



Date: January 28, 2015

TO: LOCSD Board of Directors

FROM: Kathy A. Kivley, General Manager
Margaret Falkner, Utility Compliance Technician III

SUBJECT: Agenda Item 7B – 02/05/2015 Board Meeting
Public Hearing on Proposed Water Rate Increases and Maximum Water Shortage Emergency Rates

President
R. Michael Wright

Vice President
Marshall E. Ochylski

Directors
Charles L. Cesena
Jon-Erik G. Storm
Louis G. Tornatzky

General Manager
Kathy A. Kivley

District Accountant
Michael L. Doyel

Fire Chief
Robert Lewin

Battalion Chief
Phill Veneris

DESCRIPTION

Conduct Protest Hearing and determine protest status regarding adoption of Water Rate Study with both water rate increases and establishment of emergency shortage rates.

STAFF RECOMMENDATION

Staff recommends as follows:

1. Conduct Public Hearing/receive Public Comment and receive Written Protest
2. Close Public Hearing
3. Establish number of valid written protests that have been submitted per Proposition 218/Article XIIID of the California Constitution
4. If there is no majority protest, by motion and roll call vote, adopt Resolution 2015-02.

Motion: I recommend the Board adopt Resolution 2015-02 approving water rate increases and setting maximum water shortage emergency rates thereby increasing District water user fees.

5. If there is a majority protest, direct staff to develop alternatives.

BACKGROUND & DISCUSSION

In October 2014, the Board approved a contract with Bartle Wells Associates for the preparation of a Water Rate Study in order to accomplish the following objectives:

- Provide for the prudent planning of capital infrastructure, including water supply projects and implementation of the Basin Plan, as outlined in the Capital Improvement Program approved by the Board in August, 2014
- Account for current and future operations, maintenance, and replacement expenses
- Fund reserve accounts in accordance with adopted policies, and revisit reserve policies where prudent
- Prepare for future reductions in revenue due to decreased water sales from conservation efforts and the delivery of recycled water
- Recommend emergency rates necessary to support District operation during various drought stages as defined in the Water Shortage Contingency Plan (Plan) adopted by the Board in August 2014, or recommend changes to the Plan if necessary.

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

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

Phone: 805/528-9370
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www.locsd.org

- Consider alternative rate structures that would encourage increased conservation.
- Comply with the requirements of Proposition 218

The recommended financial plan and corresponding rates were considered in a joint meeting of the Financial Advisory Committee and Utilities Advisory Committee on November 19, 2014. The committees were in general agreement with the approach taken in the draft plan, and asked for additional clarification and technical support for the proposed emergency rates. It should be noted that the proposed rates represent the maximum recommended values. If supplemental funding is obtained for water supply projects in the Basin Plan through a Community Facilities District, the maximum approved water rate increases will not need to be applied in future years.

At the December 4, 2104 Board of Directors Meeting, the Board approves the draft Water Rate Study, set a public hearing for February 5, 2015, and direct staff to prepare the Proposition 218 notice at least 45 days prior to the public hearing. Adoption of new rates and charges requires a public hearing process in compliance with Proposition 218. Following your Board's December 4, 2014 approval of the Rate Study and pursuant to the requirements of Proposition 218 and Article XIIIID of the California Constitution, notices of this public hearing were mailed to owners of record for parcel(s) plus tenants directly responsible for payment for water service within the LOCSD water service area. Consistent with the regulations the notices were mailed more than 45 days prior to tonight's hearing.

There were 2,797 notices mailed to owners of record for parcel(s) plus tenants directly responsible for payment for water service within the LOCSD water service area. Attached is a copy of one of the notices. Only one vote per parcel is counted.

Notices Mailed	Parcels in Water Service Area	Protests required for Majority (50% +1)	Protest Letters Received by the District to date
2797	2692	1347	13

In the event that a majority of owners and/or tenants submit valid written protests prior to the close of the Public Hearing, then the proposed rate structure cannot be adopted.

FINANCIAL IMPACT

The proposed Water Rate Study is a critical step in the planning process for the District's finances. Increased revenues will be necessary to fund approved capital improvements, and rates will be increased to provide stable income during periods of reduced water sales.

