

# Water Rate Study

prepared for the  
**River Pines PUD,**  
at the request of the  
California Department of Public Health,  
by the  
**California Rural Water Association**

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## Table of Contents

Table of Contents.....	2
I. Summary of Findings .....	3
A. Existing and Budgeted Revenues and Expenses .....	3
B. Proposed Water Rate Structure.....	3
C. Capital Improvement Plan & Budget .....	3
D. Debt Service.....	4
E. Reserves .....	4
II. Purpose of Study .....	4
III. Water System Information .....	4
A. Number of Connections.....	4
B. Type of Connections.....	5
C. Current Rates & Structure .....	5
D. Water Consumption.....	6
IV. Financial Information: Scenario A.....	6
A. Reserve Calculation: Scenario A .....	6
B. Budget: Scenario A .....	7
V. Financial Information: Scenario B .....	8
A. Reserve Calculation: Scenario B .....	8
B. Budget: Scenario B .....	8
VI. New Rates.....	9
A. Rate Structure .....	9
B. Fixed Vs Variable .....	9
C. Proposed Rates Scenario A .....	9
D. Proposed Rates: Scenario B .....	14
VII. Description of Capital Improvement Projects .....	18
A. New Well.....	18
B. Water Main Replacement .....	19
VIII. Summary and Comparison of the Water Rate Scenarios.....	19
IX. Recommendation, Observation and Discussion .....	20
X. Proposition 218: Rules to Implement a Rate Change.....	21
XI. Exhibits.....	22

## I. Summary of Findings

### A. Existing and Budgeted Revenues and Expenses

The 2013-2014 Budget of the River Pines PUD (“River Pines”) shows a net loss of \$20,895.00. The current Budget does not include provisions for Reserves of any kind. The actual loss for the current year will be less due to the cut backs in several expense categories.

The Balance Sheet of the District does not show any reserves.

This study only includes Revenue & Expenses of the water system.

### B. Proposed Water Rate Structure

The proposed water rate structure is the same as is currently in use: Base Rate plus a Usage Charge.

The current Base Rate is the same for all customers, regardless of the size of their water meter. The proposal is to set the Base Rate proportional to the hydrological potential of a customer. In other words, customers who **could** draw lots of water should pay a proportionally higher Base Rate. The proposal is to set the Base Rate in proportion to the customer’s meter size.

The current Usage Charge has 8 tiers, who’s unit price is climbing. The proposal is to keep the 8 tiers, keep the sizes of the tiers, but to raise the unit cost in each tier, with steeper increases in higher tiers.

### C. Capital Improvement Plan & Budget

On June 17, 2014, USDA-Rural Development approved a \$392,000 grant, with conditions, to drill a new well. It is expected that River Pines will be able to meet the conditions of the grant and this study assumes the new well will be installed.

This Rate Study analyzed two scenarios:

- A. No CDPH-SRF grants scenario: River Pines will have to fund all future replacement of the system’s components with self-generated funds.
- B. CDPH-SRF: River Pines will obtain a grant to replace all the water lines, but all other future replacement of the system’s components will be with self-generated funds.

Both scenarios also assume that the system will purchase a generator (in 2 years) and refurbish the tank (in 6 years), with all funds generated from a rate increase.

#### **D. Debt Service**

River Pines has no outstanding debt for the water system. The rates proposed assume that no debt financing will be needed to cover the replacement of the system components.

#### **E. Reserves**

River Pines has no reserves. The rate projections assume that reserves will be invested and will return a rate equal to inflation.

### **II. Purpose of Study**

The purpose of this study is to show the River Pines Board and CDPH the need to raise water rates to be able to start building Reserves.

It is unlikely that River Pines, or any other small water system, will be able to obtain enough state or federal grants to keep up with the replacement costs of the water system.

Should River Pines be lucky enough to find grants, it is recommended that a new rate study be done and to adjust the water rates accordingly.

### **III. Water System Information**

The River Pines PUD is located in the town of River Pines, Amador County, on the border with El Dorado County, along the South Fork of the Cosumnes River, about 9 miles northeast of Plymouth.

The original water system was constructed in 1927 with the formation of the River Pines subdivision. Some upgrades to the system were made in 1982. The surface water source from the South Fork of the Consumnes River was abandoned due to its un-dependability. Water is now supplied by 2 wells, only one of which is dependable.

#### **A. Number of Connections**

<b>Meter Size</b>	<b>Number of Meters</b>
3/4"	215
1"	4

In addition to the above paying connections, there are:

- 55 undeveloped lots which could tie to the water system
- 2 locked meters
- 2 developed lots who are not connected to the system, but potentially could.

River Pines has a water loss of about 30-40%. It is suspected that a substantial quantity of water is lost through illegal connections.

### B. Type of Connections

River Pines serves 4 commercial customers: a store, 3 bars/cafes and a fire station. The remaining 215 connections are to rural residential units. Many homes are seasonally occupied.

Median Household Income for River Pines, according to the 2010 census, is \$19,978 per year.

### C. Current Rates & Structure

The current rates have been in effect since 2012.

The Base Rate for water is \$45.56.

There are no “User Categories”, such as different rates for commercial or residential users.

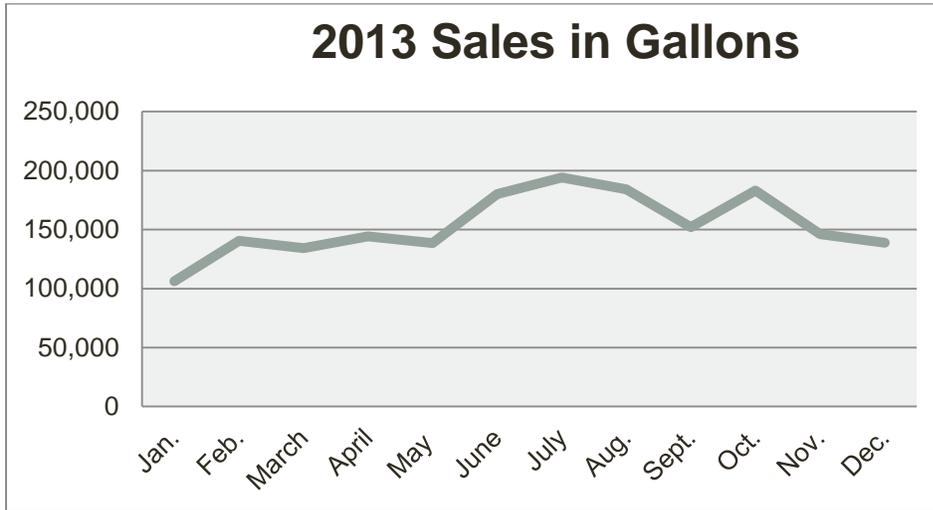
The current Usage Rate per 1,000 gallons:

Tier	From	To	Cost
1	0	3,000	\$ 2.0000
2	3,000	5,000	\$ 3.0000
3	5,000	7,000	\$ 4.0000
4	7,000	9,000	\$ 5.0000
5	9,000	12,000	\$ 6.0000
6	12,000	15,000	\$ 7.0000
7	15,000	20,000	\$ 8.0000
8	20,000	and above	\$ 9.0000

The current tier structure:

- Provides modest financial incentives to conserve,
- Give clients some control over their utility bill.

## D. Water Consumption



Average consumption per household is 109.5 gallons per day.  
(= total consumption of 8,741,000 gallons / 365 / 219 customers)

This is below the state average, due to the large number of unoccupied or seasonally occupied residences.

## IV. Financial Information: Scenario A

Scenario A assumes that the USDA-RD grant to build a new well is the last of the grants, and no SRF funding will be available. All future replacements of system components will be funded by the ratepayers.

Exhibit 1A<sup>1</sup> shows the Capital Improvement Plan (CIP) and the Reserve Calculation<sup>2</sup>.

### A. Reserve Calculation: Scenario A

<sup>1</sup> All figures in this rate study come from an integrated rate model. The data entered in the rate model is shown in yellow cells. The calculated cells are shown in blue.

<sup>2</sup> This report is a financial analysis of the water system's rates. It is not an accounting review. Therefore we have omitted all references to "Depreciation" (an accounting term) and replaced it with "Reserves" (a financial term). Both "Depreciation" and "Reserves" point to the same concept: the use of assets over a period of time.

### **1. Existing Capital Replacement Program**

There are no existing reserves for the future replacement of failing system components.

Each component of the water system is listed in Exhibit 1, with its replacement cost and its Average Remaining Life. The Annual Reserve Requirements is calculated by dividing the replacement cost by the number of years of useful life remaining in the asset.

The annual Reserve to cover the replacement of failing system components is calculated as \$67,327.35.

### **2. New Project Replacement Program**

One new well will be drilled with funding from a grant from USDA-Rural Development. It is expected that this new well will last 60 years and will need to be replaced at that time with funds generated by the ratepayers. This will require a reserve of \$6,533.33 annually.

### **3. Future Capital Improvements**

This section of Exhibit 1A covers the Reserves needed each year to expand the system with a new generator and an additional coating of their tank. This will require a Reserve of \$19,166.67 annually.

The total funds River Pines needs to set aside to replace all components when they fail, is \$93,027.35.

### **4. Emergency Reserves**

It is recommended that River Pines save additional funds in case of an emergency—not related to the physical plant. An annual Reserve of 4% of annual operating costs should be put aside each year, until the balance in the Emergency Reserve fund is 50% of operating costs, which will be in about 13 years.

### **5. Debt Reserve**

The water system has no debts and hence no need for a Debt Reserve.

## **B. Budget: Scenario A**

Exhibit 2A shows the Estimated Budget for the next 5 years. It is based on the 2013 Water Budget, with 3% inflation.

