

**DATE:** July 15, 2022  
**TO:** Root Creek Water District  
**FROM:** Lechowicz & Tseng Municipal Consultants  
**SUBJECT:** 2022 Municipal Rate Study Update

**DRAFT**  
TECHNICAL MEMORANDUM

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## Introduction

The Root Creek Water District (RCWD or District) is the utility provider for about 1,000 customers in the Riverstone Development. Since 2016, the District has provided municipal (potable) water, wastewater, and storm drain service to homes, businesses, and the school. The initial rate study was completed in June 2016 before any services were provided and assumed a 3% inflation rate. Actual costs of operation have exceeded projections and inflation rate. While an initial operational deficit was anticipated due to an expected delta between revenue (only a few homes paying initially for operations set up for anticipated demand), overall costs have increased as well. Thus, rate revenues have not been adequate to fund operating costs. The District's financial plan always anticipated the startup shortfall until the number of ratepayers increased to a sustainable level. The shortfall had to be borrowed from some source and the District chose to borrow them from the Riverstone developer always with the intent as set forth in the original financial plan to pay back when revenues allowed. The District is currently considering a 5-year rate plan to reverse the operating deficit, meet the cost of providing service, and become financially self-sufficient. The District does not make a profit off of any of its services thus a failure to raise rates will result in a lowering of services to match revenue.

This Technical Memorandum was developed with the goal of explaining the proposed municipal rates and detailing why rate increases are recommended for the Root Creek Water District service area.

## How Rates are Analyzed

Utility fees charged by public agencies cannot be set in an arbitrary manner. Rates and fees must be based on the reasonable cost of providing service as required by Proposition 218. To comply with Proposition 218, the District engaged an outside consultant to review costs, develop a financial plan, and calculate proposed rates.

Proposition 218 ("The Right to Vote on Taxes Act") governs how local governments can increase rates and charges for property related fees such as water, sewer, and storm drain rates. Rates must be based on the reasonable cost of providing service and be proportional to how each customer uses the utility

system. As an example, a low water use customer should pay less than a high water use customer. Proposition 218 prohibits unreasonable fees such as excessive fees charged to one customer group to subsidize another group. Furthermore, RCWD is a public agency and does not profit from rates paid by customers. As per Proposition 218, the District can only charge rates equivalent to the cost of providing services.

No infrastructure construction costs related to new development are recovered from rates. Infrastructure costs are recovered from community facility district taxes and connection fees paid by developers. Proposition 218 prohibits public agencies from charging rates to recover costs that are already funded by another source.

## **Basis for Rate Adjustments**

The proposed rates are intended to recover the costs of operating the water, sewer, and storm drain systems from September 1, 2022 to December 31, 2026 plus begin to repay the Riverstone developer for funding past deficits in operating costs of the District. If rates are NOT increased, the District will not collect enough funds to provide the existing level of water, wastewater, and stormwater management services. Currently, rates are not sufficient to fund the costs of operating the utilities and the utilities are operating at a deficit (i.e. “in the red” and losing money).

The municipal utilities have operated at a deficit since their inception, reflecting high fixed costs that could not be fully recovered from a small customer base. In the past, the District chose to obtain deficit funding from the Riverstone developer as opposed to bank or other financing. The current balance of operating costs paid by the Riverstone developer is borrowed at a 3% interest rate. As Riverstone develops, the utilities were always expected to repay the deficit to the developer once fixed costs can be spread over a larger number of homeowners. New customers coming online combined with proposed rate increases are expected to generate enough revenue for RCWD to fully cover its operating costs and begin to repay the landowner by 2024.

The District also needs to increase the amount of revenues to cover increasing operating expenses, which are detailed in the District’s publicly available budgets. These budgets are based on contracts the District has with water and sewer system operators and service providers. Most costs are projected to increase in the next five years both due to inflation and proportional to growth in RCWD’s customer base (i.e., more homes connecting to the system result in more wastewater to be treated and disposed of, as an example).

Many of the District’s largest line-item expenses are fixed costs that the District has limited control over. For instance, the District purchases and imports water on behalf of all customers. Imported water costs are about \$1 million annually and are expected to increase due to the ongoing drought and a lack of lower cost water supplies. Other costs projected to increase include fuel costs, energy costs charged by PG&E, water meter reading costs, and wastewater disposal costs. There has been a 20% increase in

property insurance rates, an inflation factor of 7.5% for buildings and fixed equipment, and a 5% increase in personal property premiums. In calculating utility rates, these costs are spread over the homes and businesses in the District, including projected growth in the customer base as development occurs.

