DATE: October 07, 2025

TO: Mayor and City Council Members
Chair and Board Members, Hesperia Water District

FROM: Rachel Molina, City Manager

BY: Casey Brooksher, Assistant City Manager
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SUBJECT: Hesperia Water District Residential Delinquent Account Process

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RECOMMENDED ACTION

It is recommended that the City Council and Board of Directors of the Hesperia Water District receive and file this report regarding the District's current process for collection of delinquent residential water accounts, including the lien procedure, and property owner responsibility established under Hesperia Municipal Code Title 14.02.080.

BACKGROUND

At the August 5, 2025, City Council meeting, Mayor Pro Tem Gregg requested a staff report on the collection of delinquent water and sewer accounts, explicitly addressing the current practice under which property owners/landlords are responsible for all delinquent amounts.

To provide history, before 2022, the District would shut off delinquent accounts. If the account holder did not pay to restore service, the District would engage private debt collection services. Since 2022, the District has relied on property liens and property tax liens to collect delinquent accounts. The District changed the collection process for three main reasons:

1. California enacted the Water Shutoff Protection Act in 2018 with an effective date of February 1, 2020.
2. Pandemic Restrictions to water shut-off procedures and the District's escalation of uncollected accounts.
3. The efficiency and effectiveness of the property lien and property tax lien as a collection method.

Water Shutoff Protection Act (Senate Bill 998):

Senate Bill 998 (SB 998), known as the Water Shutoff Protection Act (Attachment 1), was signed into law on September 28, 2018, and required every municipal water system with more than 200 service connections to have a written policy on the discontinuation of residential water services in place by February 1, 2020. The law established significant consumer protections, including:

- Residential water service shall not be discontinued for nonpayment until the account has been delinquent for at least sixty (60) days.
- No less than seven (7) business days before discontinuation of residential service for nonpayment, the consumer named on the account shall be contacted by telephone or written notice.

- If unable to make contact with the consumer named on the account, a reasonable faith effort is to be made to visit the residence and place a notice of imminent discontinuation of residential service for nonpayment, as well as a written copy of the District's Policy for the Discontinuation of Residential Service for Nonpayment (Policy).
- The written Policy shall be made available in English, Spanish, Chinese, Tagalog, Vietnamese, Korean, and any other language spoken by 10% of the service area. It shall also be made available on the District's website.
- The Policy shall contain:
    - A plan for deferred or reduced payments for those who qualify.
    - Alternative payment schedules for those who qualify.
    - A formal mechanism for a consumer to contest or appeal a bill.
    - A telephone number for a consumer to contact and discuss options for averting discontinuation of water service for nonpayment.
- For the consumer to avoid discontinuation of residential water service, all the following conditions must be met:
    - The consumer shall submit a certification from a primary care provider that discontinuation of water service will be life-threatening to, or pose a serious threat to the health and safety of a resident at the premises.
    - The consumer shall demonstrate a financial inability to pay based upon the receipt of public assistance by a member of the consumer's household or provide a declaration that the household's annual income is less than 200 percent of the federal poverty level.
    - The consumer is willing to enter into an alternative payment schedule, consistent with the Policy.
- If a consumer fails to comply with an alternative payment schedule for sixty (60) days or more, or does not pay their current bill for 60 days or more, service can be discontinued five (5) days after posting a notice of intent to discontinue service at the property.
- A limitation on reconnection fees for low-income consumers whose household is less than 200 percent of the federal poverty level to no more than $50 during regular business hours and $150 for after business hours, and the waiver of interest charges on delinquent bills once every twelve months.
- A reasonable faith effort at least ten (10) days before disconnection (or seven (7) days before disconnection if it is a detached single-family dwelling) to inform residential tenants, including mobile home parks and multi-family residents, that their water service is subject to disconnection for nonpayment by their landlord, and that the tenants have the ability to become consumers of the District should the customer meet the District's requirements.
- The requirement to post on the District's website, on an annual basis, the number of residential water service accounts that were disconnected for nonpayment.

To comply with SB 998, the City Council, by a unanimous vote, adopted Ordinance No. 2020-02 and Joint Resolution No. 2020-02/HWD 2020-01. These actions amended Title 14 of the Hesperia Municipal Code and approved the District's "Policy on Discontinuation of Residential Water Service for Non-Payment," which incorporated all SB 998 requirements. As a result, service disconnection for non-payment became a tool that could only be used under limited circumstances and after meeting extensive procedural requirements. The SB 998 process for delinquent accounts is summarized below:

- **Day 0 –** Bill issued, due upon presentation.
- **Day 20 –** Bill becomes delinquent. A late fee of 1% of the bill applies.