The Budget includes all the Reserves mentioned above.

Note that the Budget does not balance for the first 4 years. During this time, not all Reserves can be funded. Only in the 5<sup>th</sup> year, is the Budget balanced and 100% of Reserves (CIP and Emergency) are fully funded.

In the next section of this study, we will analyze the water rates necessary to achieve this balanced budget.

## V. Financial Information: Scenario B

Scenario B assumes that the USDA-RD grant to build a new well will proceed, and a SRF grant will be available to replace all the water lines and valves. After these two projects, all future replacements of system components will be funded by the ratepayers.

Exhibit 1B shows the Capital Improvement Plan (CIP) and the Reserve Calculation.

### A. Reserve Calculation: Scenario B

#### 1. Existing Capital Replacement Program

The annual reserve to cover the replacement of failing system components, other than the well and the piping, is calculated as \$23,755.93, which is a major reduction from \$67,327.35, with no SRF funding.

#### 2. New Project Replacement Program

To replace the new well after 60 years, and the new piping after 60 years as well, will require an annual reserve contribution of \$14,833.33, which is an increase from \$6,533.33, with no SRF funding.

#### 3. Future Capital Improvements

The Reserve requirement to fund capital improvements does not change between the scenarios and remains at \$19,166.67 annually.

The total funds River Pines needs to set aside each year to replace all components when they fail, is lowered from \$93,027.35 to \$57,755.93, because of the SRF grant funding.

#### 4. Emergency Reserves

It is recommended that River Pines save some funds in care of an emergency—not related to the physical plant. An annual reserve of 4% of annual operating costs should be put aside each year, until the balance in the Emergency Reserve fund is 50% of operating costs.

### B. Budget: Scenario B

Exhibit 2B shows the Estimated Budget for the next 5 years. It is based on the 2013 Budget, with 3% inflation.

The Budget includes all the Reserves mentioned above.

Note that the Budget does not balance for the first 4 years. During this time, not all Reserves can be funded. Only in the 5<sup>th</sup> year, is the Budget balanced and 100% of Reserves (CIP and Emergency) are fully funded.

In the later sections of this study, we will analyze the water rates necessary to achieve this balanced budget.

## VI. New Rates

### A. Rate Structure

The proposed water rate structure is not different than what is currently in use: Base Rate plus a Usage Charge.

The Base Rate should cover the fixed expenses for the water system.

The proposal is to set the Base Rate proportional to the hydrological potential of a customer. In other words, customers who **could** draw lots of water should pay a proportionally higher Base Rate. The system was built according to the total potential water draw by customers. The proposal is to set Base Charges according to meter size.

The Usage Charge should cover the variable expenses of the water system.

The current Usage Charge has 8 tiers, who's unit price is climbing. The proposal is to keep the 8 tiers, keep the sizes of the tiers, but to raise the unit cost in each tier, with steeper increases in higher tiers.

When the Base Rate is set to cover the fixed charges and the Usage Charge covers the variable expenses, the system's cash inflows match the system's cash outflows throughout the year.

### B. Fixed Vs Variable

The first step to calculate the Base Rate is to calculate the fixed expenses. Exhibit 3A and 3B show the split of the expenses between fixed and variable expenses for Scenarios A and B.

	Fixed %	Fixed \$	Variable %	Variable \$
Scenario A (No SRF)	70%	\$200,746.99	30%	\$87,485.37
Scenario B (SRF)	66%	\$166,275.56	34%	\$87,485.37

### C. Proposed Rates Scenario A

#### 1. Base Rate: Scenario A

The table below shows the distribution of the fixed costs under scenario A among all the water meters, according to the meter size.

Meter Size	Meter Size (metric)	Number of Meters	Cross Section of line in sq. In. (= R * R * 3.14)	Total cross section in sq. in.	% of Total cross section	Total Fixed Costs	Theoretical base rate by meter size
A	B	C	D= B/2* B/2*3.14	E= D * C	F= % of total	G= % * total	H=G/C
3/4"	0.750	215	0.4416	94.9359	96.80%	\$ 194,320	\$ 75.32
1"	1.000	4	0.7850	3.1400	3.20%	\$ 6,427	\$ 133.90
Total		219		98.0759	100.00%	\$ 200,747	

This calculated Base Rate is rather high. The proposal is to cover a portion of the fixed costs with variable revenue.

Meter Size	Theoretical base rate by meter size	Proposed Base Rate as % of Theoretical Base Rate	Existing Base Rate	Proposed Base Rate <sup>3</sup> for Year 1	Year 2	Year 3	Year 4	Year 5
	Annual Increase	—————→			8.0%	8.0%	8.0%	8.0%
3/4"	\$75.32	93%	\$45.36	\$69.70	\$75.28	\$81.30	\$87.80	\$94.82
1"	\$133.90	93%	\$45.36	\$124.00	\$133.92	\$144.63	\$156.20	\$168.70

The proposed Base Rate covers 93% of the Fixed Expenses. The remaining Fixed Expenses will be covered by Usage Charges.

<sup>3</sup> All proposed rates are shown in red.

## 2. Usage Charge: Scenario A

Tier	Annual Increase	Top of New Tier	Year 1	Year 2	Year 3	Year 4	Year 5	Current
			8.0%	8.0%	8.0%	8.0%	8.0%	
1	0	3,000	\$3.0000	\$3.24	\$3.50	\$3.78	\$4.08	\$2.00
2	3,001	5,000	\$4.0000	\$4.32	\$4.67	\$5.04	\$5.44	\$3.00
3	5,001	7,000	\$5.2500	\$5.67	\$6.12	\$6.61	\$7.14	\$4.00
4	7,001	9,000	\$6.5000	\$7.02	\$7.58	\$8.19	\$8.84	\$5.00
5	9,001	12,000	\$7.7500	\$8.37	\$9.04	\$9.76	\$10.54	\$6.00
6	12,001	15,000	\$9.0000	\$9.72	\$10.50	\$11.34	\$12.24	\$7.00
7	15,001	20,000	\$10.2500	\$11.07	\$11.96	\$12.91	\$13.95	\$8.00
8	20,001	999,999	\$11.5000	\$12.42	\$13.41	\$14.49	\$15.65	\$9.00

## 3. Discussion: Scenario A

Because rates will increase substantially, we must assume a certain conservation factor. Experience tells us that conservation will reduce when customers get acclimated to the new rates. The table below shows the anticipated conservation factor of the customers.

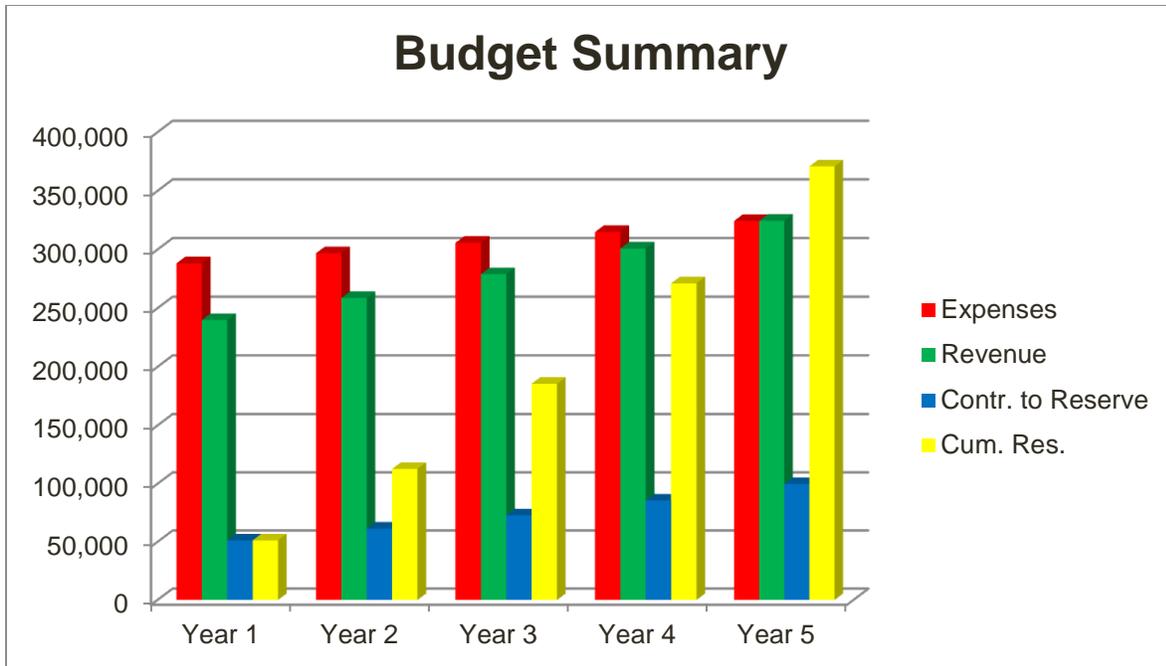
Conservation Factor	Year 1	Year 2	Year 3	Year 4	Year 5
based on historic sales	5%	4%	3%	2%	1%

Given the historic sales data provided by the water system and the conservation factors above, the following average water bills are expected with the proposed rates:

	Current	Year 1	Year 2	Year 3	Year 4	Year 5
Average	55.66	83.93	90.85	98.34	106.44	115.21
Average Increase		50.79%	63.23%	76.68%	91.23%	106.99%

This means that the first year's increase will be around 51% (50.79%) and the increase between the current rates and the rates in the fifth year will be about 107% (106.99%).

The Budget Summary below shows the relationship between Revenue, Expenses, Contributions to Reserves and Cumulated Reserves.