Attachments: Resolution No. 2015-02
 Proposition 218 Notice of owners and customers of record



NOTICE OF PUBLIC HEARING ON PROPOSED WATER RATE INCREASES AND WATER SHORTAGE EMERGENCY RATES

The Los Osos Community Services District (LOCSD) is a public agency that provides a range of services to the community of Los Osos including water, sewer, street lighting, parks/recreation, storm water, fire and emergency response. LOCSD provides water service to about half of Los Osos. The other half of the community is served by a private water company. LOCSD's water utility relies primarily on revenues from water rates to fund the costs of operating and maintaining the water system. As such, rates must be set at levels adequate to fund the cost of providing water service.

This notice is being sent to inform you that LOCSD is proposing to increase water rates over the next four years and adopt Water Shortage Emergency Rates designed to support financial stability during periods of reduced water sales. Rate increases are needed to fund critical water supply and reliability improvements, finance high-priority capital projects, and keep up with operating cost inflation. The proposed rates were developed by an independent rate consultant with input from LOCSD's *Financial Advisory Committee* and *Utilities Advisory Committee*, two community advisory groups that provide input to the District. LOCSD is proposing to phase in the proposed rate increases over four years to help minimize the annual impact on customers. LOCSD's water rates are currently in the middle range compared to other regional agencies.

PUBLIC HEARING: LOCSD will hold a public hearing on the proposed water rate increases and proposed maximum Water Shortage Emergency Rates on February 5, 2015 starting at 7:00 pm. The meeting will be held at the South Bay Community Center located at 2180 Palisades Avenue in Los Osos.

WHY ARE RATE INCREASES NEEDED?

LOCSD is facing a number of challenges related to the over-drafted groundwater basin and aging facilities. Rate increases are needed to help address these long-term challenges and help support safe, reliable, and sustainable water service. The proposed rates are needed to:

- **Help secure a sustainable water supply.** LOCSD relies on groundwater for 100% of the community's water supply. The regional groundwater basin has been adversely impacted by both a) groundwater degradation from septic system discharge, and b) seawater intrusion into the lower aquifers due to years of overdraft. In response to these threats, a *Basin Plan for the Los Osos Groundwater Basin* was developed in 2013. The Basin Plan identifies capital projects and initiatives designed to improve regional water supplies and reliability. The proposed rate increases will enable LOCSD to fund its share of Basin Plan costs to help improve the long-term sustainability of the region's water supply.
- **Address high-priority capital improvement needs.** LOCSD's recently-updated capital improvement program identifies \$23.5 million of infrastructure improvements needed to address existing water system deficiencies and improve operational efficiency and supply reliability. The proposed rate increases are designed to help LOCSD fund roughly \$4.9 million of high-priority, near-term capital improvement needs. The District anticipates financing about \$4 million of these critical projects with debt financing and is pursuing low-interest-rate loans from the state.
- **Fund operating expenses of the water system.** Rate increases are also needed to fund annual operating cost increases and keep rates aligned with the cost of providing service.

PROPOSED WATER RATES

LOCSD is proposing to phase in a series of water rate increases over the next four years as shown on the table below. Water service charges include both 1) a fixed bi-monthly Service Charge levied regardless of water use, plus 2) Water Consumption Charges billed based on metered water use in each bi-monthly billing period. Water Consumption Charges are billed via four inclining rate tiers with water purchased first in Tier 1 and then subsequently in higher tiers as water use increases.

	Current Water Rates	Proposed Water Rates				
		July 1 2015	July 1 2016	July 1 2017	July 1 2018	
Fixed Bi-Monthly Service Charge	\$45.76	\$52.36	\$59.32	\$64.64	\$70.42	
<i>Monthly Equivalent</i>	22.88	26.18	29.66	32.32	35.21	
Water Consumption Charges						
Rate per hundred cubic feet (ccf) of metered water use per bi-monthly billing period.						
Tier 1	0 - 5 ccf	\$1.63	\$2.00	\$2.35	\$2.50	\$2.60
Tier 2	6 - 10 ccf	3.07	3.75	4.40	4.80	5.20
Tier 3	11- 20 ccf	5.23	6.00	6.75	7.25	7.80
Tier 4	>20 ccf	7.20	8.20	9.20	9.80	10.40
<i>1 ccf = one hundred cubic feet = 748 gallons</i>						
<i>Equivalent Rate per 100 Gallons of Water Use (for informational purposes only)</i>						
Tier 1	0 - 5 ccf	\$0.22	\$0.27	\$0.31	\$0.33	\$0.35
Tier 2	6 - 10 ccf	0.41	0.50	0.59	0.64	0.70
Tier 3	11- 20 ccf	0.70	0.80	0.90	0.97	1.04
Tier 4	>20 ccf	0.96	1.10	1.23	1.31	1.39

