



# County of San Mateo

## Inter-Departmental Correspondence

**Department:** GOVERNING BOARD

**File #:** 21-177

Board Meeting Date: 3/9/2021

**Special Notice / Hearing:** None  
**Vote Required:** Majority

**To:** Honorable Board of Supervisors, Acting as the Governing Board of County Service Area No. 7

**From:** James C. Porter, Director of Public Works

**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 Section 4.104.020 of Chapter 4.104 of Title 4, of the San Mateo County Ordinance Code, setting the water rates for FYs 2021-22 through FY2025-26 for County Service Area No. 7 and waive the reading the Ordinance in its entirety; and
- B) Adopt a resolution setting Tuesday, May 4, 2021 at 9:00 A.M., at your regularly scheduled Board meeting as time and place for a public hearing on:
  - 1. The water rates and charges for County Service Area No. 7; and
  - 2. Directing the necessary notices for said hearing.

**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, this Board adopted Ordinance No. 03781 adopting the water regulations and rates for CSA 7 and establishing a CSA 7 Customer Advisory Committee (Committee) to be an advisory group to the Director of Public Works.

On March 26, 2013, this Board adopted Ordinance No. 04652 amending Section 4.104.010 and

4.104.020 of Chapter 4.104 of Title 4, of the San Mateo County Ordinance Code, and setting the current water rates and charges for County Service Area No. 7.

**DISCUSSION:**

**Water Rates and Charges**

The CSA 7 water rates charges were adjusted last in 2013 with increases over the subsequent two fiscal years. 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 \$14.10 per unit of water and \$58.73 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:

| <b>Water Service Description</b>         | <b>Current Rates</b> |
|--|----------------------|
| Monthly Meter Service Charge             | \$58.73              |
| Water Rate per Unit (1 Unit=748 gallons) | \$14.10              |

| <b>Water Service Description</b>         | <b>Proposed Rates</b> |           |           |           |           |
|--|-----------------------|-----------|-----------|-----------|-----------|
|  | FY2021-22             | FY2022-23 | FY2023-24 | FY2024-25 | FY2025-26 |
| Monthly Meter Service Charge             | \$85.16               | \$87.71   | \$90.34   | \$93.05   | \$95.84   |
| Water Rate per Unit (1 Unit=748 gallons) | \$20.45               | \$21.06   | \$21.69   | \$22.34   | \$23.01   |

The proposed rate increase of 45 percent for the first fiscal year (FY 2021-22) is significant, but necessary to adequately support CSA 7. The annual increase over the subsequent four fiscal years is approximately 3 percent per year. The average residential customer that uses 10 units of water per month currently pays \$199.73 per month, which is comprised of \$141 (10 units at \$14.10) for water and \$58.73 for the monthly meter service charge. With the proposed rate increase the same customer would pay \$289.66 in the first fiscal year after rate increase, which is comprised of \$204.50 (10 units at \$20.45) for water and \$85.16 for the monthly meter service charge. Without the substantial rate increase, CSA 7 cannot generate sufficient revenue to properly support the operation of the system. The significant factors influencing the need for these rate increases are summarized below.

**CSA 7 System Infrastructure Renewal and Compliance**

Since the last rate increase did not include CSA 7 customers’ share of funding required for replacement of the water system infrastructure, equipment continues to deteriorate with age and experience mainline breaks and water quality compliance issues. These challenges were further amplified by recent droughts, PG&E’s Public Safety Power Shutoff (PSPS), wildfires and the COVID-19 pandemic. The County’s \$3,670,000 share of capital improvement funding for CSA 7 has been used since 2015 to improve the system. This work has included: bringing the system into compliance with the State Disinfection By-Product requirements including the installation of an engineered spray system in the treated water tank, a seismic retrofit to the treated water tank, new chemical containment system, new chemical feed pumps, and electrical upgrades at the treatment plant

building. The remaining balance of approximately \$2,000,000 of this allocation will be used to make additional improvements to the treatment plant and install a permanent emergency generator to address PSPS. However, additional funding from the customers will be needed to address issues with secondary water supply source and distribution system breaks.

The California State Water Resources Control Board Division of Drinking Water (DDW) has regulatory responsibility for small water systems that include CSA 7. DDW requires CSA 7 to perform specific water quality testing as regulations change, keep an Operation and Maintenance Plan (Plan) up-to-date, provide 24 hour supervision by a certified operator during water treatment operations, complete a watershed sanitary survey periodically, 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.

