



TULARE COUNTY LOCAL AGENCY FORMATION COMMISSION

210 N. Church Street, Suite B, Visalia 93291 Phone: (559) 623-0450 FAX: (559) 733-6720

COMMISSIONERS:
Juliet Allen, Chair
Cam Hamilton, V-Chair
Steve Worthley
Rudy Mendoza
Pete Vander Poel

LAFCO MEETING AGENDA
May 2, 2018 @ 2:00 P.M.
BOARD OF SUPERVISORS CHAMBERS
COUNTY ADMINISTRATIVE BUILDING
2800 West Burrel Avenue
Visalia CA 93291

ALTERNATES:
Mike Ennis
Carlton Jones
Dennis Mederos

EXECUTIVE OFFICER:
Ben Giuliani

- I. **Call to Order**
- II. **Approval of Minutes from April 4, 2018** (Pages 01-02)
- III. **Public Comment Period**

At this time, members of the public may comment on any item not appearing on the agenda and that is within the scope of matters considered by the Commission. Under state law, matters presented under this item cannot be discussed or acted upon by the LAFCO Commission at this time. So that all interested parties have an opportunity to speak, any person addressing the Commission may be limited at the discretion of the chair. At all times, please use the microphone and state your name and address for the record.

IV. **New Action Items**

- 1. **Case 1535 Yettem-Seville Community Services District(CSD) Formation** (Pages 03-70)
[Public Hearing]Recommended Action: Approval

The Tulare County Board of Supervisors has submitted a request for formation of the Yettem-Seville CSD and Sphere of Influence. The proposal area includes the communities of Yettem and Seville which are located along SR 201, approximately 10 miles north of Visalia is for approximately 419.4 acres of land. Under CEQA section 15061 (b)(3) and 15320 the proposal is considered exempt from CEQA review.

- 2. **Response to Tulare County Grand Jury** (Pages 71-76)
[No Public Hearing].....Recommended Action: Approval

A response is required to the Tulare County Grand Jury regarding their report "Where is Trust, Transparency, and Accountability". The Grand Jury report and a draft response letter is enclosed for Commission review.

NOTE: Persons wishing to speak on any of the agenda items who have made a political contribution of more than \$250 to any commissioner in the last twelve months must indicate this when speaking. In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting please contact LAFCO Staff at 559-623-0450. Documents related to the items on this Agenda submitted to the Board after distribution of the Agenda packet are available for public inspection at 210 N Church Ste. B Visalia CA 93291

V. Executive Officer's Report

1. Legislative Update **(Pages 77-84)**
Enclosed is the CALAFCO legislative report.
2. CALAFCO Staff Workshop Update **(No Page)**
LAFCO staff will report on the 2018 CALAFCO Staff Workshop.
3. Upcoming Projects **(No Page)**
The Executive Officer will provide a summary and tentative schedule of upcoming LAFCO projects

VI. Other Business

1. Commissioner Report **(No Page)**
2. Request from LAFCO for items to be set for future agendas **(No Page)**

VII. Setting Time and Place of Next Meeting

1. June 6, 2018 @ 2:00 P.M. in the Board of Supervisors Chambers in the County Administration Building.

VIII. Adjournment

NOTE: Persons wishing to speak on any of the agenda items who have made a political contribution of more than \$250 to any commissioner in the last twelve months must indicate this when speaking. In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting please contact LAFCO Staff at 559-623-0450. Documents related to the items on this Agenda submitted to the Board after distribution of the Agenda packet are available for public inspection at 210 N Church Ste. B Visalia CA 93291

TULARE COUNTY LOCAL AGENCY FORMATION COMMISSION

**2800 W. Burrel Ave., Visalia, CA 93291 – Tulare County Administrative Building
April 4, 2018 – Meeting Minutes**

Members Present: Allen, Hamilton, Worthley, Mendoza
Members Absent: Vander Poel
Alternates Present: Mederos
Alternates Absent: Jones, Ennis
Staff Present: Giuliani, Ingoldsby, & Kane recording
Counsel Present: Erickson

I. Call to Order: Chair Allen called the meeting to order at 2:04 p.m.

II. Approval of the January 31, 2018 Meeting Minutes:

A revision was noted under Other Business Item VIII-2; Commissioner Mederos should be changed to Commissioner Mendoza.
Upon motion by Commissioner Mendoza and seconded by Commissioner Worthley, the Commission unanimously approved the LAFCO minutes with the above requested revision.

III. Public Comment Period:

Chair Allen opened/closed the Public Comment Period at 2:06 p.m. No public comments received.

IV. Continued Action Item:

1. Visalia Sphere of Influence (SOI) Update, LAFCO Case 1510:

Staff Analyst Ingoldsby presented the proposed Visalia SOI and explained in detail the six areas of difference between the Visalia tier 3 UGB and proposed SOI and overlapping areas between the Goshen UDB and the Visalia tier 3 UGB. Staff recommended areas 1, 2, 3 and 4 be excluded from the SOI and area 5 to be included in the SOI and reviewed options regarding area 6.

Michael Washam, representing Tulare County informed the Commission that the County was no longer contesting the inclusion of area 6 into the Visalia SOI and spoke in support of excluding area 3.

Chair Allen opened the public hearing for additional comments.

Randy Groom, City of Visalia spoke in support of staff recommendations as they pertained to including area 5; and not including areas 1, 2 and 4. Mr. Groom requested that areas 3 and 6 should be within the Visalia SOI.

Stephen Peck, with Peck Planning and Development spoke in favor of including area 6 into the Visalia SOI noting that it is the proposed site for Valley Children's Pediatric Hospital, which should begin construction next year.

Seeing no further persons wishing to comment, Chair Allen closed the public hearing.

Upon motion by Commissioner Worthley and seconded by Commissioner Hamilton the Visalia SOI was unanimously approved as recommended (excluding areas 1, 2, 3 and 4 and including areas 5 and 6).

V. New Action Items:

1. Public Member Selection Committee

Staff Analyst Ingoldsby explained appointment process for members of the Commission to serve four-year terms. The current term for the public member will expire May 7, 2018. Two applications were forwarded to the selection committee for review, after which the recommendation was made to reappoint Julie Allen to serve until May 2022.

Upon motion by Commissioner Worthley, and seconded by Commissioner Mendoza the Commission approved to appoint Commissioner Allen to serve as the Public Member.

2. 2018/2019 Preliminary Budget and Work Program

Staff Analyst Ingoldsby provided a detailed overview of the proposed budget and work program.

After discussion the Commission decided to use \$50,000 in reserve funding to offset City/County contributions in the coming 2018/19 fiscal year.

Upon motion by Commissioner Worthley and seconded by Commissioner Mendoza, the Commission unanimously approved the proposed preliminary budget.

VI. Executive Officer's Report

1. Legislative Update:

EO Giuliani highlighted the status of current legislative bills and the effects it will have on Tulare County LAFCO.

2. Upcoming Projects:

EO Giuliani stated that an application has been received requesting formation of the Yettem Seville Community Services District, which would be presented next month. Also noting that the work plan and budget for fiscal year 2018/19 would be brought back at the June 6, 2018 meeting.

VII. Correspondence:

1. The CALAFCO and American Farmland Trust (AFT) White Paper on agricultural preservation was reviewed.

VIII. Other Business:

1. Commissioner Report:

None

2. Request from LAFCO for items to be set for future agendas:

None

IX. Setting Time and Place of Next Meeting:

The next Local Agency Formation Commission (LAFCO) meeting is scheduled for **May 2, 2018 at 2:00 p.m.** in the Board of Supervisors Chambers in the County Administration Building

X. Adjournment: The Tulare County LAFCO meeting adjourned at 3:11 p.m.

**TULARE COUNTY LOCAL AGENCY FORMATION COMMISSION
EXECUTIVE OFFICER'S REPORT**

May 2, 2018

LAFCO Case Number 1535

Formation of Yettem-Seville Community Services District and Sphere of Influence

- PROPOSAL:** Formation of the Yettem-Seville Community Services District (CSD) and Sphere of Influence (SOI)
- PROPONENT:** The County of Tulare by resolution of its Board
- SIZE:** Original submission: approximately 419.4 acres **(Figure 2)**
Amended proposal: approximately 299.2 acres **(Figure 1)**
- LOCATION:** The project site includes the communities of Yettem and Seville which are located along SR-201 approximately 10 miles north of Visalia.
- ASSESSOR'S PARCEL NOS:** 272 parcels. APN list for original submission is included in **Appendix A.**
- NOTICE:** Notice has been provided in accordance with Government Code Section 56660 and 56661.

GENERAL ANALYSIS:

1. Land Use:

A. Site Information

	Existing	Proposed
Zoning Designation	AE-40, R-A, R-1, C2-MU, M-1-MU, PO, RA-12	No Change
General Plan Designation	Agriculture outside the Hamlets, Mixed Use within the Hamlets	No Change
Uses	Residential, agriculture, schools, church, post office.	No Change

B. Surrounding Land Uses and Zoning and General Plan Designations

The surrounding area is primarily agriculture uses with some rural residences and grasslands and zoned AE-40.

C. Topography, Natural Features and Drainage:

The site is relatively flat and contains no sizeable natural features. The Sontag ditch and Friant Kern Canal run less than a mile north of the CSD site.

D. Conformity with General Plans and Spheres of Influence:

The County has an adopted Hamlet Development Boundary (HDB) for Yetttem and an HDB for Seville. The amended submission limits the CSD and SOI boundaries to areas that will be served by the new water system, and to areas that are included within the HDB and/or zones of benefit of Yetttem or Seville. Since this proposal would not result in urban growth, it is in conformity with the County's General Plan.

2. Impact on Prime Agricultural Land, Open Space and Agriculture:

This proposal would result in a change of governance and would have no impact on prime agricultural land, open space and agriculture.

Williamson Act and Open Space Land Conversion (GC §56377):

The site does contain some land that is under Williamson Act contract. However, the creation of the CSD will not result in the premature conversion of agricultural land or cancelation of Williamson Act contracts.

3. Population:

The population of Seville is estimated to be 545 and the population of Yetttem is estimated to be 300 and there are more than 12 registered voters. Therefore, pursuant to GC §56046, the reorganization area is inhabited.

4. Services and Controls - Need, Cost, Adequacy and Availability:

The proposed CSD would provide domestic water service to the communities of Yetttem and Seville in place of Tulare County which has operated the Seville system since 2009 under a court receivership order and has operated the Yetttem system as a zone of benefit under County Service Area (CSA) #1. The pipes serving Seville have exceeded their useful life and the wells supplying water to the community are unable to meet current water demand.

As part of a 2 phase grant funded project, the County is constructing a new water distribution system in Seville, installing water meters in Seville and may be installing a water storage tank (the storage tank may take place in Phase 2 depending on funding). Phase 2 of the project will intertie the Seville and Yetttem

water systems, install water meters in Yettem, and drill a new well in Yettem. Water meters will promote conservation and provide more options in setting rates. The proposed CSD would take on the responsibilities of operating the connected water systems. The proposed formation complies with Tulare County LAFCO Policy C-1.6 (Standards for the Formation of Special Districts).

CSDs are formed pursuant to the Community Services District Law (Sec. 61000 et seq. of the Government Code). CSDs are created most often in unincorporated areas but can, with the consent of a city council, include incorporated lands as well. The law authorizes CSDs to provide a range of local services. The actual services to be provided by a specific District are identified in the formation process. Thereafter, that District can provide additional types of services only by obtaining approval from LAFCO and the voters within the District. The proposed Yettem-Seville CSD lone active power would be the provision of domestic water. All other powers authorized to a CSD are latent powers so that the Yettem-Seville CSD would be required to obtain approval from LAFCO for the activation of any powers beyond domestic water service. A potential future power may be the provision of wastewater service, but the CSD would have to request that power to be activated by LAFCO.

5. Boundaries and Lines of Assessment:

The boundaries of the proposal area are definite and certain and conform to the lines of assessment and ownership.

A map sufficient for filing with the State Board of Equalization has not been received from the proponent. A map and legal description will need to be received from the proponent prior to recording a Certificate of Completion.

If the reorganization is approved, the applicant must provide a check for the BOE filing fee if it is determined necessary to file with the BOE. The BOE filing fee is based off of acreage. The fee amount for this reorganization would be \$2,000.

6. Assessed Value, Tax Rates and Indebtedness:

The current property tax rate in Seville is 1.018%.
The current property tax rate in Yettem is 1.1083%

Outstanding liabilities to be assumed by the CSD include the following:

- Yettem USDA Loan \$32,000
- Yettem County Revolving Fund \$70,000
- Seville County Revolving Fund \$40,000

The system is proposed to operate with a rate structure that uses a base fee and usage charges. The establishment of these fees would be subject to the conditions of Proposition 218.

7. Environmental Impacts:

The County of Tulare is the lead agency for the formation of Yettem-Seville CSD. The applicant, the Tulare County Board of Supervisors, has adopted a Notice of Exemption (NOE) where it was concluded that the proposed formation of the Yettem-Seville Community Services District constitutes a proposal for which it can be seen with certainty that there is no possibility that the proposed activity may have a significant effect on the environment, and thus, the proposal is exempt from the California Environmental Quality Act (CEQA) pursuant to the General Rule Exemption authorized by 14 California Code Regulations Section 15061, subdivision (b)(3). The Commission intends to adopt the NOE by reference unless evidence of significant environmental effects is submitted to the Commission on or before the public hearing.

8. Landowner and Registered Voter Consent:

Written consent has not been provided by all registered voters and landowners. However, a protest hearing is required pursuant to GC section 57000 et al. If 50% or more of the registered voters within the proposed formation area protest the proposed action, the formation will be terminated without election. If there is less than 50% protest, the formation will proceed to election.

One landowner has requested her property not be included in district formation (**Figure 3**). The property contains one housing unit and 120 acres of agricultural land. This request is consistent with the goals of LAFCO and the environmental document adopted by the county for this project. The amended proposal boundary does not include this property.

9. Regional Housing Needs:

This proposal has no effect on regional housing needs.

10. Discussion:

Boundaries

After receipt of the application, LAFCO staff met with the County and Self-Help Enterprises to discuss potential boundary issues. As a result, a modified district boundary and SOI boundary have been developed which more closely align with existing Hamlet Development boundaries and zone of benefit boundaries. Should additional parcels desire to join the CSD in the future, it may be more appropriate to evaluate expanding the CSD/SOI boundaries at that time with an appropriate environmental evaluation.

The new well site is not contiguous with the proposed CSD boundaries and will also be located on the same parcel as several homes. The County plans to split the well parcel from the existing parcel. However, it is recommended that the Commission include a condition of approval that a new parcel be created or amended so that the well site is located on its own parcel.

Financing:

A rate analysis was completed by Rural Community Assistance and is included as **Appendix B**. This analysis considered operating expenses, debt service, and appropriate reserves for capital improvements. Since this rate structure is subject to a Proposition 218 passage, it is recommended that the Commission include a condition of approval that the formation of the district is contingent upon a successful Proposition 218 passage. A condition should also include that the CSD would inherit the existing rates. County staff has requested that the district have a one year deadline for financing to pass. This would provide some flexibility for the district while ensuring that only a financially viable CSD is created.

The proposed Yettem-Seville CSD would ultimately assume all of the revenues, assets, liabilities and debts that the County currently manages for the Yettem water system and the Seville water system. However, because Tulare County is mid-project of the system upgrades and because Tulare County is the project sponsor for the State funding for the upgrades, a condition of approval should be added that calls for the transfer of the assets, liabilities, and debts once the upgrades are completed.

Election:

If the proposed reorganization is approved and has less than 50% registered voter protest, it is the Commission's responsibility to inform the Tulare County Board of Supervisors and the Registrar of Voters ("elections official") and request that the BOS direct the Registrar of Voters to conduct the election. The BOS has 45 days within receipt of the Commission's notice to direct the Registrar of Voters to conduct the election [GC §57000(d)(e)]. GC §57132 specifies that the election would be set at the next established election date occurring at least 88 days after the date upon which the resolution calling the election was adopted.

The Commission is responsible for submitting the question to be posed to the electorate pursuant to GC §57133. Example questions of different types of changes of organization are covered under that section. GC §57134 specifies that if a reorganization has been ordered subject to any terms or conditions that "subject to the terms and conditions specified in the order" must be added to the question. For this reorganization, the following is proposed:

"Shall the order adopted on May 2, 2018, by the Tulare County Local Agency Formation Commission ordering the formation of the Yettem-Seville Community Services District be confirmed subject to the terms and conditions specified in the order?"

Pursuant to GC §57145(a), the legislative body or any authorized member(s) of the legislative body of any affected agency (this includes the Tulare County BOS)

or individual voters or association of citizens may file a written argument for or against the question to be submitted to the voters. If the Commission approves this formation, the Commission may consider recommending to the BOS that a written argument in favor of the change of organization be provided to the Registrar of Voters.

A board of directors may be elected on the same ballot as the formation of the CSD [GC §61022(c)]. The board members may be elected at large or by/from divisions [GC §61021]. Due to the small size of the electorate, it is recommended that the proposed Yettem-Seville CSD board be elected at large.

Post-Election:

Within 30 days of the canvass of the election, if the reorganization passes, the Commission must record a Certificate of Completion [GC §57176]. Within 45 days of the effective date (recorded Certificate of Completion), the new CSD board must meet to elect officers [GC §61043(a)]. Pursuant to Elections Code §10505(c), the new CSD board shall meet "as soon as practicable" to decide which three members will have 4 year terms and which two members will have 2 year terms.

