

# City of Hesperia

## STAFF REPORT



**DATE:** May 21, 2019  
**TO:** Chairman and Board Members, Hesperia Water District  
**FROM:** Nils Bentsen, City Manager  
**BY:** Casey Brooksher, Director of Finance  
**SUBJECT:** Recycled Water Rates

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### RECOMMENDED ACTION

It is recommended that the Board of Directors of the Hesperia Water District (District) conduct a Proposition 218 Public Hearing related to new maximum recycled water rates for recycled water services provided by the District and, in the absence of a majority vote of opposition, adopt Resolution No. HWD 2019-04 (Attachment 1), approving new maximum rates for recycled water services.

### BACKGROUND

The Victor Valley Wastewater Reclamation Authority (VWVRA) has constructed the Hesperia Sub-regional Water Reclamation Plant. The Sub-regional Plant will be capable of supplying up to approximately one million gallons per day (MGD) of reclaimed water, which can be used for irrigation purposes. To utilize this resource, the District is in the process of constructing a distribution system to convey the reclaimed water to potential users. The primary user under this first phase will be the Hesperia Golf & Country Club (Golf Course). The reclaimed water pipeline, as well as lateral pipes of the distribution system are in close proximity to other potential users, such as parks, schools, and the Hesperia Civic Center Complex.

To construct the approximate 10 miles of "purple" distribution pipe, a storage reservoir and a booster station are necessary to provide the required pressures to operate the large irrigation systems. The Water District received State funding for these improvements by way of a low interest loan and grants. On December 15, 2015, the Water District Board of Directors approved an Installment Sale Agreement with the California State Water Resources Control Board to finance the construction of a reclaimed water pipeline distribution system, for which the District received notification of State approval on September 28, 2016. Of the \$14,673,750 requested, the agreement provides for a \$4,727,337 Grant, with the remaining \$9,946,413 in the form of a thirty-year loan at a 1% interest rate. The anticipated completion date for the project is January 2020. The first loan payment is due the following year starting in January 2021, with the final payment due January 2050. An additional \$2 million grant was obtained from the California Department of Water Resources.

### ISSUES/ANALYSIS

The distribution pipeline portion of the project is complete and has been tied into the irrigation network of the first customer, which is the Golf Course that is owned by the City of Hesperia. Additionally, VWVRA is nearing the point of beginning the operation of the Sub-regional Plant. Because recycled water is a new service provided by the Water District, a recycled water rate has not yet been established.

### **Recycled Water Rate**

Typically, utility rates are built with historical data, as well as future projections, and are allocated over an established customer base. In this case, this is a new service offered by the District, with one initial customer, the City of Hesperia. On April 2, 2019 the Board recommended that the adopted potable water – irrigation rate, which was approved by the Board on November 21, 2017 be discounted. As additional customers, such as other City facilities, the Park District, and School District, become recycled water customers, a fully borne rate study will be conducted.

Direction was provided by the Board to proceed with issuing a Proposition 218 notice (Attachment 2) for the maximum recycled water rates, which were identified as ninety percent (90%) of the potable irrigation water rate. There are two components to the Recycled Water Rate. The first component is the fixed charge (bi-monthly). The fixed charge is dependent upon meter size. The variable component (commodity charge) is dependent upon the amount of recycled water utilized.

### **Proposition 218 Notice**

The establishment of recycled water rates is subject to Proposition 218 notice, hearing, and majority protest procedures. Proposition 218 requirements include a public hearing not less than 45 days after mailing a notice to the affected property owner. In this case, the City of Hesperia (City), as the only recycled water rate customer, was mailed the Proposition 218 notice on April 3, 2019. Consistent with the Proposition 218 process, the City, which is responsible for the payment of the recycled water charges at the Golf Course, may wish to protest the establishment of the rates by submitting a written protest before the public hearing or appear and be heard in support of, or in opposition to the proposal at the time of the public hearing. Only one written protest per identified parcel (Golf Course) relating to the rate increase will be counted. The City's written protest must be received at, or prior to the public hearing. As of the printing of the Agenda, no written protests have been received. If a written or public hearing protest is presented by the City of Hesperia, as the single customer, the rates cannot be imposed.

### **FISCAL IMPACT**

The revenue generated from the recycled water rates will offset the costs to supply the alternative water source. Such costs include loan repayment for construction of the reclaimed water system, utilities and labor costs to supply the alternative source.

### **ALTERNATIVE(S)**

1. Provide alternative direction to staff.

### **ATTACHMENT(S)**

1. Resolution HWD 2019-04
2. Proposition 218 Notice