Our Budget includes all the required Reserves. With the proposed rates, the Budget for the first year is short \$48,301.74, but with an annual increases of 8% per year, the Budget will have a surplus by the fifth year of \$146.29.

The projected loss of \$48,301.74 is not a problem as there is enough cash flow to fund \$51,325.61 in reserves the first year, and climbing to \$99,777.65 in the fifth year—which is more than the target reserve of \$99,627.35

Contributions to reserves climbs from 52% of target to 100% funding in the fifth year.

		Year 1	Year 2	Year 3	Year 4	Year 5
Estimated profit/loss with new rates		-48,301.74	-38,180.84	-26,818.00	-14,085.60	146.29
Estimate contribution to Reserves		51,325.61	61,446.51	72,809.36	85,541.76	99,773.65
Target Reserves vs Forecasted Reserves	99,627.35	52%	62%	73%	86%	100%
Affordability Index based on MHI of	19,978.00	5.04%	5.46%	5.91%	6.39%	6.92%

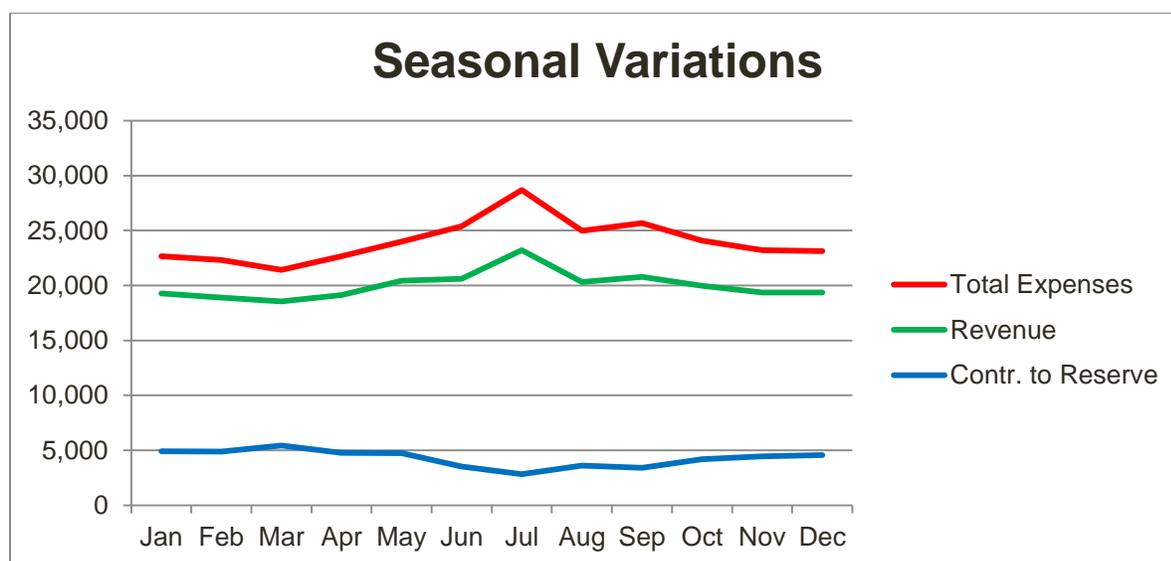
The 2010 census Median Household Income for River Pines is \$19,978, making it a “severely disadvantaged community.” The proposed water rates will be a significant burden on the River

Pines customers; they will be spending 5% of their income on water, climbing to about 7% (6.92%).

With the current water rates, they spent 3.3% of their MHI on water. The current rates do NOT cover the operating expenses of the water system, and cover NO Reserves.

As we will see below, providing SRF grant funding does NOT bring the Affordability Index down to an acceptable range.

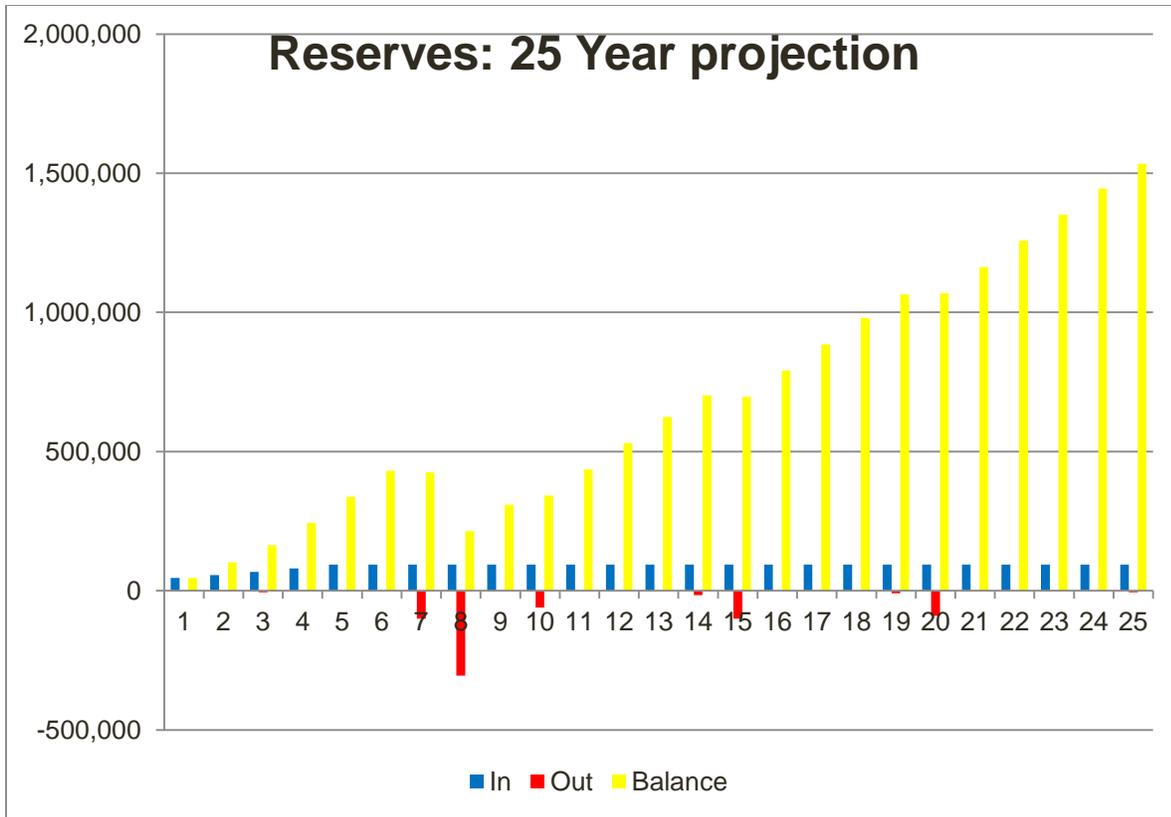
Seasonal variations, even in the first year, are not a problem with the new rates. Total Expenses (red line) includes the required contributions to Reserves. While Revenues (green line) are not sufficient to cover all Expenses (including Reserves), there is sufficient cash flow during each month of the year to contribute to the reserves (blue line). As long as the Contributions to Reserves (blue line) do not go negative, there is enough cash flow to cover all the operating expenses.



The Reserves set aside under this rate proposal cover all the expected replacement costs of the system.

The graph below shows the annual contributions to the Reserve fund (blue bar) and the expected draws on the Reserve fund (red line), based on the anticipated remaining useful life of all the components of the water system. The resulting balance in the Reserve fund is shown as the yellow bar.

This graph does not show any grants received, as we assume in Scenario A that no SRF grants will be provided.



### D. Proposed Rates: Scenario B

#### 1. Base Rate: Scenario B

The table below shows the distribution of the fixed costs under scenario B among all the water meters, according to the meter size.

Meter Size	Meter Size (metric)	Number of Meters	Cross Section of line in sq. In. (= R * R * 3.14)	Total cross section in sq. in.	% of Total cross section	Total Fixed Costs	Theoretical base rate by meter size
A	B	C	$D = B/2 * B/2 * 3.14$	$E = D * C$	F= % of total	G= % * total	H=G/C
3/4"	0.750	215	0.4416	94.9359	96.80%	\$160,952	\$62.38
1"	1.000	4	0.7850	3.1400	3.20%	\$5,323	\$110.91
Total		219		98.0759	100.00%	\$166,276	

This calculated Base Rate is rather high. The proposal is to cover a portion of the fixed costs with variable revenue.

Meter Size	Theoretical base rate by meter size	Proposed Base Rate as % of		Proposed Base Rate for Year 1	Year 2	Year 3	Year 4	Year 5
		Theoretical Base Rate	Existing Base Rate					
	Annual Increase				8.0%	8.0%	8.0%	8.0%
3/4"	\$62.38	95%	\$45.36	\$59.00	\$63.72	\$68.82	\$74.33	\$80.28
1"	\$110.91	95%	\$45.36	\$105.00	\$113.40	\$122.47	\$132.27	\$142.85

95% of the fixed expenses are covered by the Base Rate. The remainder is covered by the Usage Charge.

### 2. Usage Charge: Scenario B

The proposed usage rate does not change between Scenarios A & B.

