

# Water & Sewer Rate and Capacity Fee Study

**Avila Beach CSD  
Board Presentation**

## **Final Results: Water & Sewer Rate and Capacity Fee Study**

*September 10, 2013*

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# Overview of NBS Presentation

- **Summary and Rate Study Methodology**
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  - ❑ **Overview of Rate Study Methodology**
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# Summary and Rate Study Methodology

# Summary of Rate Study Process

## ***Summary:***

- NBS Evaluated Numerous Financial Plan and Rate Structure Alternatives (including w/ and w/o Chevron)
- ABCSD Staff and Board Provided Review and Direction via Several Workshops
- Two Options Presented: Board Must Choose One
- Prop 218 Noticing and Adoption must be Completed

# Overview of Rate Study Methodology

## Primary Components of a Rate Study

### 1. Financial Plan/ Revenue Requirements

**Step 1: Financial Plan/  
Revenue Requirements** -  
Compares the sources of  
funds (revenues) and uses of  
funds (expenses) of each  
utility and determines the  
revenue needed from rates.

### 2. Cost-of-Service Analysis

**Step 2: Cost of Service  
Analysis** - Allocates the  
revenue requirements to the  
various customer classes in a  
"fair and equitable" manner  
that complies with Prop. 218.

### 3. Rate Design Analysis

**Step 3: Rate Design  
Analysis** - Considers what  
rate structure alternatives will  
best meet the District's need  
to collect the annual revenue  
requirements from each  
customer class.

# Water Financial Plan Summaries

# Water Financial Plan – Summary of Assumptions

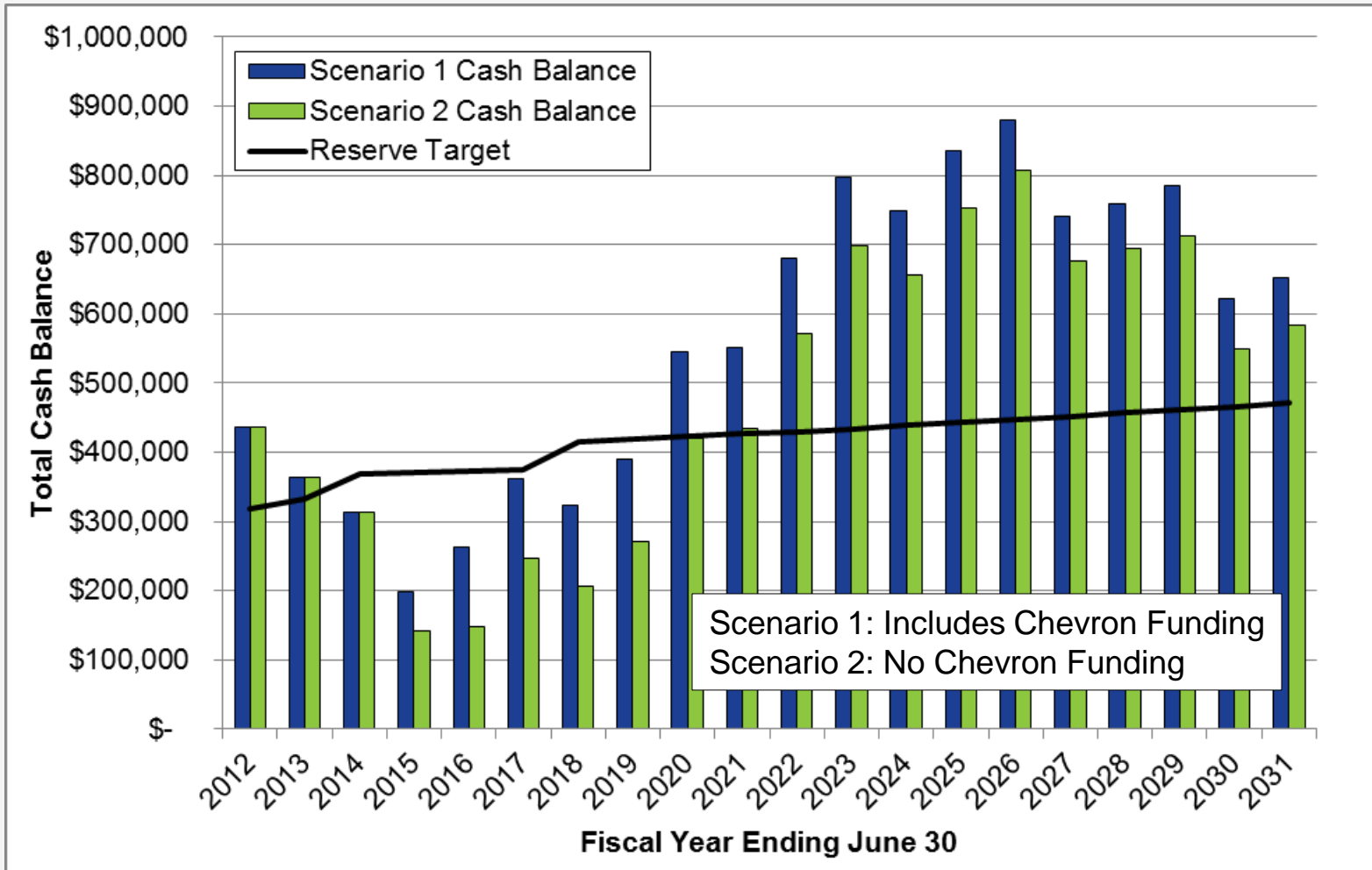
## ***Financial Plan General Assumptions:***

