



SOUTH FEATHER WATER & POWER

TO: Board of Directors

FROM: Michael Glaze, General Manager

DATE: February 17, 2005

**RE: State Budget Bailout Surcharge
Agenda Item for 2/22/05 Board of Directors Meeting**

The purpose of this special meeting of the Board of Directors is to review written protests and to give the public an opportunity to appear and protest and/or otherwise comment on the \$4.10/month State Budget Bailout Surcharge you have proposed to be added to each customers account for a 20-month period commencing with the March 2005 bills. During the public hearing, the Board's responsibility is to listen and thoughtfully evaluate comments. The Board is not expected to engage in debates and respond to every question posed, nor to change the opinions of protesters. The public is afforded an opportunity to comment to ensure that the Board's ultimate decision is fully informed.

Fifteen written protests against the proposed fee have been received. Because written protests from a majority of owners of properties who will incur the surcharge are necessary to prevent its implementation, and the actual number received is only a fraction of a percent of property owners, no effort was expended by staff to validate that every protest came from a property owner within the Agency's boundaries. Of the 15 written protests, 11 essentially objected to any increase and the other four expressed the opinion that the increase should be distributed on the basis of consumption.

After you have reviewed the written protests and listened to all of the comments during the public hearing, you may take the action you deem to be appropriate. There seem to be three obvious options for Board action, although I'm sure others could be conceived that are variations of these three or that meld various aspects of the three.

Option 1. Take no action to offset the loss of property tax revenue and direct staff to prepare a plan to defer ongoing maintenance and capital replacement/improvement projects that have previously been budgeted and/or approved as part of the Agency's long-term operations plan.

Option 2. Authorize the \$4.10 State Budget Bailout Surcharge as proposed for a 20-month period commencing with the March 2005 billing cycle.

Option 3. Authorize an increase in consumption-based water rates to recoup revenues that are being taken from the Agency by the State. Although revenue from consumption-based water rates is less predictable (consumption varies significantly from year to year depending on weather), it is my estimate that a 10.5% increase in rates commencing in March 2005 and running through 2006 would offset the lost property-tax revenue (\$281,920 annually) if we have "average" years.

Recommended form of action (depending on the option you choose):

Option 1.

I move that the General Manager be directed to prepare a plan for Board consideration that would defer ongoing long-term maintenance and capital replacement/improvement projects to offset the revenues that are being taken from the Agency by the State of California.

Option 2.

I move that a \$4.10/account charge be added to each customer's account that is receiving either irrigation or domestic water service, commencing in March 2005 for 20 consecutive months, to recoup revenues that are being taken from the Agency by the State of California; and, that the \$4.10/account charge end after the twentieth month without additional action by the Board of Directors.

Option 3.

I move that consumption-based domestic and irrigation water service rates be increased by 10.5%, commencing in March 2005 and continuing through December 2006, to recoup revenues that are being taken from the Agency by the State of California; and, that the increase in rates for this purpose end after December 2006 without additional action by the Board of Directors.

As you review the written protests you will recognize recurring themes: the rate increase should be more equitable; the cost of water is already high enough; customers on fixed incomes are hardest hit; the Agency should absorb the loss of its property tax revenue by reducing expenses; the Agency should find its revenue elsewhere; and, customers should not be penalized for what the Legislature and Governor have done. I have responded to almost all of the letters that were received before the February 16 deadline. Following is a summary of the questions and comments submitted, as well as responses that were returned.

Comment: *When OWID changed to South Feather Water and Power the monthly irrigation base rate went from \$11.00 to \$17.50.*

There was no fee or rate increase imposed when the name of the Agency was changed on May 27, 2003. The \$6.50 increase in the irrigation service base rate was implemented on January 1, 2003.

After ten years of no rate increases, huge increases in insurance and utility bills forced the Board to

make the change to the base rate to balance the 2003 budget.

Comment: ***Senior citizens on fixed incomes can't afford to pay more for their water.***

This fee increase is especially a problem for senior citizens on fixed incomes, and all the more irritating because it is necessitated by decisions made in Sacramento having nothing to do with Oroville. It is extremely unfair that our elected leaders in Sacramento decided to solve their spending problems by robbing local governments of tax money that is supposed to go for local services.