Tier	Top of New Tier		Year 1	Year 2	Year 3	Year 4	Year 5	Current
	Annual Increase			8.0%	8.0%	8.0%	8.0%	
1	0	3,000	\$3.0000	\$3.24	\$3.50	\$3.78	\$4.08	\$2.00
2	3,001	5,000	\$4.0000	\$4.32	\$4.67	\$5.04	\$5.44	\$3.00
3	5,001	7,000	\$5.2500	\$5.67	\$6.12	\$6.61	\$7.14	\$4.00
4	7,001	9,000	\$6.5000	\$7.02	\$7.58	\$8.19	\$8.84	\$5.00
5	9,001	12,000	\$7.7500	\$8.37	\$9.04	\$9.76	\$10.54	\$6.00
6	12,001	15,000	\$9.0000	\$9.72	\$10.50	\$11.34	\$12.24	\$7.00
7	15,001	20,000	\$10.2500	\$11.07	\$11.96	\$12.91	\$13.95	\$8.00
8	20,001	999,999	\$11.5000	\$12.42	\$13.41	\$14.49	\$15.65	\$9.00

### 3. Discussion: Scenario B

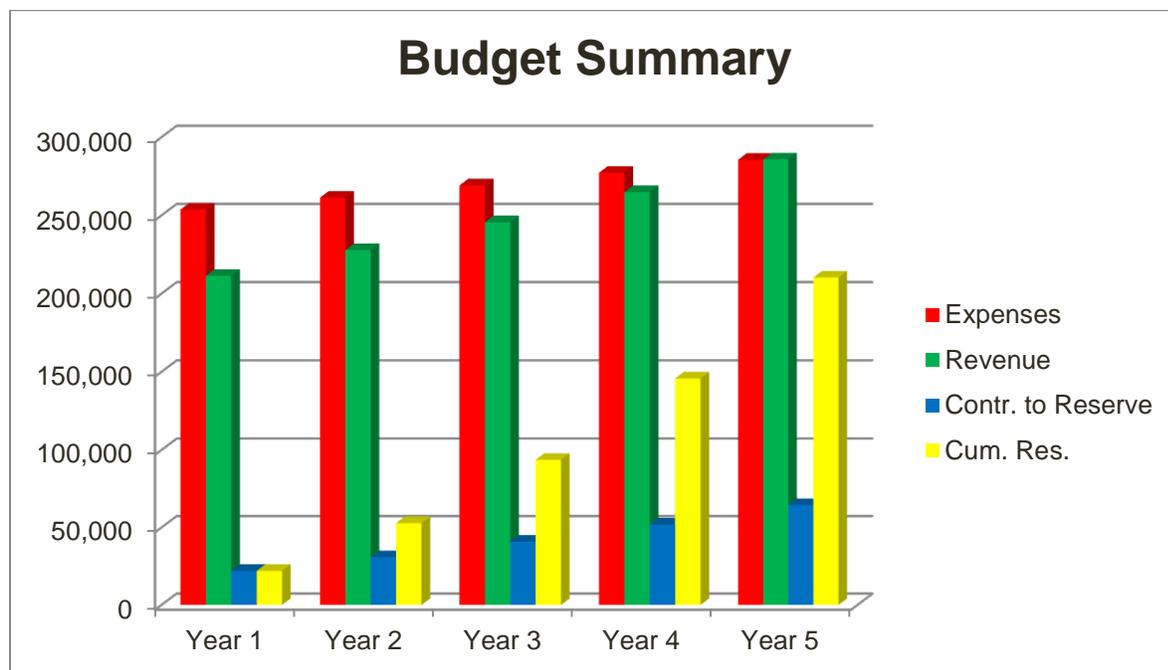
The assumed Conservation Factor between Scenarios A & B did not change either.

Conservation Factor	Year 1	Year 2	Year 3	Year 4	Year 5
based on historic sales	5%	4%	3%	2%	1%

Given the historic sales data provided by the water system and the conservation factors above, the following average water bills are expected with the proposed rates under Scenario B:

	Current	Year 1	Year 2	Year 3	Year 4	Year 5
Average	55.66	73.08	79.13	85.68	92.78	100.46
Average Increase		31.30%	42.16%	53.94%	66.69%	80.49%

This means that the first increase will be around 31% (31.30%) and the increase between the current rates and the rates in the fifth year will be about 80% (80.49%). This is a substantial reduction from the rates in Scenario A, where rates would jump 51% in the first year and to 107% in the fifth year.



Our Budget includes all the required reserves. With the proposed rates, the Budget for the first year is short \$42,348.31, but with an annual increases of 8% per year, the Budget will break even by the fifth year.

The projected loss of \$42,348.31 is not a problem as there is enough cash flow to fund \$22,007.61 in reserves the first year, and climbing to \$64,546.12 in the fifth year—which is more than the target reserve of \$64,355.93.

Contributions to reserves climbs from 32% of target to full funding in the fifth year.

	Year 1	Year 2	Year 3	Year 4	Year 5
Estimated profit/loss with new rates	-42,348.31	-33,485.03	-23,509.34	-12,318.98	190.19

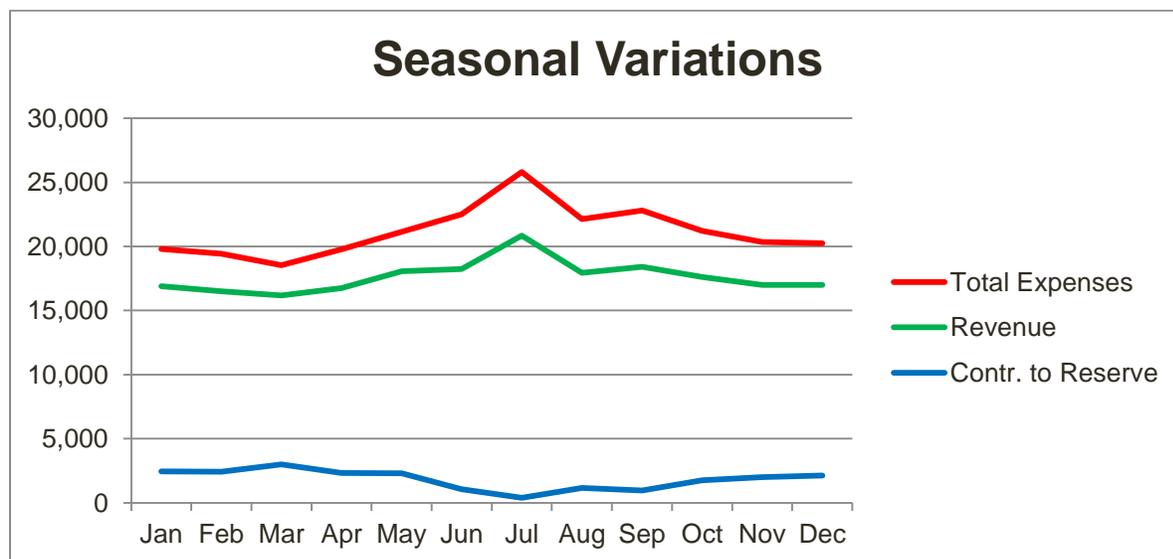
Estimate contribution to Reserves		22,007.61	30,870.89	40,846.59	52,036.95	64,546.12
Target Reserve vs Estimated Reserves	64,355.93	34%	48%	63%	81%	100%
Affordability Index based on MHI of	19,978.00	4.39%	4.75%	5.15%	5.57%	6.03%

The 2010 census Median Household Income for River Pines is \$19,978, making it a “severely disadvantaged community.” The proposed water rates will be a significant burden on the River Pines customers; they will be spending 4% (4.39%) of their income on water, climbing to about 6% (6.03%).

With the current water rates, customers spent 3.3% of their MHI on water. The current rates do NOT cover the operating expenses of the water system, and cover NO reserves, so rates must be raised to become solvent.

Providing SRF grant funding does NOT bring the Affordability Index down to an acceptable range. In other words, CDPH can not make the River Pines rates “affordable.”

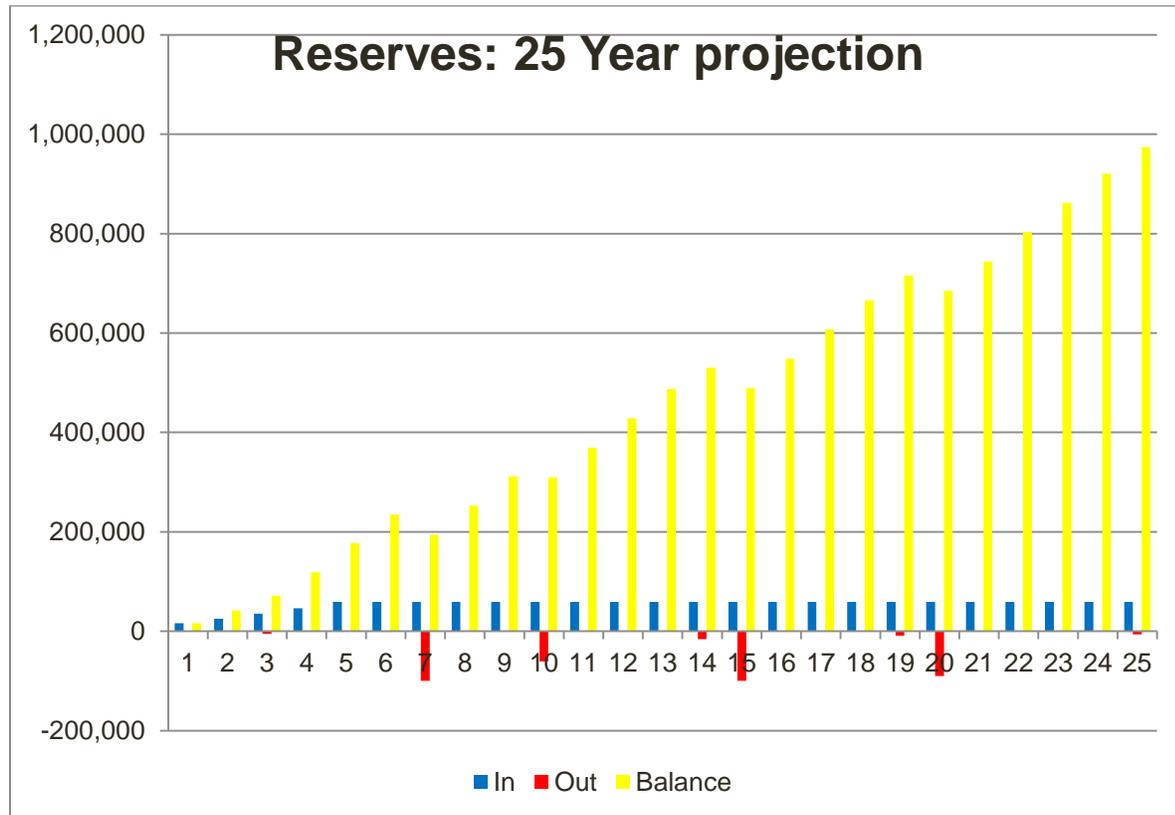
Seasonal variations, even in the first year, are not a problem. Total Expenses (red line) includes the required contributions to Reserves. While Revenues (green line) are not sufficient to cover all Expenses (including Reserves), there is sufficient cash flow during each month of the year to contribute to the reserves (blue line). As long as the Contributions to Reserves (blue line) do not go negative, there is enough cash flow to cover all the operating expenses.