Recommended Actions

It is recommended that this proposal be approved and that the Commission take the following actions:

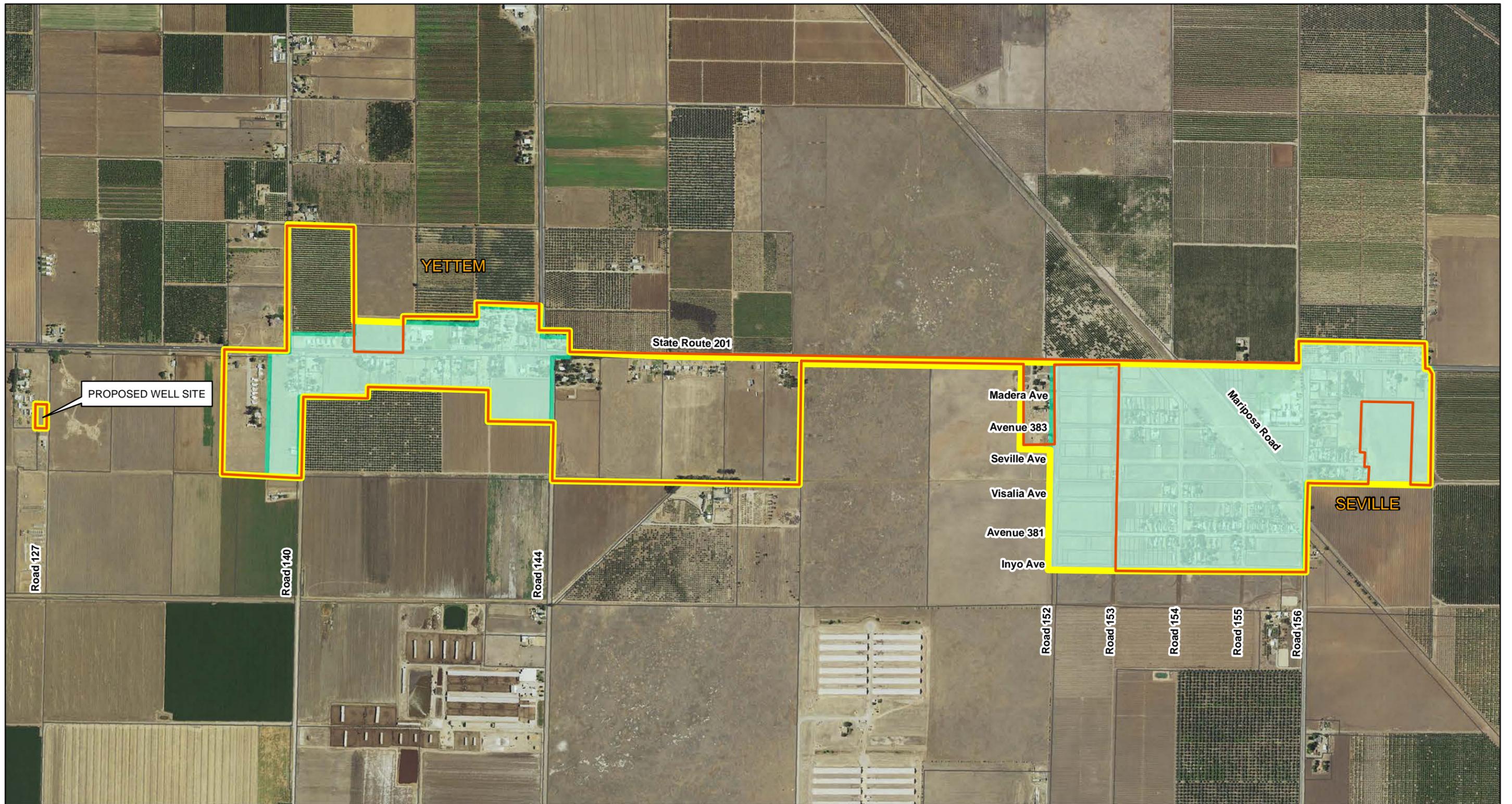
1. Determine the formation of the Yettem-Seville CSD and SOI to be exempt from CEQA pursuant to CEQA Guidelines section 15061(b)(3) and 15320.
2. Find that the proposed reorganization complies with the policies and priorities of the Cortese-Knox-Hertzberg Act, GC §56377.
3. Pursuant to LAFCO Policy and Procedure Section C-1.6, find that:
 - a. There is a demonstrated need for services or controls that can be provided by a special district.
 - b. There is no alternative that would provide for the required services in a more reasonable manner.
 - c. There will be sufficient revenue to adequately finance the required services or controls.
 - d. The proposal does not represent a conflict with the reasonable and logical expansion of adjacent governmental agencies.
 - e. The boundary configurations will not create or result in areas difficult to serve.

- f. The boundaries of the proposed formation must be definite and certain and must conform to lines of assessment whenever possible.
 - g. The boundaries must not conflict with boundaries of other public agencies possessing the same powers unless properly justified.
4. Approve the reorganization, to be known as LAFCO Case No. 1535, Yettem-Seville CSD formation, subject to the following conditions:
- A.) The formation of the Yettem-Seville CSD is contingent upon a successful Proposition 218 passage which provides adequate financing for the district by November 5, 2019. If the new water rates are passed prior to the election for the formation of the Yettem-Seville CSD, the CSD shall inherit those rates.
 - B.) The formation of the Yettem-Seville CSD is contingent upon a successful election. Following a successful election, a Certificate of Completion will be filed for the formation of the Yettem-Seville CSD.
 - C.) Following a successful election and the completion of the water system upgrades, Tulare County shall assign its assets, liabilities and debts pertaining to the water systems to the Yettem-Seville CSD. The member agency resolutions assigning the assets and liabilities must be provided to LAFCO.
 - D.) The County must create a new parcel or amend an existing parcel such that the new well site is located on its own parcel.
 - E.) The County must provide a map and legal description completed to the Board of Equalization (BOE) specifications for the approved boundary of the Yettem-Seville CSD prior to the recording of the Certificate of Completion.
 - F.) The applicant must provide the required filing fee for the Statement of Boundary Change that is to be submitted to the BOE if it is determined that a BOE filing is needed.
 - G.) The applicant shall provide a signed Indemnification Agreement per Tulare County LAFCO policy prior to the recording of the Certificate of Completion
5. The Commission orders the formation of Yettem-Seville CSD subject to the confirmation of the registered voters within the approved boundaries, as shown in Figure 1, in accordance with section 570771(a)(1) of the Government Code.
6. Authorize the Executive Officer to conduct a protest hearing subsequent to these proceedings and to report to the Commission the results of that hearing for action in accordance with Government Code Section 57000-57120.

7. The Commission request that the Tulare County Board of Supervisors direct the Tulare County Registrar of Voters to conduct an election for the formation of the Yettem-Seville CSD and five board members for the CSD to be placed on the November, 2018 general election ballot pursuant to Government Code sections 57000(e), 57132 and 61022(c)
 - A) The proposed question to be submitted at election pursuant to GC section 57133 is the following: “Shall the order adopted on May 2, 2018 by the Local Agency Formation Commission of Tulare County ordering the formation of the Yettem-Seville Community Services District be confirmed subject to the terms and conditions specified in the order?”
8. Adopt the determinations as listed in the attached resolution.

Figures, Exhibits & Appendices:

- Figure 1 Proposed CSD and SOI Boundary Map
- Figure 2 Original Map and Legal Description
- Figure 3 Letter from Property Owner
- Appendix A APN Lists
- Appendix B Seville Water Company and Yettem Combined CSD Water Rate Analysis



0 500 1,000 Feet



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Legend

- Tulare County Parcel
- CSD Service Area
- Proposed Sphere of Influence (SOI)

Hamlet Development Boundary

**Yettem & Seville
 Community Services District
 District Boundary &
 Spheres of Influence**

FIGURE ~~III~~ **IV**

YETTEM - SEVILLE COMMUNITY SERVICES DISTRICT
GEOGRAPHIC DESCRIPTION

All that certain real property, situate in Sections 33, 34, and 35, Township 16 South, Range 25 East, and in Section 1, 2, 3, and 4, Township 17 South, Range 25 East, Mount Diablo Base and Meridian, in the County of Tulare, State of California, described as follows:

Beginning at the Southeast corner of the Northwest quarter of the Northwest quarter of Section 1, Township 17 South, Range 25 East, Mount Diablo Base and Meridian; thence

- 1) North 89°45'15" West, along the South line of said Northwest quarter of the Northwest quarter of Section 1, a distance of 190.02 feet to the Southwest corner of that parcel shown as Area 2 on the Record of Survey recorded in Volume 33 of Licensed Surveys at Page 44, Tulare County Records; thence
- 2) North 1°07'02" East, along the West line of said Area 2, a distance of 859.92 feet to the South line of the North 325.00 feet of said Northwest quarter of Section 1; thence
- 3) North 89°05'40" West, parallel with the North line of said Section 1, a distance of 551.07 feet to the East line of the West 580.86 feet of said Northwest quarter of Section 1; thence
- 4) South 1°08'47" West, parallel with the West line of said Section 1, a distance of 526.23 feet to the North line of the South 340.00 feet of said Northwest quarter of Section 1; thence
- 5) South 89°45'15" East, parallel with the South line of the Northwest quarter of the Northwest quarter of said Section 1, a distance of 56.24 feet; thence
- 6) South 1°08'47" West, parallel with the West line of said Section 1, a distance of 157.24 feet, more or less, to the North right of way line of Seville Avenue; thence
- 7) South 89°04'50" East, along said North right of way line, 24.05 feet to the East line of the West half of the Northwest quarter of the Northwest quarter of said Section 1; thence
- 8) South 1°07'55" West, along last said East line, 182.52 feet to the South line of the Northwest quarter of the Northwest quarter of said Section 1; thence
- 9) North 89°45'15" West, along the South line of the Northwest quarter of the Northwest quarter of said Section 1, a distance of 636.26 feet to the East right of way line of Road 156; thence
- 10) South 1°08'47" West, along said East right of way line, 924.23 feet to the Easterly prolongation of the South right of way line of Inyo Avenue; thence
- 11) North 89°41'34" West, along said prolongation and continuing along the South right of way line of Inyo Avenue, 2034.95 feet to the West right of way line of Road 153; thence

- 12) North 0°57'29" East, along the West right of way line of Road 153, a distance of 2119.82 feet to the South right of way line of State Highway 201; thence
- 13) North 89°02'46" West, along the South right of way line of State Highway 201, a distance of 655.07 feet to the West right of way line of Road 152; thence
- 14) South 1°09'02" West, along the West right of way line of Road 152, a distance of 884.40 feet to the South line of the North 909.40 feet of the East half of the Northwest quarter of Section 2, Township 17 South, Range 25 East, Mount Diablo Base and Meridian; thence
- 15) North 89°02'14" West, parallel with the North line of said Section 2, a distance of 209.50 feet to the West line of the East 239.50 feet of the East half of the Northwest quarter of said Section 2; thence
- 16) North 1°09'02" East, parallel with the East line of the Northwest quarter of said Section 2, a distance of 884.40 feet to the South right of way line of State Highway 201; thence
- 17) North 89°02'14" West, along said South right of way line, 2403.25 feet to the East line of the Northeast quarter of Section 3, Township 17 South, Range 25 East, Mount Diablo Base and Meridian; thence
- 18) South 1°09'19" West, along the East line of the Northeast quarter of said Section 3, a distance of 1275.94 feet to the South line of the North half of the Northeast quarter of said Section 3; thence
- 19) North 89°03'21" West, along the South line of the North half of the Northeast quarter of said Section 3, a distance of 2611.74 feet to the East right of way line of Road 144; thence
- 20) North 1°13'45" East, along the East right of way line of Road 144, a distance of 650.90 feet to the Easterly prolongation of the South line of the Northeast quarter of the Northeast quarter of the Northwest quarter of said Section 3; thence
- 21) North 89°03'36" West, along said prolongation and continuing along said South line, 683.86 feet to the Southwest corner of the Northeast quarter of the Northeast quarter of the Northwest quarter of said Section 3; thence
- 22) North 1°13'45" East, along the West line of the Northeast quarter of the Northeast quarter of the Northwest quarter of said Section 3, a distance of 316.58 feet to the South line of the North half of Lot 6 of Adam's Vineyard Tract, according to the map thereof recorded in Book 15 of Maps at Page 38, Tulare County Records; thence
- 23) North 89°03'16" West, along the South line of the North half of said Lot 6 and continuing along the South line of the North half of Lot 7 of said Adam's Vineyard Tract,

a distance of 1267.73 feet to the East line of the West 709.70 feet of the Northwest quarter of said Section 3; thence

- 24) South $1^{\circ}13'45''$ West, parallel with the West line of said Section 3, a distance of 119.32 feet to the South line of the North 453.70 feet of the Northwest quarter of said Section 3; thence
- 25) North $89^{\circ}03'16''$ West, parallel with the North line of said Section 3, a distance of 683.86 feet to the East right of way line of Road 140; thence
- 26) South $1^{\circ}13'45''$ West, along the East right of way line of Road 140, a distance of 848.49 feet to the Easterly prolongation of the South line of the Northeast quarter of the Northeast quarter of Section 4, Township 17 South, Range 25 East, Mount Diablo Base and Meridian; thence
- 27) North $89^{\circ}19'43''$ West, along said prolongation and continuing along said South line, 356.62 feet to the West line of the East half of the East half of the Northeast quarter of the Northeast quarter of said Section 4; thence
- 28) North $1^{\circ}14'00''$ East, along the West line of the East half of the East half of the Northeast quarter of the Northeast quarter of said Section 4, a distance of 1278.92 feet to the South right of way line of State Highway 201; thence
- 29) South $89^{\circ}02'49''$ East, along the South right of way line of State Highway 201, a distance of 171.82 feet to the Southerly prolongation of the West right of way line of Road 140; thence
- 30) North $0^{\circ}17'44''$ West, along said prolongation and continuing along said West right of way line, 1341.86 feet to the Westerly prolongation of the North line of the Southwest quarter of the Southeast quarter of Section 33, Township 16 South, Range 25 East, Mount Diablo Base and Meridian; thence
- 31) South $89^{\circ}03'09''$ East, along said prolongation and continuing along said North line, 682.72 feet to the East line of the West half of the Southwest quarter of the Southeast quarter of said Section 33; thence
- 32) South $0^{\circ}17'17''$ East, along the East line of the West half of the Southwest quarter of the Southeast quarter of said Section 33, a distance of 1291.83 feet to the North right of way line of State Highway 201; thence
- 33) South $89^{\circ}03'16''$ East, along the North right of way line of State Highway 201, a distance of 530.52 feet to the West line of the Yettem School parcel; thence
- 34) North $0^{\circ}16'51''$ West, along said West line, 305.07 feet to the North line of the South 330.00 feet of the Southeast quarter of said Section 33; thence

- 35) South 89°03'16" East, parallel with the South line of said Section 33, and along the South line of that parcel described in the Grant Deed recorded as Document 90-82592, Official Records of Tulare County, a distance of 766.03 feet; thence continuing along the boundary of said parcel the following three course:
- 36) North 0°20'23" West, 10.00 feet; thence
- 37) South 89°03'16" East, 3.56 feet; thence
- 38) North 0°16'24" West, 159.46 feet to the Northwest corner of that parcel described in the Grant Deed recorded as Document 2014-0065804, Official Records of Tulare County; thence
- 39) South 89°05'36" East, along the North line of last said parcel, and the Easterly prolongation thereof, 657.63 feet to the West right of way line of Road 144; thence
- 40) South 0°15'58" East, along the West right of way line of Road 144, a distance of 280.88 feet to the Westerly prolongation of the North line of the South 219.00 feet of the Southwest quarter of Section 34, Township 16 South, Range 25 East, Mount Diablo Base and Meridian; thence
- 41) South 89°02'14" East, parallel with the South line of said Section 34, a distance of 323.57 feet to a point on the East line of the West 293.50 feet of the Southwest quarter of said Section 34; thence
- 42) South 0°15'58" East, parallel with the West line of the Southwest quarter of said Section 34, a distance of 194.05 feet to the North right of way line of State Highway 201; thence
- 43) South 89°02'14" East, along the North right of way line of State Highway 201, a distance of 4997.22 feet to the East line of said Section 34; thence
- 44) South 89°02'46" East, continuing along the North right of way line of State Highway 201, a distance of 1322.33 feet to the West line of the East half of the Southwest quarter of Section 35, Township 16 South, Range 25 East, Mount Diablo Base and Meridian; thence
- 45) North 0°10'24" East, along the West line of the East half of the Southwest quarter of said Section 35 and continuing along the West line of the Southeast quarter of the Northwest quarter of said Section 35, a distance of 3939.00 feet to the Northwest corner of the Southeast quarter of the Northwest quarter of said Section 35; thence
- 46) South 89°16'23" East, along the North line of the Southeast quarter of the Northwest quarter of said Section 35, a distance of 1324.48 feet to the East line of the Northwest quarter of said Section 35; thence

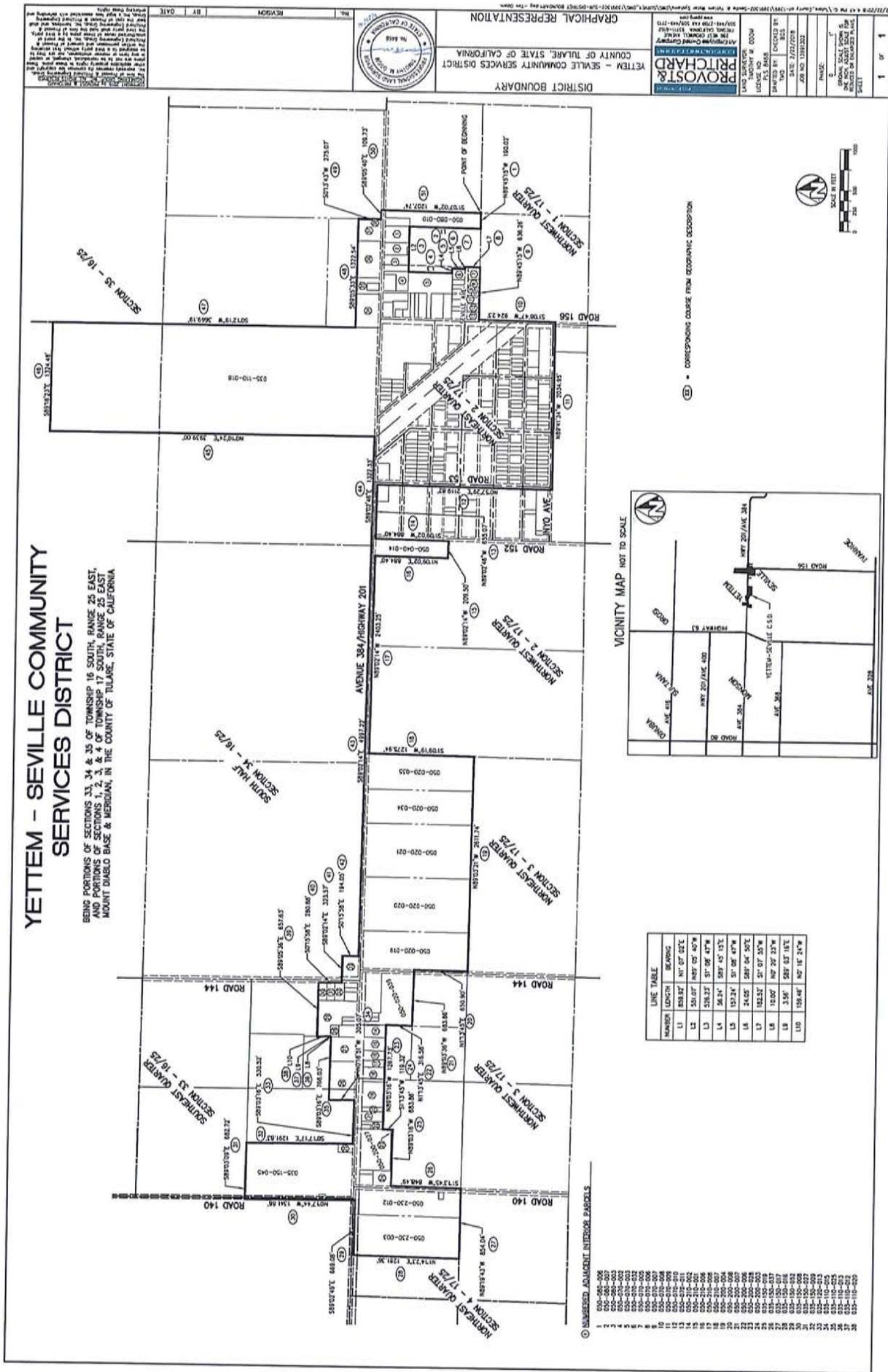
- 47) South 0°12'19" West, along the East line of the Northwest quarter of said Section 35 and continuing along the East line of the Southwest quarter of said Section 35, a distance of 3669.19 feet to the North line of the South 300.00 feet of the Southwest quarter of the Southeast quarter of said Section 35; thence
- 48) South 89°05'33" East, parallel with the South line of the Southeast quarter of said Section 35, a distance of 1322.54 feet to the East line of the Southwest quarter of the Southeast quarter of said Section 35; thence
- 49) South 0°13'43" West, along the East line of the Southwest quarter of the Southeast quarter of said Section 35, a distance of 275.07 feet to the North right of way line of State Highway 201; thence
- 50) South 89°05'40" East, along the North right of way line of State Highway 201, a distance of 109.73 feet to the Northerly prolongation of the East line of the Northwest quarter of the Northwest quarter of said Section 1; thence
- 51) South 1°07'02" West, along said prolongation and continuing along said East line, 1207.74 feet to the POINT OF BEGINNING.

