Board Agenda Item 10

DATE: June 24, 2025

TO: Board of Supervisors

SUBMITTED BY: Steven E. White, Director
Public Works and Planning

SUBJECT: Public Protest Hearing on Water and Sewer Service Fee Increases for Fresno County Service Area 44D (Monte Verdi)

RECOMMENDED ACTION(S):

Conduct public protest hearing and receive written protests from property owners or their tenants, currently receiving water and/or sewer service from Fresno County Service Area 44D - Monte Verdi, prior to the close of such public protest hearing, as required under California Constitution Article XIII D, Section 6 (Proposition 218), on a proposal to increase the water and sewer service rates and fees for such District, and upon completion of such public protest hearing, approve item A or B, as applicable, as determined by the Board of Supervisors ("Board"):

A. **If the Board finds that there is not a majority protest against such proposal to increase the water service rates and fees, the Board may adopt a Resolution authorizing the proposed increases in the water and sewer service rates and fees for Fresno County Service Area 44D - Monte Verdi, effective July 1, 2025.**
B. **If the Board finds that there is a majority protest against such proposal to increase the water and sewer service rates and fees, make the determination that there is such a majority protest and abandon proceedings regarding such proposal to increase the water and sewer service rates and fees, and direct the Department of Public Works and Planning staff to hold a public meeting with the Fresno County Service Area 44D - Monte Verdi community announcing immediate cost saving steps.**

Fresno County Service Area 44D (Monte Verdi) ("CSA 44D") currently provides water service to 125 residential parcels and to the Monte Verdi Homeowners Association ("HOA") to irrigate the common areas of their community, located on Willow Avenue just south of Friant Road. CSA 44D's current fee structure no longer generates sufficient revenue to meet expenses and due to deficit spending, CSA 44D has depleted its cash reserves. The proposed increased water and sewer service rates and fees are recommended to:

- Fully fund CSA 44D operating costs;
- Build a cash reserve as required by your Board's policy for Special Districts;
- Improve the financial condition of CSA 44D; and
- Repay the County for past costs incurred but not yet charged to CSA 44D, plus the County's estimated annual internal interest rate on such unpaid costs and budget shortfall.

Under the proposed rates, the average combined water and sewer bill is expected to increase approximately $149.91 or about 59% (from $254.52 to $404.43). If at least 63 valid protests are received from property owners or their tenants, who currently (as of the Board's public protest hearing) receive water and/or sewer service from CSA 44D, by the close of the public protest hearing, then there will be a majority protest, and

the increased fees cannot be approved by your Board. If there is a majority protest, there will be insufficient funds to support the O&M of the CSA 44D water and sewer systems. This item pertains to a location in District 5.

ALTERNATIVE ACTION(S):

Staff have not identified any viable alternative. If your Board declines to conduct the public protest hearing as recommended, or if the public protest hearing is held but there is a majority protest by the property owners or their tenants currently receiving water and sewer service from CSA 44D so that the necessary increased fees cannot be charged, there would be insufficient funds to meet the O&M of the CSA 44D water and sewer systems, and CSA 44D will be unable to pay for any necessary repairs or repay the County for past costs incurred as of July 1, 2024 ($223,800) but not yet charged to CSA 44D, plus interest.

FISCAL IMPACT:

There is no Net County Cost associated with the recommended actions. All costs associated with CSA 44D, including those associated with the public protest hearing, are paid for by the 125 parcels and the HOA in CSA 44D which receive water and/or sewer services. All costs for the O&M of the water and sewer services shall be paid from the water and sewer fees charged to these benefitting properties in CSA 44D.

If there were a majority protest by owners of property or their tenants currently receiving water and sewer service from CSA 44D so that the increased fees could not be charged, there would be insufficient funds to meet the O&M of the CSA 44D water and sewer systems as well as to repay the County. Also, the Department of Public Works and Planning (Department) staff would hold a public meeting with the CSA 44D community to discuss immediate cost saving steps and possible ramifications, which could include the inability to pay for repairs resulting in the shutdown of their water service or the potential for dissolution of CSA 44D.