The reserves set aside under this rate proposal cover all the expected replacement costs of the system.

The graph below shows the annual contributions to the Reserve fund (blue bar) and the expected draws on the Reserve fund (red line), based on the anticipated remaining useful life of

all the components of the water system. The resulting balance in the Reserve fund is shown as the yellow bar.



## VII. Description of Capital Improvement Projects

### A. New Well

This Rate Study is not related to a specific SRF capital funding project. However, we assumed that the USDA-Rural Development grant of \$392,000, which was approved on June 17, 2014, will be implemented. This assumption is included in the rates for Scenario A & B.

The project is to supplement River Pines’ existing well source of supply with a new well. A test hole has already been drilled and the project will develop the well to 550’-600’ and enlarge it to 10” or 12”. The new well will include all other items normally required to finish a domestic community well, such as controls, chlorination, plumbing, metering and electrical work.

## B. Water Main Replacement

Scenario B also assumes a grant from the SRF program of about \$500,000.

Currently, River Pines has a serious leakage problem; between 30-40% of the water produced is not reaching paying customers.

Most of this loss is due to leaking pipes. The system has pipes of many different materials, which makes repair costly.

The actual location of the many main lines is often unknown. Some lines are not in the public right-of-way and need to be relocated. It is also suspected that several illegal connections exist.

In addition, the distribution system lacks the appropriate isolation valves to be able to do many of the repairs.

Therefore, River Pines has applied for funding through the CDPH SRF program to fund the replacement of the complete distribution system.

## VIII. Summary and Comparison of the Water Rate Scenarios

	Scenario A	Scenario B	
<b>Annual Reserve Requirement</b>			
Existing Capital Assets	\$ 67,327.35	\$ 23,755.93	Exhibit 1
New Project	\$ 6,533.33	\$ 14,833.33	Exhibit 1
Future Capital Assets	\$ 19,166.67	\$ 19,166.67	Exhibit 1
Total Reserve Requirement	\$ 93,027.35	\$ 57,755.93	
<b>Budget</b>			
Meet Reserve requirements in	Year 5	Year 5	Exhibit 2
Meet annual and seasonal cash flow requirements?	Yes	Yes	
Fixed Expenses as % of total	70%	65%	Exhibit 3
<b>Base Rate</b>			
3/4" Meter Year 1	\$ 69.70	\$ 59.00	
3/4" Meter year 5	\$ 94.82	\$ 80.28	
1" Meter Year 1	\$ 124.00	\$ 105.00	
1" Meter Year 5	\$ 168.70	\$ 142.85	

**Usage Charge per 1,000 Gallons (Year 1)**

Tier 1: 0-3,000 Gallons	\$	3.00	\$	3.00
Tier 2: 3,001-5,000 Gallons	\$	4.00	\$	4.00
Tier 3: 5,001-7,000 Gallons	\$	5.25	\$	5.25
Tier 4: 7,001-9,000 Gallons	\$	6.50	\$	6.50
Tier 5: 9,001-12,000 Gallons	\$	7.75	\$	7.75
Tier 6: 12,001-15,000 Gallons	\$	9.00	\$	9.00
Tier 7: 15,001-20,000 Gallons	\$	10.25	\$	10.25
Tier 8: over 20,000 Gallons	\$	11.50	\$	11.50

**Usage Charge per 1,000 Gallons (Year 5)**

Tier 1: 0-3,000 Gallons	\$	4.08	\$	4.08
Tier 2: 3,001-5,000 Gallons	\$	5.44	\$	5.44
Tier 3: 5,001-7,000 Gallons	\$	7.14	\$	7.14
Tier 4: 7,001-9,000 Gallons	\$	8.84	\$	8.84
Tier 5: 9,001-12,000 Gallons	\$	10.54	\$	10.54
Tier 6: 12,001-15,000 Gallons	\$	12.24	\$	12.24
Tier 7: 15,001-20,000 Gallons	\$	13.95	\$	13.95
Tier 8: over 20,000 Gallons	\$	15.65	\$	15.65

**Affordability Index (MHI of \$19,978)**

Year 1	5.04%	4.39%
Year 5	6.92%	6.03%

**IX. Recommendation, Observation and Discussion**

1. At current water rates, River Pines can not support its operation. Hence rates must be raised at least to Scenario B level to be able to sustain itself over the long run.
2. Since the affordability levels of either Scenarios are dismal, and River Pines is a severely disadvantaged community, governmental agencies may need to provide the financing to replace the failing infrastructure, in order to bring the affordability of the water down.
3. The community must realize that future grant funding of projects will be more difficult and hence should put reserves aside for future repairs.
4. Should additional grants be found in the future, rates could be adjusted accordingly.

5. If there is no political will in the community to protect the future of the River Pines water system, rate increases in future years will be even more draconian.
6. Water rates should be reviewed whenever a loan or grant is obtained to replace capital assets, but not later than 5 years.

## **X. Proposition 218: Rules to Implement a Rate Change**

Here are the next steps for the River Pines Board to implement rates.

1. At a public meeting, select a Base Rate and Usage Charge that will return the River Pines PUD to financial sustainability. This may take several meetings. The board may decide to have rate increases for each of the next five years.
2. When a rate is selected, pass a resolution that includes the following components:
  - a. The selected rate (Base Rate and Usage Charge)
  - b. Select a date or dates the rate changes will take effect
  - c. Instruct staff to create a Public Notice document, and mail it to all PROPERTY OWNERS within the River Pines service area. Set a firm date before which the Notice must be mailed. (Sample Notice attached as Exhibit 4. This Exhibit is also provided on CD and is in MS Word for your convenient editing.)
  - d. Set the date of a second public meeting, AT LEAST 45 DAYS AFTER the NOTICE is to be mailed (c).
3. The Notice will contain instructions for property owners to protest the proposed rate increase. River Pines must be very careful to follow the Prop 213 law, which is attached as Exhibit 5. A property owner who owns multiple properties within the district, has the right to vote multiple times. According to common interpretations of the law, renters do not have a vote.
4. At the second meeting, all written protest votes must be tallied. If more than 50% of the property owners protest the new rates, the Board can not proceed with the rate increase. Instead, they have to return to step 1. If less than 50% of the property owners protest, the Board can implement the new rates, or return to step 1. (In other words, at the second meeting, the Board can not change (up or down) the rates proposed in step 1.)