Containing approximately 415.89 acres.

END OF DESCRIPTION

For assessment purposes only. This description of land is not a legal property description as defined in the Subdivision Map Act and may not be used as the basis for an offer for sale of the land described.





Joan C. Fischer
13455B, Avenue 328
Visalia, CA 93292

Mr. Steve Ingoldsby
LAFCO, 210 North Church Street, STE B
Visalia, CA 93291

Re: CSD Formation Case 1535

Dear Mr. Ingoldsby,

Thank you for your prompt attention and answers to the letter that I received involving my Property, Tulare Co. APN 035-110-018, that shows inclusion in the boundaries of the proposed new CSD district. Within the letter it is stated that the entire district is approximately 420 acres of which my Ranch is about 28% of that land area. There is a mobile home situated on that site which is serviced by a well equipped with a reverse osmosis filtration system that services that home. We test that well annually to assure that it is free from all contaminants.

It is my understanding from our conversation that the proposed Water district is required to have boundary lines that follow Parcel lines established by Tulare County. It is also my understanding from our conversation that the district would not want a parcel the size of mine to be a part of the new District, but in the event that new parcel lines could be drawn that involved just the homesite on my land, that I could request to be annexed to the new district being formed in the future.

In viewing the Notice of Exemption, per Government Code Section 6103, Attachment A-2 looks like my property is excluded as it does in Attachment B-1, which is in conflict with the map that I received in the Notice of Public Hearing regarding Case 1535, which will take place May 2, 2018, at 2:00P.M. in the County Supervisors Chambers.

Please accept this as my request to be exempted from this District. I am so excited for this project to be completed for the towns of Yetttem and Seville, as it will solve a very long-standing problem for the citizens of these communities.

Regards,

Joan C. Fischer

Cc: Maria Herrera, Self-Help, Rosa Sanchez, Co. of Tulare

ASSESSOR'S REPORT TO LAFCO & AUDITOR
[Pursuant to Section 56386 of Government Code]

LAFCO CASE NO.: 1535

PROPONENT: Yettem Seville Community Services District

DESCRIPTIVE TITLE: LAFCO Case #1535 Yettem Seville Community Services District Formation

1) Total Parcels Lying Entirely Within Proposed Boundaries: 272

See Itemized list, attached

2) Total Parcels Lying Only Partially Within Proposed Boundaries: 0

NONE

3) a) Total Parcels in Aq Preserve and/or Contract: 4

NONE

b) If Case Is Annexation of Aq Preserve, Does Initiating Agency Address Issue:

N/A

4) a) Total Parcels Owned by Initiating Agency: 0

NONE

b) If Any, Were Parcels Acquired by Eminent Domain or Other Method:

N/A

5) Assessee's Names, Addresses, Tax Rate Areas and Values:

Using the above-referenced Assessor's Parcel Numbers this information is available to you via the County's Property Information System ("PIMS") shared by our offices.

6) Other Comments:

a) The County Resource Management Agency is the local authority, and the Department of Conservation is the State authority on the existence, extent and status of any agricultural preserves, land conservation contracts and related issues and matters.

Technician: ASG

Date: 04/25/2018

END OF REPORT

Itemized List of Parcels Lying Entirely Within Proposed Boundaries

050-080-003	050-063-003	050-172-012	050-053-010
050-080-006		050-172-013	050-053-011
050-080-007	050-161-001	050-172-014	050-053-012
050-080-010	050-161-003	050-172-015	050-053-013
050-080-011	050-161-004	050-172-021	050-053-014
	050-161-005	050-172-022	050-053-015
050-070-001	050-161-006	050-172-023	050-053-016
050-070-002	050-161-007	050-172-024	050-053-017
050-070-003	050-161-008	050-172-025	050-053-018
050-070-005	050-161-011	050-172-026	050-053-019
050-070-006	050-161-012		050-053-020
050-070-007	050-161-013	050-173-004	050-053-021
050-070-008	050-161-014	050-173-005	050-053-022
050-070-009	050-161-015	050-173-006	050-053-023
050-070-010	050-161-016	050-173-007	050-053-024
050-070-011	050-162-002		050-054-001
050-070-014	050-162-003	050-174-002	
050-070-015	050-163-003	050-174-003	050-192-001
050-070-016	050-163-004	050-174-004	050-192-002
050-070-017	050-164-001	050-174-006	050-192-003
050-070-018	050-165-002	050-174-007	050-192-004
050-070-019	050-165-003	050-174-008	050-192-005
050-070-020	050-165-004	050-174-009	050-192-006
050-070-021	050-165-005	050-174-010	050-192-007
050-070-022	050-165-006	050-174-011	050-192-008
050-070-023	050-165-007	050-174-013	050-192-010
050-070-024		050-174-013	050-192-013
050-070-029	050-171-001	050-174-014	050-193-001
050-070-030	050-171-002	050-174-015	050-193-002
050-070-031	050-171-003	050-174-016	050-193-004
050-070-032	050-171-004	050-174-017	050-193-005
050-070-033	050-171-006	050-174-018	050-193-006
050-070-035	050-171-007	050-174-019	
050-070-036	050-171-009	050-174-020	050-182-002
050-070-037	050-171-010		050-182-006
	050-171-011	050-051-001	050-182-007
050-061-007	050-171-012	050-051-002	050-182-008
050-061-008	050-171-013		050-182-009
050-061-009	050-171-014	050-052-001	050-182-010
050-061-010	050-171-015	050-052-002	050-182-011
050-061-011	050-171-018		050-182-012
050-061-012	050-171-019	050-053-002	050-182-013
050-061-013	050-171-020	050-053-003	050-182-017
050-061-014		050-053-004	050-182-018
050-061-015	050-172-001	050-053-005	050-182-019
050-061-016	050-172-006	050-053-006	050-182-020
050-061-021	050-172-007	050-053-007	050-182-021
050-061-022	050-172-008	050-053-008	050-182-022
050-063-002	050-172-011	050-053-009	050-182-023

050-182-024	050-210-002
050-182-025	050-210-003
050-182-026	050-210-004
050-182-027	050-210-005
050-183-002	050-210-006
050-183-006	050-210-007
050-183-007	050-210-008
050-183-008	050-210-009
050-183-009	
050-183-010	050-230-003
050-183-011	050-230-012
050-183-012	050-230-013
050-183-013	
050-183-014	035-150-008
050-183-015	035-150-009
050-183-016	035-150-010
050-183-017	035-150-011
050-183-018	035-150-013
050-183-019	035-150-014
050-183-020	035-150-015
050-183-021	035-150-016
050-183-022	035-150-017
050-183-023	035-150-019
050-183-024	035-150-027
050-183-025	035-150-037
050-183-026	035-150-045
050-183-027	035-150-046
050-183-028	035-150-051
	035-150-052
050-040-014	
	035-120-013
050-020-020	
050-020-021	035-110-012
050-020-034	035-110-013
050-020-035	035-110-015
050-020-039	035-110-018
050-020-047	035-110-020
050-020-048	035-110-024
	035-110-025
050-200-001	
050-200-002	
050-200-003	
050-200-005	
050-200-006	
050-200-007	
050-200-008	
050-200-009	
050-200-027	
050-210-001	

Seville Water Company

Rate Analysis under Receivership of Tulare County

February, 2018

State of California State Water Resources Control Board Proposition 1 Water
Bond

Comprehensive Assistance to Tribal and Small Systems Project Agreement
Number: D1612801

TA Workplan Number: 5008 Task #2

Presented by: Rural Community
Assistance Corporation (RCAC)

Funded by: State Water
Resources Control Board



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**PURPOSE
AND
OBJECTIVE**

Seville is a community and census-designated place (CDP) in Tulare County, California. The population was 480 at the 2010 census. According to the United States Census Bureau, the CDP has a total area of .6 square miles, all of it land.

The Seville Water Company (SWC) has been under the receivership of Tulare County since June 11, 2009. The county manages SWC, which provides water to the community of Seville's 86 residential connections and one elementary school. In conducting this rate analysis, it was discovered that only 74 of the residential connections have historically been billed. This analysis assumes all 86 of the residential connections as well as the school will be billed in the future.

SWC's water system is under complete replacement construction. The Yettem Water System, which is owned by The County of Tulare will ultimately be connected to SWC. The option of transferring ownership to both water companies as one Community Services District (CSD) is currently under consideration. The State Water Resources Control Board (SWRCB) under funding from Proposition 1 has requested that Rural Community Assistance Corporation (RCAC) complete an evaluation of current water user rates for the SWC including Capital Improvement Planning (CIP) recommendations under the receivership of The County of Tulare. The financial analysis was developed using historical financial records provided by Tulare County.

An accurate and useful financial analysis not only identifies the total annual revenue required by a utility to conduct its normal day-to-day operations, but it also anticipates and plans for future operating and capital needs.

Furthermore, the analysis attempts to determine whether the projected revenue under existing rates will satisfy those needs. The primary objective of this process is to ensure that the utility has the ability to obtain sufficient funds to develop, construct, operate, maintain and manage its water system on a continuing basis, in full compliance with federal, state and local requirements.

DISCLAIMER

The recommendations contained in this financial analysis are based on financial information provided to RCAC by Tulare County. Although every effort was made to assure the reliability of this information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein.

FINANCIAL PLANNING

The objective of developing a financial plan for a water system is to determine cash needs, revenue requirements and anticipated timing of utility costs to ensure that adequate funds are available to meet operational and maintenance needs as they occur. Financial planning for a small water system normally includes an examination of:

- Operating revenues,
- Operation and maintenance (O&M) expenses,
- Debt service (principal and interest payments) on borrowed funds, and
- Reserve requirements.

The financial plan calculates the minimum revenues necessary to maintain viable and self-sustaining enterprises.

Operating Revenues

Revenues are the main sources of income to a utility and are typically thought of as operating and non-operating. Operating revenue is the stable and reliable income that comes from customer rates or user charges. Non-operating revenue, such as interest on checking and reserve accounts, meter deposits, connection fees, late payments, penalties and reconnection fees, may also be considered operating revenue if they are stable and dependable revenue sources. For example, a water system with consistent growth that is expected to continue may consider connection fees as an operating revenue source.

Operating Expenses

This is the first cost category that is considered when developing a financial plan. Operating and maintenance (O&M) costs include the day-to-day expenses of providing drinking water to customers. Operating expenses include labor, insurance, materials, electricity and chemicals.

Water System Reserves

Reserves are an accepted way to stabilize and support a utility financial management. Small systems usually fund the operating expenses but don't often consider putting money aside for a specific upcoming financial need or project, or for an amount that can be used to provide rate stabilization in years when revenues are unusually low or expenditures are unusually high. The rationale for maintaining adequate reserve levels is two-fold. First, it helps to assure that the utility will have adequate funds available to meet its financial obligations in times of varying needs. Secondly, it provides a framework around which financial decisions can be made to determine when reserve balances are inadequate or excessive and what specific actions need to be taken to remedy the situation. While the cash and cash equivalents were not designated as specific reserve accounts on the 2015 Statement of Financial Position, SWC had a total of \$131,056 in "Investments in Treasury Pool". It is assumed the bulk of these dollars are intended as funding for the repayment of moneys due to the county revolving loan fund.

Utility reserve levels can be thought of as a savings account. Reserve balances are funds that are set aside for a specific cash flow requirement, financial need, project, task or legal covenant. Common reserve balances are established around the following four areas: **operating reserve, capital improvement, emergency and debt service reserve**. These balances are maintained in order to meet short-term cash flow requirements, and at the same time, minimize the risk associated with meeting financial obligations and continued operational needs under adverse conditions.

Debt Service Reserve

Water utilities that have issued debt to pay for capital assets will often have required reserves that are specifically defined to meet the legal covenants of the debt. Normally, debt service reserve represents an amount equal to one full annual loan payment and can be accumulated to this level over a period of five to ten years. SWC water enterprise did not have debt requiring reserves be established at the time of this analysis. If debt is incurred for future replacements or upgrades of the water system, a debt reserve should be established and the cost of the reserve funding should be passed along to the rate payers through a rate adjustment.

Operating Reserve

Operating reserves are established to provide the utility with the ability to withstand short-term cash flow fluctuations. There can be a significant length of time between when a system provides a service and when a customer pays for that service. In addition, a system's cash flow can be affected by weather and seasonal demand patterns. A 45-day operating reserve is a frequently used industry norm. Because of potential delays in collecting payment, many utilities attempt to keep an amount of cash equal to at least 45 days or one-eighth (1/8) of their annual cash O&M expenses in an operating reserve to mitigate potential cash flow problems. A five-year budget projection was completed assuming a three (3) percent annual inflation rate. **This analysis was completed on the assumption that operating reserves in the amount of 12.5 percent of the annual budget of \$33,544 or \$4,193 will be funded over a five year period.** If this reserve remains unused over the five year period, an annual amount equal to the difference between 12.5 percent of the annual budget and the \$4,193 should be added to the account.

Emergency Reserve

In addition to operating reserves, emergency reserves are an important tool for financial sustainability. Emergency reserves are intended to help utilities deal with short-term emergencies which arise from time-to-time, such as main breaks or pump failures. The appropriate amount of emergency reserves will vary greatly with the size of the utility, and should depend on major infrastructure assets. An emergency reserve is intended to fund the immediate replacement or reconstruction of the system's single most critical asset; an asset whose failure will result in an immediate water outage or threat to public

safety. **This analysis was completed on the assumption that emergency reserves in the amount of \$25,000 will be funded over a ten year period at \$2,500 annually.**

Capital Improvement Reserve

A capital improvement reserve (also called a repair and replacement reserve) is intended to be used for replacing system assets that have become worn out or obsolete. Annual depreciation is frequently used to estimate the minimum level of funding for capital reserves. But it is important to understand that depreciation expense is an accounting concept for estimating the decline of an asset's useful life and does not represent the current replacement cost of that asset. As an example, a brand new system with a construction cost of \$1 million and a service life of 100 years should, in theory, be setting aside \$10,000 per year to fully capitalize the replacement cost of the infrastructure as it wears out. Many smaller systems find this to be impossible because of the effect on rates which explains the large number of small systems that are falling into disrepair.

To initiate a capital improvement plan (CIP), a small water or sewer system will start with a list of assets that includes the remaining service life, theoretical replacement costs in today's dollars and the remaining service life. It then calculates the monthly and annual reserve that must be collected from each customer to fully capitalize the replacement cost of each asset. In reality, the assets will fail and be replaced gradually, but the replacement cost of water system assets is often a shock to small systems who are struggling to keep rates reasonable.

One alternative method is to set-aside an annual amount equal to one-to-two percent of the total original cost asset value of the utility's property. Larger systems often have sufficient non-operating revenue to fund these reserve levels without affecting rates, but smaller systems often do not, leaving them to fund their CIP reserves from rates alone. An alternative method is to set-aside sufficient reserve funds to cover 100 percent of the cost for replacing short-lived assets, such as well pumps, electronic controls, vehicles, etc.

Based on the equipment list provided by the engineer and factoring a 3% future inflation rate, to fund 100% replacement of the equipment over the life expectancy would require annual reserves funded in the amount of \$231,422. This would equal \$222 per month per connection. Clearly this is not possible for this severely disadvantaged community. Because most federal and state funding of equipment replacement requires a 20% match, two of the rate options included in this analysis assume funding 20% of replacement costs over the life of the equipment. To do so would require annual CIP reserve funding of \$46,284 or \$44.33 per connection per month. Even with reduction in other costs resulting from the installation of more efficient equipment, efforts to reserve that amount will put the rates well over 4% of the MHI.

Another attempt at funding the CIP reserves in this analysis is rate adjustment option #3. In this option the amount CIP of funding is reduced to \$15,000 annually. While this reduction will allow rates to remain under 2.5%, the utility is cautioned that when replacement of the equipment becomes necessary, SWC will not have amassed the 20% matching funds that are usually required for governmental loans or grants. Additional debt will require increases to the rates.

TABLE #1: Recommended Reserve Funding – Rate Options # 1 and # 2

Seville Water System Reserve Funding Recommendations Options #1 & #2			
Reserve Classification	87 Connections	Annual Cost Per Connection	Monthly Cost Per Connection
Annual Emergency Reserve	\$ 2,500	\$ 29	\$ 2.39
Annual Operating Reserve	\$ 839	\$ 10	\$ 0.80
Annual Replacement Reserve	\$ 46,284	\$ 532	\$ 44.33
Annual Debt Reserve			
Total Reserves	\$ 49,623	\$ 570	\$ 47.53

TABLE #2: Recommended Reserve Funding – Rate Option #3

Water System Reserve Funding Recommendations (option #3)			
Reserve Classification	87 Connections	Annual Cost Per Connection	Monthly Cost Per Connection
Annual Emergency Reserve	\$ 2,500.00	\$ 28.74	\$ 2.39
Annual Operating Reserve	\$ 839.00	\$ 9.64	\$ 0.80
Annual Replacement Reserve	\$ 15,000.00	\$ 172.41	\$ 14.37
Annual Debt Reserve			
Total Reserves	\$ 18,339.00	\$ 210.79	\$ 17.57

Affordability Index

The *affordability index* measures the burden of costs passed from the water utility to the users against the median household income (MHI) for the area, and is used by funding agencies to determine grant and low interest loan eligibility. Many funding organizations look for an affordability ratio of 1.5 percent before approving grant money to low-income communities. The 2016 American Community Survey (ACS) estimates Seville had an MHI of \$23,000. SWC's current residential rate of \$60.00 per month has an affordability ratio of 3.13% percent. Several rate adjustment options are offered in this analysis and, while every effort has been made to keep the rates as low as possible, only Option #3 bring the affordability ration below 2.5%.

Affordability Index = average annual residential bill for water / annual MHI.

Statement of Net Financial Position

The Statement of Net Position FYE 2014, FYE 2015 and FYE 2016, tells us that SWC has very little, if any, cash in bank for operations. The Investments in Treasury Pool is assumed to be grant funds for planning and developing the new system that has been paid by the County (see “Due to Other Government”) but not yet reimbursed. Accounts receivable is troubling. SWC is cautioned that sustainability of the utility is reliant on the community paying for water service. Fixed assets have not yet been included in the statement. It is assumed these will be added as “Construction in Progress” and eventually to “Equipment” as the construction progresses. Despite the concerns, SWC has managed to pull from a negative net position to a positive. With the inclusion of equipment and land, the net position will increase substantially. However, the lack of working capital will remain troubling until delinquent accounts have been collected and an adequate rate structure has been implemented.