- Reserve Fund Targets:
  - ✓ Operating Reserve = 90 days of Operating Expenses
  - ✓ Capital Rehab & Replacement = 2x the Avg. capital expenditure for FY 2012/13 – 2018/19, or \$300,000/yr.
  - ✓ Connection Fee Reserves = \$400,000
  - ✓ Connection Fee Reserves Borrowed and Paid Back by Sewer Utility = \$281,000

## ***Assumption for Scenarios:***

- Scenario 1: Chevron Funding for Booster Station Project = \$113,000
- Scenario 2: No Chevron Funding or Project

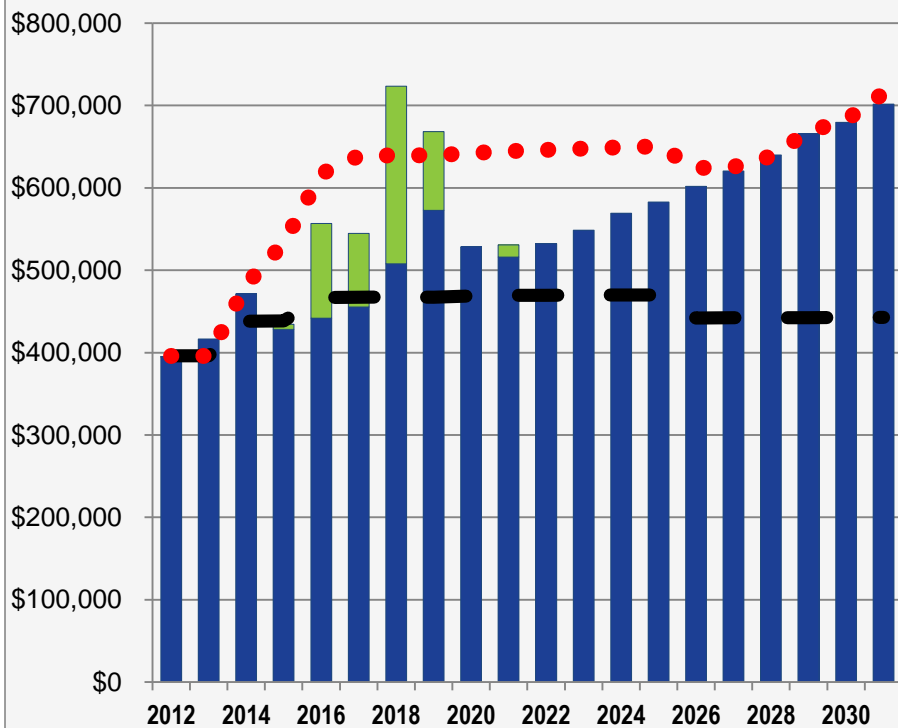
# Water Financial Plans – Reserves and Reserve Targets



