

MEMORANDUM

Date: April 19, 2021

To: Board of Directors

From: Tom Hennig, General Manager

Subject: Review Fiscal Year 2021-22 Prop 218 Questions Received in Protest Letters

BACKGROUND:

Every year the District is required to inform Rate Payers of any proposed changes to the rates for the following fiscal year. This requirement is met by way of a letter mailed to rate payers a minimum of 45 days prior to the public hearing that the District must hold annually to introduce the proposed increases. This year, the public hearing is scheduled for the regularly scheduled Board meeting on Wednesday, May 19, 2021. The owner of record or the person responsible for paying the District utility bills, of any parcel wishing to protest the proposed rate increases may mail or deliver a signed written protest to the District. Protests must be submitted in writing, even if you plan to speak at the public hearing. Written letters of protest must be received at the District prior to the start of the May 19, 2021 public hearing. Email protest letters will not be accepted. Protests must contain your name and a description of the property in which you have an ownership or bill paying interest. A street address and/or the assessor's parcel number are sufficient descriptions. If you were not the owner of record as of Sacramento County's last tax roll, your protest must contain written evidence that you presently own the property.

If the majority of the affected parcel owners submit written protests, the proposed rates will not go into effect. Only one protest per parcel shall be counted.

Written protests should be delivered to the CSD Office, or mailed to:
Rancho Murieta Community Services District
Attn: Director of Administration
P.O. Box 1050
Rancho Murieta, CA 95683

FREQUENTLY ASKED QUESTIONS & ANSWERS:

Because the District is proposing a significant rate increase for the 2021-22 Fiscal Year, we have received several letters protesting the rate increase. Many of these letters included questions that we have compiled into this staff memo. We are treating this as a list of frequently asked questions (FAQ's) with responses from District staff members.

RAW WATER

1. Raw Water Rate Study supposedly explains why a 300% increase is needed. What is the basis for such an astounding increase? What are options? What happens if not implemented?

The Raw Water Rate is the rate paid by customers that use District water that has not been treated for potable use. The only current user of Raw Water is the RMA, who pumps water out of Laguna Joaquin for the irrigation of the landscape around Laguna Joaquin and along Murieta Parkway. The large increase in the rate is the result of a Raw Water rate study completed last spring. This is the first time the rate has been adjusted in ten years. The original Raw Water rate was set at ten

cents in July 2000. This amount was increased to eleven cents in July 2011. As far as we can tell, the study completed last spring is the first time the Raw Water rate was reviewed by a professional rate setting firm. We have estimated the increase to the RMA to be around \$21,000 for next year.

SOLID WASTE

1. Who negotiates the contract with the Cal-Waste Recovery Services and the County of Sacramento?

Cal-Waste Recovery Services pays the rates as determined by the County. The District bills the County rates charged to Cal-Waste to our rate payors. According to Cal-Waste, the County fees are not negotiable.

2. Why are Solid Waste contracts increasing 30%? If they are imposed by the county, what is the Board doing to ensure such increases are justified and what other options exists to reduce such costs?

Per the agreement between RMCSO and Cal-Waste, Annual rate adjustments are calculated on Refuse Rate Index (RRI) methodology which are based on Bureau of Labor Statistics (BLS) categories Labor, Fuel, Vehicle Maintenance and All Other compared year over year. Changes in costs of Operating, Disposal, Equipment and Government Fees are also components of the overall annual rate adjustment. Over the last year, as the BLS indexes indicate as well as the overall economy, prices have continued to move up in all components of our business. Some specific examples include the disposal cost at Kiefer Landfill increased by 76.17% over the last year, general liability insurance premiums increased by 43.6% over last year, property insurance premiums increased by 76.9% over last year, and recyclables processing costs increased by more than 20% to achieve the more stringent quality standards that developed world-wide in 2019-2020. District staff monitor the waste rates paid by other agencies within the Greater Sacramento area. This comparison will be included in the formal budget presentation in May.

STAFF SALARY INCREASE

1. Why is it appropriate to raise staff salaries by 5.22% when official government inflation uses inflation benchmarks that are less than 2%, both state and federal?

The U.S. Bureau of Labor Statistics measures the average change in cost of consumer market goods and services over a period of time. These measurements are published both monthly and annually and provide the consumer information on the increases or decreases for a particular segment of data, including gas prices, commodities and urban wage earners. For example, the annual monthly average of CPI adjustments for Urban Wage Earners in the San Francisco area for the period of February 2020 through February 2021 reflect fluctuations between 0.7% to 3.7% increase for an average of 2.6%.

While these numbers report a regional, statewide or national average, they are not specifically related to governmental agencies and wage increases. Governmental agencies, such as the District, participate in the collective bargaining process and are required to negotiate in good faith for a fair and equitable wage that is agreed upon by all parties. Salaries are typically created using a "Step" approach, providing a 5% increase to the employee annually, based on the evaluation process. Governmental salaries are measured against each other during market rate study analysis and not against the private sector, which has more flexible wage policies and potentially inconsistent application of increases.

2. Why are you giving raises to your staff with all of us retirees in the community on fixed income?

Annual cost of living adjustments are negotiated in good faith during the collective bargaining process and annual step increases are based on the salary schedule developed and administered by the District.