Comment: ***I was unaware that any of my property taxes went to South Feather Water and Power.***

When the District was formed in 1919, most if not all of its revenue came from property taxes. It wasn't until many years later when irrigation water began to be used domestically that service fees and consumption-based rates were implemented. Since Proposition 13 in 1978, no portion of the property tax paid by new parcels annexing into the district comes to the Agency. The property tax rate is the same for those parcels in the district before 1978 as those coming in after, but the apportionment is different.

Comment: ***Stop being dependent on property tax revenue and give the tax money to the schools.***

The Agency has no authority to designate that its property tax revenue be used for educational purposes – that's a function of the State Legislature.

Comment: ***The per-account fee is inequitable. The fee should be assessed on the basis of how much water is consumed by each customer.***

The Board proposed the per-account fee because it provides greater assurance of precisely how much revenue would be generated. Revenue from a consumption-based rate is less predictable because it is a function of usage, and water usage varies significantly from year to year depending on weather (i.e., precipitation and temperature).

Comment: ***Administrative costs are too high. You already charge about \$10.00 per month for administrative costs.***

The Agency's basic monthly service fee and the consumption-based fees together comprise a rate base that pays for administrative as well as operations, maintenance and capital-replacement expenses. The monthly fee provides a steady revenue stream for those seasons when consumptive use is minimal.

Comment: ***Agricultural/irrigation customers should be targeted to overcome your revenue shortfalls over residential-use customers, because they already pay less than domestic customers.***

Property tax revenue is blended with the other water-use fees and equally subsidizes both domestic as well as irrigation customers.

Comment: ***How was the \$4.10 fee determined?***

Property tax revenue that is being shifted away from the Agency for State purposes amounts to \$281,920 for both this and the next fiscal year. The \$4.10/account/month figure is based on 6,915

accounts (domestic and irrigation) for 20 months (ten months in 2005 and ten months in 2006). The Bailout Surcharge will offset the loss of the property tax revenue plus the cost to implement the fee, and then will automatically be eliminated after 20 consecutive months.

Comment: ***Find your revenues somewhere else for the next two years instead of attacking your customers.***

Balancing the Agency's Water Division budget is dependent on the availability of revenue from property taxes. The only other source of revenue over which the Board has discretion is consumption-based rates (i.e., the amount charged per 100 cubic feet of water consumed). The proposed fee is not an attack by the Agency on its customers, although the reason for the surcharge is to mitigate the loss of revenue resulting from an attack by the Legislature on South Feather Water and Power Agency, as well as most all local governments in California. The Legislature and Governor knew when they authorized the shift of property tax revenue last year that citizens would ultimately bear the burden, but that they would blame the local governments that had to impose the fee increases rather than the politicians who overspent the State into its present fiscal predicament.

Comment: ***The cost of water is already higher than it should be.***

Below is a comparison of SFWPA's water rates with other similar agencies in the area. Even after the \$4.10/month addition, Agency rates will still be comparable to its neighbors.

RATE COMPARISON - 2004
Cost of Domestic Water Consumed Monthly
Includes Service Charge ("Basic Rate") and Volumetric Rates

| Volume Consumed | | First 3,000 ft. ³ | Next 7,000 ft. ³ | Sub-total (10,000 ft. ³) | Additional 10,000 ft. ³ | Total (20,000 ft. ³) |
|----------------------------------|----------------|---------------------------------|--------------------------------|---|---------------------------------------|-------------------------------------|
| South Feather Water and Power | | \$30.20 | \$44.80 | \$75.00 | \$25.00 | \$100.00 |
| CalWater - Oroville | | \$47.23 | \$72.13 | \$119.36 | \$103.04 | \$222.40 |
| City of Gridley | | \$35.24 | \$40.60 | \$75.84 | \$58.00 | \$133.84 |
| Nevada Irrigation District | | \$52.42 | \$65.25 | \$117.67 | \$94.50 | \$212.17 |
| Paradise Irrigation District | | \$29.90 | \$33.60 | \$63.50 | \$48.00 | \$111.50 |
| Thermalito Irrigation District | | \$27.50 | \$32.20 | \$59.70 | \$46.00 | \$105.70 |
| Yuba County Water District | Rackerby | \$39.00 | \$17.50 | \$56.50 | \$25.00 | \$81.50 |
| | Other Areas | \$32.00 | \$17.50 | \$49.50 | \$25.00 | \$74.50 |