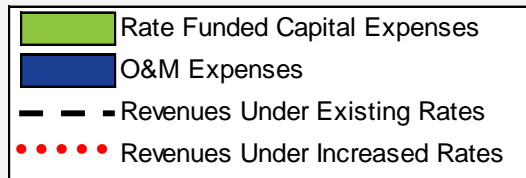
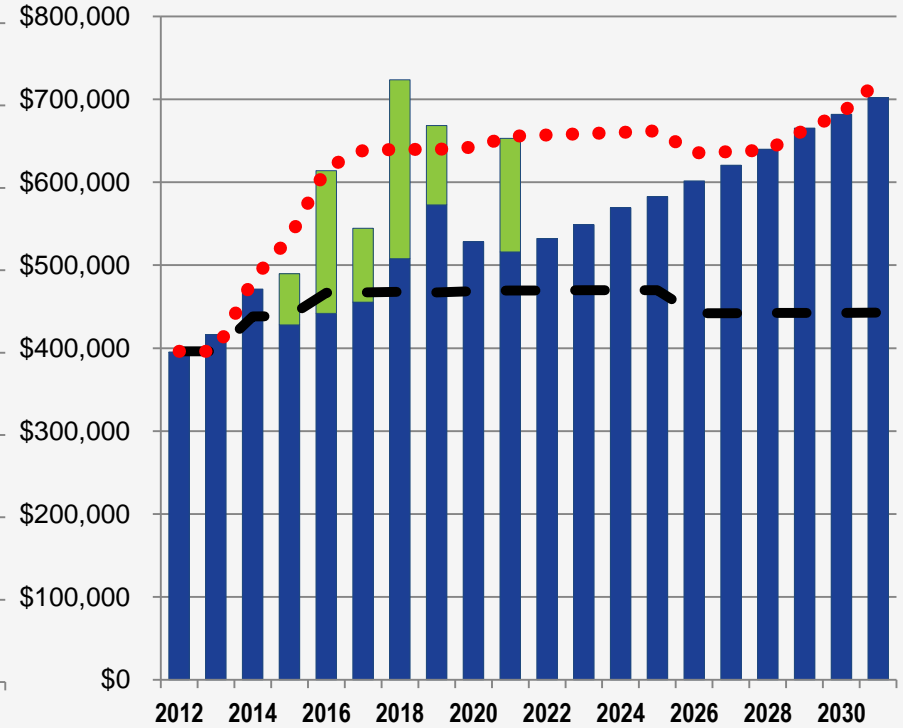


# Water Financial Plans – Revenue Requirements vs. Revenue

**Scenario 1**  
*Includes Chevron Funding*



**Scenario 2**  
*No Chevron Funding*



# Notes About Proposed Water Rate Structure

- ***New Water Rate Structure:***
  - ✓ Single-commodity charge per unit of consumption.
  - ✓ Fixed charge based on meter size.
- ***Benefits of New Water Rate Structure:***
  - ✓ Better reflects the cost of water for each customer
  - ✓ Encourages water conservation
- ***Fixed vs. Variable Cost Allocations*** – new rates recover more from fixed costs than current rate structure. This results in greater revenue stability:

Revenue from Fixed vs. Variable Charges	Existing Rates		Proposed Rates	
Fixed Charges	\$164,591	46%	\$291,309	70%
Variable Charges	\$194,188	54%	\$124,159	30%
<b>Total Revenue</b>	<b>\$358,779</b>	<b>100%</b>	<b>\$415,467</b>	<b>100%</b>

# Existing and Proposed Water Rates

Water Rate Schedule	Current Rates	Proposed Rates				
		FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
<i>Projected Annual Increase in Revenue Requirements</i>		12.00%	12.00%	12.00%	4.00%	0.00%
<b>Fixed Meter Charge (currently, this is the base/minimum charge)</b>						
5/8 x 3/4 inch	\$40.70	\$55.42	\$62.07	\$69.52	\$72.30	\$72.30
1 inch	\$40.70	\$145.43	\$162.88	\$182.42	\$189.72	\$189.72
1 1/2 inch	\$40.70	\$181.43	\$203.20	\$227.58	\$236.69	\$236.69
2 inch	\$40.70	\$361.44	\$404.81	\$453.39	\$471.52	\$471.52
2 inch compound	\$40.70	\$577.45	\$646.74	\$724.35	\$753.32	\$753.32
<b>Commodity Charge (per hcf)</b>						
<b>All Users</b>						
0 - 5 hcf	\$0.00	\$3.90	\$4.36	\$4.89	\$5.08	\$5.08
5 + hcf	\$8.14	\$3.90	\$4.36	\$4.89	\$5.08	\$5.08

*Note: Low-income customers will receive a \$10 credit on their monthly water bill (subject to qualification by ABCSD staff).*

*There is not a material difference in the outcomes of Scenarios 1 and 2 for the Water Utility, therefore there is only one set of proposed rates.*