Delinquent Process

- **Day 22 –** Past due notice sent.
- **Day 49** – If still unpaid, *Notice of Discontinuation of Service* is sent, with at least seven business days' warning before shutoff. The district must also attempt to call the customer. If unsuccessful, a door notice is left.
- **Day 60 to Day 365** – Service will be disconnected if:
    - The customer does not qualify under a *medical condition* and *financial hardship*. The District will accept the customer declaration and commence a 12-month payment plan.

<u>*Pandemic Restrictions:*</u>

The COVID-19 pandemic immediately impacted the planned implementation of SB 998. On April 2, 2020, the Governor issued Executive Order N-42-20, which prohibited all water systems in California from disconnecting residential water service for non-payment. This moratorium remained in place until December 31, 2021.

During this time, the District's uncollected annual balance for residential accounts for both water and sewer grew to approximately $0.9 million, or 4.4 percent of the anticipated FY 2020–21 water sales revenue. Because the District can only assess rates sufficient to cover the cost of service, these losses were not expected in the 2017 rate plan. Ultimately, such revenue shortfalls would need to be recovered from all paying ratepayers through a future rate study.

In an effort to comply with the State moratorium and maintain the District's financial stability, the District implemented the lien and property tax lien process authorized under Hesperia Municipal Code §14.02.080, Section O, which states:.

O. The customer and property owner shall be jointly and severally liable for all charges that may be imposed under this chapter, including but not limited to charges for tampering as described in Section 14.02.060, and all charges for water service, sewer service, and water usage as described in Sections 14.02.070 and 080, including any delinquent charges.

This section provides that both the customer and property owner are jointly and severally liable for water charges, including delinquent balances. By utilizing the lien process, the District was able to protect revenues and remain compliant with the State's prohibition on residential shutoffs.

The District will first place a property lien on any residential parcel that receives water or sewer service and has a value exceeding $300. This will ensure that the District is paid should the parcel be sold before the property tax lien is satisfied. In July of each year, property liens are removed and converted to a property tax lien for collection by the County Assessor. The property and property tax lien process is as follows:

- **Day 0 –** Bill issued, due upon presentation.
- **Day 20 –** Bill becomes delinquent; a 1% late fee is applied.
- **Day 21 –** Past Due Notice sent to the account holder and property owner.
- **Day 61–** If unpaid, the District mails a Notice of Lien to the property owner. This allows 10 days to rectify the outstanding balance. The notice is sent to the property owner, as listed with the County Accessor.
- **Day 72 –** If still unpaid after the notice period, the District records a lien against the property with the County Recorder.

- **June - August (annual process) –** Any delinquent balances that remain unpaid for 60 days or more are submitted to San Bernardino County and added to the property's annual tax bill. The District will send a letter to the property owner in an attempt to rectify the issue before submitting it to the Auditor Controller for final review. With the addition of unpaid balances to the property tax roll, the property lien is removed during this time.

In 2022, the City Council adopted Ordinance No. 2022-07 with unanimous approval, which amended Title 14.02.080 of the Municipal Code to streamline the lien process for delinquent water accounts. This approval reaffirmed that under Title 14.02.080, both the account holder and the property owner are jointly responsible for unpaid water charges. The ordinance also authorizes the District to record liens against properties with unpaid charges and, if necessary, transfer the balances to the County property tax roll for collection. This structure ensures that unpaid water charges remain collectible, even in cases where a tenant account holder vacates the property without paying the balance.

Efficiency and Effectiveness of Lien Process:

Historically, much of the District's annual uncollected residential water and sewer balances were attributable to tenants who vacated properties with unpaid accounts. In some cases, a single rental property would have multiple tenant accounts, each leaving an outstanding balance. This burden would eventually be placed on all ratepayers during an updated rate study.

Before 2020, these accounts were typically classified as uncollectible or "bad debt." The District contracted with a third-party debt collector in an effort to recover these amounts; however, the collection rates were generally low, ranging from 10% to 18%. Between 2014 and 2019, annual losses due to uncollected accounts ranged from approximately $40,000 to $90,000 per year. It should also be noted that these figures do not include the additional staff time required to carry out service disconnections, which will be discussed further in the Issues/Analysis section of this report.

The lien process, as authorized under the Municipal Code, shifts the burden of uncollected tenant accounts to the property owner or landlord. By doing so, the District can utilize the County's property tax system as the effective "bad debt" collector. San Bernardino County's annual collection rate for delinquent water and sewer bills is approximately 90% to 95% percent in the first year and approaches 100% by the third year. This is significantly higher than the 10% to-18% percent recovery rate previously achieved by the District's private debt collection contractor. It should also be noted that if a delinquent water or sewer bill remains unpaid through the property lien process for five years, the property may be subject to a tax lien sale. To date, this has not occurred with any District accounts, but the authority exists under state law.

The lien process, whether recorded directly against the property or collected through the property tax roll, can only be applied to the property owner. Neither the District nor the County has any mechanism to place a lien on a tenant, since tenants do not hold title to the property. If the District were to collect solely from tenants, it would need to use a private debt collection agency.