DRAFT

TABLE 3: Statement of Net Position at June 30, 2014, 2015 and 2016

Seville Water Fund 798				
County of Tulare - Temporary Receivership				
Statement of Net Position				
		6/30/2016	6/30/2015	6/30/2014
Assets:				
Current Assets:				
	Investments in Treasury Pool	\$ 204,145	\$ 131,056	\$ 32,264
	Accounts Receivable	\$ 25,151	\$ 25,293	\$ 28,517
	Due from Governments	\$ 26,107	\$ 347,695	
	Total Current Assets	\$ 255,403	\$ 504,044	\$ 60,781
Noncurrent Assets:				
	Land	\$ -	\$ -	\$ -
	Building & Improvements Net	\$ -	\$ -	\$ -
	Total Noncurrent Assets	\$ -	\$ -	\$ -
	Total Assets	\$ 255,403	\$ 504,044	\$ 60,781
Liabilities				
Current Liabilities				
	Accounts Payable	\$ 11,131	\$ 9,923	\$ 63,942
	Other Current Liabilities			
		\$ 11,131	\$ 9,923	\$ 63,942
Noncurrent Liabilities				
	Due To Other Government	\$ 236,249	\$ 476,290	\$ 70,000
	Total Noncurrent Liabilities	\$ 236,249	\$ 476,290	\$ 70,000
	Total Liabilities	\$ 247,380	\$ 486,213	\$ 133,942
Net Position				
	Net Investment in Capital Assets			
	Restricted			
	Unrestricted	\$ 8,024	\$ 17,831	\$ (73,161)
	Total Net Position	\$ 8,024	\$ 17,831	\$ (73,161)
	Total Liabilities and Net Position	\$ 255,404	\$ 504,044	\$ 60,781

RATE Rate Structures

BASICS The following are types of rates structures common to drinking water systems:

- **Uniform Flat Rate:** Customers pay the same amount regardless of the quantity of water used. This type of rate is easiest to administer; however, it is not fair to the lowest water users and can promote high consumption which then may cost the utility more to provide that water. This is the current rate structure for SWC because individual connection meters have not yet been put into use.
- **Single or Uniform Block Rate:** Customers are charged a constant price per volume regardless of the amount of water used. The cost per block of water is often added to a minimum charge for having service available. This rate tends to be more equitable to customers as the cost to customer is in direct proportion to the amount use. Options for this structure are included in this analysis but they cannot be implemented until all meters have been installed and are being read on a consistent basis.
- **Inclining or Increasing Block Rate:** This rate is designed to promote water use efficiency, the price of water increases as the amount used increases.

TABLE 4: SWC Current Rate Structure and Number of Connections

Seville Current Rate Structure and Number of Connections	Monthly Rate	# of active accounts	Average Monthly Revenue	Average Annual Revenue
Single Family Dwelling	\$ 60.00	86	\$ 5,160.00	\$ 61,920.00
Stone Corral School	\$ -	1	\$ -	\$ -
Total Revenue		87	\$ 5,160.00	\$ 61,920.00

Table 5 below is the actual operating revenue and costs FYE 6/30/2014, 2015 and 2016. Under the current revenue stream, reserve accounts have not been funded.

TABLE 5: Operating Revenue and Operating Costs

Seville Water Fund 798				
County of Tulare - Temporary Receivership				
Operating Revenue and Expenses				
		Actual	Actual	Actual
		6/30/2014	6/30/2015	6/30/2016
Operating Revenue:				
	Water Service	\$ 54,000	\$ 52,860	\$ 54,000
Total Operating Revenue		\$ 54,000	\$ 52,860	\$ 54,000
Operating Expenses:				
	Maint - Equip	\$ 22,192	\$ 27,355	\$ 41,465
	Utilities	\$ 10,604	\$ 9,177	\$ 6,859
	Admin	\$ 6,494	\$ 13,380	\$ 9,504
	Printing	\$ 114	\$ 198	\$ 21
	Postage	\$ 274	\$ 307	\$ 311
	Public/Legal No	\$ 858	\$ 1,201	\$ 1,245
	Property Mgmt		\$ 4,480	
	Int. Lt Debt		\$ 7,054	\$ 3,697
	Design			\$ 23
	Special Dept Expenses		\$ 25,319	\$ 67,893
	Service - Fm O Dpt	\$ 693		\$ 4,041
	I/F Exp - Road	\$ 8,730		\$ 21,420
Total Operating Expenses		\$ 49,959	\$ 88,471	\$ 156,479
Net Operating Income		\$ 4,041	\$ (35,611)	\$ (102,479)

Table 6: Operating Budget

Seville Water Fund 798						
County of Tulare - Temporary Receivership						
	Operating Budget Per County	Projected Operating Budget				
		Budget 6/30/2017	Budget 6/30/2018	Budget 6/30/2019	Budget 6/30/2020	Budget 6/30/2021
Operating Revenue:						
Water Service	\$ 54,000	\$ 62,640	\$ 62,640	\$ 62,640	\$ 62,640	\$ 62,640
Total Operating Revenue	\$ 54,000	\$ 62,640	\$ 62,640	\$ 62,640	\$ 62,640	\$ 62,640
Operating Expenses:						
Maint - Equip	\$ 39,214	\$ 9,600	\$ 9,888	\$ 10,185	\$ 10,490	\$ 10,805
Utilities	\$ 10,000	\$ 5,000	\$ 5,150	\$ 5,305	\$ 5,464	\$ 5,628
Admin	\$ 7,222	\$ 7,222	\$ 7,439	\$ 7,662	\$ 7,892	\$ 8,128
Printing	\$ 200	\$ 200	\$ 206	\$ 212	\$ 219	\$ 225
Postage	\$ 316	\$ 316	\$ 325	\$ 335	\$ 345	\$ 356
Public/Legal No	\$ 1,600	\$ 1,600	\$ 1,648	\$ 1,697	\$ 1,748	\$ 1,801
Property Mgmt			\$ -	\$ -	\$ -	\$ -
Int. Lt Debt	\$ 2,500	\$ 800	\$ 824	\$ 849	\$ 874	\$ 900
Design			\$ -	\$ -	\$ -	\$ -
Special Dept Expenses	\$ 2,925	\$ 2,925	\$ 3,013	\$ 3,103	\$ 3,196	\$ 3,292
Service - Fm O Dpt	\$ 881	\$ 881	\$ 907	\$ 935	\$ 963	\$ 992
I/F Exp - Road	\$ 10,501	\$ 5,000	\$ 5,150	\$ 5,305	\$ 5,464	\$ 5,628
Total Operating Expenses	\$ 75,359	\$ 33,544	\$ 34,550	\$ 35,587	\$ 36,654	\$ 37,754
Net Operating Income	\$ (21,359)	\$ 29,096	\$ 28,090	\$ 27,053	\$ 25,986	\$ 24,886
Reserve Accounts:						
Operating Reserve (12.5% of Annual Budget Funded over 5 Years)		\$ 839	\$ 864	\$ 890	\$ 916	\$ 944
Emergency Reserves (\$25,000 Funded over 10 Years)		\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,500
CIP Reserves		\$ 46,284	\$ 46,284	\$ 46,284	\$ 46,284	\$ 46,284
Total Reserve Funding		\$ 49,623	\$ 49,648	\$ 49,674	\$ 49,700	\$ 49,728
Net Operating Income After Funding Reserves	\$ (21,359)	\$ (20,527)	\$ (21,558)	\$ (22,621)	\$ (23,715)	\$ (24,842)

Fixed versus Variable Expenses

Water must be available to customers at all times whether the customer is using the water or not. A large share of water system costs are associated with bringing the first drop of water to the customer's meter, regardless of whether any water is used. Fixed costs are those that must be recovered by SWC to ensure that drinking water is available to its customers.

Fixed costs are usually recovered from each customer on an equal basis through the use of a minimum fee (a minimum monthly bill). Fixed costs may cover 100 percent of some expenses in a system's budget, but only a portion of other types of expenses. For example, fixed expenses generally include all debt service expenses on construction loans, financial reserves for emergencies or equipment replacement, and overhead costs, like insurance and bonding. Fixed costs should also include a portion of other system operating expenses. For example, a percentage of wages and fringe benefits for time spent in reading each meter and preparing each customer's bill.

The method for identifying all or part of some expenses as fixed costs involves determining to what extent each of the line item expenses in the budget benefits every customer of the system, regardless of their level of usage. This is a determination that each utility must make for itself.

Fixed costs should generally be recovered in a system's minimum bill, the minimum monthly fee charged equally to each customer within each customer classification (residential, multi-residential, commercial, etc.) or by meter size (3/4-inch, 1-inch, etc.). For small systems with fewer customers, spreading these costs among its customers, the proportion of fixed costs will be higher than larger systems. Many small systems find it impossible to recover all fixed costs in a monthly minimum, so they tend to shift a certain percentage to the variable side. Fixed costs for small systems are usually in the range of one-third to two-thirds of the system's total operating costs and may run even higher for very small systems.

Variable costs are system expenses that are more directly related to how much water is pumped, treated, stored and distributed. Most costs for electricity, operator wages and benefits, chemicals and repairs can be classified as variable costs because they are directly related to the amount of water customers' use. To recover variable expenses, rate structures use a "consumption charge" or "flow charge" per volume, such as per thousand gallons or hundred cubic feet. Because only a few customers are metered, the variable and fixed costs must be fully recovered through the base rates.

The 2016 SWC water department budget was used to develop a breakdown of fixed and variable operating costs, as presented in Table 3. Because SWC serves only 87 connections, the fixed costs are substantially higher than what might be expected for larger utilities.

TABLE 7: Fixed/Variable Costs

Seville Water Company Budget #1 Assumes Funding 20% of Replacement Costs of Phase 1	Budget FYE 6/30/2018	Estimated % Fixed Costs	Fixed costs	Variable costs
Cost of goods sold:				
Maint - Equip	\$ 9,600.00	80%	\$7,680	\$1,920
Utilities	\$ 5,000.00	10%	\$500	\$4,500
Admin	\$ 7,222.00	80%	\$5,778	\$1,444
Printing	\$ 200.00	100%	\$200	\$0
Postage	\$ 316.00	100%	\$316	\$0
Public/Legal No	\$ 1,600.00	100%	\$1,600	\$0
Special Dept Expenses	\$ 2,925.00	100%	\$2,925	\$0
Service - Fm O Dpt	\$ 881	100%	\$881	\$0
I/F Exp - Road	\$ 5,000	100%	\$5,000	\$0
Total Operating Costs	\$ 32,744		24,880	7,864
Total Debt Service (Assumes no Debt)	\$ 800			
Total Operating Costs and Debt Service	\$ 33,544			
Annual Emergency Reserve	\$ 2,500		(Assumes Reserves in the Amount of \$25k funded over 10 years)	
Debt Reserves	\$ -		(Assumes no debt reserves are required)	
Annual Operating Reserve	\$ 839		(Assumes Operating Reserves in the Amount of 12.5% of Annual Budget Funded over 5 years)	
Annual Replacement CIP reserve	\$ 46,284		(Assumes 20% of Replacement Replacement Costs for Phase #1 will be Funded Over the Ife of the Equipment)	
Total Annual Reserves	\$ 49,623			
Total Annual Budget	\$ 82,367			
TOTAL ANNUAL OPERATING BUDGET	\$32,744			
TOTAL FIXED COST OF ANNUAL BUDGET	\$24,880			
% OF ANNUAL BUDGET THAT IS FIXED	76%			
TOTAL VARIABLE COST OF ANNUAL BUDGET	\$7,864			
% OF ANNUAL BUDGET THAT IS VARIABLE	24%			

**CUSTOMER
WATER
DEMANDS**

When analyzing water rates, it is important to understand existing patterns of consumption among the system’s customers. A large portion of customers may use a small percentage of water, and a small portion of customers may use a large percentage. At the time of this analysis, SWC did not meter individual connections. Total water usage for all connections for the period of July 1, 2015, through June 30, 2016, was 21,575,630 gallons. With planned improvements, meters will be installed and individual connection usage will be monitored. At that time, usage or commodity charges may be implemented to more equitably distribute costs of service. Base rates for meters are typically different due to the variance in the capacity different meter sizes may carry to the connections, as well as differing costs of purchasing and maintaining the different size devices. There is also a cost for the infrastructure needed to deliver an amount of water to a customer.

Table 8: Water Usage 7/01/2015 – 6/30/2016 (Gallons)

Water Usage FYE 6/30/2016 (Gallons)	
July, 2015	4,248,700
August, 2015	1,339,000
September, 2015	2,295,000
October, 2015	1,856,800
November, 2015	1,163,300
December, 2015	1,264,300
January, 2016	930,600
February, 2016	1,084,300
March, 2016	1,192,730
April, 2016	1,447,950
May, 2016	2,152,450
June, 2016	2,600,500
Total	21,575,630

**WATER
RATE
ANALYSIS**

Understanding how customers use water is important when considering seasonal operational needs, infrastructure replacement and water use efficiency, and other volume related costs. When developing a rate based on usage, it is important to consider the impact on the highest water users as those will incur larger monthly bills. Those customers may begin to use water more efficiently after a rate adjustment; and if not, SWC may target the highest water users for water efficiency education. The impact the reduction of usage would have on SWC’s revenue should be carefully considered. The utility must continue to collect enough operating revenues to cover its operating expenses and put money aside in its required reserve accounts. Revenues were evaluated with the assumption that SWC will not be gaining or losing customers over the next five years.

To recover all of the costs of operation and fund necessary reserve accounts from operating revenue, a rate adjustment is recommended. Assuming a three (3) percent inflation rate on the operating costs, SWC’s current rate structure is not adequate. RCAC recommends an increase in rates. Two options to approach the increase are illustrated in Table 9 below and Table 10 on the following page.

OPTION #1 In rate adjustment Option #1, an increase to the flat rate is implemented in the first year to \$79.80 with 1.5% incremental increases in subsequent years.

TABLE 9: Affordability Index, Option #1

Total Monthly Fees and Affordability Index Under Rate Adjustment Option #1					
FYE	Base Fee	No Usage Fees	Total Bill	MHI	Affordability Index
6/30/2018	\$ 79.80	\$ -	\$ 79.80	\$ 23,000.00	4.16%
6/30/2019	\$ 81.00	\$ -	\$ 81.00	\$ 23,000.00	4.23%
6/30/2020	\$ 82.21	\$ -	\$ 82.21	\$ 23,000.00	4.29%
6/30/2021	\$ 83.45	\$ -	\$ 83.45	\$ 23,000.00	4.35%
6/30/2022	\$ 84.70	\$ -	\$ 84.70	\$ 23,000.00	4.42%

TABLE 10: Rate Adjustment, Option #1

Flat Rate Option #1 Under Budget #1 - Funding 20% of Replacement Costs for Phase 1: Assumes 87 Connections; First year 33% increase in base rate; Subsequent 1.5% increase annually	Monthly Rate	Amount of Adjustment	Adjusted Rates	# of active accounts	Average Annual Revenue
		33%			
Single Family Dwelling	\$ 60.00	\$ 19.80	\$ 79.80	86	\$ 82,353.60
Stone Corral School	\$ 60.00	\$ 19.80	\$ 79.80	1	\$ 957.60
Total Revenue				87	\$ 83,311.20
Budget Assuming 3% Inflation per year	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Total Monthly Required Reserves Fund	\$ 4,135	\$ 4,135	\$ 4,135	\$ 4,135	\$ 4,135
Total yearly required reserve fund	\$ 49,623	\$ 49,637	\$ 49,652	\$ 49,679	\$ 49,705
Debt Service	\$ 800	\$ 400			
Total Fixed Budget	\$ 24,880	\$ 25,626	\$ 26,395	\$ 27,187	\$ 28,002
Total Variable Budget	\$ 7,864	\$ 8,100	\$ 8,343	\$ 8,594	\$ 8,851
Total Budget(Excluding Reserve Funding)	\$ 32,744	\$ 33,726	\$ 34,738	\$ 35,780	\$ 36,854
Total Budget (Including Reserve Funding and Debt Service)	\$ 83,167	\$ 83,763	\$ 84,391	\$ 85,459	\$ 86,559
	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Estimated Annual Revenue From Water Service	\$ 83,311	\$ 84,561	\$ 85,829	\$ 87,117	\$ 88,423
Total Target Revenue	\$ 83,167	\$ 83,763	\$ 84,391	\$ 85,459	\$ 86,559
Net Revenue Over/(Under) Budgeted Costs	145	797	1,439	1,658	1,864

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OPTION #2 In rate adjustment Option #2, The base rate is increased each year and a usage charge of \$1.25 per 1,000 gallons is added. A 15% decrease in usage is assumed in this option. It is assumed the school will be charged a base rate and usage fee.

TABLE 11: Affordability Index, Option #2

Total Monthly Fees and Affordability Index Under Rate Adjustment Option #2					
FYE	Base Fee	Assuming 10,860 Gallons	Total Bill	MHI	Affordability Index
6/30/2018	\$58.00	\$13.58	\$71.58	\$23,000.00	3.73%
6/30/2019	\$60.00	\$13.58	\$73.58	\$23,000.00	3.84%
6/30/2020	\$60.00	\$13.58	\$73.58	\$23,000.00	3.84%
6/30/2021	\$61.00	\$13.58	\$74.58	\$23,000.00	3.89%
6/30/2022	\$62.00	\$13.58	\$75.58	\$23,000.00	3.94%

TABLE 12: Rate Adjustment, Option #2

Flat Rate plus Usage, Option # 2 - Budget #1; Assumes Funding 20% replacement of Phase #1 Costs; Base rate decreases in first year then increases in subsequent years; Consumption fee of \$1.25 per one thousand gallons; assumes decrease in usage of 15%	Monthly Rate					
	# Connectins	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Single Family Dwelling (77 Connections)	86	\$58.00	\$60.00	\$60.00	\$61.00	\$62.00
Stone Corral School	1	\$58.00	\$60.00	\$60.00	\$61.00	\$62.00
Total Revenue	87	\$ 60,552	\$ 62,640	\$ 62,640	\$ 63,684	\$ 64,728
Usage Charges (assumes 15% Reduction in Usage)						
Per 1,000 Gallons	\$ 1.25	21,575,630.00	(3,236,345)	18,339,286	18,339	\$ 22,924
Budget Assuming 3% Inflation per year		6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Total Monthly Required Reserves Fund		\$ 4,135	\$ 4,135	\$ 4,135	\$ 4,135	\$ 4,135
Total yearly required reserve fund		\$ 49,623	\$ 49,637	\$ 49,652	\$ 49,679	\$ 49,705
Debt Service		\$ 800	\$ 400	\$ -	\$ -	\$ -
Total Fixed Budget		\$ 24,880	\$ 25,626	\$ 26,395	\$ 27,187	\$ 28,002
Total Variable Budget		\$ 7,864	\$ 8,100	\$ 8,343	\$ 8,594	\$ 8,851
Total Budget(Excluding Reserve Funding)		\$ 32,744	\$ 33,726	\$ 34,738	\$ 35,780	\$ 36,854
Total Budget (Including Reserve Funding)		\$ 83,167	\$ 83,763	\$ 84,391	\$ 85,459	\$ 86,559
		6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Estimated Annual Revenue From Base Fee		\$ 60,552	\$ 62,640	\$ 62,640	\$ 63,684	\$ 64,728
Estimated Revenue From Usage Chages		\$ 22,924	\$ 22,924	\$ 22,924	\$ 22,924	\$ 22,924
Total Revenue		\$ 83,476	\$ 85,564	\$ 85,564	\$ 86,608	\$ 87,652
Total Target Revenue		\$ 83,167	\$ 83,763	\$ 84,391	\$ 85,459	\$ 86,559
Net Revenue Over/(Under) Budgeted Costs		\$ 310	\$ 1,801	\$ 1,174	\$ 1,149	\$ 1,093

OPTION #3 In an effort to keep the rates below 2.5% of the MHI, Option #3 assumes funding the improvement and replacement reserves at only \$15,000.00 annually. If this option is adopted, the utility must monitor it very carefully to ascertain that revenue from the base rate does not fall below the fixed costs. This will also mean that when it is time to replace the equipment, the utility will likely not have the 20% matching funds that most governmental loans and grants will require.

