's Water Division.

Consumption Rate. The proposed rate structure includes a charge for water consumption and does not differentiate between meter sizes. The tiered water rate encourages conservation by charging for every unit of water delivered and therefore every customer is encouraged to conserve. The proposed bi-monthly rate structure is depicted in the following table:

A fixed charge of \$35 for all accounts, plus:

Consumption Tier	Units of Consumption (1 Unit = 100ft³ = 748 gallons)	Price per Unit
1	0 to 5	\$1.25
2	6 to 10	\$2.35
3	11 to 20	\$4.00
4	21 to 500	\$5.50
5*	501 and over *	\$3.50*

*This rate tier is intended to grant relief to the School District on its irrigation accounts. Recognizes community-wide benefit of playgrounds and water conservation.

School Rate. This rate would be applied to the school district, to provide partial relief from the impact caused by the 2007 rate increase. The School District would pay the regular tiered rate up to and including 500 units of water. The special rate of \$3.50 per unit will be imposed for water delivered in excess of 500 units in a billing cycle. The school rate recognizes the value of public irrigated playgrounds that are enjoyed by the community when schools are not in session.

Zone A Property Taxes. These are property taxes allocated by the County and used to support the District's water operations. This revenue source supports the proposed rate structure.

How Will My Water Rates Be Impacted?

The following table compares the existing **bi-monthly** rate structure with the proposed bi-monthly rate structure per unit of consumption and includes the fixed meter charge:

Units* Billed	Existing Rate	New Rate	Bi-monthly \$ Increase
0	\$34.01	\$35.00	\$0.99
5	\$34.01	\$41.25	\$7.24
10	\$37.95	\$53.00	\$15.05
20	\$79.30	\$93.00	\$13.70
50	\$242.26	\$258.00	\$15.74
100	\$515.76	\$533.00	\$17.24
500	\$2703.76	\$2733.00	\$29.24
1000	\$5438.76	\$4483.00	-\$955.76

*Unit = 100 cubic feet = 748 gallons of water

Annual Adjustment

Because the costs of operating and maintaining the District's Water Division are impacted by inflation over time, the FCS Group and reviewing committees recommended an annual adjustment to the fixed meter charge and the consumption rate.

The determination of whether there has been an increase in costs and the amount of the increase in costs will be based upon the Consumer Price Index, All Urban Consumers, for the Los Angeles-Riverside-Orange County Area ("CPI"), as determined by the United States Department of Labor, Bureau of Labor Statistics, or its successor. Commencing with Fiscal Year 2011/2012, the District will compute the percentage difference between the CPI for February of each year and the CPI for the previous February, and then subject to the below provisions, adjust the existing rate structure by an amount not to exceed such percentage for the following fiscal year. Should the Bureau of Labor Statistics revise such index or discontinue the

preparation of such index, the District will use the revised index or a comparable system as approved by the Board of Directors for determining fluctuations in the cost of living.

Pursuant to California Government Code §53756 the following restrictions will apply to the Inflationary Adjustment:

1. The proposed rate structure will not exceed five (5) years from the effective date.
2. The rates and charges after the Inflationary Adjustment shall not exceed the cost of providing water service.
3. Notice of the adjustment will be provided to property owners and tenants-customers not less than thirty (30) days prior to the adjustment.

Availability of Studies and Reports

Additional information on the proposed water rates is available in the *FCS Group Report*, the *Subcommittee Report*, and the *December 10, 2009, Staff Report*. These reports are available for review at the District's administrative offices located at 2122 9th Street, Suite 102, Los Osos, California and on the District's website at www.losososcsd.org. In addition, customers may contact the District's General Manager at 528-9370 for further information about the proposed rates.