

MEMORANDUM

Date: May 26, 2022
To: Board of Directors
From: Paula O'Keefe, Director of Administration
Subject: Discussion of the Revised Prop 218 rates for FY 2022-23

RECOMMENDED ACTION

Move the FY 2022-23 Budget to the June 15, 2022 Board meeting.

BACKGROUND

Budgets for Special Districts in California must be approved by the Board of Directors before the beginning of each fiscal year. The process begins with a Proposition 218 Budget Hearing and ends with the Second Reading of the budget at a Board meeting in June. The District is required to submit the Prop 218 budget to the Residents and Commercial Businesses in Rancho Murieta at least forty-five days before the first reading of the budget at a May Board meeting.

For Fiscal Year 2022-23, the Prop 218 budget notification took place on March 30, 2022, at a Special Board meeting. After the initial presentation of the Prop 218 budget on March 30, 2022, the District has received 1354 letters in objection to the rate increase on or before the deadline of June 1, 2022. While the majority of them were form letters stating protesting the rate increase, there were several that asked very poignant questions. Staff updated an FAQ in response to these questions.

The total proposed revenue budget is \$8,287,125, which is an increase of \$98,526, or 1% over FY 2020-21 year end projections. Because previous years' budgets did not include significant rate increases, the District evaluated all residential and commercial rate usage and reserve contributions to determine the District's overall ability to fund capital improvement projects and increasing expenditures relating to the addition of two Accounting Technician positions, funding a previously unfunded Patrol Office position, rising maintenance and repairs costs, a significant increase in solid waste operations and increased costs associated with general liability, risk management and PERS. The total proposed expenditure budget is \$8,684,490, which is an increase of \$325,292, or 4% over the previous fiscal year end projections.

Administration

The Administration property tax allocations are used to subsidize Drainage and Security costs projected to be overspent at the end of the fiscal year, Security being the most significant subsidy for a total of \$588,271 and Drainage in the amount of \$70,446, to offset the deficit projected at the end of the fiscal year. Administration revenues are projected to be 8% higher than the previous year, primarily due to increased property taxes. Property tax allocations are increasing slightly based on the limited increase in the development of new homes and the increase in property assessment values as existing homes are sold.

Expenditures are projected to come in 9% less than the previous year based on the reallocation of insurance and risk management costs and a reduction in additional professional services costs. 100% of Administration operations are allocated to other funds based on the Cost Allocation Plan (CAP). The CAP identifies the specific percentages of support for the enterprise funds. The CAP allocates all direct and indirect costs to each of these funds based on various criteria, including the area of benefit and level of support.

Water

The Water fund revenues are the most significant revenue source for the District. Water revenues are comprised of Residential and Commercial sales and other sources of revenue, including interest income, installation and

inspection fees, and late charges. The District projects a total of \$2,737,517, or an 4.79% decrease over prior year end projections. This decrease takes potential future water restrictions into consideration; decline in water usage results in decreased revenues. The original Prop 218 notice included a five year strategy to increase reserve contributions to 60% funding across all funds, however, District staff are proposing a 10 year, 50% model to smooth out the increases over a ten year period. The year one increase in reserve contributions is \$4.33, bring the total monthly reserve contribution to \$18.33.

The Prop 218 rate water increase totals 8.6% for the Residential metered lots and 10.1% for both Murieta Gardens and Murieta Village residents.

Water expenses are also projected to increase 5%. This increase is due to a slight increase in the Administration cost allocation, significant cost increases due to inflation, professional services and salary increases. The Water fund will likely need to require additional funding from unrestricted fund balance to bring the fund whole at the end of the fiscal year. The current projected shortfall is approximately \$67,000 and staff will continue to work with the operations staff and vendors to ensure projects and orders are within budgetary restrictions.

Sewer

Sewer revenues are projected to increase 8.1% overall, including a 4% increase in the Sewer base charge and a 21.8% increase for reserve contributions. The reserve contributions were initially proposed at \$25 monthly, however staff have come back with a reduced, 10 year model that reduced the year one increase to \$3.05 monthly.