TABLE 13: Affordability Index, Option #3

Total Monthly Fees and Affordability Index Under Rate Adjustment Option #3					
FYE	Base Fee	Usage Fee Assuming 10,860 Gallons Per Month	Total Bill	MHI	Affordability Index
6/30/2018	\$28.00	\$13.58	\$41.58	\$23,000.00	2.17%
6/30/2019	\$29.00	\$13.58	\$42.58	\$23,000.00	2.22%
6/30/2020	\$30.00	\$13.58	\$43.58	\$23,000.00	2.27%
6/30/2021	\$31.00	\$13.58	\$44.58	\$23,000.00	2.33%
6/30/2022	\$32.00	\$13.58	\$45.58	\$23,000.00	2.38%

TABLE 14: Rate Adjustment, Option #3

Flat Rate plus Usage, Option # 3 - Budget #2; Assumes Funding replacements at \$15k annually. Base rate decreases first year then increases by \$1.00 annually. Consumption fee of \$1.25 per one thousand gallons; assumes decrease in usage of 15%	Monthly Rate					
	# Connectins	6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Single Family Dwelling (86 Connections)	86	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00
Stone Corral School	1	\$28.00	\$29.00	\$30.00	\$31.00	\$32.00
Total Base Fee Revenue	87	\$ 29,232	\$ 30,276	\$ 31,320	\$ 32,364	\$ 33,408
Usage Charges (assumes 15% Reduction in Usage)						
Per 1,000 Gallons	\$ 1.25	21,575,630.00	(3,236,345)	18,339,286	18,339	\$ 22,924
Budget Assuming 3% Inflation per year		6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Total Monthly Required Reserves Fund	\$ 1,528	\$ 1,528	\$ 1,528	\$ 1,528	\$ 1,528	\$ 1,528
Total yearly required reserve fund	\$ 18,339	\$ 18,353	\$ 18,368	\$ 18,395	\$ 18,421	\$ 18,421
Debt Service	\$ 800	\$ 400	\$ -	\$ -	\$ -	\$ -
Total Fixed Budget	\$ 24,880	\$ 25,626	\$ 26,395	\$ 27,187	\$ 28,002	\$ 28,002
Total Variable Budget	\$ 7,864	\$ 8,100	\$ 8,343	\$ 8,594	\$ 8,851	\$ 8,851
Total Budget (Excluding Reserve Funding)	\$ 32,744	\$ 33,726	\$ 34,738	\$ 35,780	\$ 36,854	\$ 36,854
Total Budget (Including Reserve Funding)	\$ 51,883	\$ 52,479	\$ 53,107	\$ 54,175	\$ 55,275	\$ 55,275
		6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Estimated Annual Revenue From Base Fee	\$ 29,232	\$ 30,276	\$ 31,320	\$ 32,364	\$ 33,408	\$ 33,408
Estimated Revenue From Usage Charges	\$ 22,924	\$ 22,924	\$ 22,924	\$ 22,924	\$ 22,924	\$ 22,924
Total Revenue	\$ 52,156	\$ 53,200	\$ 54,244	\$ 55,288	\$ 56,332	\$ 56,332
Total Target Revenue	\$ 51,883	\$ 52,479	\$ 53,107	\$ 54,175	\$ 55,275	\$ 55,275
Net Revenue Over/(Under) Budgeted Costs	\$ 274	\$ 721	\$ 1,138	\$ 1,113	\$ 1,057	\$ 1,057

OPTION #4 With the decrease in reserve funding in Option #3 and the addition of 12 previously unbilled connections, the current rate of \$60.00 per connection per month will cover the projected costs. Option #4 would be no rate adjustment until meters are installed and individual connection usage can be billed.

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**PROPOSITION
218**

California approved Proposition 218 in 1996 requiring agencies to adopt property fees and charges in accordance with a defined public process found in article XIII D or by associated court decision. Water and wastewater rates are user fees under the definition and must meet the following requirements:

- Revenues derived from the fee or charge must not exceed the funds required to provide the property-related service.
- Revenue from the fee or charge must not be used for any purpose other than that for which the fee or charge is imposed.
- No fee or charge may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in substantially the same manner as it is to property owners.
- The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- The fee or charge may not be imposed for service, unless the service is actually used by, or immediately available to, the owner of the property in question.

Written notice should be given to both the record owners and customers within the area subject to the fee or charge. The notice shall include the following:

- The formula or schedule of charges by which the property owner or customer can easily calculate their own potential charge.
- The basis upon which the amount of the proposed fee or charge is to be imposed on each parcel. An explanation of the costs which the proposed fee will cover and how the costs are allocated among property owners.
- Date, time and location of a public hearing on the rate adjustment. The public hearing must occur 45 or more days after the mailing of the notice.

California's Proposition 218 provides that a customer of the District or owner of record of a parcel or parcels subject to the proposed rate increases, you may submit a protest against any or all of the proposed rate increases by filing a written protest with the District at or before the time the public hearing has concluded. Only one protest per parcel is counted. If written protests are filed by a majority of the affected parcels, the proposed rate increases will not be imposed.

CONCLUSIONS
AND
RECOMMENDATIONS

Key points to remember with any rate adjustment:

- Successful utilities are those that strive to be transparent. In day-to-day operations, SWC should strive to promote its services (highlights and the low points), and continuously educate residents on why it is necessary to raise and adjust rates.
- The ability of the current rate structure to generate adequate revenue will depend on maintaining a vigorous collection and shut-off policy to keep delinquent accounts at a minimum.
- In order to achieve and maintain long-term viability, water systems should review its rates annually, or no less than a minimum of every two years. Keeping track of customer seasonal and annual water demands will help determine operation's needs, budget forecasts and rate adjustments.
- The Stone Corral School has not previously been charged for water service. Information regarding the number of students, faculty and staff served was not available. RCAC recommends when construction has been completed, the recommended school rate be reviewed for equitability.
- DWSRF (Prop1) Policy Section XI (B)(1)(h) indicates: Installation of water supply meters are an eligible construction component and "the Recipient shall implement volumetric pricing and begin charging volumetric rates no later than one year following the project completion date". Exact potable water production and usage records for Seville are not available. However, Yettem's water usage information is. Yettem is of comparable size, climate and location.
- SWC is considering joining in a Joint Powers Authority (JPA) to build a surface water treatment plant that will serve several local communities and water utilities. If that happens, an additional rate adjustment will be necessary to include its community's proportion of the JPA costs.

Seville Water Company And Yettem Combined CSD Water Rate Analysis February, 2018

State of California State Water Resources Control Board Proposition 1 Water
Bond

Comprehensive Assistance to Tribal and Small Systems Project Agreement
Number: D1612801

TA Workplan Number: 5008 Task #3

Presented by: Rural Community
Assistance Corporation (RCAC)

Funded by: State Water
Resources Control Board



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ATTACHMENTS

- Attachment #1: CIP/Construction Phase 1
- Attachment #2: CIP/Construction Phase 2
- Attachment #3: Engineer’s Projected Utility and Chemical Costs

**PURPOSE
AND
OBJECTIVE**

Seville is a community and census-designated place (CDP) in Tulare County, California. The population was 568 at the 2016 census. According to the United States Census Bureau, the CDP has a total area of .6 square miles, all of it land.

The Seville Water Company (SWC) has been under the receivership of Tulare County since June 11, 2009. The county manages SWC, which provides water to the community of Seville's 74 residential connections and one elementary school.

Yettem is a community and census-designated place (CDP) in Tulare County, California, located on California State Route 201, 11 miles north of Visalia. The population was estimated to be 353 at the 2016 census. According to the United States Census Bureau, the CDP has a total area of .2 square miles, all of it land.

The Tulare County Service Area #1 (Yettem) is the zone of benefit for the CDP. The county owns and manages the Yettem water system, which provides water to the community's 63 residential connections, the Cutler-Orosi Unified School District and the Yettem Learning Center.

In an effort to improve water quality and provide safe and reliable drinking water to the communities of Seville and Yettem, the SWC water system is under construction to replace its current infrastructure, drill a new well in the Yettem area to replace the existing Seville community well and connect the Yettem and Seville systems with an interconnection pipeline.

SWC and Yettem water system are also researching options for uniting Yettem and SWC to form a Community Services District (CSD) to treat and deliver water to the combined communities. The governance and construction of the CSD is yet to be determined. To have a reliable estimate of what the costs to the community (rates) would be for the proposed CSD, it was requested that Rural Community Assistance Corporation (RCAC) complete an evaluation of projected water user rates for the communities under the CSD, including Capital Improvement Planning (CIP) recommendations. The financial analysis was developed using projections from many sources, including historic information, engineers, and costs associated with nearby water systems of comparable size.

An accurate and useful rate analysis not only identifies the total annual revenue required by a utility to conduct its normal day-to-day operations, but it also anticipates and plans for future operating and capital needs.

Furthermore, the analysis attempts to determine whether the projected revenue under existing rates will satisfy those needs. The primary objective of this process is to ensure that the utility has the ability to obtain sufficient funds to develop, construct, operate, maintain and manage its water system on a continuing basis, in full compliance with federal, state and local requirements.

DISCLAIMER

The recommendations contained in this financial analysis are based on historical financial information provided to RCAC by Tulare County and engineer projections. Although every effort was made to assure the reliability of this

information, no warranty is expressed or implied as to the correctness, accuracy or completeness of the information contained herein.

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FINANCIAL PLANNING

The objective of developing a financial plan for a water system is to determine cash needs, revenue requirements and anticipated timing of utility costs to ensure that adequate funds are available to meet operational and maintenance needs as they occur. Financial planning for a small water system normally includes an examination of:

- Operating revenues,
- Operation and maintenance (O&M) expenses,
- Debt service (principal and interest payments) on borrowed funds, and
- Reserve requirements.

The financial plan calculates the minimum revenues necessary to maintain viable and self-sustaining enterprises.

Operating Revenues

Revenues are the main sources of income to a utility and are typically thought of as operating and non-operating. Operating revenue is the stable and reliable income that comes from customer rates or user charges. Non-operating revenue, such as interest on checking and reserve accounts, meter deposits, connection fees, late payments, penalties and reconnection fees, may also be considered operating revenue if they are stable and dependable revenue sources. For example, a water system with consistent growth that is expected to continue may consider connection fees as an operating revenue source.

Operating Expenses

This is the first cost category that is considered when developing a financial plan. Operating and maintenance (O&M) costs include the day-to-day expenses of providing drinking water to customers. Operating expenses include labor, insurance, materials, electricity and chemicals.

Water System Reserves

Reserves are an accepted way to stabilize and support a utility financial management. Small systems usually fund the operating expenses but don't often consider putting money aside for a specific upcoming financial need or project, or for an amount that can be used to provide rate stabilization in years when revenues are unusually low or expenditures are unusually high. The rationale for maintaining adequate reserve levels is two-fold. First, it helps to assure that the utility will have adequate funds available to meet its financial obligations in times of varying needs. Secondly, it provides a framework around which financial decisions can be made to determine when reserve balances are inadequate or excessive and what specific actions need to be taken to remedy the situation. Utility reserve levels can be thought of as a savings account. Reserve balances are funds that are set aside for a specific cash flow requirement, financial need, project, task or legal covenant. Common reserve balances are established around the following four areas: **operating reserve, capital improvement, emergency**

and debt service reserve. These balances are maintained in order to meet short-term cash flow requirements, and at the same time, minimize the risk associated with meeting financial obligations and continued operational needs under adverse conditions.

Debt Service Reserve

Water utilities that have issued debt to pay for capital assets will often have required reserves that are specifically defined to meet the legal covenants of the debt. Normally, debt service reserve represents an amount equal to one full annual loan payment and can be accumulated to this level over a period of five to ten years. SWC and Yettem did not have debt requiring the establishment of reserves at the time of this analysis. If debt is incurred for future replacements or upgrades of the water system, a debt reserve should be established and the cost of the reserve funding should be passed along to the rate payers through a rate adjustment.

Operating Reserve

Operating reserves are established to provide the utility with the ability to withstand short-term cash flow fluctuations. There can be a significant length of time between when a system provides a service and when a customer pays for that service. In addition, a system's cash flow can be affected by weather and seasonal demand patterns. A 45-day operating reserve is a frequently used industry norm. Because of potential delays in collecting payment, many utilities attempt to keep an amount of cash equal to at least 45 days or one-eighth (1/8) of their annual cash O&M expenses in an operating reserve to mitigate potential cash flow problems. A five-year budget projection was completed assuming a three (3) percent annual inflation rate.

Emergency Reserve

In addition to operating reserves, emergency reserves are an important tool for financial sustainability. Emergency reserves are intended to help utilities deal with short-term emergencies which arise from time-to-time, such as main breaks or pump failures. The appropriate amount of emergency reserves will vary greatly with the size of the utility, and should depend on major infrastructure assets. An emergency reserve is intended to fund the immediate replacement or reconstruction of the system's single most critical asset; an asset whose failure will result in an immediate water outage or threat to public safety. This analysis was completed on the assumption that emergency reserves in the amount of \$25,000 will be funded over a ten year period at \$2,500 annually.

Capital Improvement Reserve

A capital improvement reserve (also called a repair and replacement reserve) is intended to be used for replacing system assets that have become worn out or obsolete. Annual depreciation is frequently used to estimate the minimum level of funding for capital reserves. But it is important to understand that depreciation expense is an accounting concept for estimating the decline of an

asset's useful life and does not represent the current replacement cost of that asset. As an example, a brand new system with a construction cost of \$1 million and a service life of 100 years should, in theory, be setting aside \$10,000 per year to fully capitalize the replacement cost of the infrastructure as it wears out. Many smaller systems find this to be impossible because of the effect on rates which explains the large number of small systems that are falling into disrepair.

To initiate a capital improvement plan (CIP), a small water or sewer system will start with a list of assets that includes the remaining service life, theoretical replacement costs in today's dollars and the remaining service life. It then calculates the monthly and annual reserve that must be collected from each customer to fully capitalize the replacement cost of each asset. In reality, the assets will fail and be replaced gradually, but the replacement cost of water system assets is often a shock to small systems who are struggling to keep rates reasonable.

One alternative method is to set-aside an annual amount equal to one-to-two percent of the total original cost asset value of the utility's property. Larger systems often have sufficient non-operating revenue to fund these reserve levels without affecting rates, but smaller systems often do not, leaving them to fund their CIP reserves from rates alone. An alternative method is to set-aside sufficient reserve funds to cover 100 percent of the cost for replacing short-lived assets, such as well pumps, electronic controls, vehicles, etc.

The engineering firm, Provost & Pritchard, provided equipment lists for both the initial replacement of SWC equipment (Phase I) and the construction of the new well and connection for Yetteem. (Phase II). See Attachments # 1 and #2.

Table 1: Recommended Annual Reserves

Water System Reserve Funding Recommendations			
Reserve Classification	Annual Amount	Annual Cost Per Connection 156 Connections	Monthly Cost Per Connection
Operating Reserves	\$ 2,637.35	\$ 16.91	\$ 1.41
Annual Emergency Reserve	\$ 2,500.00	\$ 16.03	\$ 1.34
Annual Replacement Reserve (20% of Phase 1 & Phase 2)	\$ 72,117.01	\$ 462.29	\$ 38.52
Total Annual Reserves	\$ 77,254.36	\$ 495.22	\$ 41.27

Affordability Index

The *affordability index* measures the burden of costs passed from the water utility to the users against the median household income (MHI) for the area, and is used by funding agencies to determine grant and low interest loan eligibility. Many funding organizations look for an affordability ratio of 1.5 percent before approving grant money to low-income communities. Rates approaching 3% of MHI can be unaffordable. The 2016 American Community Survey (ACS) estimated Seville had an MHI of \$23,000. No MHI information was available for Yettem. Assuming Yettem’s MHI is comparable to Seville, the current rates of \$56 and \$60 are at 2.92% and 3.13% respectively.

Affordability Index = average annual residential bill for water / annual MHI.
 In an effort to keep rates below 3% of MHI, the below table below illustrates adjustments made to the ideal reserve fund contributions.

Table 2: Reduced Annual Reserves

Reduced Water System Reserve Funding Recommendations			
Reserve Classification	156 Connections	Annual Cost Per Connection	Monthly Cost Per Connection
Operating Reserves	\$ 2,637	\$ 16.90	\$ 1.41
Annual Replacement Reserve	\$ 20,000	\$ 128.21	\$ 10.68
Annual Emergency Reserve	\$ 2,500	\$ 16.03	\$ 1.34
Total Reserves	\$ 25,137	\$ 144	\$ 12.02

RATE Rate Structures

BASICS The following are types of rates structures common to drinking water systems:

- **Uniform Flat Rate:** Customers pay the same amount regardless of the quantity of water used. This type of rate is easiest to administer; however, it is not fair to the lowest water users and can promote high consumption which then may cost the utility more to provide that water. This is the current rate structure for SWC and Yettem because individual connection meters have not yet been put into use. However, part of the new construction will include meters for each connection. The rate calculations in this document assume a base rate plus a usage rate.
- **Single or Uniform Block Rate:** Customers are charged a constant price per volume regardless of the amount of water used. The cost per block of water is often added to a minimum charge for having service available. This rate tends to be more equitable to customers as the cost to customer is in direct proportion to the amount use. Because the individual usage by connection is not yet know, this is the structure assumed in the rate calculations in this analysis.
- **Inclining or Increasing Block Rate:** This rate is designed to promote water use efficiency, as the price of water increases as the amount used increases.
- **Decreasing Block Rate:** This rate is designed to encourage business development as the price of water decreases as the amount used increases.

Table 3: Seville and Yettem Current Connections and Fees:

Current Connections and Fees		
Type of Connection	No. Connections	Rate
<i>Seville:</i>		
Single Family Dwellings	86	\$ 60.00
Stone Corral Elementary School	1	\$ -
<i>Yettem:</i>		
Single Family Residence	63	\$ 56.00
Cutler-Orosi Unified School District	1	\$ 63.50
Yettem Learning Center	1	\$ 63.50
Vacancy	1	\$ 8.50
Standby	3	\$ 8.50
Total	156	

**CUSTOMER
WATER
DEMANDS**

When analyzing water rates, it is important to understand existing patterns of consumption among the system’s customers. A large portion of customers may use a small percentage of water, and a small portion of customers may use a large percentage. Because the connections were not yet metered at the time of this report, individual usage patterns were not available for analysis.

Understanding how customers use water is important when you are considering seasonal operational needs, infrastructure replacement and water use efficiency to name a few.

Yettem currently serves 69 connections and SWC serves 87 for a combined 156 connections. The monthly water use for July 1, 2015 through June 30, 2016 is shown in Table 4 on the following page.