Note: LOCSD bills on a bi-monthly basis; the rates shown apply to a 2-month billing period.

The impacts of the proposed rates will vary depending on each customer's water use per bi-monthly billing period. The following table shows an example of projected bi-monthly bills for a typical single family home using 14 units of water in a two-month billing period (7 units per month).

	Current Rates	July 1 2015	July 1 2016	July 1 2017	July 1 2018
Sample Bills for a Typical Home Using 14 Units of Water Every 2 Months (7 Units per Month)					
Fixed Bi-Monthly Service Charge	\$45.76	\$52.36	\$59.32	\$64.64	\$70.42
Water Consumption Charges					
Tier 1: 5 units x Tier 1 rate	8.15	10.00	11.75	12.50	13.00
Tier 2: 5 units x Tier 2 rate	15.35	18.75	22.00	24.00	26.00
Tier 3: 4 units x Tier 3 rate	<u>20.92</u>	<u>24.00</u>	<u>27.00</u>	<u>29.00</u>	<u>31.20</u>
Total Bi-Monthly Bill	90.18	105.11	120.07	130.14	140.62
<i>Monthly Equivalent</i>	45.09	52.56	60.04	65.07	70.31

LOCSD encourages all customers to use water as efficiently as possible. Customers who conserve and reduce water use can help offset the impact of the proposed water rate increases.

PROPOSED WATER SHORTAGE EMERGENCY RATES

In 2014, LOCSD established a *Water Shortage Contingency Plan* that identifies voluntary and mandatory water use restrictions designed to reduce water demand in response to drought or other water quality or supply deficiencies. The plan includes five water use reduction stages with target cutback levels ranging from 5% to 50%. The District is currently in a *Stage 2 Water Shortage Warning* which calls for voluntary restrictions aimed at reducing use by 15% from baseline historical norms.

Due to the multi-year drought, water quality issues in the upper aquifer, and ongoing overdraft of the groundwater basin, LOCSD may need to take additional action to further reduce water demand. This could entail declaring a Stage 3, 4, or 5 water shortage emergency, which would result in mandatory water use restrictions as well as penalties for exceeding water use allocations.

In the event of a Stage 3, 4, or 5 water shortage emergency, LOCSD will need to implement additional rate increases to maintain adequate operating revenues during periods of reduced water sales. The following table shows the proposed maximum bi-monthly Water Shortage Emergency Rates that LOCSD may implement over the next four years for each stage of cutback. These emergency rates would only apply to the District’s Water Consumption Charges for bi-monthly metered water use, and would have no impact on the District’s fixed bi-monthly service charges. The proposed Water Shortage Emergency Rates are designed to support financial stability during periods of reduced water sales and would be levied on a temporary basis. These charges would be phased out as water use returns to normal.

Proposed Maximum Water Shortage Emergency Rates				
		Stage 3	Stage 4	Stage 5
		Emergency Water Shortage	Severe Water Shortage Emergency	Critical Water Shortage Emergency
Water Shortage Emergency Rates				
<i>Rate per hundred cubic feet (ccf) of metered water use per bi-monthly billing period.</i>				
Tier 1	0 - 5 ccf	\$2.60	\$3.14	\$3.51
Tier 2	6 - 10 ccf	5.20	6.29	7.02
Tier 3	11- 20 ccf	7.80	9.43	10.52
Tier 4	>20 ccf	10.40	12.57	14.03