## **XI. Exhibits**

1. Reserve Calculation
2. Budget
3. Fixed vs Variable Expenses
4. Sample Public Notice
5. Prop 218





**Budget**  
**River Pines PUD**

**Exhibit 2A**

Inflation Factor (%): **3**  
Date: 6/26/2014  
System Number: O310006

EXPENSES AND SOURCES OF FUNDS	2014	2015	2016	2017	2018
<b>OPERATIONS &amp; MAINTENANCE EXPENSES</b>					
Payroll Expense & Benefits	53,119.00	54,712.57	56,353.95	58,044.57	59,785.90
Contract Employees	13,488.00	13,892.64	14,309.42	14,738.70	15,180.86
Reimbursements (mileage & phone)	990.00	1,019.70	1,050.29	1,081.80	1,114.25
Utilities	3,424.00	3,526.72	3,632.52	3,741.50	3,853.74
Water Expenses	79,032.00	81,402.96	83,845.05	86,360.40	88,951.21
Building Maintenance	147.00	151.41	155.95	160.63	165.45
Automobile Expense	2,024.00	2,084.72	2,147.26	2,211.68	2,278.03
Other		0.00	0.00	0.00	0.00
Office Expense	1,644.00	1,693.32	1,744.12	1,796.44	1,850.34
Miscellaneous		0.00	0.00	0.00	0.00
Other		0.00	0.00	0.00	0.00
Additional O&M for New project					
<b>Total Operation and Maintenance Expenses:</b>	<b>153,868.00</b>	<b>158,484.04</b>	<b>163,238.56</b>	<b>168,135.72</b>	<b>173,179.79</b>
<b>GENERAL &amp; ADMINISTRATIVE EXPENSES</b>					
Professional Services	25,867.00				
Emergency Reserve Fund	5,600.00	5,600.00	5,600.00	5,600.00	5,600.00
Other Reserve Funds	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Existing Capital Replacement Program	67,327.35	67,327.35	67,327.35	67,327.35	67,327.35
New Project Replacement Program	6,533.33	6,533.33	6,533.33	6,533.33	6,533.33
Future Capital Improvement Program	19,166.67	19,166.67	19,166.67	19,166.67	19,166.67
Insurance	6,596.00	6,793.88	6,997.70	7,207.63	7,423.86
Debt Service (flat)		0.00	0.00	0.00	0.00
Bank Charges	286.00	294.58	303.42	312.52	321.90
Board Members	1,988.00	2,047.64	2,109.07	2,172.34	2,237.51
<b>Total General and Administrative Expenses:</b>	<b>134,364.35</b>	<b>138,395.28</b>	<b>142,547.14</b>	<b>146,823.56</b>	<b>151,228.26</b>
<b>TOTAL EXPENSES (Line 14+ Line 24):</b>	<b>288,232.35</b>	<b>296,879.32</b>	<b>305,785.70</b>	<b>314,959.28</b>	<b>324,408.05</b>
<b>SOURCE OF FUNDS / REVENUES RECEIVED</b>					
Cash Revenues (Water rates) (no inflation rate)	220,568.61	238,755.62	258,426.56	279,716.30	302,762.25
Bulk Sales		0.00	0.00	0.00	0.00
Fees and services	12,269.00	12,637.07	13,016.18	13,406.67	13,808.87
Interest & Dividend	172.00	177.16	182.47	187.95	193.59
Amador Co. Auditor Warrant	6,681.00	6,881.43	7,087.87	7,300.51	7,519.52
Other fund sources	240.00	247.20	254.62	262.25	270.12
<b>TOTAL REVENUE (Lines 29 through 37):</b>	<b>239,930.61</b>	<b>258,698.48</b>	<b>278,967.71</b>	<b>300,873.68</b>	<b>324,554.35</b>
<b>NET LOSS OR GAIN:</b>	<b>-48,301.74</b>	<b>-38,180.84</b>	<b>-26,818.00</b>	<b>-14,085.60</b>	<b>146.29</b>
<b>NET CASH FLOW (Contribution to Reserves)</b>	<b>51,325.61</b>	<b>61,446.51</b>	<b>72,809.36</b>	<b>85,541.76</b>	<b>99,773.65</b>

Capital Improvement Plan (Reserves) from "CIP" sheet.

Cash Revenue calculated on new rates (entered on "Rates" sheet) and last year's water sales ("Sales" Sheet).

**Budget**  
**River Pines PUD**

**Exhibit 2B**

Inflation Factor (%): **3**  
Date: 6/26/2014  
System Number: O310006

EXPENSES AND SOURCES OF FUNDS	2014	2015	2016	2017	2018
<b>OPERATIONS &amp; MAINTENANCE EXPENSES</b>					
Payroll Expense & Benefits	53,119.00	54,712.57	56,353.95	58,044.57	59,785.90
Contract Employees	13,488.00	13,892.64	14,309.42	14,738.70	15,180.86
Reimbursements (mileage & phone)	990.00	1,019.70	1,050.29	1,081.80	1,114.25
Utilities	3,424.00	3,526.72	3,632.52	3,741.50	3,853.74
Water Expenses	79,032.00	81,402.96	83,845.05	86,360.40	88,951.21
Building Maintenance	147.00	151.41	155.95	160.63	165.45
Automobile Expense	2,024.00	2,084.72	2,147.26	2,211.68	2,278.03
Other		0.00	0.00	0.00	0.00
Office Expense	1,644.00	1,693.32	1,744.12	1,796.44	1,850.34
Miscellaneous		0.00	0.00	0.00	0.00
Other		0.00	0.00	0.00	0.00
Additional O&M for New project					
<b>Total Operation and Maintenance Expenses:</b>	<b>153,868.00</b>	<b>158,484.04</b>	<b>163,238.56</b>	<b>168,135.72</b>	<b>173,179.79</b>
<b>GENERAL &amp; ADMINISTRATIVE EXPENSES</b>					
Professional Services	25,867.00				
Emergency Reserve Fund	5,600.00	5,600.00	5,600.00	5,600.00	5,600.00
Other Reserve Funds	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Existing Capital Replacement Program	23,755.93	23,755.93	23,755.93	23,755.93	23,755.93
New Project Replacement Program	14,833.33	14,833.33	14,833.33	14,833.33	14,833.33
Future Capital Improvement Program	19,166.67	19,166.67	19,166.67	19,166.67	19,166.67
Insurance	6,596.00	6,793.88	6,997.70	7,207.63	7,423.86
Debt Service (flat)	800.00	824.00	848.72	874.18	900.41
Bank Charges	286.00	294.58	303.42	312.52	321.90
Board Members	1,988.00	2,047.64	2,109.07	2,172.34	2,237.51
<b>Total General and Administrative Expenses:</b>	<b>99,892.93</b>	<b>102,889.71</b>	<b>105,976.40</b>	<b>109,155.70</b>	<b>112,430.37</b>
<b>TOTAL EXPENSES (Line 14+ Line 24):</b>	<b>253,760.93</b>	<b>261,373.75</b>	<b>269,214.97</b>	<b>277,291.41</b>	<b>285,610.16</b>
<b>SOURCE OF FUNDS / REVENUES RECEIVED</b>					
Cash Revenues (Water rates) (no inflation rate)	192,050.61	207,945.86	225,164.48	243,815.06	264,008.25
Bulk Sales		0.00	0.00	0.00	0.00
Fees and services	12,269.00	12,637.07	13,016.18	13,406.67	13,808.87
Interest & Dividend	172.00	177.16	182.47	187.95	193.59
Amador Co. Auditor Warrant	6,681.00	6,881.43	7,087.87	7,300.51	7,519.52
Other fund sources	240.00	247.20	254.62	262.25	270.12
<b>TOTAL REVENUE (Lines 29 through 37):</b>	<b>211,412.61</b>	<b>227,888.72</b>	<b>245,705.63</b>	<b>264,972.44</b>	<b>285,800.35</b>
<b>NET LOSS OR GAIN:</b>	<b>-42,348.31</b>	<b>-33,485.03</b>	<b>-23,509.34</b>	<b>-12,318.98</b>	<b>190.19</b>
<b>NET CASH FLOW (Contribution to Reserves)</b>	<b>22,007.61</b>	<b>30,870.89</b>	<b>40,846.59</b>	<b>52,036.95</b>	<b>64,546.12</b>

Capital Improvement Plan (Reserves) from "CIP" sheet.

Cash Revenue calculated on new rates (entered on "Rates" sheet) and last year's water sales ("Sales" Sheet).

# Fixed Vs Variable Expenses



# Exhibit 3A

	2014	% Fixed	\$ Fixed	\$ Variable
<b>OPERATIONS &amp; MAINTENANCE EXPENSES</b>				
Payroll Expense & Benefits	\$53,119.00	90%	\$47,807	\$5,312
Contract Employees	\$13,488.00	10%	\$1,349	\$12,139
Reimbursements (mileage & phone)	\$990.00	100%	\$990	\$0
Utilities	\$3,424.00	10%	\$342	\$3,082
Water Expenses	\$79,032.00	40%	\$31,613	\$47,419
Building Maintenance	\$147.00	100%	\$147	\$0
Automobile Expense	\$2,024.00	90%	\$1,822	\$202
Other	\$0.00	0%	\$0	\$0
Office Expense	\$1,644.00	90%	\$1,480	\$164
Miscellaneous	\$0.00	0%	\$0	\$0
Other	\$0.00	0%	\$0	\$0
Additional O&M for New project	\$0.00	0%	\$0	\$0
<b>Total Operation and Maintenance Expenses:</b>	<b>\$153,868.00</b>		<b>\$85,549</b>	<b>\$68,319</b>
<b>GENERAL &amp; ADMINISTRATIVE EXPENSES</b>				
Professional Services	\$25,867.00	100%	\$25,867	\$0
Emergency Reserve Fund	\$5,600.00	100%	\$5,600	\$0
Other Reserve Funds	\$1,000.00	100%	\$1,000	\$0
Existing Capital Replacement Program	\$67,327.35	100%	\$67,327	\$0
New Project Replacement Program	\$6,533.33	100%	\$6,533	\$0
Future Capital Improvement Program	\$19,166.67	0%	\$0	\$19,167
Insurance	\$6,596.00	100%	\$6,596	\$0
Debt Service (flat)	\$0.00	100%	\$0	\$0
Bank Charges	\$286.00	100%	\$286	\$0
Board Members	\$1,988.00	100%	\$1,988	\$0
<b>Total General and Administrative Expenses:</b>	<b>\$134,364.35</b>		<b>\$115,197.69</b>	<b>\$19,166.67</b>
<b>Total All Expenses</b>	<b>\$288,232.35</b>		<b>\$200,746.99</b>	<b>\$87,485.37</b>
<b>Fixed-Variable as % of all Expenses</b>			<b>69.65%</b>	<b>30.35%</b>