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TABLE 4: Seville and Yettem Usage

Combined Usage July 1, 2015 - June 30, 2016 (Gallons)			
Month	Seville	Yettem	Total
July, 2015	4,248,700	1,669,800	5,918,500
August, 2015	1,339,000	1,569,700	2,908,700
September, 2015	2,295,000	1,608,900	3,903,900
October, 2015	1,856,800	1,297,800	3,154,600
November, 2015	1,163,300	935,800	2,099,100
December, 2015	1,264,300	916,200	2,180,500
January, 2016	930,600	892,500	1,823,100
February, 2016	1,084,300	956,000	2,040,300
March, 2016	1,192,730	1,049,500	2,242,230
April, 2016	1,447,950	1,190,000	2,637,950
May, 2016	2,152,450	1,866,900	4,019,350
June, 2016	2,600,500	2,131,100	4,731,600
Total	21,575,630	16,084,200	37,659,830

**BUDGET
ASSUMPTIONS**

Because both water systems have previously been managed under Tulare County, a number of assumptions have been made in regards to costs of operating as a CSD.

- 1) Contracted Work - \$36,480
It is assumed a contract operator will provide the services to operate and maintain the water systems at a rate of \$2,000 per month for a total of \$24,000 annually. It is further assumed a bookkeeper will be contracted to provide billing and bookkeeping services at a rate of \$15 per hour for an average of 16 hours per week for a total of \$12,480 annually.
- 2) It is assumed the CSD will have an annual audit conducted at \$3,000.
- 3) It is assumed the CSD will have an attorney to provide legal advice at an annual fee of \$2,000.
- 4) It is assumed there will be 5 board members who will receive a stipend of \$50 each per month for a total of \$3,000 annually.
- 5) Because the equipment is new it is assumed repairs and maintenance will be at a minimum. The labor costs are assumed to be covered under the operator contract. An allowance of \$5,000 is assumed for costs of parts and supplies.
- 6) Utility costs have been estimated by the engineers at \$41,337 annually for both systems.
- 7) Printing and copying is expected to be nominal and has been estimated at \$200 annually.
- 8) Postage has been estimated for 144 customer bills monthly @ \$0.49 per bill for a total of \$847 annually, plus an allowance of \$15.00 per month for miscellaneous mailings has been assumed.
- 9) Office supplies have been estimated at \$50 per month for paper, checks and printer cartridges. The first year may have some additional set up cost.
- 10) Telephone and internet costs have been estimated at \$1,250.00 annually.
- 11) Liability Insurance has been estimated at \$3,500.00 annually.
- 12) Public/Legal Notifications have been estimated at \$1,600.00 annually based on historic Tulare County records.
- 13) Mileage is estimated at \$500.00 annually, assuming contract bookkeeper receives reimbursement.
- 14) Permits and Licenses are estimated at \$1,500.00 annually.
- 15) Chemicals are estimated at \$2,000.00 annually by engineers.
- 16) Lab Testing is estimated at \$2,500.00 annually for lab fees.
- 17) Debt service in the amount of \$2,463.00 for 2018 has been assumed for Yettem for payment of a Certificate of Participation.
- 18) Emergency reserve funding has been assumed at \$2,500.00

annually for ten years to accumulate \$25,000.00 in emergency reserves.

- 19) Debt Service Reserves have been assumed not applicable.
- 20) Operating reserve funding has been assumed at \$2,637.00 annually to accumulate 12.5% of operating budget over 5 years.
- 21) Annual equipment replacement reserves have been assumed at \$20,000.00 annually. If operating costs run lower than budgeted, excess revenue over costs should be added to the equipment replacement reserves.

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Fixed versus Variable Expenses

Water must be available to customers at all times whether the customer is using the water or not. A large share of water system costs are associated with bringing the first drop of water to the customer's meter, regardless of whether any water is used. Fixed costs are those that must be recovered by the utility to ensure that drinking water is available to its customers.

Fixed costs are usually recovered from each customer on an equal basis through the use of a minimum fee (a minimum monthly bill). Fixed costs may cover 100 percent of some expenses in a system's budget, but only a portion of other types of expenses. For example, fixed expenses generally include all debt service expenses on construction loans, financial reserves for emergencies or equipment replacement, and overhead costs, like insurance and bonding. Fixed costs should also include a portion of other system operating expenses. For example, a percentage of wages and fringe benefits for time spent in reading each meter and preparing each customer's bill.

The method for identifying all or part of some expenses as fixed costs involves determining to what extent each of the line item expenses in the budget benefits every customer of the system, regardless of their level of usage. This is a determination that each utility must make for itself.

Fixed costs should generally be recovered in a system's minimum bill, the minimum monthly fee charged equally to each customer within each customer classification (residential, multi-residential, commercial, etc.) or by meter size (3/4-inch, 1-inch, etc.). For small systems with fewer customers, spreading these costs among its customers, the proportion of fixed costs will be higher than larger systems. Many small systems find it impossible to recover all fixed costs in a monthly minimum, so they tend to shift a certain percentage to the variable side. Fixed costs for small systems are usually in the range of one-third to two-thirds of the system's total operating costs and may run even higher for very small systems.

Variable costs are system expenses that are more directly related to how much water is pumped, treated, stored and distributed. Most costs for electricity, chemicals and repairs can be classified as variable costs because they are directly related to the amount of water customers' use. To recover variable expenses, rate structures use a "consumption charge" or "flow charge" per volume, such as per thousand gallons or hundred cubic feet.

TABLE 5: Budget - Fixed/Variable Costs

Seville & Yettem CSD	Budget FYE 6/30/2018	Estimated % Fixed Costs	Fixed costs	Variable costs
Cost of goods sold:				
Contracted Work	\$36,480.00	100%	\$36,480	\$0
Audit	\$3,000.00	100%	\$3,000	\$0
Legal	\$2,000.00	100%	\$2,000	\$0
Board Expenses	\$3,000.00	100%	\$3,000	\$0
Maint - Equip	\$5,000.00	65%	\$3,250	\$1,750
Utilities	\$41,337.00	5%	\$2,067	\$39,270
Expense - Printing	\$200.00	100%	\$200	\$0
Postage	\$1,027.00	100%	\$1,027	\$0
Office Supplies	\$600.00	100%	\$600	\$0
Telephone	\$1,250.00	100%	\$1,250	\$0
Liability Insurance	\$3,500.00	100%	\$3,500	\$0
Public/Legal No	\$1,600.00	100%	\$1,600	\$0
Mileage	\$500.00	100%	\$500	\$0
Permits/Licenses	\$1,500.00	100%	\$1,500	\$0
Chemicals	\$2,000.00	80%	\$1,600	\$400
Lab Testing	\$2,500.00	100%	\$2,500	\$0
Total Operating Costs	\$ 105,494		\$ 64,074	\$ 41,420
Total Debt Service Yettem	\$ 2,463			
Total Operating Costs and Debt Service	\$ 107,957			
Annual Emergency Reserve	\$ 2,500	(Assumes Reserves in the Amount of \$25k funded over 10 years)		
Debt Reserves				
Annual Operating Reserve	\$ 2,637	(\$13,187 Funded over 5 years)		
Annual Replacement CIP reserve	\$ 20,000	costs funded over life of equipment)		
Total Annual Reserves	\$ 25,137			
Total Annual Budget	\$ 130,631			
TOTAL ANNUAL OPERATING BUDGET	\$105,494			
TOTAL FIXED COST OF ANNUAL BUDGET	\$64,074			
% OF ANNUAL BUDGET THAT IS FIXED	61%			
TOTAL VARIABLE COST OF ANNUAL BUDGET	\$41,420			
% OF ANNUAL BUDGET THAT IS VARIABLE	39%			

**WATER
RATE
ANALYSIS**

Understanding how customers use water is important when considering seasonal operational needs, infrastructure replacement and water use efficiency, and other volume related costs. When developing a rate based on usage, it is important to consider the impact on the highest water users as those will incur larger monthly bills. Those customers may begin to use water more efficiently after a rate adjustment; and if not, the CSD may target the highest water users for water efficiency education. The impact the reduction of usage would have on the CSD’s revenue should be carefully considered. The utility must continue to collect enough operating revenues to cover its operating expenses and put money aside in its required reserve accounts. Revenues were evaluated with the assumption that the CSD will not be gaining or losing customers over the next five years. For purposes of this analysis, a 15% overall water use reduction has been assumed.

**RATE
ADJUSTMENT
OPTION #1**

In the rate adjustment Option #1 below, it is assumed the meters will not all be operational at the time the two water systems combine. A flat rate with an increase of 22% for Seville and 31% for Yettem will bring the rates to an amount that will cover operating costs and the reduced reserve accounts. To maintain the coverage, an annual increase of 2.5% is assumed.

TABLE 6: Rate Adjustment Option #1 Flat Rate

Seville/Yettem CSD Budget #2 Option #1 Flat Rate; Annual Increases of 2.5%	# of active accounts/units	Current Water Fees	Adjustment	Adjusted Rate	Average Monthly Revenue - Water	Average Annual Revenue - Water
Residential			22%			
Single Family Dwelling (Seville)	86	\$ 60.00	\$ 13.20	\$ 73.20	\$ 6,295.20	\$ 75,542.40
Single Family Dwelling (Yettem)	63	\$ 56.00	\$ 17.20	\$ 73.20	\$ 4,611.60	\$ 55,339.20
Stone Corral School	1	\$ -	\$ 77.47	\$ 77.47	\$ 77.47	\$ 929.64
Cutler-Orosi Unified School District	1	\$ 63.50	\$ 13.97	\$ 77.47	\$ 77.47	\$ 929.64
Yettem Learning Center	1	\$ 63.50	\$ 13.97	\$ 77.47	\$ 77.47	\$ 929.64
Vacancy	1	\$ 8.50	\$ 1.87	\$ 10.37	\$ 10.37	\$ 124.44
Standby	3	\$ 8.50	\$ 1.87	\$ 10.37	\$ 31.11	\$ 373.32
Total Base Fee Revenue	156				\$ 11,180.69	\$ 134,168.28
Budget Assuming 3% Inflation per year		6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Total Monthly Required Reserves Fund		\$ 2,095	\$ 2,095	\$ 2,095	\$ 2,095	\$ 2,095
Total yearly required reserve fund		\$ 25,137	\$ 25,216	\$ 25,298	\$ 25,382	\$ 25,468
Debt Service		\$ 2,463	\$ 2,418	\$ 2,373	\$ 2,328	\$ 2,283
Total Fixed Budget		\$ 64,074	\$ 65,996	\$ 67,976	\$ 70,015	\$ 72,116
Total Variable Budget		\$ 41,420	\$ 42,663	\$ 43,943	\$ 45,261	\$ 46,619
Total Budget(Excluding Reserve and Debt Funding)		\$ 105,494	\$ 108,659	\$ 111,919	\$ 115,276	\$ 118,734
Total Budget (Including Reserve Funding and Debt Service)		\$ 133,094	\$ 136,293	\$ 139,589	\$ 142,986	\$ 146,485
		6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Estimated Annual Revenue From Base Fee		\$ 134,168	\$ 137,522	\$ 140,961	\$ 144,485	\$ 148,097
Total Target Revenue		\$ 133,094	\$ 136,293	\$ 139,589	\$ 142,986	\$ 146,485
Net Revenue Over/(Under) Budgeted Costs		\$ 1,074	\$ 1,230	\$ 1,371	\$ 1,499	\$ 1,611

TABLE 7: Rate Adjustment Option #1 Base Rates for Five Years

Initial Base Rate Increase and Annual 2.5% Increases in Future Years					
	FY 2018	FY 2019 2% Increase	FY 2020 2% Increase	FY 2021 2.5% Increase	FY 2022 2.5% Increase
Single Family Dwelling (Seville)	\$ 78.00	\$ 79.55	\$ 81.15	\$ 83.20	\$ 85.30
Single Family Dwelling (Yettem)	\$ 78.00	\$ 79.55	\$ 81.15	\$ 83.20	\$ 85.30
Stone Corral School	\$ 82.55	\$ 84.20	\$ 85.90	\$ 88.05	\$ 90.25
Cutler-Orosi Unified School District	\$ 82.55	\$ 84.20	\$ 85.90	\$ 88.05	\$ 90.25
Yettem Learning Center	\$ 82.55	\$ 84.20	\$ 85.90	\$ 88.05	\$ 90.25
Vacancy	\$ 11.05	\$ 11.30	\$ 11.55	\$ 11.85	\$ 12.15
Standby	\$ 11.05	\$ 11.30	\$ 11.55	\$ 11.85	\$ 12.15

TABLE 8: Rate Adjustment Option #Affordability Index

Total Monthly Fees and Affordability Index Under Rate Adjustment Option #1			
FYE	Base Fee	MHI	Affordability Index
6/30/2018	\$ 78.00	\$23,000.00	4.07%
6/30/2019	\$ 79.55	\$23,000.00	4.15%
6/30/2020	\$ 81.15	\$23,000.00	4.23%
6/30/2021	\$ 83.20	\$23,000.00	4.34%
6/30/2022	\$ 85.30	\$23,000.00	4.45%

**RATE
ADJUSTMENT
OPTION #2**

In the rate adjustment Option #2 below, it is assumed the meters be operational and usage fees can be charged. A reduction of 15% water use decrease is assumed. The base rate will be lowered for all connections. If Option #1 has been implemented, the decrease in the base rate will be 36%. The Stone Corral School from Seville will be charged a fee equal to the fees being charged to the two schools in Yetttem. It should be noted that Stone Corral School is larger than the other two and as usage and meter size have been determined, a larger base fee may be appropriate. A usage charge of \$1.50 per 1,000 gallons (\$0.0015 per gallon) will be charged for all usage. Because the connections have not been previously metered, it is not possible to know what the average residential usage is. For purposes of this analysis an average household usage of 362 gallons per day or 10,860 gallons per month has been assumed.

TABLE 9: Rate Adjustment Option #2 – Combined Base Rate & Usage Fees

Seville/Yetttem CSD Budget #2, Option #2 Base Plus Usage; Assumes funding CIP reserves \$20k annually; Subsequent Annually Increases of 3.5%	# of active accounts/units	Current Water Fees	Adjustment	Adjusted Rate	Average Monthly Revenue - Water	Average Annual Revenue - Water
Residential			-36%			
Single Family Dwelling (Seville)	86	\$ 73.20	\$ (26.35)	\$ 46.85	\$ 4,028.93	\$ 48,347.14
Single Family Dwelling (Yetttem)	63	\$ 73.20	\$ (26.35)	\$ 46.85	\$ 2,951.42	\$ 35,417.09
Stone Corral School	1	\$ 77.47	\$ (27.89)	\$ 49.58	\$ 49.58	\$ 594.97
Cutler-Orosi Unified School District	1	\$ 77.47	\$ (27.89)	\$ 49.58	\$ 49.58	\$ 594.97
Yetttem Learning Center	1	\$ 77.47	\$ (27.89)	\$ 49.58	\$ 49.58	\$ 594.97
Vacancy	1	\$ 10.37	\$ (3.73)	\$ 6.64	\$ 6.64	\$ 79.64
Standby	3	\$ 10.37	\$ (3.73)	\$ 6.64	\$ 19.91	\$ 238.92
Total Base Fee Revenue	156				\$ 7,155.64	\$ 85,867.70
Usage Fees	Per 1,000 Gallons	Gallons Used	Less 15%	Adjusted Usage	Billable Gallons	Usage Revenue
Usage Charges (\$0.0015 per gallon)	\$ 1.50	37,659,830	(5,648,975)	32,010,856	32,011	\$ 48,016.28
Total Revenue						\$ 133,883.98
Budget Assuming 3% Inflation per year		6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Total Monthly Required Reserves Fund		\$ 2,095	\$ 2,095	\$ 2,095	\$ 2,095	\$ 2,095
Total yearly required reserve fund		\$ 25,137	\$ 25,216	\$ 25,298	\$ 25,382	\$ 25,468
Debt Service		\$ 2,463	\$ 2,418	\$ 2,373	\$ 2,328	\$ 2,283
Total Fixed Budget		\$ 64,074	\$ 65,996	\$ 67,976	\$ 70,015	\$ 72,116
Total Variable Budget		\$ 41,420	\$ 42,663	\$ 43,943	\$ 45,261	\$ 46,619
Total Budget(Excluding Reserve and Debt Funding)		\$ 105,494	\$ 108,659	\$ 111,919	\$ 115,276	\$ 118,734
Total Budget (Including Reserve Funding and Debt Service))		\$ 133,094	\$ 136,293	\$ 139,589	\$ 142,986	\$ 146,485
		6/30/2018	6/30/2019	6/30/2020	6/30/2021	6/30/2022
Estimated Annual Revenue From Base Fee		\$ 85,868	\$ 88,873	\$ 91,984	\$ 95,203	\$ 98,535
Estimated Revenue From Usage Charges		\$ 48,016	\$ 48,016	\$ 48,016	\$ 48,016	\$ 48,016
Total Revenue		\$ 133,884	\$ 136,889	\$ 140,000	\$ 143,219	\$ 146,551
Total Target Revenue		\$ 133,094	\$ 136,293	\$ 139,589	\$ 142,986	\$ 146,485
Net Revenue Over/(Under) Budgeted Costs		\$ 790	\$ 597	\$ 411	\$ 234	\$ 66

Assuming a 3% annual inflation rate, the above customer rates will not cover all costs in future years. To avoid revenues becoming less than expenses, incremental base rate adjustments are

recommended in the table below.

Table 10: Rate Adjustment Option 2 Base Rates for Five Year

First Year Base Rate and Incremental Base Fee Increase in Future Years					
	FY 2018	FY 2019 3.5% Increase	FY 2020 3.5% Increase	FY 2021 3.5% Increase	FY 2022 3.5% Increase
Single Family Dwelling (Seville)	\$ 46.85	\$ 48.50	\$ 50.20	\$ 51.95	\$ 53.80
Single Family Dwelling (Yettem)	\$ 46.85	\$ 48.50	\$ 50.20	\$ 51.95	\$ 53.80
Stone Corral School	\$ 49.60	\$ 51.35	\$ 53.15	\$ 55.00	\$ 56.95
Cutler-Orosi Unified School District	\$ 49.60	\$ 51.35	\$ 53.15	\$ 55.00	\$ 56.95
Yettem Learning Center	\$ 49.60	\$ 51.35	\$ 53.15	\$ 55.00	\$ 56.95
Vacancy	\$ 6.65	\$ 6.90	\$ 7.15	\$ 7.40	\$ 7.65
Standby	\$ 6.65	\$ 6.90	\$ 7.15	\$ 7.40	\$ 7.65

Table 11: Rate Adjustment Option 2 Affordability Index

Total Monthly Fees and Affordability Index Under Rate Adjustment Option #2					
FYE	Base Fee	Assuming 10,860 Gallons Per Month	Total Bill	MHI	Affordability Index
6/30/2018	\$ 49.85	\$ 16.20	\$ 66.05	\$34,219.00	2.32%
6/30/2019	\$ 48.50	\$ 16.20	\$ 64.70	\$34,219.00	2.27%
6/30/2020	\$ 50.20	\$ 16.20	\$ 66.40	\$34,219.00	2.33%
6/30/2021	\$ 51.95	\$ 16.20	\$ 68.15	\$34,219.00	2.39%
6/30/2022	\$ 53.80	\$ 16.20	\$ 70.00	\$34,219.00	2.45%

**PROPOSITION
218**

California approved Proposition 218 in 1996 requiring agencies to adopt property fees and charges in accordance with a defined public process found in article XIII D or by associated court decision. Water and wastewater rates are user fees under the definition and must meet the following requirements:

- Revenues derived from the fee or charge must not exceed the funds required to provide the property-related service.
- Revenue from the fee or charge must not be used for any purpose other than that for which the fee or charge is imposed.
- No fee or charge may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in substantially the same manner as it is to property owners.
- The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership must not exceed the proportional cost of the service attributable to the parcel.
- The fee or charge may not be imposed for service, unless the service is actually used by, or immediately available to, the owner of the property in question.