### **Operational Cost and Emergency Reserve**

This Board adopted Resolution No. 077810 on October 20, 2020, executing a three-year agreement with Bracewell Engineering Inc. (Bracewell) for operation and maintenance services for County maintained small water 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. The operation cost has increased approximately 3 to 4 percent annually since the last rate increase. The proposed rate increases include an estimated \$6,000 per year allocation for an emergency reserve amount so that the water system has the funding to respond to emergencies and operational changes due to more stringent regulations.

### **5-Year Water System Loan Repayment**

During FY 2015-16 the Department of Public Works secured a \$43,000 water system loan to assist with the restoration of services for the system due to a mainline break which rendered the water system un-operational for several days. CSA 7's revenues over the years have not been sufficient to repay this loan. The proposed increases include revenue to repay the loan during FY 2021-22 through FY 2025-26.

### **Public Input Process**

Staff from Supervisor Horsley's Office and the Department have been meeting with the Committee since August 2011 to discuss the operation of CSA 7 and the past and proposed rate increases. 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 options for rate increase scenarios.

The Department's work with the Committee for the past few years 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 unanimously approved the Department's recommendation of a 45 percent increase during the first year after new rates are approved and a 3 percent increase in the following four years to the water rate and meter service charges. The Committee also understands that the Department's recommended increases do not include the customers' share for funding needed for capital improvements, but instead focus on

ensuring CSA 7's fiscal health.

Due to the current COVID-19 Stay-at-Home orders issued by the Governor and San Mateo County Health Officer and public health concerns of staff and the rate payers, public meetings with property owners will not be held this year as was done for the 2013 increase. However, the Department has met virtually with the Committee during which time the rates were discussed, and a recommendation was made by the Committee to move forward with the proposed increases. The Department has prepared and posted an informational presentation regarding the proposed rate increases on its website at:

<https://publicworks.smcgov.org/water-service>. Customers will be informed of this link and will have the opportunity to submit questions they may have. Responses to the questions will also be posted online prior to the public hearing.

This Department has evaluated the revenue requirement for CSA 7 and the proposed rates have been developed to finance the following:

1. Continued routine and emergency operation and maintenance of the CSA 7 system per the requested Plan by DDW, including the yearly updates to the Plan.
2. Administration of CSA 7 to comply with reporting requirements, customer support, and customer billing.
3. Maintenance and minor repairs to the raw and treated water storage tanks.
4. Maintenance and repairs to raw water intake and treatment plant equipment.
5. Minimum fund reserve to respond to emergency events.
6. Repayment of the 5-year water system loan to be completed by FY 2025-2026.

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 the lower range of the annual average in water use. A review of a tiered rate structure based on usage conducted in the 2013 increase indicated that it would not offer significant benefit to the customers due to the small base and all connections are residential. Additionally, the Department explored other options for maintaining the system, such as, turning over the administration of the system to other larger water providers, that may be more cost effective while still complying with the requirements of the DDW. Unfortunately, those discussions did not result in any meaningful follow up conversations with larger water providers and was not attractive to the Committee.

The Department is proposing that the proposed rate increases be used to calculate charges beginning with the September billings for each fiscal year (September 2021, 2022, 2023, 2024 and 2025). The September billings will be based on water consumption during the approximate period of July through September of each year. Staff will continue to work with the Committee to evaluate the financial condition of CSA 7 and develop long-term rates or explore other options that may not be acceptable to the ratepayers but necessary to operate the water system sustainably.

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

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

1. Amend the Ordinance Code to set the water rates and charges for FY 2021-22 through FY 2025-26.
2. Set the second reading and adoption of Amended Ordinance for May 4, 2021.
3. Hold a public hearing and receive testimony on the water rate and charge increases for CSA 7.
4. After considering all written and oral objections to the water rates and charges for CSA 7, close the public hearing and determine if there is a majority protest to the proposed water rates and charges.
5. If there is a majority protest, terminate your consideration of imposing the water rate and charge increases and set the water rates and 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 this 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.

County Counsel has reviewed and approved the Ordinance and Resolution as to form.

**FISCAL IMPACT:**

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

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The Department estimates that it will cost approximately \$275 (\$4 per rate payer in CSA 7) to 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 revenues between \$140,000 to \$158,000 per year. This is an estimated increase of approximately \$40,000 to \$58,000 over the current rates. The increases are necessary to fund all routine and non-emergency operations and maintenance activities to meet current Federal and State regulations for FY 2021-22 through FY2025-26 with small amounts for reserves and loan repayment. 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 the capital improvement projects recommended by the CSA 7 Water System Feasibility Study and Improvement Recommendation Report completed in 2015.

There is no direct impact to the General Fund.