## **Proposed Rates**

Rates are scheduled to increase over the next five years to match the increasing revenue needed to cover costs. Based on the financial plan developed from the District's budgets, water, sewer, and storm drain system costs were allocated to each customer class according to the costs to deliver each service. Rates are designed to proportionately recover costs from customers and to adhere to all legal requirements.

Current and proposed bimonthly rates are provided in Table 1. The first rate increase is proposed to go into effect September 1, 2022, and future rate adjustments are proposed to go into effect January 1 each year thereafter. Rates are charged bimonthly such that each bill reflects two months of water usage. The proposed rate schedule also includes higher drought rates that would only take effect if the Board of Directors declared a water shortage emergency, see Table 2. Drought rates are equal to the cost to provide the most expensive water source available to the District.

**Table 1**  
**Proposed Municipal Bimonthly Rate Changes**

Category	Current	PROPOSED				
	January 1, 2022	September 1, 2022	January 1, 2023	January 1, 2024	January 1, 2025	January 1, 2026
<b>Municipal Water Service</b>						
<i>Residential Volume Rates (\$/CCF)</i>						
Tier 1: 0 to 20 CCF	\$1.55	\$1.98	\$2.48	\$3.10	\$3.35	\$3.62
Tier 2: over 20 CCF	\$2.18	\$2.91	\$3.64	\$4.55	\$4.91	\$5.30
<i>Non-residential Volume Rate (\$/CCF)</i>						
Commercial		\$2.32	\$2.90	\$3.63	\$3.92	\$4.23
Irrigation		\$2.37	\$2.96	\$3.70	\$4.00	\$4.32
<i>Meter Fees</i>						
1"	\$37.90	\$47.38	\$59.23	\$74.04	\$79.96	\$86.36
1.5"	\$37.90	\$47.38	\$59.23	\$74.04	\$79.96	\$86.36
2"	\$59.44	\$75.81	\$94.77	\$118.46	\$127.94	\$138.18
3"	\$116.74	\$151.62	\$189.54	\$236.93	\$255.87	\$276.35
4"	\$181.22	\$236.90	\$296.15	\$370.20	\$399.80	\$431.80
6"	\$360.34	\$473.80	\$592.30	\$740.40	\$799.60	\$863.60
<b>Municipal Sewer Service</b>						
Per Dwelling Unit	\$50.00	\$62.50	\$78.13	\$97.66	\$117.19	\$140.63
<b>Municipal Storm Drain Service</b>						
Per Dwelling Unit	\$7.16	\$8.95	\$11.19	\$13.99	\$17.49	\$20.11
<b>Assessment (\$/acre/year)</b>	\$35.81	No longer billed – incorporated into water rates shown above				

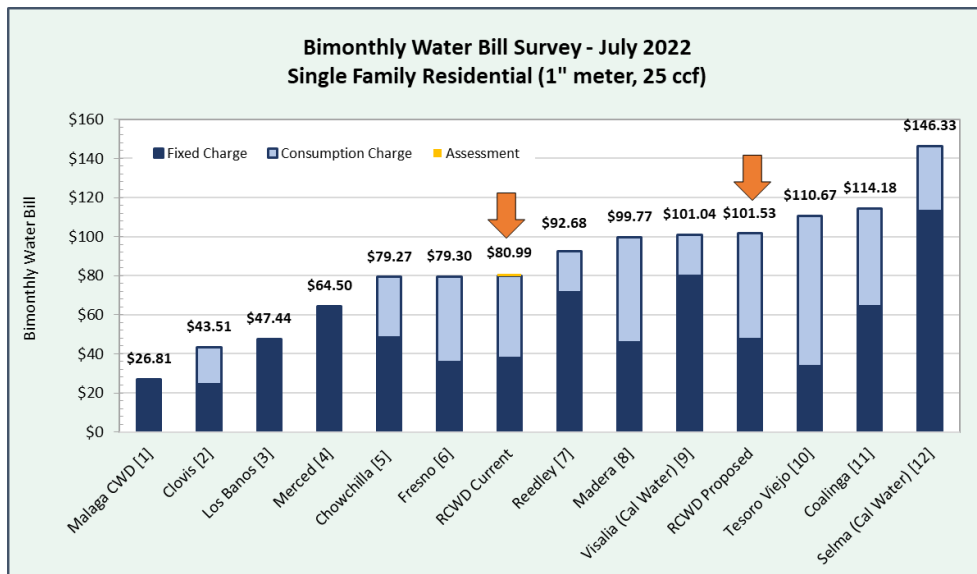
**Table 2**  
**Proposed Volume Rates – Drought Conditions**