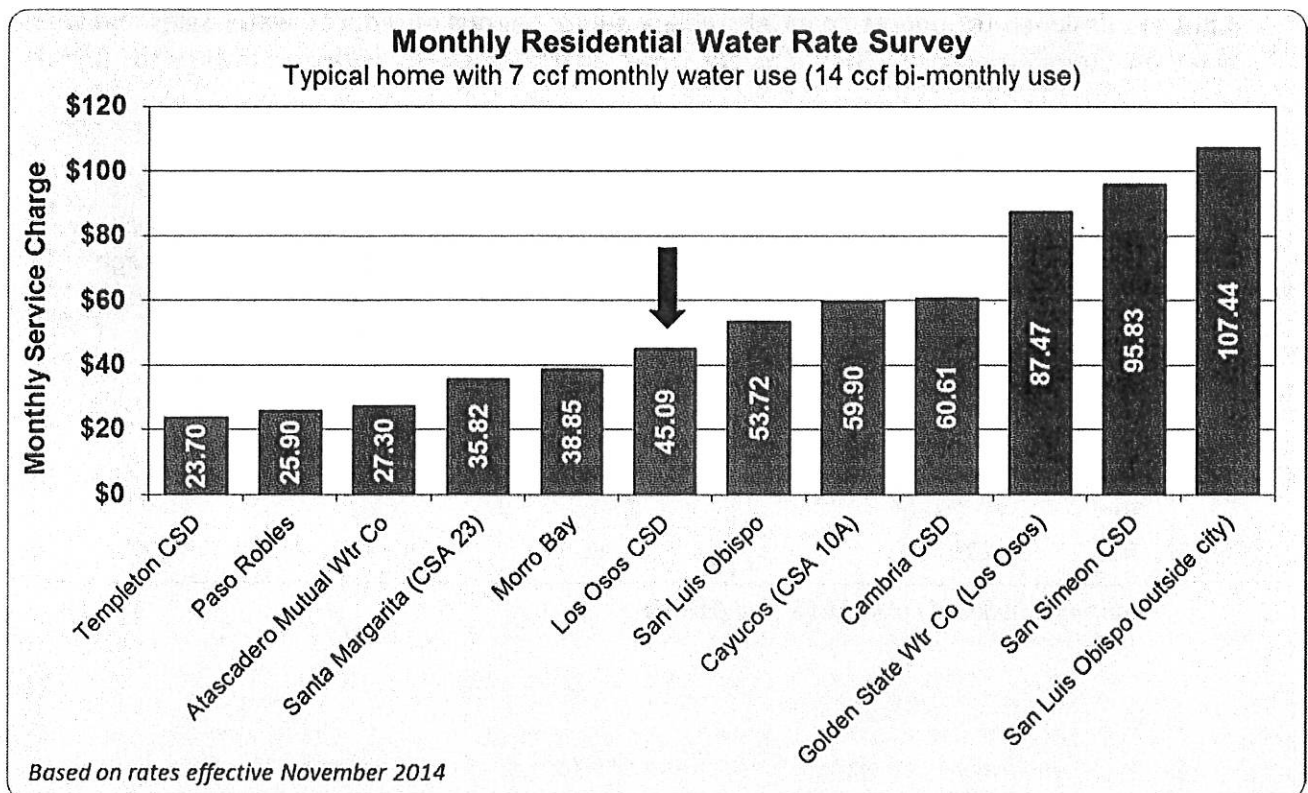
1 ccf = one hundred cubic feet = 748 gallons

HOW CAN I PROTEST THE PROPOSED RATE INCREASES?

Property owners and tenants responsible for paying the water bill may submit written protests against the proposed water rates. Pursuant to California law, protests must be submitted in writing and must a) identify the affected property or properties, such as by Assessor’s Parcel Number, address or customer account number; b) identify the name of the property owner or tenant, c) state that the individual is in opposition to the proposed rate increases, and d) include the signature of the property owner or tenant submitting the protest. Protests submitted by e-mail, facsimile, or other electronic means will not be accepted. The proposed rates cannot be adopted if written protests are received from a majority of affected parcels. One written protest will be counted per parcel. Written protests can be mailed or delivered to: Los Osos Community Services District, 2122 9th Street, Suite 102, Los Osos, CA 93402. Written protests may also be submitted at the Public Hearing. All protests must be submitted prior to the close of the Public Hearing.

