



Agenda Date: 3/14/2006
Agenda Placement: 7A

LAKE BERRYESSA RESORT IMPROVEMENT DISTRICT Board Agenda Letter

TO: Board of Directors

FROM: Michael Stoltz for Robert Peterson - District Engineer
Lake Berryessa Resort Improvement District

REPORT BY: Michael Stoltz, Deputy Director of Public Works, 299-1365

SUBJECT: Status Report on Adequacy of Present Rate Structure with Potential Direction from District Board to set Public Hearing to Revise Rate Structure.

RECOMMENDATION

District Engineer to provide status report on the lack of financial solvency for the Lake Berryessa Resort Improvement Special District with a recommendation that a Public Hearing be set for April 4, 2006 to revise water and sewer rate structure.

EXECUTIVE SUMMARY

District staff have previously advised the Board of Directors and the impacted community that the water and sewer infrastructure was nearing the end of its useful life span and in need of replacement. Staff further advised that the cost of maintaining the equipment to keep the facility running was increasing, and it was inevitable repairs alone will no longer keep the equipment operating. The District presently has significant infiltration and inflow problems with their waste water collection system which causes problems with regulatory compliance of their Waste Discharge Requirements. Currently, the District is operating under a Cease and Desist Order from the Regional Water Quality Control Board (RWQCB) as a result of the infiltration and inflow problem identified in 1995. The RWQCB has also proposed fines for an accidental discharge that occurred in the winter of 2004-05. The State Attorney General has also filed a writ for additional damages from the same accidental discharge. Cumulative proposed damages exceed \$1 million. In addition, the present insurance carrier has advised the District that it will not renew coverage because of the accidental discharge and present legal actions. We are currently pursuing other carriers to provide this coverage. However, if successful in obtaining coverage, there will probably be a higher deductible required by the District. The worst case scenario is that the District will have to become self insured. In either case, the need to maintain prudent Financial Reserves is highlighted.

At today's presentation, the District Engineer will provide a description of the present financial condition of the District, and provide the details of a revised fee structure that will accomplish the following:

- 1 Provide stream of revenue to allow the advanced funding of approximately \$2.3 million of capital improvement projects primarily focused on sewer system infrastructure improvements;

- | Provide revenue source to make periodic payments to the RWQCB and State if the District is not successful in having these proposed penalties dismissed; and
- | Develop prudent financial reserves

The District Engineer is requesting that a Public Hearing be set for April 4, 2006 to allow public testimony and to allow the District Board of Directors to take appropriate action.

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	Although this agenda item does not have an immediate fiscal impact, it does set in motion a process where the District Board of Directors can approve revised water and sewer fees.
Is it Mandatory or Discretionary?	Mandatory
Is the general fund affected?	No
Future fiscal impact:	The District is not generating sufficient revenue through current rates and fees to maintain and improve the facilities. Unless the District takes certain actions to provide revenue, the District will not have the financial sufficiency to make necessary improvements required to be in compliance with regulatory agencies and to avoid further monetary fines. The current rate structure is not able to provide a balanced budget for fiscal year 2006-07 necessary to maintain the present level of operation and maintenance services.
Consequences if not approved:	If the District Board of Directors does not set the Public Hearing, then there cannot be a Public Hearing in April to revise rates. Unless revenues are increased, the District will not have the financial sufficiency to even provide the present level of maintenance and operations services for future fiscal years.
Additional Information:	None

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action of setting a Public Hearing is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

In February 2005, the District Engineer recommended increased water and sewer connection charges and certain water and sewer service fees to fund the continued provision of water and sewer service at the District. This was the first of three anticipated annual increases to help bring the District into an acceptable financial condition that had deteriorated because of lack of rate increases since 1997, and connection fees remaining unchanged since 1992. The District's financial condition had deteriorated because the Fund Balance had been utilized to make up the difference between expenditures and revenues.

The proposed increases were only anticipated to generate sufficient revenue to cover the costs of normal operations and maintenance. The District Engineer indicated that additional revenues were still necessary to implement a capital improvement and equipment replacement program. The District Board of Directors approved these fees in April 2005.

The District Engineer committed to evaluate and prioritize the District needs and recommend a financing strategy to implement a Capital Improvement Plan, a Renewal and Replacement Program, and cover the costs of regulatory compliance.

In June 2005, the District Engineer returned with a recommendation to propose an election for the purpose of increasing a special tax known as the T-1 tax. The primary purpose of this enhanced tax was to recognize additional operation and maintenance costs associated with inflation, new regulations, additional maintenance of other equipment, and to recognize the true cost of staff services to support the District activities. The District Engineer indicated, that regardless the result of this election, a further increase to water and sewer rates would be necessary to implement a Capital Improvement Plan, a Renewal and Replacement Program, and cover the costs of regulatory compliance. The registered voters within the district approved this special tax on June 29, 2005.

The District Engineer has attempted to develop a overall strategy that would balance the need to provide a minimum level of capital improvements necessary to lower potential of further liability and monetary exposure because of violations, with the need to reduce "ratepayer sticker shock" because of potential exponential fee increases. Based upon the passage the enhanced T-1 tax, District staff had worked with the impacted community and thought it had developed a workable solution to limit fee increases to approximately forty percent.

However, because of recent District staff analysis of infrastructure failures, and the impasse with regulatory agencies and State Attorney General where monetary damages are being levied against the District, the District Engineer is compelled to make recommendations that may cause "ratepayer sticker shock".

At today's presentation, the District Engineer will provide a description of the present financial condition of the District, and provide the details of a proposed fee structure that will accomplish the following:

- | Provide stream of revenue to allow the advance funding of approximately \$2.3 million of capital improvement projects primarily focused on sewer system infrastructure improvements;
- | Provide revenue source to make periodic payments to the RWQCB and State if the District is not successful in its challenge to have these proposed penalties dismissed; and
- | Develop prudent financial reserves

The proposed fee schedule will utilize a consumption based rate setting formula for both water and sewer rates where the District Board of Directors will have the authority to revise the fee structure at its April 4, 2006 meeting. Based upon direction today to set a Public Hearing for April 4, 2006, District staff will ensure that appropriate notices are published, and copies of the proposed rate schedule are made available. Time is of the essence given that the present recommendation would provide an opportunity for rates to be adjusted effective June 1, 2006. If the District Board of Directors does not set this public hearing for April 4, 2006, but rather desires to have a public hearing at a later date, then this delay would preclude rates being adjusted effective this fiscal year. This, in turn, would impact the budget proposed for fiscal year 2006-07.

District staff will also continue to outreach to the impacted community to explain the circumstances and benefits of the proposed rate revisions.

SUPPORTING DOCUMENTS

None

District Engineer Recommendation: Approve

Reviewed By: Maiko Klieman