# **Sewer Financial Plan Summaries**

# Sewer Financial Plan – Summary of Assumptions

## ***Financial Plan General Assumptions for All Scenarios:***

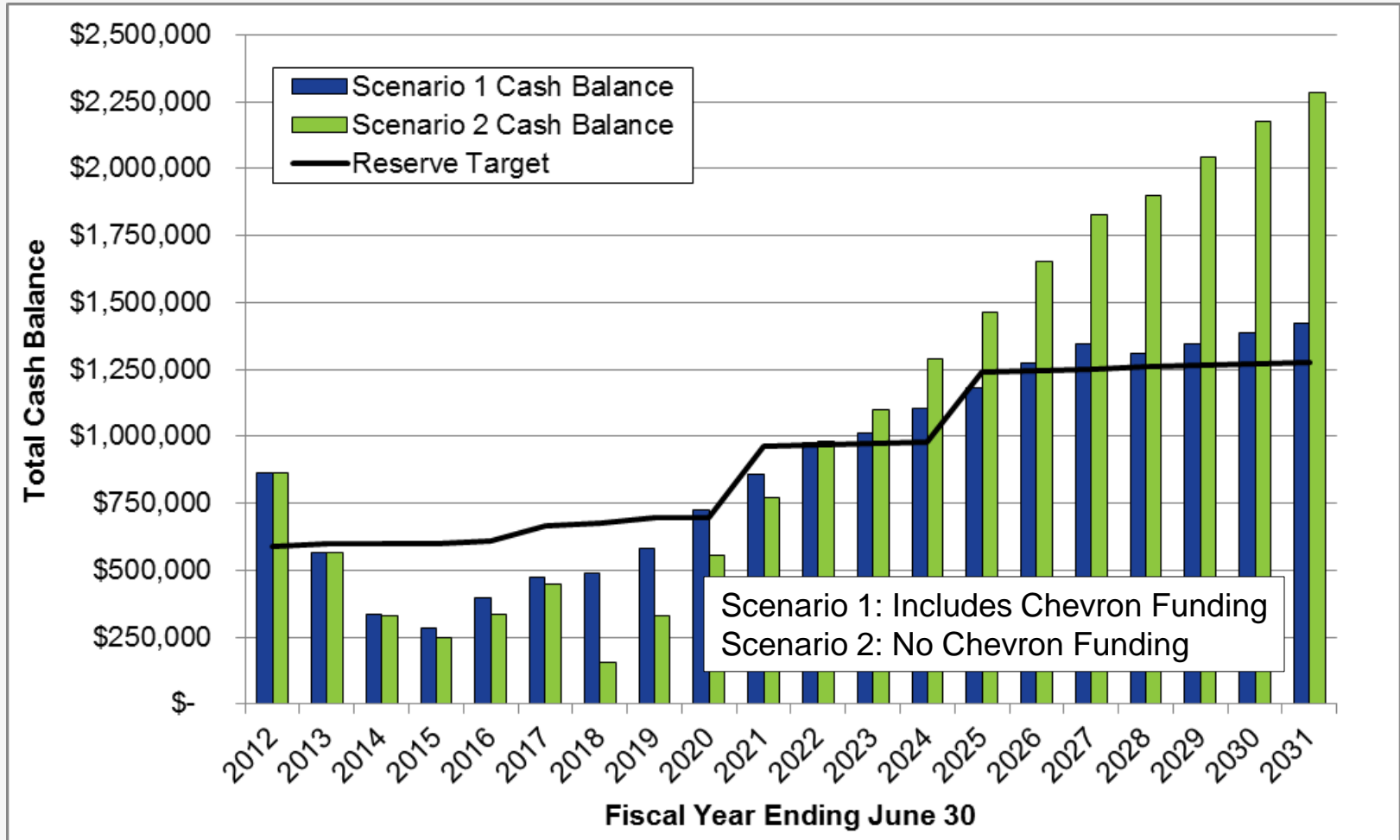
- Target Reserve Fund Assumptions:
  - ✓ Operating Reserve = 90 days of Operating Expenses
  - ✓ Capital Rehab & Replacement = Phased in to \$1.04 million (2x the average annual capital exp. in FY 2012/13 – 2018/19)
  - ✓ Connection Fee Reserves for Capital Improvements = \$700,000
- San Luis Harbor District Funding = 35% of total CIP costs not funded by a development agreement
- Connection Fee Reserves Borrowed from and Paid Back to Water Utility = \$281,000
- State Revolving Fund Loan Financing Assumed = \$600,000