Expenditures are also expected to increase by 11%. Costs of treatment and day to day operational expenses have increased largely due to the current economic climate. Additional increased costs in employee costs and maintenance and repairs round out the overall 11% increase in Sewer rates for FY 2022-23. The Sewer fund will likely need to dip into unrestricted fund balance to cover the expected shortfall of approximately \$146,000. Staff will continue to work directly with vendors to ensure cost containment strategies while supplying District operation staff with the necessary tools and equipment to continue providing superior sewer services.

Drainage

The Drainage fund revenues are subsidized by property tax revenues. This subsidy is necessary as the fund does not collect enough revenue to cover its full cost of operations, including the annual 2% CPI increased allowed through Measure K. This increase is not subject to the Prop 218 approval requirement and will take place regardless of the objection to the rate increase efforts. Currently, the Drainage revenues are projected 11% more than the previous year, at \$259,200. Drainage revenues are comprised of residential and commercial sales and do not collect a reserve fee through the utility billing.

Revenues are projected to increase by 11%; while expenditures are expected to increase 9%, for a total of \$329,646. This amount also includes the Administration subsidy of \$70,446. Drainage is expected to increase costs over the next few years due to deferred maintenance and aging infrastructure.

Solid Waste

The District contracts with California Waste Management and collects revenues to offset the cost of the contract with the vendor. The annual contract increase went from \$878,876 in the prior year to \$1,036,465, a difference of \$157,589 or 17.9% over the previous year. The 17.9% also includes a new Organics Waste recycling fee set to begin January 1, 2023. The District also eliminated the free bulk waste pickups that serve about 600 residents annually. This achieves a monthly cost saving slightly over \$3 per residence.

Security

Security is also subsidized with the District's property tax allocations. This subsidy is necessary as the fund does not collect enough revenue to cover its full cost of operations, including the annual 2% CPI increased allowed through Measure J. This year's property tax allocation is increased by \$139,755 or 30%, based on an increase in

expenditures within operations. This increase is not subject to the Prop 218 approval requirement and will take place regardless of the objection to the rate increase efforts.

Annual expenditures are expected to increase by 19% as expected based on the MOU salary increases (8.5%) the funding of a previously unfunded full time Patrol Officer and current economic climate and inflation.

SUMMARY

Staff is recommending the Board waive the first reading of the budget and move the Budget to the second reading for formal adoption the FY 2022-23 Proposed Budget.

Budget Overview

A Sample Bill and draft budget summaries for each fund are attached to assist in reviewing this draft of the FY2022-23 budget. The proposed budget results in a 7.88% increase, or \$16.88 per month, on the average monthly bill for a residential metered lot.

REVENUE ASSUMPTIONS USED IN THIS PROPOSED BUDGET

1. Sacramento County property tax allocation is projected to increase using the same appraisal values from 2021 to 2022 for home sales.
2. Water consumption is projected to decrease slightly over the calendar year FY 2021-22 demands due to Governor Gavin Newsom's calls for drought restrictions.
3. Reserve contributions require necessary increases to cover increasing deferred maintenance costs, repairs, and aging infrastructure.
4. Water and Sewer rate increases total 8.4% for residential metered lots and 9.1% for Murieta Gardens and Village II residents.
5. Drainage and Security rates are increased by the legal maximum of 2%.

BUDGET EXPENSE ASSUMPTIONS

General Assumptions

1. Unrepresented salary increase pool of \$30,000.
2. Represented salary range increase of 3.5% annually over three years as prescribed by the new MOU effective January 1, 2021. Represented staff also receive a 5% annual increase based on performance objectives through the annual review process.
3. Health insurance premium increase of 12%.
4. Increase of 17.9% in Solid Waste contract to include a new Organics Waste recycling fee beginning January 1, 2023.
5. Increased costs of professional services due to shifting cost from reserves to operational budgets.
6. Annual contribution to OPEB Trust budget for \$185,000.
7. 17% overall increase in Risk Management costs: 21% increase in General Insurance, 10% increase in Workers' Compensation, costs spread across all funds.
8. Increased Unfunded Accrued Liability (UAL) PERS pension obligation.

Sample Bill

The attached Sample Bill shows the proposed rate as presented in the March 30, 2022, Special Board meeting.

Sample Bill – Proposed Impact on Average Residential Monthly Bill

The estimated overall maximum increase is projected to be \$16.88 per month or 7.88% for an average residential customer with the proposed service charge increase and special tax adjustment beginning July 1, 2022. Organics Waste costs to be implemented January 1, 2023.