LOCSO WATER RATES IN MIDDLE RANGE COMPARED OTHER REGIONAL AGENCIES

The following survey compares monthly water bills for a typical single family home using 7 units (ccf) of water per month. With the proposed rate increases, LOCSO’s water rates are expected to remain in the middle range compared to other local and regional water agencies.



If you have any questions or would like additional information, please contact the LOCSO Utilities Department at (805) 528-9376.

RESOLUTION NO. 2015-02

**A RESOLUTION OF THE BOARD OF DIRECTORS
OF THE LOS OSOS COMMUNITY SERVICES DISTRICT
AMENDING TITLE 2 SECTION 2.01.19 (A) DISTRICT RATES, CHARGES AND FEES**

WHEREAS, the Los Osos Community Services District ("District") became effective January 1, 1999, pursuant to an election and Resolution No 98-239 of the Board of Supervisors of the County of San Luis Obispo, and under the authority of the Cortese-Knox Local Government Reorganization Act of 1985 (Government Code §56000 et seq.); and

WHEREAS, the District established water rates and fees through Ordinance No. 2000-03 Establishing Bi-Monthly Rates for Water Service; and

WHEREAS, it is a major responsibility of the Los Osos Community Services District ("District") to maintain adequate levels of revenue, equitably collected from all classes of water customers to meet financial commitment of the District's water operations department, which benefit the customer or property being charged; and

WHEREAS, in 2015 the District retained Bartle Wells Associates to develop water rate and charge increases and water shortage emergency rates to meet the financial needs of the system. The increases were developed with input from District's Financial Advisory and Utilities Advisory Committees.

WHEREAS, the District water rate and charge increases will be phased over the next four years in an effort to minimize cost impacts to customers. Water service charge increases will include 1) a fixed bi-monthly Service Charge not based on water use, and 2) bi-monthly Water Consumption Charges billed based on metered water use. Water Consumption Charges shall be billed in four phases using four inclining rate tiers as shown in Exhibit A Water Rates and Charges Update.

WHEREAS, Water Shortage Emergency Rates will be implemented to maintain adequate operating revenues during periods of reduced water sales and will include five (5) water use reduction stages as shown in Exhibit A 2015 Water Shortage Emergency Rates. In the event of a Stages 3, 4, 5 water shortage emergency, LOCSD will implement additional rate increases that will apply only to the District's Water Consumption Charges for bi-monthly metered water use. Water Shortage Emergency Rates are temporary and will be phased out as water use returns to normal.

WHEREAS, Government Code §61115 authorizes the District to adopt rates and charges by Resolution; and

WHEREAS, on February 5, 2015, the District conducted a duly noticed public hearing wherein the Board of Directors considered public comment in support and in opposition to the proposed rate and charge increase and whether or not a majority protest to the proposed rate and charge increase exists pursuant to Section 6 of Article XIII D of the California Constitution.

WHEREAS, based on facts and analysis presented in the Water Rate Study, written protests received prior to the close of the February 5, 2015, public hearing, the Staff Report, Staff Presentation and public testimony received, the Board of Directors finds:

A. The District identified the parcels upon which the new rates and charges will be imposed, calculated the amount of the rates, and mailed notices to all Owners of Record and Customers of Record of properties responsible for the water rates and charges, which notices provided information on the proposed rates and charges, the basis for the calculation, the reason for the rates and charges, and the date, time, and location for a public hearing which was not less than 45 days after the date of mailing.

B. The public hearing adopting this Resolution has been properly noticed pursuant to Government Code §54954.2 (The Brown Act).

C. The rates and charges adopted by this Resolution:

1. Are for the purposes of meeting operation, maintenance, and capital replacement expenses for providing adequate water services for District customers.
2. Will be applied to customer water bills no sooner than April 1, 2015.
3. Do not exceed the funds required to provide adequate water service to District customers.
4. Do not exceed the proportional cost of services attributable to those parcels receiving water service.

D. The revenues derived from the water rate and charge increases and water shortage emergency rates will not be used for any purpose other than that for which the rate and charges are herein imposed.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED, by the Board of Directors of the District as follows:

Section 1. Incorporation of Recitals

The Recitals are true and correct and incorporated herein by this reference. The Recitals and referenced reports and studies contained therein constitute and support the findings of the District in support of this Resolution.