# Sewer Financial Plan – Summary of Assumptions

## ***Assumptions for Scenarios:***

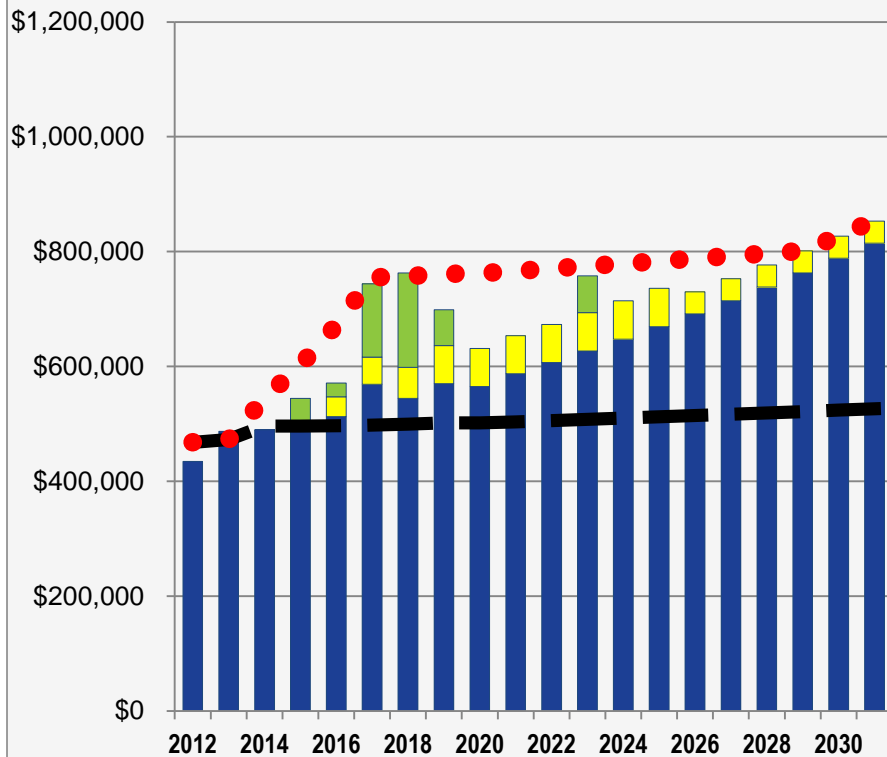
- Scenario 1: Funding from Chevron = 50% of Secondary Treatment Expansion and Sewer Line Replacements (Total of \$1.3 million)
- Scenario 2: No Funding from Chevron

# Sewer Financial Plans – Reserves & Reserve Targets

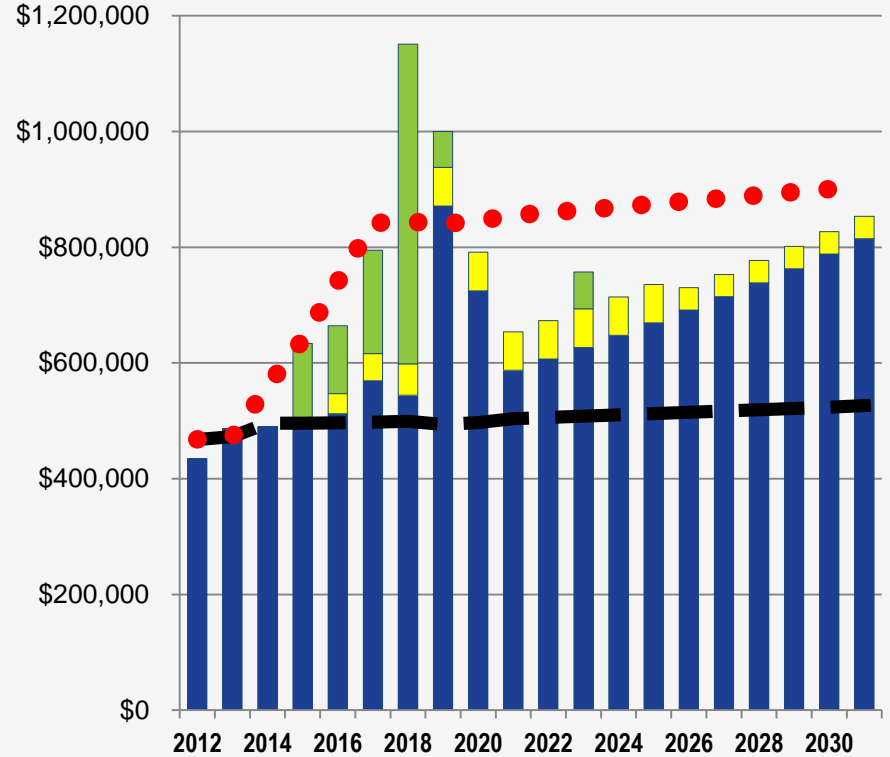


# Sewer Financial Plans – Revenue Requirements vs. Revenue

**Scenario 1**  
*Includes Chevron Funding*



**Scenario 2**  
*No Chevron Funding*





# Notes About Proposed Sewer Rate Structure

- ***New Sewer Rate Structure:***
  - ✓ Fixed charge = per unit charges based on customer class
  - ✓ Variable charges start with first unit of consumption.
- **Benefits:**
  - ✓ Better reflects the cost of providing sewer service to each customer class
- ***Fixed vs. Variable Cost Allocations:*** new rates recover more from fixed charges than current rate structure, which results in greater revenue stability.