Category	September 1, 2022	January 1, 2023	January 1, 2024	January 1, 2025	January 1, 2026
<b>Municipal Water Volume Rates (\$/CCF) – Drought Conditions</b>					
Residential	\$2.91	\$3.64	\$4.55	\$4.91	\$5.30
Commercial	\$2.91	\$3.64	\$4.55	\$4.91	\$5.30
Irrigation	\$2.91	\$3.64	\$4.55	\$4.91	\$5.30

## Comparison to Other Utility Providers

A survey was conducted to compare the current and proposed September 1, 2022 rates of the Root Creek Water District with other local utility providers, see Figures 1, 2, and 3. Many agencies do not charge storm drain fees, so storm drain charges are not included in the bill survey. A typical single family customer in Riverstone resides on a 1/5 acre lot, is served by up to a 1 ½-inch water meter, and consumes 25 CCF of water per billing period. The survey calculates typical bills based on the 1-inch meter size for comparable agencies and a ¾-inch meter for the Tesoro Viejo Master Mutual Water Company. Root Creek Water District’s combined water and sewer bill under the proposed rates is less than the current bill charged by the Tesoro Viejo Master Municipal Water Company and less than the City of Madera’s proposed bill (to be considered at a public hearing on July 20<sup>th</sup>).

**Figure 1**



[1] New water rate study that will update rates began August 2021. Proposed rates are not yet available.

[2] Rates effective 7/1/2021

[3] Rates effective 7/1/2022

[4] Rates effective 7/1/2021

[5] Rate shown is proposed for FY 2023 based on most recent rate study dated April 22, 2020

[6] Rates effective 7/1/2022

[7] Rates effective 7/1/2022

[8] Rate shown is proposed for FY 2023 but not yet approved. Proposed rates will be voted on at the Prop 218 Hearing scheduled for July 20, 2022

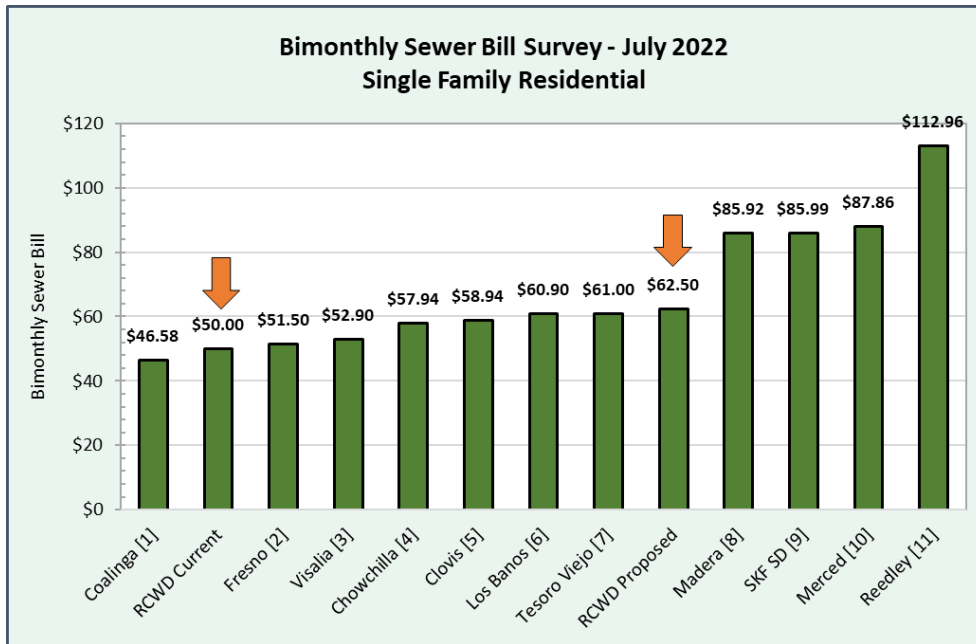
[9] Rate shown is proposed for 1/1/2023 but not yet approved

