

## **Sustainable Funding for Needed Capital Improvements**

April 18, 2011

Sweetwater Springs Water District is proposing to increase its Base Rate and Water Usage Charges by 3% beginning with bills issued after July 1, 2011. This will increase the typical residential customer's water bill by \$1.85 per bimonthly bill and \$11.10 for a year. The rate increase is part of a 9-year plan to increase funding for sustainable capital improvements to the District's distribution and treatment systems.

Sweetwater Springs Water District's current financial condition is good with one exception – lack of sustainable funding for ongoing capital improvements. The District has adequate revenues to fund operations, and debt repayment is covered mostly by the annual Flat Charge that appears on the property tax bill and by the Capital Debt Reduction Charge (CDRC). In recent years, after payment of all other expenses, the District has had approximately \$250,000 in revenues from water rates to contribute towards capital expenses.

**Why are Capital Improvements needed?** The District's dilapidated infrastructure needs to be brought up to standard. It now has many leaks (250/yr), high system losses (28%), and requires many service interruptions to repair leaks. Most of the facilities inherited by Sweetwater Springs Water District when it took over Citizen's Utilities in 1992 were constructed in a haphazard manner and all of it needs replacing, except that replaced or constructed in the last twenty years. The District's 2012-18 Capital Improvement Program (CIP) is a "catch-up" CIP which aims to bring the District's water system up to an acceptable standard, as measured by water quality, system leaks, system losses, and fire protection. Beyond the 2012-18 CIP, additional capital expenses will be needed to maintain the water system to an acceptable standard.

**Isn't the RRROC funding going to bring the entire system up to standard?** Not completely. Russian River Oversight Committee (RRROC) and the Sonoma County Community Redevelopment Agency funding is assisting the District to pay for the 2012-18 catch-up CIP. The District's CIP has cost an average of approximately \$1.1 million per year since 2008, with RRROC funding contributing 50-75% of the cost. The remainder has come from water revenues, District reserves, and proceeds from a \$3 million loan taken out in 2008. If RRROC funding is discontinued, the District will face additional financial challenges to complete the catch-up CIP

**What is a sustainable Capital Improvement Program (CIP)? How does that differ from the catchup CIP that has funding assistance from RRROC?** A sustainable CIP is an annual capital improvement program that maintains the District's capital infrastructure at a water industry standard level. The District is not there yet, as evidenced by the continuing high number of leaks and water losses. We expect that the 2012-2018 catchup CIP, which depends on outside funding assistance such as RRROC, will get the District close to the water industry standard for much of the District's distribution system, but an annual CIP will still be needed to keep the District's distribution and treatment systems maintained to acceptable standards. The District needs adequate funding to pay for these ongoing improvements.

**What is adequate funding for sustainable capital improvements?** We believe the sustainable amount of capital funding needed is approximately \$500,000 per year. This would be capital improvements at about half the size and cost of the current catchup CIP.

**How much do District water revenues currently provide for capital improvements?**

Current water rates provide approximately \$250,000 per year for capital improvements. These funds plus District reserves provide the funding for the catchup CIP that RRROC funding does not cover.

**Why is the District proposing annual 3% increases?** Financial analysis shows that a 3% per year increase for 9 years will get revenues to the place where the District will have \$500,000 per year for capital improvements. We believe small annual increases are preferable to larger, less frequent increases. As stated above, the 3% increase proposed this year will increase the typical residential water bill by \$1.85 per bimonthly bill, or \$11.10 for a year. Over a nine year period of 3% increases and an increase in the Capital Debt Reduction Charge to fully cover debt repayment, typical District water bills would increase \$25.50 bimonthly. Of course, the effect of this plan will be tracked on an annual basis – if revenues are building better than expected or the funding needed for a sustainable capital program is found to be less than \$500,000, rate increases would be scaled back. Again, the goal is developing sustainable capital funding – if the goal is reached sooner than the financial planning model shows, additional rate increases would not be needed. Conversely, if RRROC funding is discontinued, the loss may result in higher rate increases.

**Does the District really need this rate increase? Can't operating expenses be trimmed instead, particularly in these tough economic times?** Even if operating expenses can be reduced, the amount additional revenue needed to develop sustainable capital funding is more than can be saved by cutting expenses. The District continually examines operating expenses to find ways to trim them, and has had some success in this regard over the years. The annual 3% rate increase plan assumes that operating expenses will be kept down where possible, but also assumes – we think realistically -- that certain expenses will continue to rise. And we cannot rely on increased customer use to raise revenues – the District's population is stable and water sales are decreasing and expected to remain in that pattern. The State has a goal of 20% reduction in water use by 2020 and the District is well on its way to achieving that goal.

**Where can I find out more about District water rates and finances?** More information on District water rates, financial planning, and the FY 2012 Budget is available at other locations on this website.