Revenue from Fixed vs. Variable Charges	Existing Rates		Proposed Rates Scenario 1		Proposed Rates Scenario 2	
Fixed Charges	\$121,273	44%	\$212,198	70%	\$222,332	70%
Variable Charges	\$152,531	56%	\$91,847	30%	\$97,043	30%
<b>Total Revenue</b>	<b>\$273,804</b>	<b>100%</b>	<b>\$304,045</b>	<b>100%</b>	<b>\$319,375</b>	<b>100%</b>

# Scenario 1: Cost-of-Service Results

## Allocation of Revenue Requirements to Customer Classes:

Classification Components	Net Revenue Requirements	Customer Classes					
		Residential (SFR & MFR)	Commercial General	Commercial Hotel	Restaurant	Industrial	Public Facility
<b>Volume Treatment</b>	<b>\$ 173,542</b>	\$ 78,850	\$ 12,279	\$ 41,015	\$ 28,708	\$ 1,436	\$ 11,254
- BOD	\$ 62,921	\$ 16,351	\$ 1,910	\$ 13,183	\$ 29,766	\$ 194	\$ 1,517
- TSS	\$ 62,921	\$ 24,185	\$ 2,825	\$ 7,548	\$ 26,417	\$ 220	\$ 1,726
<b>Customer-Related</b>	<b>\$ 4,661</b>	\$ 3,794	\$ 654	\$ 43	\$ 14	\$ 57	\$ 99
<b>Net Revenue Requirement</b>	<b>\$ 304,045</b>	<b>\$ 123,180</b>	<b>\$ 17,667</b>	<b>\$ 61,789</b>	<b>\$ 84,905</b>	<b>\$ 1,907</b>	<b>\$ 14,596</b>

## Comparison to Current Allocation of Costs to Customer Classes:

Customer Class	COS Allocated Costs - 2014		vs. Current Rates	
	COS Rev. Reqt.	% of COS Rev. Reqt.	Revenue at Present Rates	Percent Difference
Residential (SFR & MFR)	\$ 123,180	40.5%	\$ 105,363	16.9%
Commercial General	\$ 17,667	5.8%	\$ 28,669	-38.4%
Commercial Hotel	\$ 61,789	20.3%	\$ 57,911	6.7%
Restaurant	\$ 84,905	27.9%	\$ 44,228	92.0%
Industrial	\$ 1,907	0.6%	\$ 3,382	-43.6%
Public Facility	\$ 14,596	4.8%	\$ 16,478	-11.4%
<b>Total</b>	<b>\$ 304,045</b>	<b>100.0%</b>	<b>\$ 256,031</b>	<b>18.8%</b>

# Scenario 2: Cost-of-Service Results

## *Allocation of Revenue Requirements to Customer Classes:*

Classification Components	Net Revenue Requirements	Customer Classes					
		Residential (SFR & MFR)	Commercial General	Commercial Hotel	Restaurant	Industrial	Public Facility
<b>Volume Treatment</b>	<b>\$ 182,292</b>	\$ 82,826	\$ 12,898	\$ 43,083	\$ 30,156	\$ 1,509	\$ 11,822
- BOD	\$ 66,094	\$ 17,176	\$ 2,006	\$ 13,848	\$ 31,267	\$ 203	\$ 1,593
- TSS	\$ 66,094	\$ 25,405	\$ 2,967	\$ 7,929	\$ 27,749	\$ 231	\$ 1,813
<b>Customer-Related</b>	<b>\$ 4,896</b>	\$ 3,985	\$ 687	\$ 45	\$ 15	\$ 60	\$ 104
<b>Net Revenue Requirement</b>	<b>\$ 319,375</b>	<b>\$ 129,391</b>	<b>\$ 18,558</b>	<b>\$ 64,904</b>	<b>\$ 89,186</b>	<b>\$ 2,003</b>	<b>\$ 15,332</b>

## *Comparison to Current Allocation of Costs to Customer Classes:*

Customer Class	COS Allocated Costs - 2014		vs. Current Rates	
	COS Rev. Req.	% of COS Rev. Req.	Revenue at Present Rates	Percent Difference
Residential (SFR & MFR)	\$ 129,391	40.5%	\$ 105,363	22.8%
Commercial General	\$ 18,558	5.8%	\$ 28,669	-35.3%
Commercial Hotel	\$ 64,904	20.3%	\$ 57,911	12.1%
Restaurant	\$ 89,186	27.9%	\$ 44,228	101.7%
Industrial	\$ 2,003	0.6%	\$ 3,382	-40.8%
Public Facility	\$ 15,332	4.8%	\$ 16,478	-7.0%
<b>Total</b>	<b>\$ 319,375</b>	<b>100.0%</b>	<b>\$ 256,031</b>	<b>24.7%</b>