Written notice should be given to both the record owners and customers within the area subject to the fee or charge. The notice shall include the following:

- The formula or schedule of charges by which the property owner or customer can easily calculate their own potential charge.
- The basis upon which the amount of the proposed fee or charge is to be imposed on each parcel. An explanation of the costs which the proposed fee will cover and how the costs are allocated among property owners.
- Date, time and location of a public hearing on the rate adjustment. The public hearing must occur 45 or more days after the mailing of the notice.

California's Proposition 218 provides that a customer of the CSD or owner of record of a parcel or parcels subject to the proposed rate increases, may submit a protest against any or all of the proposed rate increases by filing a written protest with the CSD at or before the time the public hearing has concluded. Only one protest per parcel is counted. If written protests are filed by a majority of the affected parcels, the proposed rate increases will not be imposed.

CONCLUSIONS
AND
RECOMMENDATIONS

Key points to remember with any rate adjustment:

- Successful utilities are those that strive to be transparent. In day-to-day operations, the CSD should strive to promote its services (highlights and the low points), and continuously educate residents on why it is necessary to raise and adjust rates.
- The ability of the current rate structure to generate adequate revenue will depend on maintaining a vigorous collection and shut-off policy to keep delinquent accounts at a minimum.
- In order to achieve and maintain long-term viability, a water system should review its rates annually, or no less than a minimum of every two years. Keeping track of customer seasonal and annual water demands will help determine operation's needs, budget forecasts and rate adjustments.
- When meters have been installed and individual connection usage has been documented for twelve to eighteen months, the CSD should consider implementing a rate structure with tiered usage charges encourage conservation.
- The CSD should designate reserve funding in its accounting records according to what purposes the board designates.

DRAFT

BEFORE THE LOCAL AGENCY FORMATION COMMISSION
OF THE
COUNTY OF TULARE, STATE OF CALIFORNIA

In the Matter of the Proposed Formation)
Of the Yettem-Seville Community Services) **RESOLUTION NO. 18-XX**
District and SOI, LAFCO Case No. 1535)

WHEREAS, application has been made to this Commission pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Sections 56000 et seq.) for approval of a proposal for the formation of the Yettem-Seville Community Services District as shown in Exhibit "A" attached hereto and made a part hereof; and

WHEREAS, this Commission has read and considered the Resolution of Application and application materials, the report of the County Surveyor, and the report, and recommendations of the Executive Officer, all of which documents and materials are incorporated by reference herein; and

WHEREAS, on May 2, 2018 this Commission heard, received, and considered testimony, comments, recommendations and reports from all persons present and desiring to be heard concerning this matter.

NOW, THEREFORE, BE IT RESOLVED, DETERMINED AND ORDERED as follows:

1. The information, material and facts set forth in the application, the report of the County Surveyor, and the report of the Executive Officer (including any

corrections) have been received and considered in accordance with Government Code Section 56668. Said documents contained in the record affecting this matter are incorporated by reference herein.

2. The Commission hereby finds that said formation of Yetttem-Seville CSD and SOI will not have a significant effect on the environment, and is Categorically Exempt from the provisions of the California Environmental Quality Act (CEQA) under Section 15320, "Changes in Organization of Local Agencies" and General Rule Exemption authorized by 14 California Code Regulations Section 15061, subdivision (b)(3).

3. The Commission has reviewed and considered, in accordance with Government Code Section 56668, the information, materials and facts presented by the following persons who appeared at the public hearing and commented on the proposal:

XXXXXXXXXXXXX
XXXXXXXXXXXXX

4. All notices required by law have been given and all proceedings heretofore and now taken in this matter have been and now are in all respects as required by law.

5. Based upon the evidence and information on the record before it, the Commission makes the following findings of fact:

- a. The amended proposal is for the formation of a Community Services District consisting of approximately 299.2 acres of land.
- b. More than 12 registered voters reside in the affected territory and not all of the property owners have provided consent to formation.

- c. The formation of the Yettem-Seville CSD is subject to confirmation by election of registered voters within the approved boundaries if there is not a majority protest.

6. Based upon the evidence and information on the record before it and the findings of fact made above, the Commission makes the following determinations:

- a. The boundaries of the proposed reorganization are definite and certain and conform to lines of assessment.
- b. The formation of the Yettem-Seville CSD will provide a more efficient means of governance and provision of domestic water services to the communities of Yettem and Seville.
- c. For the Yettem-Seville CSD to be viable the assets and liabilities held by Tulare County must be transferred to the Yettem-Seville CSD.
- e. The Yettem-Seville CSD will be funded by water rates that are subject to a Proposition 218 passage.
- f. The amended proposal would make the proposed boundaries more in line with existing Hamlet Development Boundaries and Zones of Benefit. This modification of boundaries would have no effect on existing domestic water service or the environmental determination for this project.
- g. The provision of domestic water will initially be the lone active service of the Yettem-Seville CSD. The other services permitted to CSDs as listed in GC section 61100 will be latent powers. The activation of latent powers by the CSD would require additional Commission approval pursuant to GC sections 61106 and 56824.10.
- h. This proposal is in compliance with the policies and priorities of Section 56377 of the Cortese-Knox-Hertzberg Act.

7. The Commission hereby orders the conditional formation of the Yettem-Seville CSD subject to the confirmation of the registered voters within the approved

boundaries, as shown in Exhibit A, in accordance with Section 57077(a)(1) of the Government Code.

8. The Commission hereby requests that the Tulare County Board of Supervisors direct the Tulare County Registrar of Voters to conduct an election for the formation of the Yettem-Seville CSD and five board members for the CSD to be placed on the November 2018 general election ballot pursuant to Government Code sections 57000(e), 57132 and 61022(c).

- a. The proposed question to be submitted at election pursuant to GC section 57133 is the following: "Shall the order adopted on May 2, 2018 by the Local Agency Formation Commission of Tulare County ordering the formation of the Yettem-Seville Community Services District be confirmed subject to the terms and conditions specified in the order?"

9. The proposed reorganization of the territory described in Exhibit "A" attached hereto, is hereby approved, subject to the following conditions:

- a. The formation of the Yettem-Seville CSD is contingent upon a successful Proposition 218 passage which provides adequate financing for the district by November 5, 2019. If the new water rates are passed prior to the election for the formation of the Yettem-Seville CSD, the CSD shall inherit those rates.
- b. The formation of the Yettem-Seville CSD is contingent upon a successful election. Following a successful election, a Certificate of Completion will be filed for the formation of the Yettem-Seville CSD.
- c. Following a successful election and the completion of the water system upgrades, Tulare County shall assign its assets, liabilities and debts pertaining to the water systems to the Yettem-Seville

CSD. The member agency resolutions assigning the assets and liabilities must be provided to LAFCO.

- d. The County must create a new parcel or amend an existing parcel such that the new well site is located on its own parcel.
- e. The County must provide a map and legal description completed to the Board of Equalization (BOE) specifications for the approved boundary of the Yettem-Seville CSD prior to the recording of the Certificate of Completion.
- f. The County must provide the required filing fee for the Statement of Boundary Change that is to be submitted to the BOE if it is determined that a BOE filing is needed.
- g. The applicant shall provide a signed Indemnification Agreement per Tulare County LAFCO policy prior to the recording of the Certificate of Completion.

10. The following short form designation shall be used throughout these proceedings:

LAFCO Case No. 1535, Yettem-Seville CSD Formation

11. The Executive Officer is hereby authorized and directed to mail certified copies of this resolution as required by law.

12. The Executive Officer is hereby authorized and directed to sign the Notice of Exemption on behalf of the Commission and file said notice with the Tulare County Clerk pursuant to Section 21152 (a) of the Public Resources Code.

13. The Executive Officer is authorized to conduct a protest hearing subsequent to these proceedings and to report to the Commission the results of that hearing for action in accordance with Government Code Section 57000-57120.

The forgoing resolution was adopted upon motion of Commissioner X, seconded by Commissioner X, at a regular meeting held on this 2nd day of May 2018, by the following vote:

AYES :

NOES:

ABSTAIN:

PRESENT:

ABSENT:

Ben Giuliani, Executive Officer



TULARE COUNTY LOCAL AGENCY FORMATION COMMISSION

210 N. Church St., Suite B, Visalia, CA 93291 Phone: (559) 623-0450 FAX: (559) 733-6720

COMMISSIONERS:
Juliet Allen, Chair
Cam Hamilton, V-Chair
Steve Worthley
Rudy Mendoza
Pete Vander Poel

May 2, 2018

ALTERNATES:
Mike Ennis
Dennis Mederos
Carlton Jones

TO: The Honorable Judge Brett Alldredge
Tulare County Grand Jury
Tulare County Board of Supervisors

EXECUTIVE OFFICER:
Ben Giuliani

FROM: Tulare County Local Agency Formation Commission (LAFCo)

SUBJECT: Tulare County Grand Jury Report: "Where is Trust, Transparency and Accountability"

On April 9th, 2018 the Tulare County Grand Jury provided a report to Tulare County LAFCo titled "Where is Trust, Transparency and Accountability". The report reviews a variety of issues with the East Orosi Community Services District (CSD). In regards to LAFCo, the Grand Jury required a response to the following:

R7. Investigate the feasibility of consolidating with other districts.

The Grand Jury, pursuant to California Penal Code §933(c) requires a response from Tulare County LAFCo by June 4th, 2018. Tulare County LAFCo reviewed the Grand Jury report at its May 2nd, 2018 meeting. Tulare County LAFCo's response is as follows:

Tulare County LAFCo will investigate the feasibility of East Orosi CSD consolidating with other districts.

If there are any questions regarding this response, please contact me at 623-0450 or bgiuliani@tularecog.org.

Sincerely,

Executive Officer
Tulare County Local Agency Formation Commission

Cc: East Orosi CSD

WHERE IS TRUST, TRANSPARENCY, AND ACCOUNTABILITY?

BACKGROUND:

Per Government Code § 56036, “District” or “Special District” means an agency of the state, formed pursuant to general law or special act, for the local performance of governmental or proprietary functions within limited boundaries.”

East Orosi is an unincorporated farming community located in the northeastern area of Tulare County. The East Orosi population of approximately 700 people is serviced by the East Orosi Community Service District (EOCSD.) There are approximately 110 property owners subscribing to water and sewage services. According to the Tulare County Registrar of Voters, there are currently 92 registered voters in EOCSD.

EOCSD is tasked with providing water to the community of East Orosi. The community of East Orosi has not had potable drinking water for over 10 years, as nitrate levels continue to exceed state and federal standards. Bottled water is provided by EOCSD for drinking and cooking.

REASON FOR INVESTIGATION:

The Tulare County Grand Jury initiated an investigation into the operations of EOCSD to determine their compliance with state and federal regulations.

METHOD OF INVESTIGATION:

1. Interviewed witnesses.
2. Reviewed available documents.
3. Conducted site visits.

FACTS:

1. EOCSD is required to be in compliance with SB135 Chapter 249, Government Code § 61040 and §61042.
 - A. “The board of directors shall establish policies for the operation of the district.” Government Code §61040 (a)
 - B. “The board of directors shall adopt policies for the operation of the district, including, but not limited to, administrative policies, fiscal policies, personnel policies, and the purchasing policies required by this division.” Government Code §61045 (g)

- C. “The board of directors shall provide for the implementation of those policies which is the responsibility of the district General Manager.” Government Code (§61040 (a))
2. Subpoenas were served requesting Policy and Procedures, District Bylaws, and other documents, as required by law.
 3. “The county treasurer of the principal county shall serve as the treasurer of the district.” Government Code §61050 (b)
 4. The EOCSD office is scheduled to be open on Tuesdays from 2 P.M. – 4 P.M.
 5. Customers are charged \$57.00 per month for water and sewer services.
 6. EOCSD is currently in the process of rehabilitating an existing well to provide potable water. A new well is awaiting state certification. Both projects are being financed by Proposition 84 funds.
 7. Special Districts are required to provide a financial audit annually to the County Auditor.
 8. EOCSD is pursuing funding to upgrade water meters.
 9. EOCSD is required to appoint a General Manager. Government Code §61050 (a)
 10. EOCSD has only one employee, a part-time employee who is salaried with benefits.
 11. EOCSD office is required to be compliant with the Americans with Disabilities Act (ADA).
 12. EOCSD is required to comply with the Brown Act.
 13. “The board of directors shall adopt rules or bylaws for its proceedings” Government Code § 61045 (f)
 14. “A legislative body of five members known as the board of directors shall govern each district.” Government Code §61040 (a)
 15. The board of directors can submit a request to the Tulare County Board of Supervisors to fill board vacancies. (SB 135 Chapter 2 §61022)
 16. California SB 154 Chapter 249 and Government Code §61050(f) requires persons handling district finances to be bonded.

FINDINGS:

- F1. EOCSD does not have administrative policies, fiscal policies, personnel policies, or purchasing policies as required.
- F2. EOCSD failed to provide subpoenaed documents after a two week extension including:

- A. Policy and procedures manual
 - B. Board bylaws
 - C. Complete board meeting minutes for 2017
 - D. Procedures for billing and delinquent account collection
 - E. District Resolution approved by the Tulare County Board of Supervisors to maintain bank accounts outside of the county treasurer
- F3. EOCSD failed to comply with the requirement of SB135 in selection of a treasurer.
- F4. The available office hours are inadequate to accommodate the needs of the community. EOCSD is not consistently adhering to the posted office hours.
- F5. According to the Tulare County Auditor's records, EOCSD is delinquent in filing an audit for FYE 06-30-2016.
- F6. EOCSD does not have a General Manager.
- F7. The sole EOCSD employee is designated as an office manager. The office manager duties encompass some tasks of a General Manager.
- F8. There is limited understanding by the board members of employee duties performed. There is no established schedule for work hours or a system of tracking hours worked.
- F9. A site visit to the EOCSD office discovered no designated disabled parking.
- F10. Board meeting minutes received for 2017 indicate that previous meeting minutes were not approved by the board. Meeting minutes do not reflect the actions of the board.
- F11. Agenda packets are not provided in a timely manner to board members.
- F12. The board of directors has not adopted rules or bylaws for conducting its meetings.
- F13. The EOCSD board consistently operates with fewer than five board members. Meetings have been cancelled for lack of a quorum.
- F14. EOCSD has not established bonding for their employee handling finances.

CONCLUSION:

Special districts with limited resources are often met with difficulties filling the required board seats. The Tulare County Board of Supervisors must be more proactive in discharging their supervisory duties over special districts with dysfunctional boards such as EOCSD.

RECOMMENDATIONS:

- R1. Hire a qualified general manager.
- R2. Divide financial and administrative duties among more than one employee.
- R3. Cross train board members in the operation of district functions.
- R4. Seek grant funding to become compliant with state regulations requiring all customers to have their water metered by 2020.

- R5. Petition the Tulare County Board of Supervisors to appoint new board members for EOCSD.
- R6. Contact the California Special District Association for education and guidance.
- R7. Investigate the feasibility of consolidating with other districts.
- R8. A forensic audit be conducted of EOCSD within six months.

REQUIRED RESPONSES:

- 1. Tulare County Board of Supervisors (R1-R8)
- 2. East Orosi Community Services District Board President (R1-R8)
- 3. County of Tulare Auditor-Controller (R8)
- 4. LAFCO (R7)

Disclaimer

Grand Jury reports are based on documentary evidence and the testimony of sworn or admonished witnesses, not on conjecture or opinion. However, the Grand Jury is precluded by law from disclosing such evidence except upon specific approval of the Presiding Judge of the Superior Court, or another judge appointed by the Presiding Judge (Penal Code Section 911, 924.1 (a) and 929). Similarly, the Grand Jury is precluded by law from disclosing the identity of witnesses except upon an order of the court for narrowly defined purposes (Penal Code Section 924.2 and 929).

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CALAFCO Daily Legislative Report as of Wednesday, April 25, 2018

AB 2050 (Caballero D) Small System Water Authority Act of 2018.

Current Text: Amended: 4/17/2018 [html](#) [pdf](#)

Introduced: 2/6/2018

Last Amended: 4/17/2018

Status: 4/18/2018-Re-referred to Com. on L. GOV.

Calendar: 4/25/2018 1:30 p.m. - State Capitol, Room 447 ASSEMBLY LOCAL GVT, AGUIAR-CURRY, Chair

Summary:

Would create the Small System Water Authority Act of 2018 and state legislative findings and declarations relating to authorizing the creation of small system water authorities that will have powers to absorb, improve, and competently operate noncompliant public water systems. The bill, no later than March 1, 2019, would require the state board to provide written notice to cure to all public agencies, private water companies, or mutual water companies that operate a public water system that has either less than 3,000 service connections or that serves less than 10,000 people, and are not in compliance with one or more state or federal primary drinking water standard maximum contaminant levels as of December 31, 2018, and for 4 consecutive quarters, as specified.

Position: Watch

Subject: LAFCo Administration, Municipal Services, Water

CALAFCO Comments: This bill is sponsored by Eastern Municipal Water District and the CA Municipal Utilities Assoc. The intent is to give the State Water Resources Control Board (SWRCB) authority to mandate the dissolution of existing drinking water systems (public, mutual and private) and authorize the formation of a new public water system. The focus is on non contiguous systems. The SWRCB already has the authority to mandate consolidation of these systems, this will add the authority to mandate dissolution and formation of a new public agency.

CALAFCO met with the sponsors several times and they indicate a desire to work with LAFCos on creating a workable process. We have provided feedback including content of a proposal for service, feedback on the timing and process of dissolution and formation, amended language to ensure LAFCo funding, and several other things. It is our understanding that LAFCo will lack any discretion in the dissolution of any public water agency mandated by the SWRCB and the formation of a new entity as mandated by the SWRCB. CALAFCO will continue to work with the sponsors and author.

AB 2238 (Aguiar-Curry D) Local agency formation: regional housing need allocation: fire hazards: local health emergencies: hazardous and medical waste.

Current Text: Amended: 4/3/2018 [html](#) [pdf](#)

Introduced: 2/13/2018

Last Amended: 4/3/2018

Status: 4/19/2018-From committee: Do pass and re-refer to Com. on APPR. (Ayes 9. Noes 0.) (April 18). Re-referred to Com. on APPR.

Summary:

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 specifies the factors that a local agency formation commission is required to consider in the review of a proposal for a change of organization or reorganization, including, among other things, the proposal's consistency with city or county general and specific plans. This bill would require the commission to consider information contained in a local hazard mitigation plan, information contained in a safety element of a general plan, and any maps that identify land as a very high fire hazard zone or maps that identify land determined to be in a state responsibility area if it is determined that such information is relevant to the area that is the subject of the proposal.

Position: Watch

Subject: Climate Change, Growth Management

CALAFCO Comments: This bill seeks to add another factor for LAFCo consideration in the review of a proposal. That factor is information contained in a local hazard mitigation plan, information contained in a safety element of a general plan, and any maps that identify land as a very high fire hazard zone pursuant to Section 51178 or maps that identify land determined to be in a state responsibility area pursuant to Section 4102 of the Public Resources Code, if it is determined that such information is relevant to the area that is the subject of the proposal. The bill also adds two non-LAFCo-related sections pertaining to the update of a housing element. This bill is in

response to the rash of wildfires throughout the state over the past several years and the ongoing threat of same as a result of climate change.