RANCHO MURIETA COMMUNITY SERVICES DISTRICT

Average Monthly Customer Bill		Current Monthly Rates	Proposed Monthly Rates	\$	%
Residential Metered Lot		July 1, 2021	July 1, 2022	Change	Change
Water	Average Usage in CF	1,426	1,426		
	Residential Base (excluding reserves)	\$38.73	\$40.28	\$1.55	4.0%
	Reserve Contribution	14.00	18.33	4.33	30.9%
	Total Residential Base	\$52.73	\$58.61	\$5.88	11.2%
old rate	Water Usage \$2.17 per 100 cubic foot	30.94			
new rate	Water Usage \$2.26 per 100 cubic foot		32.23	1.29	4.2%
	Total Water	\$83.67	\$90.84	\$7.17	8.6%
	WTP Debt Service Charge (interfund borrowing)	6.00	6.00	-	0.0%
	Sewer				
	Residential Base (excluding reserves)	46.26	48.11	1.85	4.0%
	Reserve Contribution	14.00	17.05	3.05	21.8%
	Total Residential Base	60.26	\$65.16	\$4.90	8.1%
	Solid Waste (avg. 64 Gallon Container)	27.82	27.90	0.08	0.3%
	Organic Waste Charge (effective 1/1/23)	-	4.00	4.00	100.0%
	Security Tax (Maximum Tax Ceiling \$31.54)	30.93	31.54	0.62	2.0%
	Drainage Tax (Maximum Tax Ceiling \$5.53)	5.43	5.53	0.11	2.0%
	Total RMCS D Bill	\$214.10	\$230.98	\$16.88	7.88%

Sample Bill – Proposed Impact on Average Murieta Village and Murieta Gardens II Monthly Bill

The estimated overall maximum increase is projected to be \$13.86 per month or 8.53% for an average Murieta Village customer with the proposed service charge increase and special tax adjustment beginning July 1, 2022. Organics Waste costs to be implemented January 1, 2023.

Average Monthly Customer Bill		Current Monthly Rates	Proposed Monthly Rates	\$ Change	% Change
<i>Murieta Village & Murieta Gardens II</i>		July 1, 2021	July 1, 2022		
Water	Average Usage in CF	418	418		
	Residential Base	\$38.73	\$40.28	\$1.55	4.0%
	Reserve Contribution	14.00	18.33	4.33	30.9%
	Total Residential Base	\$52.73	\$58.61	\$5.88	11.2%
old rate	Water Usage \$2.17 per 100 cubic foot	9.07			
new rate	Water Usage \$2.26 per 100 cubic foot		9.45	0.38	4.2%
	Total Water	\$61.80	\$68.06	\$6.26	10.1%
	*WTP Debt Service Charge (interfund borrowing)	6.00	6.00	-	0.0%
	Sewer				
	Residential Base (excluding reserves)	46.26	48.11	1.85	4.0%
	Reserve Contribution	14.00	17.05	3.05	21.8%
	Total Residential Base	\$ 60.26	\$ 65.16	\$ 4.90	8.1%
	Solid Waste (avg. 38 Gallon Container)	23.42	21.90	(1.52)	-6.5%
	Organic Waste Charge (effective 1/1/23)	-	4.00	4.00	100.0%
	Security Tax (Maximum Tax Ceiling \$7.61)	7.46	7.61	0.15	2.0%
	Drainage Tax (Maximum Tax Ceiling \$3.70)	3.63	3.70	0.07	2.0%
	Total RMCS D Bill	\$ 162.56	\$ 176.42	\$ 13.86	8.53%
<i>Vacant or Unmetered Lot</i>					
	Security Tax (Maximum Tax Ceiling \$24.74)	\$24.27	\$24.75		2.0%
**	Water Standby \$10.00 PER YEAR	\$0.83	\$0.83		0.0%
**	Sewer Standby \$10.00 PER YEAR	\$0.83	\$0.83		0.0%
	Drainage Tax (Maximum Tax Ceiling \$5.53)	\$5.43	5.53		2.0%
		\$31.36	\$31.95		
	% Change over prior year		1.88%		

* This fee is not billed for the Murieta Gardens II properties due to not being part of the debt service customer base.

** This fee is billed annually at \$10.00 and is shown as a monthly rate for comparison purposes only.