# Existing and Proposed Sewer Rates – Scenario 1

Sewer Rate Schedule	Current Rates	Proposed Rates				
		FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
<i>Projected Annual Increase in Revenue Requirements</i>		<b>19.00%</b>	<b>19.00%</b>	<b>19.00%</b>	<b>19.00%</b>	<b>0.00%</b>
<b>Fixed Charge (currently, this is the base/minimum charge)</b>						
Single-Family	\$28.70	\$29.21	\$34.76	\$41.36	\$49.22	\$49.22
Multi-Family	\$30.35	\$29.21	\$34.76	\$41.36	\$49.22	\$49.22
Commercial General <sup>1</sup>	\$38.70	\$22.40	\$26.66	\$31.73	\$37.75	\$37.75
Commercial Hotel	\$38.70	\$1,201.45	\$1,429.72	\$1,701.37	\$2,024.63	\$2,024.63
Restaurant	\$41.35	\$4,900.00	\$5,831.00	\$6,938.89	\$8,257.28	\$8,257.27
Industrial	\$44.15	\$27.81	\$33.09	\$39.38	\$46.86	\$46.86
Public Facility	\$38.70	\$121.64	\$144.75	\$172.25	\$204.98	\$204.98
<b>Commodity Charge (per hcf, currently &gt; 5 hcf)</b>						
Single-Family	\$5.74	\$2.70	\$3.22	\$3.83	\$4.56	\$4.56
Multi-Family	\$6.07	\$2.70	\$3.22	\$3.83	\$4.56	\$4.56
Commercial General <sup>1</sup>	\$7.74	\$2.49	\$2.96	\$3.53	\$4.20	\$4.20
Commercial Hotel	\$7.74	\$2.61	\$3.10	\$3.69	\$4.39	\$4.39
Restaurant	\$8.27	\$5.25	\$6.24	\$7.43	\$8.84	\$8.84
Industrial	\$8.83	\$2.30	\$2.74	\$3.25	\$3.87	\$3.87
Public Facility	\$7.74	\$2.25	\$2.67	\$3.18	\$3.78	\$3.78

1. For the one customer that is a vacant lot, currently billed as a Restaurant and is expected to develop as a mixed use customer; NBS recommends billing this customer as General Commercial on a temporary basis and but allowing them to retain their previous restaurant designation if/when they develop as a restaurant.

# Existing and Proposed Sewer Rates – Scenario 2

Sewer Rate Schedule	Current Rates	Proposed Rates				
		FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
<i>Projected Annual Increase in Revenue Requirements</i>		<b>25.00%</b>	<b>25.00%</b>	<b>25.00%</b>	<b>20.00%</b>	<b>0.00%</b>
<b>Fixed Charge (currently, this is the base/minimum charge)</b>						
Single-Family	\$28.70	\$30.68	\$38.35	\$47.94	\$57.53	\$57.53
Multi-Family	\$30.35	\$30.68	\$38.35	\$47.94	\$57.53	\$57.53
Commercial General <sup>1</sup>	\$38.70	\$23.53	\$29.42	\$36.77	\$44.13	\$44.13
Commercial Hotel	\$38.70	\$1,262.02	\$1,577.53	\$1,971.91	\$2,366.29	\$2,366.29
Restaurant	\$41.35	\$5,100.00	\$6,375.00	\$7,968.75	\$9,562.50	\$9,562.50
Industrial	\$44.15	\$29.21	\$36.51	\$45.64	\$54.77	\$54.77
Public Facility	\$38.70	\$127.77	\$159.71	\$199.64	\$239.57	\$239.57
<b>Commodity Charge (per hcf, currently &gt;5 hcf)</b>						
Single-Family	\$5.74	\$2.84	\$3.55	\$4.44	\$5.33	\$5.33
Multi-Family	\$6.07	\$2.84	\$3.55	\$4.44	\$5.33	\$5.33
Commercial General <sup>1</sup>	\$7.74	\$2.62	\$3.27	\$4.09	\$4.91	\$4.91
Commercial Hotel	\$7.74	\$2.74	\$3.42	\$4.28	\$5.14	\$5.14
Restaurant	\$8.27	\$5.63	\$7.03	\$8.79	\$10.55	\$10.55
Industrial	\$8.83	\$2.41	\$3.02	\$3.77	\$4.53	\$4.53
Public Facility	\$7.74	\$2.36	\$2.95	\$3.69	\$4.42	\$4.42

1. For the one customer that is a vacant lot, currently billed as a Restaurant and is expected to develop into a mixed use customer - NBS recommends billing the customer as General Commercial on a temporary basis and should be able to retain their previous designation as a restaurant if/when the customer builds something new.