DISCUSSION:

1. History and location.

CSA 44D was established in 1999 to provide water and sewer services for the subdivision known as Monte Verdi, located on Willow Avenue, just south of Friant Road. CSA 44D contains 125 residential parcels and currently provides water and sewer service to 125 residential connections and provides potable water, raw well water, and reclaim water to the HOA for the irrigation of their common areas.

2. CSA 44D's current water rate structure (residential use).

CSA 44D's current rate structure was adopted pursuant to Proposition 218 requirements on November 5, 2013, with fees having become effective on January 1, 2014. Fiscal Year 2018-19 was the last fee increase, due to inflation, associated with the Proposition 218 proceedings in 2014. The current rate structure consists of a base fee of $81.04 per parcel, which includes the first 25,000 gallons of monthly water use. Use above the first 25,000 gallons are billed based on a three-tiered water rate structure charged to each 1,000 gallons of water use, calculated and based on cost. The current rate structure has little differentiation in price between low and high use customers because a large portion of water use is included in the base fee.

3. CSA 44D's proposed water rate structure (residential use).

The proposal to increase CSA 44D's water service rates and fees is being made because CSA 44D's current fee structure no longer generates sufficient revenue to meet CSA 44D's expenses.

The proposed rates are attached to this agenda item as Attachment A. Under the proposed rates, the

average combined bill will increase by $149.91 or about 59% (from $254.52 to $404.43 per month). The proposed base rate for water will be $58.26 per month. With an average water usage of 38,000 gallons per connection per month, an additional usage fee of $62.70 will apply.

4. CSA 44D's current rate structure (irrigation use).

CSA 44D's current rate structure for the irrigation fees was adopted pursuant to Proposition 218 requirements on November 5, 2013, with fees having become effective on January 1, 2014. Fiscal Year 2018-19 was the last fee increase, due to inflation, associated with the Proposition 218 proceedings in 2014. The current rate structure consists of fixed monthly water rate of $769.21 regardless of consumption or water source (well water or recycled water).

5. CSA 44D's proposed rate structure (irrigation use).

The proposed rates are attached to this agenda item as Attachment A. Under the proposed rate, the irrigation customer will pay the same base fee as residential customers plus a usage rate for all well water consumed. Recycled water will be provided at no additional charge. Under the proposed rates, the average bill is expected to decrease about $711 or 92% (from $769.21 to $58.26) and in the months where irrigation is greatest the bill is expected to increase about $5,701 or about 741% (from $769.21 to $5,701.28 per month).

6. CSA 44D's current sewer rate structure (residential)

CSA 44D's current sewer rate structure was adopted pursuant to Proposition 218 requirements on November 5, 2013, with fees becoming effective on January 1, 2014. Fiscal Year 2018-19 was the last fee increase, due to inflation, associated with the Proposition 218 proceedings in 2014. The residential customers currently pay a monthly flat rate of $165.58.

7. CSA 44D's proposed rate structure (residential)

CSA 44D proposes to increase the flat rate, with this increase going into effect for all parcels in CSA 44D commencing on July 1, 2025. Under the proposed July 1, 2025 rate of $283.47, the monthly sewer bill will increase by $117.89. Further rate increases of 3% annually are proposed to go into effect July 1 of 2026, 2027, 2028, and 2029. The proposed increased sewer fee is necessary to recover only the actual proportional cost of sewer service attributable to each parcel.

The proposed rate increases will allow CSA 44D to:

- Fully fund CSA 44D operating costs;
- Build a cash reserve of at least $284,500 by the end of Fiscal Year 2029-30 (as required by your Board's policy for special districts);
- Improve the financial condition of CSA 44D; and
- Repay the County in FY 2025/26, FY 2026-27, FY 2027-28, FY 2028-29 and, FY 2029-30 for past costs incurred as of July 1, 2024 ($223,800) but not yet charged to CSA 44D.

If the proposed rate increase goes into effect, then CSA 44D is projected to repay the amount of $223,800 plus interest. This means that the County will essentially continue to advance the foregoing $223,800, plus interest, to CSA 44D until FY 2029-30, assuming the proposed increased rates are adopted.

On November 7, 2006, the Board of Supervisors adopted a policy requiring special districts to maintain a reserve equal to 50% of a three-year rolling average of annual operating costs. For CSA 44D, the target is approximately $284,500. The rate plan developed under the proposed increases in service fees includes the accumulation of about $284,500 in reserves by the end of FY2029-30 which exceeds the County's target.