# Fixed Vs Variable Expenses



## Exhibit 3B

	2014	% Fixed	\$ Fixed	\$ Variable
<b>OPERATIONS &amp; MAINTENANCE EXPENSES</b>				
Payroll Expense & Benefits	\$53,119.00	90%	\$47,807	\$5,312
Contract Employees	\$13,488.00	10%	\$1,349	\$12,139
Reimbursements (mileage & phone)	\$990.00	100%	\$990	\$0
Utilities	\$3,424.00	10%	\$342	\$3,082
Water Expenses	\$79,032.00	40%	\$31,613	\$47,419
Building Maintenance	\$147.00	100%	\$147	\$0
Automobile Expense	\$2,024.00	90%	\$1,822	\$202
Other	\$0.00	0%	\$0	\$0
Office Expense	\$1,644.00	90%	\$1,480	\$164
Miscellaneous	\$0.00	0%	\$0	\$0
Other	\$0.00	0%	\$0	\$0
Additional O&M for New project	\$0.00	0%	\$0	\$0
<b>Total Operation and Maintenance Expenses:</b>	<b>\$153,868.00</b>		<b>\$85,549</b>	<b>\$68,319</b>
<b>GENERAL &amp; ADMINISTRATIVE EXPENSES</b>				
Professional Services	\$25,867.00	100%	\$25,867	\$0
Emergency Reserve Fund	\$5,600.00	100%	\$5,600	\$0
Other Reserve Funds	\$1,000.00	100%	\$1,000	\$0
Existing Capital Replacement Program	\$23,755.93	100%	\$23,756	\$0
New Project Replacement Program	\$14,833.33	100%	\$14,833	\$0
Future Capital Improvement Program	\$19,166.67	0%	\$0	\$19,167
Insurance	\$6,596.00	100%	\$6,596	\$0
Debt Service (flat)	\$800.00	100%	\$800	\$0
Bank Charges	\$286.00	100%	\$286	\$0
Board Members	\$1,988.00	100%	\$1,988	\$0
<b>Total General and Administrative Expenses:</b>	<b>\$99,892.93</b>		<b>\$80,726.26</b>	<b>\$19,166.67</b>
<b>Total All Expenses</b>	<b>\$253,760.93</b>		<b>\$166,275.56</b>	<b>\$87,485.37</b>
<b>Fixed-Variable as % of all Expenses</b>			<b>65.52%</b>	<b>34.48%</b>

## Proposition 218 Notification

### NOTICE TO PROPERTY OWNERS OF PUBLIC HEARING ON PROPOSED WATER RATES & FEES FOR THE RIVER PINES PUD

Public Hearing, [enter date, time and place],

#### WHY ARE YOU RECEIVING THIS NOTICE?

This notice is being furnished to you by the River Pines PUD [RPPUD] pursuant to the California Constitution Article XIII Section D (also known as "Proposition 218"). Under the terms of Proposition 218, the District is required to notify property owners of proposed changes to property-related fees such as water services. This letter serves as notice that the RPPUD will hold a public hearing to consider changes to its current water rates and fees.

#### WHAT DO WATER RATES FUND?

The RPPUD provides water services to about 230 customers. These water services must be financially self-sufficient.

Monthly rates paid by users of the system are the primary sources of revenue. All revenue generated from your utility bills is used to maintain and operate the water system. These revenues must meet all our costs such as electricity, chemicals, maintenance, licensing, fees, salary of staff, repairs, administrative costs and build up reserves for emergency repairs and future replacement of the system components when it is time to replace them. While many people have generously donated their time to operate the RPPUD, the RPPUD can not rely on volunteers alone.

In the past, the RPPUD has relied on government grants to replace the water system. Given the poor financial health of our state, the RPPUD will have to rely on its own resources to maintain the water system. Nor does the RPPUD want to burden future generations with debt and a decrepit water system. The RPPUD believes in responsible financial management of the water system.

#### WHY ARE RATE CHANGES REQUIRED?

The RPPUD recently completed a budget review and analysis. This analysis examined the cost to provide water services with the objective of striking a better balance between fixed and variable revenues while continuing to promote a fair and equitable rate structure for all utility customers. Rates need to be adequate to recover the expenses, while ensuring that costs are equitably allocated, so that rates are fair and in proportion to the services received by each user.

The RPPUD also recently completed an analysis of the capital replacement requirements. Every asset was examined and an estimate was made how much it will cost to replace the component, and when this will need to be done. The RPPUD board made the decision to fund only about 1/3 of the cost to replace the components, and hopes grants can be found to fund the other 2/3 of those replacement costs. If no grants can be found, the RPPUD board will need to increase rates further.

#### HOW ARE RATES CALCULATED?

The proposed rate structure for water service fees has two components: (1) a fixed monthly **base** charge; and (2) a variable (water consumption-based) **usage** rate. The first component is a fixed amount calculated to recover the RPPUD's fixed costs of operating and maintaining the water system and is based on the size of the meter only, not the type of customer. The variable component of the rate structure is based on water consumption only. The variable component is also structured to encourage water conservation, with higher tiers paying more per unit of water.

Under normal operating procedures, the RPPUD should fund 100% of depreciation by putting reserves away for future replacement of the system. The RPPUD board has decided to fund only 34% of the required reserves.

**NEW RATES**

Monthly **Base Charge** by meter size: [enter the board-selected rates]

5/8" meter	\$44.00
3/4" meter	\$75.00
1" meter	\$100.00
1 1/2" meter	\$250.00
2" meter	\$500.00

**Usage Rate** by tier [enter the board-selected rates]

Less than 1,000 CF (7,480 gallons) per month	No charge
From 1,001 CF to 2,000 CF (14,960 gallons)	\$3.50 per 100 CF (748 gallons)
From 2,001 CF to 4,000 CF (29,920 gallons)	\$5.00 per 100 CF (748 gallons)
From 4,001 CF to 8,000 CF (59,840 gallons)	\$7.00 per 100 CF (748 gallons)
From 8,001 CF to 12,000 CF (89,760 gallons)	\$9.00 per 100 CF (748 gallons)
From 12,001 CF to 20,000 CF (149,600 gallons)	\$11.00 per 100 CF (748 gallons)
Over 20,000 CF	\$13.00 per 100 CF (748 gallons)

The above base charges and usage rates would go in effect with the September 2014 billing.

Increases for the next five years will be as follows: [enter the board-selected dates]

Implementation date	Base Charge	Usage Rate:
July 1, 2015	8.0 %	8.0 %
July 1, 2016	8.0 %	8.0 %

In 2016, the RPPUD plans to review the rates again. [Delete or change the date.]

**MEETING & PROTEST**

A public hearing will be held on [enter date, time and place], according to the requirements of Prop 218. The purpose of the public hearing is for the RPPUD Board to consider all comments about the rate increases to be imposed on parcels within the District. As the record owner of a parcel identified to be subject to the imposition of the proposed rate increases, you may submit a **written** protest against the proposed rate increases. Provided, however, **if the identified parcel has more than one record owner of record, only one written protest will be counted**. Each protest must (1) be in writing; (2) state that the specific rate increase for which the protest is being submitted in opposition ("water"); (3) provide the location of the parcel or parcels you own (**only owners can vote**) and (4) include the **original signature of the record owner submitting the protest**.

Written protests must be submitted by mail to River Pines PUD, P.O. Box 70, River Pines, CA 95675, or in person at the public hearing, so long as they are received prior to the start of [enter date of second hearing] public hearing. Protests submitted by e-mail, facsimile, or other electronic means will not be accepted. **RPPUD staff will not accept protest letters** as they all must be mailed or delivered to the PO Box. Please identify on the front of the envelope of any protest, whether mailed or submitted in person, that the enclosed letter is for the Public Hearing on the Proposed Increases to Water Rates.

During the [enter date of second hearing] public hearing the written protests will be tallied by an independent person. At the conclusion of the public hearing, the RPPUD Board of Directors will consider adopting the proposed rates and fees, if any. Oral comments at the public hearing will not qualify as formal protests unless accompanied by a written protest, and delivered as stated above. If, at the beginning of the [enter date of second hearing] hearing, written protests against the rate increases as outlined above are **not presented by a majority of the owners of record of the identified parcels** upon which the new rates are proposed to be imposed, the RPPUD board will be authorized to impose the rate increases. If adopted, the rate increases will go in effect at the beginning of the first new billing cycle after they were adopted and fees increases will take effect immediately. **If the majority of the owners of record of the identified parcels have provide a written protest**, the RPPUD shall not change the water rates, but may propose a different rate and repeat the process as outlines in Prop 218.

[Please review this notice carefully.]

**Exhibit 5**  
**Proposition 218 Certification**

CALIFORNIA CONSTITUTION  
ARTICLE 13C (VOTER APPROVAL FOR LOCAL TAX LEVIES)

SECTION 1. Definitions. As used in this article:

- (a) "General tax" means any tax imposed for general governmental purposes.
- (b) "Local government" means any county, city, city and county, including a charter city or county, any special district, or any other local or regional governmental entity.
- (c) "Special district" means an agency of the State, formed pursuant to general law or a special act, for the local performance of governmental or proprietary functions with limited geographic boundaries including, but not limited to, school districts and redevelopment agencies.
- (d) "Special tax" means any tax imposed for specific purposes, including a tax imposed for specific purposes, which is placed into a general fund.

CALIFORNIA CONSTITUTION  
ARTICLE 13C (VOTER APPROVAL FOR LOCAL TAX LEVIES)

SEC. 2. Local Government Tax Limitation. Notwithstanding any other provision of this Constitution:

- (a) All taxes imposed by any local government shall be deemed to be either general taxes or special taxes. Special purpose districts or agencies, including school districts, shall have no power to levy general taxes.
- (b) No local government may impose, extend, or increase any general tax unless and until that tax is submitted to the electorate and approved by a majority vote. A general tax shall not be deemed to have been increased if it is imposed at a rate not higher than the maximum rate so approved. The election required by this subdivision shall be consolidated with a regularly scheduled general election for members of the governing body of the local government, except in cases of emergency declared by a unanimous vote of the governing body.
- (c) Any general tax imposed, extended, or increased, without voter approval, by any local government on or after January 1, 1995, and prior to the effective date of this article, shall continue to be imposed only if approved by a majority vote of the voters voting in an election on the issue of the imposition, which election shall be held within two years of the effective date of this article and in compliance with subdivision (b).
- (d) No local government may impose, extend, or increase any special tax unless and until that tax is submitted to the electorate and approved by a two-thirds vote. A special tax shall not be deemed to have been increased if it is imposed at a rate not higher than the maximum rate so approved.