# **Water and Sewer Capacity Fees**

# Capacity Fee Methodology

- ***Capacity Fees are a Combination of:***
  - ✓ System Buy-In, which is the value of existing system assets, *plus*
  - ✓ System Expansion, or Incremental Cost, which is the value of planned, future improvements
- Requires new customers to pay their fair & equitable share of the system costs required to provide them capacity
- New customers are then equal participants in financial commitment and obligation to the utility

# Summary of Capacity Fee Calculation

Components of Capacity Fees	Allocation to New Development			
	Water Scenario 1 (w/Chevron)	Water Scenario 2 (w/o Chevron)	Wastewater Scenario 1 (w/Chevron)	Wastewater Scenario 2 (w/o Chevron)
<u>System Asset Values:</u>				
Existing System Buy-In	\$776,586	\$468,151	\$1,550,142	\$942,455
Future System Expansion	<u>420,250</u>	<u>274,470</u>	<u>594,738</u>	<u>476,921</u>
Subtotal	\$1,196,836	\$742,621	\$2,144,881	\$1,419,376
<u>Adjustments to Cost Basis:</u>				
Cash Reserves	<u>\$9,583</u>	<u>\$5,777</u>	<u>\$46,693</u>	<u>\$28,389</u>
Subtotal	\$9,583	\$5,777	\$46,693	\$28,389
<b>Total Adjusted Cost Basis</b>	<b>\$1,206,419</b>	<b>\$748,398</b>	<b>\$2,191,574</b>	<b>\$1,447,765</b>
Projected Future EDU's	234	116	234	116
<b>Total Maximum Capacity Fee Per EDU</b>	<b>\$5,163</b>	<b>\$6,452</b>	<b>\$9,379</b>	<b>\$12,481</b>

*This calculation determines the maximum fee the District can charge, but can choose to adopt fees lower than this.*



# Sample of Water Capacity Fees

Type of Use	Existing Water Capacity Fee	Scenario 1 Updated Water Capacity Fee (w/Chevron)	Scenario 2 Updated Water Capacity Fee (w/o Chevron)
Single Family Residence or Condominium, per Residence			
One Bedroom	\$4,781	\$3,442	\$4,301
Two Bedroom	\$7,171	\$5,163	\$6,452
Three Bedroom	\$9,561	\$6,884	\$8,602
Four Bedroom	\$11,951	\$8,605	\$10,753
Multi Dwelling			
One Bedroom	\$3,824	\$2,754	\$3,441
Two Bedroom	\$5,737	\$4,130	\$5,161
Three Bedroom	\$7,649	\$5,507	\$6,882
Department Store (per employee)	\$765	\$551	\$688
Drug Store	\$9,561	\$6,884	\$8,602
Meat Market			
Motel or Hotel (per room)	\$2,390	\$1,721	\$2,151
Office Building (per employee)	\$478	\$344	\$430
Restaurant (per seat)	\$382	\$275	\$344

*Note: Updated fees are based on each user category's equivalency to a two-bedroom SFR unit.*

# Sample of Sewer Capacity Fees

Type of Use	Existing Sewer Capacity Fee	Scenario 1 Updated Sewer Capacity Fee (w/Chevron)	Scenario 2 Updated Sewer Capacity Fee (w/o Chevron)
Single Family Residence or Condominium, per Residence			
One Bedroom	\$981	\$6,253	\$8,320
Two Bedroom	\$1,471	\$9,379	\$12,481
Three Bedroom	\$1,962	\$12,505	\$16,641
Four Bedroom	\$2,452	\$15,632	\$20,801
Multi Dwelling			
One Bedroom	\$785	\$5,002	\$6,656
Two Bedroom	\$1,177	\$7,503	\$9,985
Three Bedroom	\$1,570	\$10,004	\$13,313
Department Store (per employee)	\$157	\$1,000	\$1,331
Drug Store	\$1,962	\$12,505	\$16,641
Meat Market	\$196	\$1,251	\$1,664
Motel or Hotel (per room)	\$490	\$3,126	\$4,160
Office Building (per employee)	\$98	\$625	\$832
Restaurant (per seat)	\$78	\$500	\$666

*Note: Updated fees are based on each user category's equivalency to a two-bedroom SFR unit.*

# Conclusion and Next Steps

- 1. Conclusion: Board Must Select Scen. 1 or 2 for Water & Sewer Rates and Capacity Fees**
- 2. Next Steps:**
  - To Adopt New Rates:
    - Mail Prop. 218-compliant public notices to Water and Sewer Customers
    - Hold a public hearing no less than 45 days after mailing those notices
  - To Adopt New Capacity Fees:
    - Publish notice of District's intent to update the fees
    - Hold a public hearing no less than 10 days after notice is published