To recap, with the implementation of the lien process, the following has occurred:

- Ensure compliance with the SB 998 process. Since the District is not using disconnections as a primary means of collection, the lien process does not fall under the law.
- Increased the collection rate of delinquent water and sewer accounts.

- Shift the burden of uncollected accounts from the ratepayers to the property owner.

ISSUES/ANALYSIS

As discussed, the District has transitioned to property liens and property tax liens as the primary methods of collecting delinquent accounts. Should the District return to service disconnections as the principal enforcement tool, additional staff would be required to accommodate the workload. The disconnection process is labor-intensive for both Utility Billing and Customer Service, and staffing levels in these areas have undergone significant changes between FY 2018–19 (pre-pandemic) and FY 2025–26.

Table 1 illustrates the change in staffing levels for Customer Service Representatives (responsible for payment processing), Senior Customer Service Representatives (providing lead support), and Meter Readers (who perform disconnection and reconnection of meters).

Table 1

Positions	FY 2018-19	FY 2025-26
Customer Service Representative	5	2
Senior Customer Service Representative	2	1
Meter Readers	4	1

With disconnection no longer used as the primary collection method, these positions have been reallocated over the past eight years to meet other priorities. For example, Meter Reader positions were reassigned to Maintenance Worker roles within the Water District. Vacant Customer Service Representative positions were converted to an Account Technician to manage lien processing, and to a Community Development Technician to support increased building activity.

Table 2 illustrates the anticipated staffing needs if the District were to revert from the lien process to a service disconnection process.

Table 2

Positions	Position Cost	Needed Addition	Total Cost
Customer Service Representative	$ 92,000	2	$ 184,000
Meter Readers	100,000	1	100,000
Total Annual Cost			**$ 284,000**

The annual staffing cost does not include vehicle expenses for the one Meter Reader position, which are approximately $50,000 every five to seven years.

Current Process:

As part of its Strategic Plan, the City Council has identified Financial Health as one of its five goals. To achieve this goal, the Council adopted 11 key strategies, including conducting regular assessments of approved fees to ensure costs are recovered. Shifting the collection process from private debt collection and disconnection to the lien process supports this strategy by providing the recovery of service costs with minimal impact on all other ratepayers.

To further minimize the impact of delinquent accounts during the current year, and before the conversion to property tax lien collection effective October 1, 2025, the District will initiate the disconnection process for all residential accounts with balances exceeding $2,000. In these cases, water service will be discontinued, and a property tax lien will also be recorded to safeguard the District and prevent loss should the property be sold. This dual approach provides both the property owner and, if applicable, the tenant an opportunity to rectify the outstanding balance.

The $2,000 threshold represents approximately 50 residential accounts in a given year. With current staffing levels in Utility Billing and Customer Service, this volume of disconnections can be absorbed without additional resources.

Tenant vs. Landlord Responsibility:

The District's historical challenge with uncollectible accounts was primarily driven by renters who vacated properties without paying their balances. For landlords, unpaid utility charges represent a cost of doing business. This loss can often be recovered through mechanisms such as retaining a security deposit, initiating eviction proceedings, or adjusting the rent. In contrast, when the District relied solely on tenants as the responsible party, significant balances were left permanently uncollected, ranging between $40,000 and $90,000 annually, even after referral to private debt collectors. By shifting responsibility to property owners and utilizing the lien process, the District has reduced the risk of bad debt being absorbed by all paying ratepayers, while ensuring that water and sewer services remain financially sustainable.

CITY GOAL SUPPORTED BY THIS ITEM

Financial Health – Maintain a balanced budget and adequate reserves.

FISCAL IMPACT

Should the Board of Directors continue with the current lien process, along with targeted disconnections of delinquent accounts exceeding $2,000, there will be no fiscal impact.

If the District were to move away from the lien process and adopt a full disconnection model supported by a third-party collections provider, the District could expect additional annual staffing costs of approximately $284,000, plus a vehicle replacement cost of approximately $50,000 every five to seven years. In addition, the District would likely experience a revenue loss of $40,000 to $90,000 per year, assuming uncollectible levels return to pre-2020 levels.

If the Board were to implement a transition to the full disconnection model in the current fiscal year, a First Quarter budget amendment of approximately $192,000 would be required. This amount represents six months of salaries and benefits for the three necessary positions, as well as $50,000 for a new vehicle. A final Fourth Quarter amendment would then be presented at year-end to account for recognized revenue losses.

ALTERNATIVE(S)

1. Provide alternative direction to staff.

ATTACHMENT(S)

1. Bill 998- Water Shutoff Protection Act
2. Staff Report- Amendments to Title 14 presented to Council on January 7, 2020
3. Staff Report – Amendments to Title 14 presented to Council on June 21, 2022