CALIFORNIA CONSTITUTION  
ARTICLE 13C (VOTER APPROVAL FOR LOCAL TAX LEVIES)

SEC. 3. Initiative Power for Local Taxes, Assessments, Fees and Charges. Notwithstanding any other provision of this Constitution, including, but not limited to, Sections 8 and 9 of Article II, the initiative power shall not be prohibited or otherwise limited in matters of reducing or repealing any local tax, assessment, fee or charge. The power of initiative to affect local taxes, assessments, fees and charges shall be applicable to all local governments and neither the Legislature nor any local government charter

shall impose a signature requirement higher than that applicable to statewide statutory initiatives.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SECTION 1. Application. Notwithstanding any other provision of law, the provisions of this article shall apply to all assessments, fees and charges, whether imposed pursuant to state statute or local government charter authority. Nothing in this article or Article XIIIIC shall be construed to:

(a) Provide any new authority to any agency to impose a tax, assessment, fee, or charge.

(b) Affect existing laws relating to the imposition of fees or charges as a condition of property development.

(c) Affect existing laws relating to the imposition of timber yield taxes.

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 2. Definitions. As used in this article:

(a) "Agency" means any local government as defined in subdivision (b) of Section 1 of Article XIIIIC.

(b) "Assessment" means any levy or charge upon real property by an agency for a special benefit conferred upon the real property. "Assessment" includes, but is not limited to, "special assessment," "benefit assessment," "maintenance assessment" and "special assessment tax."

(c) "Capital cost" means the cost of acquisition, installation, construction, reconstruction, or replacement of a permanent public improvement by an agency.

(d) "District" means an area determined by an agency to contain all parcels which will receive a special benefit from a proposed public improvement or property-related service.

(e) "Fee" or "charge" means any levy other than an ad valorem tax, a special tax, or an assessment, imposed by an agency upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service.

(f) "Maintenance and operation expenses" means the cost of rent, repair, replacement, rehabilitation, fuel, power, electrical current, care, and supervision necessary to properly operate and maintain a permanent public improvement.

(g) "Property ownership" shall be deemed to include tenancies of real property where tenants are directly liable to pay the assessment, fee, or charge in question.

(h) "Property-related service" means a public service having a direct relationship to property ownership.

(i) "Special benefit" means a particular and distinct benefit over and above general benefits conferred on real property located in the district or to the public at large. General enhancement of property value does not constitute "special benefit."

CALIFORNIA CONSTITUTION

ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 3. Property Taxes, Assessments, Fees and Charges Limited. (a) No tax, assessment, fee, or charge shall be assessed by any agency upon any parcel of property or upon any person as an incident of property ownership except:

(1) The ad valorem property tax imposed pursuant to Article XIII and Article XIII A.

(2) Any special tax receiving a two-thirds vote pursuant to Section 4 of Article XIII A.

(3) Assessments as provided by this article.

(4) Fees or charges for property related services as provided by this article.

(b) For purposes of this article, fees for the provision of electrical or gas service shall not be deemed charges or fees imposed as an incident of property ownership.

#### CALIFORNIA CONSTITUTION

#### ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 4. Procedures and Requirements for All Assessments. (a) An agency which proposes to levy an assessment shall identify all parcels which will have a special benefit conferred upon them and upon which an assessment will be imposed. The proportionate special benefit derived by each identified parcel shall be determined in relationship to the entirety of the capital cost of a public improvement, the maintenance and operation expenses of a public improvement, or the cost of the property related service being provided. No assessment shall be imposed on any parcel which exceeds the reasonable cost of the proportional special benefit conferred on that parcel. Only special benefits are assessable, and an agency shall separate the general benefits from the special benefits conferred on a parcel. Parcels within a district that are owned or used by any agency, the State of California or the United States shall not be exempt from assessment unless the agency can demonstrate by clear and convincing evidence that those publicly owned parcels in fact receive no special benefit.

(b) All assessments shall be supported by a detailed engineer's report prepared by a registered professional engineer certified by the State of California.

(c) The amount of the proposed assessment for each identified parcel shall be calculated and the record owner of each parcel shall be given written notice by mail of the proposed assessment, the total amount thereof chargeable to the entire district, the amount chargeable to the owner's particular parcel, the duration of the payments, the reason for the assessment and the basis upon which the amount of the proposed assessment was calculated, together with the date, time, and location of a public hearing on the proposed assessment. Each notice shall also include, in a conspicuous place thereon, a summary of the procedures applicable to the completion, return, and tabulation of the ballots required pursuant to subdivision (d), including a disclosure statement that the existence of a majority protest, as defined in subdivision (e), will result in the assessment not being imposed.

(d) Each notice mailed to owners of identified parcels within the district pursuant to subdivision (c) shall contain a ballot which includes the agency's address for receipt of the ballot once completed by any owner receiving the notice whereby the owner may indicate his or her name, reasonable identification of the parcel, and his or her support or opposition to the proposed assessment.

(e) The agency shall conduct a public hearing upon the proposed assessment not less than 45 days after mailing the notice of the proposed assessment to record owners of each identified parcel. At the public hearing, the agency shall consider all protests against the proposed assessment and tabulate the

ballots. The agency shall not impose an assessment if there is a majority protest. A majority protest exists if, upon the conclusion of the hearing, ballots submitted in opposition to the assessment exceed the ballots submitted in favor of the assessment. In tabulating the ballots, the ballots shall be weighted according to the proportional financial obligation of the affected property.

(f) In any legal action contesting the validity of any assessment, the burden shall be on the agency to demonstrate that the property or properties in question receive a special benefit over and above the benefits conferred on the public at large and that the amount of any contested assessment is proportional to, and no greater than, the benefits conferred on the property or properties in question.

(g) Because only special benefits are assessable, electors residing within the district who do not own property within the district shall not be deemed under this Constitution to have been deprived of the right to vote for any assessment. If a court determines that the Constitution of the United States or other federal law requires otherwise, the assessment shall not be imposed unless approved by a two-thirds vote of the electorate in the district in addition to being approved by the property owners as required by subdivision (e).

#### CALIFORNIA CONSTITUTION

#### ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 5. Effective Date. Pursuant to subdivision (a) of Section 10 of Article II, the provisions of this article shall become effective the day after the election unless otherwise provided. Beginning July 1, 1997, all existing, new, or increased assessments shall comply with this article. Notwithstanding the foregoing, the following assessments existing on the effective date of this article shall be exempt from the procedures and approval process set forth in Section 4:

(a) Any assessment imposed exclusively to finance the capital costs or maintenance and operation expenses for sidewalks, streets, sewers, water, flood control, drainage systems or vector control. Subsequent increases in such assessments shall be subject to the procedures and approval process set forth in Section 4.

(b) Any assessment imposed pursuant to a petition signed by the persons owning all of the parcels subject to the assessment at the time the assessment is initially imposed. Subsequent increases in such assessments shall be subject to the procedures and approval process set forth in Section 4.

(c) Any assessment the proceeds of which are exclusively used to repay bonded indebtedness of which the failure to pay would violate the Contract Impairment Clause of the Constitution of the United States.

(d) Any assessment which previously received majority voter approval from the voters voting in an election on the issue of the assessment. Subsequent increases in those assessments shall be subject to the procedures and approval process set forth in Section 4.

#### CALIFORNIA CONSTITUTION

#### ARTICLE 13D (ASSESSMENT AND PROPERTY-RELATED FEE REFORM)

SEC. 6. Property Related Fees and Charges. (a) Procedures for New or Increased Fees and Charges. An agency shall follow the procedures pursuant to this section in imposing or increasing any fee or charge as defined pursuant to this article, including, but not limited to, the following:

(1) The parcels upon which a fee or charge is proposed for imposition shall be identified. The amount of the fee or charge proposed to be imposed upon each parcel shall be calculated. The agency shall provide written notice by mail of the proposed fee or charge to the record owner of each identified parcel upon which the fee or charge is proposed for imposition, the amount of the fee or charge proposed to be imposed upon each, the basis upon which the amount of the proposed fee or charge was calculated, the reason for the fee or charge, together with the date, time, and location of a public hearing on the proposed fee or charge.

(2) The agency shall conduct a public hearing upon the proposed fee or charge not less than 45 days after mailing the notice of the proposed fee or charge to the record owners of each identified parcel upon which the fee or charge is proposed for imposition. At the public hearing, the agency shall consider all protests against the proposed fee or charge. If written protests against the proposed fee or charge are presented by a majority of owners of the identified parcels, the agency shall not impose the fee or charge.

(b) Requirements for Existing, New or Increased Fees and Charges a fee or charge shall not be extended, imposed, or increased by any agency unless it meets all of the following requirements:

(1) Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.

(2) Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.

(3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.

(4) No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted. Standby charges, whether characterized as charges or assessments, shall be classified as assessments and shall not be imposed without compliance with Section 4.

(5) No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Reliance by an agency on any parcel map, including, but not limited to, an assessor's parcel map, may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership for purposes of this article. In any legal action contesting the validity of a fee or charge, the burden shall be on the agency to demonstrate compliance with this article.

(c) Voter Approval for New or Increased Fees and Charges. Except for fees or charges for sewer, water, and refuse collection services, no property related fee or charge shall be imposed or increased unless and until that fee or charge is submitted and approved by a majority vote of the property owners of the property subject to the fee or charge or, at the option of the agency, by a two-thirds vote of the electorate residing in the affected area. The election shall be conducted not less than 45 days after the public hearing. An agency may adopt procedures similar to those for increases in assessments in the conduct of elections under this subdivision.

(d) Beginning July 1, 1997, all fees or charges shall comply with this section.