Comment: ***The Agency should consider reducing operating expenses as a way of balancing the budget.***

SFWPA's Board of Directors has committed itself to ensuring its customers high-quality water service and long-term rate stability. The recent construction of a \$4 million solar-photovoltaic system (with no increase in rates) to provide electricity for operation of water-treatment facilities and protect against future spikes in PG&E rates is one example of long-term thinking that will facilitate rate protection for customers. Another example is the long-term strategic planning by the Board that anticipates community growth and water system enhancements, but fixes rate increases at an average of 1.6% annually over the next six years – less than half the anticipated rate of inflation.

For the last 12 years the Agency's customer base has grown by about 20%, but the number of personnel employed to operate and maintain the water system and customer services is exactly the same. Forty miles of deteriorating steel pipe has been replaced – eliminating the risk of catastrophic failures – at a cost of \$6.5 million, the design and construction of which was done completely without the use of outside consultants or contractors, and without a rate increase.

Planning and budgeting for the Agency is not, and cannot be done on a year-by-year basis. Maintenance and improvement projects are often scheduled years in advance, often requiring multiple years to complete. Property tax revenue is one of numerous sources of funds upon which the Agency is dependent to fulfill its long-term financial commitments. The Governor and Legislature decided to take \$281,920 in property tax revenue from the Agency both this and next fiscal year for reasons having nothing to do with Agency operations or purposes. These are funds the Agency is dependent on to maintain the budget for its ongoing maintenance and operations and foregoing these necessary activities is not a wise solution to the State's overspending problems.

Comment: ***The Agency should embark upon an austerity program to offset the loss of property tax revenue.***

An austerity program might bridge the budget gap created by the State raid on property tax revenue this year and next, but cutting the annual Water Division budget by over \$281,000 will require cuts necessitating deferring maintenance and capital replacement/improvement projects presently budgeted or approved. These projects are all components of a multi-year strategic plan to ensure the Agency's ongoing readiness and ability to accommodate community growth while ensuring consistent service to existing customers. The Agency was subjected to an austerity program in the '80s the negative consequences of which took nearly a decade to overcome. Not maintaining the Agency's present strategic fiscal plan would cost more in the long run to catch up than the proposed short-term increase that is needed to maintain our current level of service.

Comment: ***The proposed fee increase is unfair to out-of-state property owners who do not need the water service year 'round.***

The Agency's costs and responsibility to ensure that water service is available and top quality whenever it is needed does not stop when a customer leaves town for an extended period. Many

communities throughout the country envy a dependable and pristine water service. Within the Agency's service area the excellent water quality and service is a significant factor contributing to the maintained value of residential property. The Agency's commitment is to continue that level of service despite the fiscal policies of the State's legislature and Governor.

Comment: ***The proposed hiring of an Assistant General Manager-Finance during this time of fiscal difficulties is not warranted.***

The Board of Directors has sanctioned a reorganization of the Agency's Business Division to handle the accelerated growth rate of new customers, the ever-increasing need to incorporate and accommodate state-of-the-art accounting and finance technology, together with increasing administrative responsibilities and obligations. Although the AGM-Finance is a new position, filling the position will not increase the number of employees historically employed to staff the Business Division as a result of recent retirements.

Comment: ***Expansion of the existing office building is not needed and should not be used to justify a fee increase.***

After 80 years in the same small building, the office remodel/expansion project was approved by the Board of Directors in 2003 (another multi-year project) and deemed necessary after review and deliberation on a number of fronts: (1) public convenience and access; (2) ADA compliance; (3) building code compliance; (4) staff efficiency and productivity; and, (5) accommodation of the increased work load generated by a significant increase in new customers. The cost to build the facility was cut by approximately \$50,000 due to the ability of Agency staff to perform the construction rather than contract the project out. The project is not being funded by revenue sources, including property tax, typically used for ongoing Agency operations and maintenance. A portion of the funding comes from the financing of the 2003 MRTP Solar Project (debt service funded by savings in PG&E bills), and the remainder is funded by proceeds from the sale of surplus Agency real estate.