[10] Rates effective 7/1/2021, 3/4" meter

[11] Rate shown is planned to take effect 11/1/2022 based on rate schedule approved November 1, 2020

[12] Rate shown is proposed for 1/1/2023 but not yet approved

**Figure 2**



[1] Rate shown is planned to take effect 11/1/2022 based on rate schedule approved November 1, 2020

[2] Rates effective 7/1/2021

[3] Rates effective 7/1/2021

[4] Rate shown is proposed for FY 2023 based on most recent rate study dated April 22, 2020

[5] Rates effective 7/1/2021

[6] Rates effective 7/1/2022

[7] Rates effective 7/1/2021

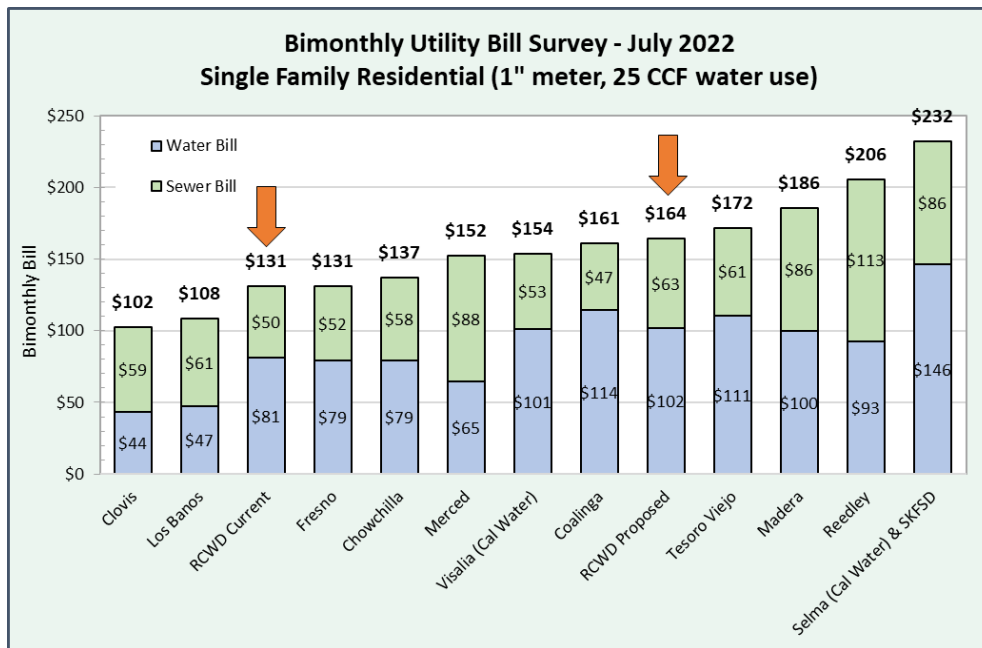
[8] Rate shown is proposed for FY 2023 but not yet approved. Proposed rates will be voted on at Prop 218 Hearing scheduled for July 20, 2022

[9] Rate shown is based on rates approved for Selma residents for FY 2023

[10] Rates effective as of February 2022

[11] Rates effective 7/1/2022

**Figure 3**



## What if the proposed rates are not approved?

As described, the rate approval process is governed by Proposition 218. Proposition 218 requires that the District allow ratepayers to submit written protests against the proposed rate increase. If more than 50% of ratepayers protest, the District cannot adopt the proposed rates.

Should the rate approval process fail, the District could consider several options. The District could revise the rate plan and propose a lower rate adjustment than the current proposal. Any revised proposals would incur additional administrative costs to the District for further rate analysis, financial planning, and printing and mailing the Proposition 218 notices. This process would take a few months and the District would lose out on the potential revenue increase that would have been collected during that period had the rates been increased.

More importantly, any lower rate proposals would not provide enough revenues to meet District costs. The District would incur further deficit spending and would be insolvent. The District would be forced to reduce its quality of service and/or service would eventually be transitioned to a different entity. The District could be privatized and transferred to a for-profit entity. Alternately, the District might be condemned and taken over by the State. Under either scenario, ratepayers would have less local control over their utility services and face similar or higher costs than those proposed by the District.