AB 2258 (Caballero D) Local agency formation commissions: grant program.

Current Text: Amended: 4/23/2018 [html](#) [pdf](#)

Introduced: 2/13/2018

Last Amended: 4/23/2018

Status: 4/24/2018-Re-referred to Com. on APPR.

Summary:

Current law establishes the Strategic Growth Council in state government and assigns to the council certain duties, including providing, funding, and distributing data and information to local governments and regional agencies that will assist in the development and planning of sustainable communities. This bill would require the Strategic Growth Council, until January 1, 2024, to establish and administer a local agency formation commissions grant program for the payment of costs associated with initiating and completing the dissolution of districts listed as inactive, the payment of costs associated with a study of the services provided within a county by a public agency, and for other specified purposes, including the initiation of an action, based on determinations found in the study, as approved by the commission.

Position: Sponsor

Subject: Other

CALAFCO Comments: This is a CALAFCO sponsored bill following up on the recommendation of the Little Hoover Commission report of 2017 for the Legislature to provide LAFCo's one-time grant funding for in-depth studies of potential reorganization of local service providers. CALAFCO is working with the Strategic Growth Council (SGC) who has agreed to administer the grant program. Grant funds will be used specifically for conducting special studies to identify and support opportunities to create greater efficiencies in the provision of municipal services; to potentially initiate actions based on those studies that remove or reduce local costs thus incentivizing local agencies to work with the LAFCo in developing and implementing reorganization plans; and the dissolution of inactive districts (pursuant to SB 448, Wieckowski, 2017). The grant program would sunset on December 31, 2023.

The bill also changes the protest threshold for LAFCo initiated actions, solely for the purposes of actions funded pursuant to this new section. It allows LAFCo to order the dissolution of a district (outside of the ones identified by the SCO) pursuant to a majority protest (mirroring existing language in Government Code Section 57077.1.c). For all other changes of organization or reorganization pursuant to this section, the threshold would be 25% rather than 10%, in accordance with Government Code Section 57075. A separate budget ask of \$2 million over 5 years is being done as a companion to this bill.

AB 2600 (Flora R) Regional park and open space districts.

Current Text: Introduced: 2/15/2018 [html](#) [pdf](#)

Introduced: 2/15/2018

Status: 4/23/2018-Read third time. Passed. Ordered to the Senate. In Senate. Read first time. To Com. on RLS. for assignment.

Summary:

Would authorize the formation of a district by the adoption of a resolution of application by the legislative body of any county or city that contains the territory proposed to be included in the district. The bill would require the resolution to contain certain information, including the methods by which the district would be financed. The bill would require a public hearing before the adoption of the resolution, as provided.

Position: Support

CALAFCO Comments: This bill would expand the process of initiating the formation of a regional park and open space district by adding that a local governing body may adopt a resolution proposing to form a new district. This would be in lieu of having a 5,000 signature petition. The LAFCo process remains intact.

The intent of this bill is to create an easier way to proposed the formation of these types of districts, thereby removing the need for special legislation to do so. The bill is author-sponsored.

AB 3254 (Committee on Local Government) Local government organization: omnibus.

Current Text: Introduced: 3/14/2018 [html](#) [pdf](#)

Introduced: 3/14/2018

Status: 3/22/2018-Referred to Com. on L. GOV.

Calendar: 5/9/2018 1:30 p.m. - State Capitol, Room 447 ASSEMBLY LOCAL GVT, AGUIAR-CURRY, Chair

Summary:

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (the Act) provides the authority and procedure for the initiation, conduct, and completion of changes of organization, reorganization, and sphere of influence changes for cities and districts, as specified. Current law defines various terms for purposes of that Act, including the terms "affected territory" and "inhabited territory." This bill would revise those definitions to include territory that is to receive extended services from a local agency, and additionally define the term "uninhabited territory" for purposes of the Act.

Position: Sponsor

CALAFCO Comments: This is the annual Assembly Local Government Committee Omnibus bill, sponsored by CALAFCO. Amendments are pending to add several items.

SB 1215 (Hertzberg D) Provision of sewer service: disadvantaged communities.

Current Text: Amended: 4/12/2018 [html](#) [pdf](#)

Introduced: 2/15/2018

Last Amended: 4/12/2018

Status: 4/20/2018-Set for hearing April 25.

Calendar: 4/25/2018 9:30 a.m. - Room 112 SENATE GOVERNANCE AND FINANCE, MCGUIRE, Chair

Summary:

Would authorize the State Water Resources Control Board to order the provision of sewer service by a special district, city, or county to a disadvantaged community, as defined, under specified circumstances. By authorizing the state board to require a special district, city, or county to provide sewer service, this bill would impose a state-mandated local program.

Position: Watch With Concerns

Subject: Disadvantaged Communities, Water

CALAFCO Comments: This bill would authorize the State Water Resources Control Board (SWRCB) to mandate extension of service or consolidation of wastewater systems - both public and private, under certain circumstances. The process mirrors the process set forth in SB 88 giving the SWRCB authority to mandate the same for drinking water systems.

CALAFCO raised a number of concerns to the author's office and the sponsor (Leadership Council for Justice & Accountability). We continue to work with the author, sponsor, SWRCB and CASA.

SB 1496 (Committee on Governance and Finance) Validations.

Current Text: Introduced: 3/1/2018 [html](#) [pdf](#)

Introduced: 3/1/2018

Status: 4/23/2018-Referred to Com. on L. GOV.

Calendar: 5/9/2018 1:30 p.m. - State Capitol, Room 447 ASSEMBLY LOCAL GVT, AGUIAR-CURRY, Chair

Summary: Would enact the Second Validating Act of 2018, which would validate the organization, boundaries, acts, proceedings, and bonds of the state and counties, cities, and specified districts, agencies, and entities. This bill would declare that it is to take effect immediately as an urgency statute.

Position: Support

SB 1497 (Committee on Governance and Finance) Validations.

Current Text: Introduced: 3/1/2018 [html](#) [pdf](#)

Introduced: 3/1/2018

Status: 4/23/2018-Referred to Com. on L. GOV.

Calendar: 5/9/2018 1:30 p.m. - State Capitol, Room 447 ASSEMBLY LOCAL GVT, AGUIAR-CURRY, Chair

Summary: Would enact the First Validating Act of 2018, which would validate the organization, boundaries, acts, proceedings, and bonds of the state and counties, cities, and specified districts, agencies, and entities. This bill would declare that it is to take effect immediately as an urgency statute.

Position: Support

Subject: LAFCo Administration

SB 1499 (Committee on Governance and Finance) Validations.

Current Text: Introduced: 3/1/2018 [html](#) [pdf](#)

Introduced: 3/1/2018

Status: 4/23/2018-Referred to Com. on L. GOV.

Calendar: 5/9/2018 1:30 p.m. - State Capitol, Room 447 ASSEMBLY LOCAL GVT, AGUIAR-CURRY, Chair

Summary: Would enact the Third Validating Act of 2018, which would validate the organization, boundaries, acts, proceedings, and bonds of the state and counties, cities, and specified districts, agencies, and entities.

Position: Support

Subject: LAFCo Administration

AB 2268 (Reyes D) Local government finance: property tax revenue allocations: vehicle license fee adjustments.

Current Text: Amended: 4/16/2018 [html](#) [pdf](#)

Introduced: 2/13/2018

Last Amended: 4/16/2018

Status: 4/17/2018-Re-referred to Com. on APPR.

Summary: for the 2018–19 fiscal year, would require the vehicle license fee adjustment amount to be the sum of the vehicle license fee adjustment amount in the 2017–18 fiscal year, the product of that sum and the percentage change in gross taxable assessed valuation within the jurisdiction of that entity between the 2017–18 fiscal year to the 2018–19 fiscal year, and the product of the amount of specified motor vehicle license fee revenues that the Controller allocated to the applicable city in July 2010 and 1.17.

Position: Support

Subject: Tax Allocation

CALAFCO Comments: Sponsored by the League, this bill will reinstate ERAF funding for inhabited annexations.

AB 2491 (Cooley D) Local government finance: vehicle license fee adjustment amounts.

Current Text: Amended: 4/2/2018 [html](#) [pdf](#)

Introduced: 2/14/2018

Last Amended: 4/2/2018

Status: 4/12/2018-From committee: Do pass and re-refer to Com. on APPR. (Ayes 9. Noes 0.) (April 11). Re-referred to Com. on APPR.

Calendar: 4/25/2018 9 a.m. - State Capitol, Room 4202 ASSEMBLY APPROP., GONZALEZ FLETCHER, Chair

Summary: Would establish a separate vehicle license fee adjustment amount for a city incorporating after January 1, 2012, including an additional separate vehicle license fee adjustment amount for the first fiscal year of incorporation and for the next 4 fiscal years thereafter. This bill contains other related provisions and other existing laws.

Position: Support

Subject: Tax Allocation

CALAFCO Comments: Sponsored by the League, this bill will reinstate ERAF funding for cities incorporating after 2017.

AB 2501 (Chu D) Drinking water: consolidation and extension of service.

Current Text: Amended: 4/17/2018 [html](#) [pdf](#)

Introduced: 2/14/2018

Last Amended: 4/17/2018

Status: 4/18/2018-Re-referred to Com. on E.S. & T.M.

Summary: The California Safe Drinking Water Act authorizes the State Water Resources Control Board to order extension of service to an area within a disadvantaged community that does not have access to an adequate supply of safe drinking water so long as the extension of service is an interim extension of service in preparation of consolidation. The act defines “disadvantaged community” for these purposes to mean a disadvantaged community that is in an unincorporated area, is in a mobilehome park, or is served by a mutual water company or small public water system. This bill would redefine “disadvantaged community” for these purposes to also include a disadvantaged community that is served by a state small water system or domestic well.

Position: Watch

Subject: Disadvantaged Communities, Water

AB 3023 (Medina D) California Environmental Quality Act.

Current Text: Amended: 3/19/2018 [html](#) [pdf](#)

Introduced: 2/16/2018

Last Amended: 3/19/2018

Status: 3/20/2018-Re-referred to Com. on NAT. RES.

Summary: Would require lead agencies to post the notices required by CEQA and any environmental review document for a project on their Internet Web sites, if any, or to submit those notices and environmental review documents to the State Clearinghouse for inclusion in the database as specified. Because this bill would impose additional duties on lead agencies, this bill would impose a state-mandated local program.

Position: Watch

Subject: CEQA

AB 1889 (Caballero D) Santa Clara Valley Water District.

Current Text: Amended: 4/4/2018 [html](#) [pdf](#)

Introduced: 1/18/2018

Last Amended: 4/4/2018

Status: 4/23/2018-Read second time. Ordered to third reading.

Calendar: 4/26/2018 #60 ASSEMBLY THIRD READING FILE - ASSEMBLY BILLS

Summary: The Santa Clara Valley Water District Act authorizes the district to impose special taxes at minimum rates according to land use category and size. The district act authorizes the district to provide an exemption from these taxes for residential parcels owned and occupied by one or more taxpayers who are at least 65 years of age, or who qualify as totally disabled, if the household income is less than an amount approved by the voters of the district. This bill would authorize the district to require a taxpayer seeking an exemption from these special taxes to verify his or her age, disability status, or household income, as prescribed.

Position: Watch

AB 2019 (Aguiar-Curry D) Health care districts.

Current Text: Amended: 3/22/2018 [html](#) [pdf](#)

Introduced: 2/5/2018

Last Amended: 3/22/2018

Status: 4/19/2018-From committee: Do pass and re-refer to Com. on APPR. (Ayes 6. Noes 2.) (April 18). Re-referred to Com. on APPR.

Summary: The Local Health Care District Law provides for local health care districts that govern certain health care facilities. The bill would require a district that is authorized and elects to use the design-build process, as specified, for the construction of housing to require that at least 20% of the residential units constructed be subject to a recorded affordability restriction for at least 55 years and be affordable to lower income households, very low income households, extremely low income households, and persons and families of low or moderate income, as defined, unless the city, county, or city and county in which the district is predominantly located has adopted a local ordinance that requires a greater percentage of the units be affordable to those groups. This bill contains other related laws and provisions.

Position: Watch

AB 2179 (Gipson D) Municipal corporations: public utility service: water and sewer service.

Current Text: Introduced: 2/12/2018 [html](#) [pdf](#)

Introduced: 2/12/2018

Status: 3/1/2018-Referred to Com. on L. GOV.

Calendar: 5/9/2018 1:30 p.m. - State Capitol, Room 447 ASSEMBLY LOCAL GVT, AGUIAR-CURRY, Chair

Summary: Would authorize a municipal corporation to utilize the alternative procedures to lease, sell, or transfer that portion of a municipal utility used for furnishing sewer service outside the boundaries of the municipal corporation.

Position: Watch

Subject: Municipal Services

AB 2262 (Wood D) Coast Life Support District Act: urgent medical care services.

Current Text: Amended: 4/16/2018 [html](#) [pdf](#)

Introduced: 2/13/2018

Last Amended: 4/16/2018

Status: 4/23/2018-Read third time. Passed. Ordered to the Senate. In Senate. Read first time. To Com. on RLS. for assignment.

Summary:

Current law, the Coast Life Support District Act, establishes the Coast Life Support District and specifies the powers of the district. The district is authorized, among other things, to supply the inhabitants of the district emergency medical services, as specified. This bill would additionally authorize the district to provide urgent medical care services.

Position: Support

Subject: LAFCo Administration, Special District Powers

CALAFCO Comments: This is a single district bill in which the district is seeking to add the power of providing urgent care (actually to codify powers they have been performing for a number of years). As amended, the bill cleans up the outdated reference to the Act and adds a provision requiring the district to seek LAFCo approval to activate the new power. As a result of these amendments, CALAFCO has removed our opposition and now supports the bill.

AB 2339 (Gipson D) Water utility service: sale of water utility property by a city.

Current Text: Amended: 4/3/2018 [html](#) [pdf](#)

Introduced: 2/13/2018

Last Amended: 4/3/2018

Status: 4/12/2018-From committee: Do pass and re-refer to Com. on APPR. (Ayes 7. Noes 0.) (April 11). Re-referred to Com. on APPR.

Calendar: 4/25/2018 9 a.m. - State Capitol, Room 4202 ASSEMBLY APPROP., GONZALEZ FLETCHER, Chair

Summary:

Would permit a city that owns and operates a public utility for furnishing water service to sell the public utility for the purpose of consolidating its public water system with another public water system pursuant to the specified procedures, only if the potentially subsumed water system is wholly within the boundaries of the city, if the city determines that it is uneconomical and not in the public interest to own and operate the public utility, and if certain requirements are met. The bill would prohibit the city from selling the public utility for one year if 50% of interested persons, as defined, protest the sale.

Position: Watch

Subject: Water

SB 522 (Glazer D) West Contra Costa Healthcare District.

Current Text: Amended: 1/3/2018 [html](#) [pdf](#)

Introduced: 2/16/2017

Last Amended: 1/3/2018

Status: 4/19/2018-Referred to Com. on L. GOV.

Summary:

Current law provides for the formation of local health care districts and specifies district powers. Under existing law, the elective officers of a local health care district consist of a board of hospital directors consisting of 5 members, each of whom is required to be a registered voter residing in the district and whose term shall be 4 years, except as specified. This bill would dissolve the existing elected board of directors of the West Contra Costa Healthcare District, effective January 1, 2019, and would require the Board of Supervisors of the County of Contra Costa, at its election, to either serve as the district board or appoint a district board, as specified.

Position: Watch

Subject: Special Districts Governance

SB 561 (Gaines R) Fallen Leaf Lake Community Services District: elections.

Current Text: Amended: 1/23/2018 [html](#) [pdf](#)

Introduced: 2/17/2017

Last Amended: 1/23/2018

Status: 4/19/2018-Referred to Coms. on L. GOV. and E. & R.

Summary:

Under current law, the Fallen Leaf Lake Community Services District is a resident voting district. This bill, notwithstanding existing law, would provide that voters who are residents of the district, and voters who are not residents but either own a real property interest in the district or have been designated by the owner of a real property interest to cast the vote for that property, may vote in a district election in the Fallen Leaf Lake Community Services District.

Position: Watch

Subject: Special Districts Governance

SB 623 (Monning D) Water quality: Safe and Affordable Drinking Water Fund.

Current Text: Amended: 8/21/2017 [html](#) [pdf](#)

Introduced: 2/17/2017

Last Amended: 8/21/2017

Status: 9/1/2017-From committee: Without recommendation. (Ayes 11. Noes 0.) (September 1) Re-referred to Com. on RLS.

Summary:

Would establish the Safe and Affordable Drinking Water Fund in the State Treasury and would provide that moneys in the fund are continuously appropriated to the State Water Resources Control Board. The bill would require the board to administer the fund to secure access to safe drinking water for all Californians, while also ensuring the long-term sustainability of drinking water service and infrastructure. The bill would authorize the state board to provide for the deposit into the fund of federal contributions, voluntary contributions, gifts, grants, bequests, and settlements from parties responsible for contamination of drinking water supplies.

Position: Watch

Subject: Water

SB 778 (Hertzberg D) Water systems: consolidations: administrative and managerial services.

Current Text: Amended: 7/13/2017 [html](#) [pdf](#)

Introduced: 2/17/2017

Last Amended: 7/13/2017

Status: 9/1/2017-Failed Deadline pursuant to Rule 61(a)(12). (Last location was APPR. on 8/23/2017)(May be acted upon Jan 2018)

Summary:

Would require, on or before March 1, 2018, and regularly thereafter, as specified, the State Water Resources Control Board to track and publish on its Internet Web site an analysis of all voluntary and ordered consolidations of water systems that have occurred on or after July 1, 2014. The bill would require the published information to include the resulting outcomes of the consolidations and whether the consolidations have succeeded or failed in providing an adequate supply of safe drinking water to the communities served by the consolidated water systems.

Position: Watch

Subject: Municipal Services

SB 929 (McGuire D) Special districts: Internet Web sites.

Current Text: Amended: 3/6/2018 [html](#) [pdf](#)

Introduced: 1/25/2018

Last Amended: 3/6/2018

Status: 4/23/2018-Read third time. Passed. (Ayes 38. Noes 0.) Ordered to the Assembly. In Assembly. Read first time. Held at Desk.

Summary:

The California Public Records Act requires a local agency to make public records available for inspection and allows a local agency to comply by posting the record on its Internet Web site and directing a member of the public to the Web site, as specified. This bill would, beginning on January 1, 2020, require every independent special district to maintain an Internet Web site that clearly lists contact information for the special district, except as provided. Because this bill would require local agencies to provide a new service, the bill would impose a state-mandated local program.

Position: Watch

SB 1498 (Committee on Governance and Finance) Local Government Omnibus Act of 2018.

Current Text: Amended: 4/18/2018 [html](#) [pdf](#)

Introduced: 3/1/2018

Last Amended: 4/18/2018

Status: 4/18/2018-From committee with author's amendments. Read second time and amended. Re-referred to Com. on GOV. & F.

Calendar: 4/25/2018 9:30 a.m. - Room 112 SENATE GOVERNANCE AND FINANCE, MCGUIRE, Chair

Summary:

Current law sets forth various provisions governing cities that reference various officers and employees. This bill would make these references gender neutral.

Position: Watch

CALAFCO Comments: This is the annual Senate Governance & Finance Committee Omnibus bill.