Until such reserves reach their target in FY 2029-30, CSA 44D remains non-compliant with this policy.

The current water and sewer service rates and fees were determined based on services, supplies, and labor costs at the time, but the costs of operating the CSA 44D water and sewer systems have exceeded revenues due to rising cost of O&M, repairs to an aging system, and inflation. Consequently, cash reserves are completely depleted. Going forward, revenues need to be increased to not only meet expenses, but to also rebuild cash reserves within five years and repay the County.

The proposed increased water service rates and fees are composed of two components:

- The first component is a base fee for all water users that will cover the costs of O&M and administration of the water system. It is proposed that the base fixed charge will no longer include a base amount of water consumption. The base fee was developed by analyzing the average O&M and administration costs over the past three years excluding the usage of water.
- The second component is a usage fee for the cost of providing the water, to be charged based on actual monthly water usage. The usage fee is to be charged to each 1,000 gallons of water usage calculated and based upon estimated CSA 44D costs and historical water usage patterns (average monthly use per single family residential customer is 38,000 gallons).

Rate recommendations are designed to fund CSA 44D's short- and long-term costs of providing service and fairly allocate costs to all customers. The proposed rates are based on the reasonable cost of providing service and do not exceed the proportional cost of the service attributable to the parcel.

8. Municipal consultant.

The water rate study, dated February 2025, was prepared by Lechowicz + Tseng, Municipal Consultants, Alameda, California. The water rate study was made available to property owners and customers as part of the Protest Hearing Notice, and it is on file with the Clerk of the Board of Supervisors.

9. Meeting with community.

On April 9, 2025, Department staff met with the CSA 44D property owners and tenants at the Woodward Park Regional Library and discussed and explained the Proposition 218 process, how the current rates do not adequately fund the O&M costs of the systems, the proposed rate adjustments to the water and sewer service rates, and to answer questions about the proposed increases.

On April 25, 2025, as required by California Constitution Article XIII D, Section 6 (Proposition 218), a Protest Hearing Notice (Notice) was mailed to the recorded property owners and customers listed on the CSA 44D billing registers who would be subject to the proposed increased water and sewer service rates and fees. The Notice explained the procedure for those currently receiving CSA 44D's water and/or sewer service to submit a timely written protest to the proposed increased fees. It also explained how the adjustments to the fees will allow CSA 44D to build the Board-required cash reserve, to repay the County for past costs incurred but not yet charged to CSA 44D ($223,800 as of July 1, 2024), cover the County's estimated annual internal interest rate on such unpaid costs and support the O&M of the water and sewer systems. The Notice further explained that if less than a majority of property owners or tenants currently receiving service submit written protests, your Board may increase the water and sewer service rates and fees effective July 1, 2025. The Notice is attached to this agenda item as Attachment B.

On May 15, 2025, Department staff again met with the CSA 44D property owners and tenants at the Woodward Park Regional Library to explain the proposed adjustments to the water and sewer service rates and fees, to answer questions about the proposed increases, and to explain the Proposition 218 process and the ramifications of a majority protest.

10. Ramifications of majority protest.

If protests from a majority of property owners and tenants currently receiving water and/or sewer service from CSA 44D are not received before the close of the public protest hearing, your Board may approve the recommended fee increases. If approved, the increased fees will become effective on July 1, 2025, and will be collected following the issuance of bills for the July-August 2025 billing period.

However, if at least 64 valid protests are submitted by property owners or their tenants who receive water or sewer service as of your Board's public protest hearing, a majority protest will be reached, preventing your Board from approving the fee increase. The majority protest threshold is based on 125 parcels and the HOA currently receiving water service, divided by two (63) plus one, totaling 64. If a majority protest occurs, Department staff will communicate with the CSA 44D community on reducing services or the potential dissolution of CSA 44D.

REFERENCE MATERIAL:

BAI #16, June 3, 2014

ATTACHMENTS INCLUDED AND/OR ON FILE:

Exhibit A - Site Map
Attachment A - Proposed Rates CSA 44D
Attachment B - 60-Day Notice
On file with Clerk - Resolution
On file with Clerk - Water and Sewer Rate Study

CAO ANALYST:

Maria Valencia