Section 2. Water Rates

The following amendment is hereby adopted:

Section 2 01.19. District rates, charges and fees

A. Water rates, charges and fees

Water rates are set forth in Appendix A (previously adopted by Ordinance No. 2000-03), and amended by Resolution 2015-02 to include Exhibit A 2015 Water Rates and Charges Update, and 2015 Water Shortage Emergency Rates

Section 3. Repeal of Prior Ordinances and Resolutions

All Ordinances, Resolutions and sections of Ordinances and Resolutions that are inconsistent with this Resolution are hereby repealed.

Section 4. Effect of Repeal on Past Actions and Obligations

This Resolution does not affect prosecutions for violations committed prior to the effective date of this Resolution, does not waive any fee or penalty due and unpaid on the effective date of this Resolution, and does not affect the validity of any bond or cash deposit posted, filed or deposited pursuant to the requirements of any prior Resolution or Ordinance.

Section 5. CEQA Findings

The Board of Directors of the District finds that the rates and charges adopted by this Resolution exempt from the California Environmental Quality Act pursuant to Public Resources Code § 21080(b)(8) and CEQA Guidelines Section 15273. The District General Manager is directed to prepare and file appropriate notices.

Section 6. Severance Clause

If any section, subsection, sentence, clause or phrase of this Resolution is for any reason held to be unconstitutional, ineffective or in any manner in conflict with the laws of the United States, or the State of California, such decision shall not affect the validity of the remaining portions of this Resolution. The Governing Board of the District hereby declares that it would have adopted this Resolution and each section, subsection, sentence, clause and phrase thereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses or phrases be declared unconstitutional, ineffective, or in any manner in conflict with the laws of the United States or the State of California.

Section 7. Effective Date

This Resolution shall take effect immediately. The rates and charges adopted by this Resolution shall take effect no sooner than April 1, 2015.

ADOPTED this 5th day of February by the Governing Body of the Los Osos Community Services District by the following roll call votes:

Upon motion of Director _____, seconded by Director _____ and on the following roll call vote, to wit:

AYES: _____
NOES: _____
ABSENT: _____
ABSTAIN: _____

The foregoing resolution is hereby passed and adopted this 5th day of February, 2015.

R. Michael Wright
President, Board of Directors
Los Osos Community Services District

ATTEST:

APPROVED AS TO FORM:

Kathy A. Kivley
General Manager and Secretary to the Board

Michael W. Seitz
District Legal Counsel

Exhibit A
2015 Water Rate and Charges Update

	2015-2018 Water Rates			
	July 1 2015	July 1 2016	July 1 2017	July 1 2018
Fixed Bi-Monthly Service Charge	\$52.36	\$59.32	\$64.64	\$70.42
<i>Monthly Equivalent</i>	26.18	29.66	32.32	35.21

Water Consumption Charges

Rate per hundred cubic feet (ccf) of metered water use per bi-monthly billing period.

Tier 1	0 - 5 ccf	\$2.00	\$2.35	\$2.50	\$2.60
Tier 2	6 - 10 ccf	3.75	4.40	4.80	5.20
Tier 3	11- 20 ccf	6.00	6.75	7.25	7.80
Tier 4	>20 ccf	8.20	9.20	9.80	10.40

1 ccf = one hundred cubic feet = 748 gallons

Equivalent Rate per 100 Gallons of Water Use (for informational purposes only)

Tier 1	0 - 5 ccf	\$0.27	\$0.31	\$0.33	\$0.35
Tier 2	6 - 10 ccf	0.50	0.59	0.64	0.70
Tier 3	11- 20 ccf	0.80	0.90	0.97	1.04
Tier 4	>20 ccf	1.10	1.23	1.31	1.39

2015 Water Shortage Emergency Rates

		Maximum Water Shortage Emergency Rates		
		Stage 3 Emergency Water Shortage	Stage 4 Severe Water Shortage Emergency	Stage 5 Critical Water Shortage Emergency
Water Shortage Emergency Rates				
<i>Rate per hundred cubic feet (ccf) of metered water use per bi-monthly billing period.</i>				
Tier 1	0 - 5 ccf	\$2.60	\$3.14	\$3.51
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