CYBER SECURITY

1. What is "Cyber Security" - our Security here at Rancho Murieta has not been satisfactory? You want us to pay more?

"Cyber Security" is the work we do at the District to protect our computer information systems from being hacked by cyber-terrorist. This is not the same function as the Security Gate and Patrol services.

2. How much is being spent now on cyber security? What is the basis for a \$30,000 increase to that amount? What specific risks do we face if not funded?

Over the past few years, the District has utilized the basic anti-virus and network firewall equipment and software to keep our critical data and systems safe from cyber hackers. The cost for these services range between \$15,000 and \$25,000 and is based on whether we are replacing hardware. Given the current threat from world-wide cyber terrorists, we needed to increase our overall cyber security protection. In doing this we have entered into an agreement with a company that focusses on cyber security to help manage our cyber security needs and to oversee the work of the vendor we use to support our computer systems. The increase in expense is related to the agreement with a security vendor and the increased protection we are gaining by adding a higher level of data backup and recovery.

If we do not implement our cyber security plans, we run the risk of hackers breaking into our financial and operational systems. If this were to happen, the cyber terrorist would have the ability to lock our systems and demand we pay a ransom to free our data. We would be forced to pay these funds and then we would be required to rebuild our systems at a great deal of cost and time. Most of our cyber security activity relates to training our staff and by implementing security measures for how we log into our systems and how we share data. In addition to training, we have upgraded many of our computers to the current version of software and added web-based services that have reduced our reliance on hardware located at our offices.

Reserve Account

1. Why is it essential to fully fund the Capital Replacement Reserves in a single year? Why not spread it over 2, 3, or 4 years?

We are currently in the process of finalizing a reserve study which was requested in February. Our goal is to stabilize the increases over the next two to four years. We are planning to complete this work before the May 19, 2021 Budget hearing. The current increase will marginally raise our reserve contributions.

2. I would like you to explain in detail the assessment of the reserve account, I would like to see a full accounting of the reserve account over the last 3 years and the projected projects over the next 3 years.

We are planning to provide this level of detail at the May 19, 2021 Budget meeting.

3. Why a 94% increase to "fully fund" reserves and capital improvements? I have heard for several years that Security is being increasingly funded from property tax revenues that is supposedly for funding capital reserves: however, I have not heard much at all about why our reserves must be funded at any specific level. What is the basis for this? What capital improvements are necessary and what is driving each of them? Are there specific year by year lists of deferred maintenance and capital improvements that justify an ongoing increase of this amount? If capital improvements are being driven by planned and proposed development, would it not make more sense/be more equitable to current residents to finance them and pay them off over time with the larger base of residents?

We are planning to provide this level of detail at the May 19, 2021 Budget meeting.

4. Are these reserve funds held in an interest-bearing account?

Yes.

5. Why weren't the deficiencies better anticipated and compensated for by smaller increases in previous years?

Smaller increases were introduced in prior Fiscal Years, however, they were not sufficient to withstand the cost of deferred maintenance and other market changes, resulting in a significant increase in cost to replace, repair and maintain facilities and equipment.

6. How are the reserve accounts considered under funded by what legal determination or accounting methodology?

The District requested a reserve study be completed to determine the total cost of current and future capital improvement needs. The consulting agency applies a methodology based on many factors that would contribute to the overall cost of Capital Improvement, as well as identifying projects, a schedule for project completion and the amount needed to collect annually in order to fund the projects in any scheduled completion year.

The District maintains a reserve policy that speaks to the collection and usage of the reserve funds.

OTHER

1. Why is it necessary to increase maintenance and repairs by 15.8%? What critical items must be done next year? Which can be deferred?

Maintenance and repair expense for the District is primarily related to the equipment and systems used to deliver drinking water and the management of wastewater. A high percentage of this equipment is very old and in need of replacement. This is commonly referred to as "deferred maintenance" and is the direct result of not having the funds to replace equipment. While we are attempting to get our reserve funding plans in a better state, we are still required to maintain the equipment needed to deliver water and to keep up with the regulatory requirements of running a water and wastewater system.

2. Why didn't you make a 3% or 4% rate increase to residents last year?

The rate increases that were proposed for last year were scaled back from over four percent, to less than one percent, due to the COVID 19 pandemic. We had originally proposed increases in Sewer and Water rates. The final budget did not include any increase in Sewer or Water. The rates last year were for Drainage, Security, and Solid Waste.

3. Do you expect that folks might be inclined to vote for an additional increase for Security?

We are preparing to initiate a public opinion poll on this exact subject. There will be a Town-Hall meeting in May to bring this project to the residents of Rancho Murieta. This will result in a voter survey to determine if an increase in Security fees would receive a favorable vote. The hope is to meet the requirements of the majority of voters.

4. Will you be bringing in any auditors to determine if any laws or fiduciary responsibilities are breached in this proposed increase?

The CSD currently contracts with an auditor annually to conduct in-depth analysis on the District's financial records to ensure that the District is properly maintaining and managing all financial information.

5. Are the numbers in the Proposition 218 notification Sample Bill based on actual or projections?

The Prop 218 notice contains the numbers we are projecting to manage the systems at full staffing levels.