



**AVILA BEACH
COMMUNITY SERVICES DISTRICT**

Post Office Box 309, Avila Beach, CA. 93424

MEMORANDUM

TO: Board of Directors

VIA: Kathy Richardson, General Manager 

FROM: John L. Wallace, District Engineer 

DATE: February 11, 2014

SUBJECT: Rate Study--Service Charges Update on Status and Next Steps

Recommendations:

1. Receive this report on updated status of the rate study effort and receive the PowerPoint presentation from Mr. Bill Statler, former Finance Director for the City of San Luis Obispo and consultant for local agencies on financial management issues, including rates studies.
2. Receive a verbal update and comments from the Finance Committee re: the Committee's meeting held on January 27 to discuss the current rate study and comments by Mr. Statler re: the scheduled 5 year rate increases shown on the Consultant's exhibits.
3. Retain the firm of NBS to re-run one or two more scenarios for rate increases that are consistent with the recommendations from staff and the Finance Committee
4. Review and comment on the revised Prop 218 schedule being proposed leading to implementation/adoption of new rates.
5. Take any public testimony re: this status report and new rates in general.
6. Provide direction to staff on these matters.

Discussion:

At the Board meeting on January 14, 2014, the Board received a report on the current status of the rate study and decided at that time to continue the item to allow for the Finance Committee to review the proposed rates, especially in light of:

- Setting appropriate reserve targets

- Meeting necessary total revenue requirements
- Reconciliation of the rates proposed for restaurants, and
- The overall financial impact to the ratepayers

The Finance Committee met on January 27, 2014 to discuss these matters. In addition the District retained Mr. Bill Statler, a local financial consultant to review the previous conclusions and reports prepared by NBS and to provide more insight on the NBS work and recommendations on possible alternatives to the rates being proposed by NBS.

Mr. Statler provided staff and the Finance Committee with a briefing that focused on the process and need for possibly several more rate model runs by NBS using very specific criteria. His follow-up report based on that briefing is attached.

Accepted conclusions

At the present time, we believe that agreement has been reached on the following:

1. Water and sewer rates are to be proposed utilizing “Scenario No. 2” (without Chevron).
2. The fixed water rates for 1” meters are to be the same as $\frac{3}{4}$ -5/8 meters where a 1” meter was installed for fire protection.
3. Restaurant rates need further adjustment.
4. There should be some relief (ie \$10 credit) for lower income families having a verifiable assistance plan from other utilities.
5. The Prop 218 process will not allow new rates to go into effect until the next fiscal year (FY 2014-15) and a new schedule should be developed (attached).

Next Steps

At the conclusion of the Finance Committee meeting, the following next steps were proposed:

1. Readjust the schedule of the budgeted five year capital projects (CIP’s) to more realistically reflect the schedule and costs of the CIP’s.
2. Generally accept the overall revenue and reserves requirements proposed by NBS but modified to reflect the modified CIP schedule and costs (No. 1 above).
3. Based on the adoption of rate principles, determine what portion of service revenue should be obtained from fixed rates vs. commodity costs. At the present time, the District receives 46% of our revenue from the minimum (fixed charges) and 54% of our revenue from commodity charges. NBS proposed revising this to 70% fixed rate revenue and 30% variable, commodity charges.
4. Further analysis of restaurants to be more equitable to a range of restaurant size and how to apply hybrid rates to commercial establishments with hybrid uses.

5. Look at other rate structures used by other agencies for a mix of fixed vs. commodity charges.
6. Retain NBS for very limited work to rerun the rate model with decisions reached on the above steps.
7. Return to the Board at a special meeting or at the March meeting with suggested rates.
8. Update the schedule for the Prop 218 hearing process.

Conclusion

It is not the intent of the District to unduly burden the residents and customers by needlessly increasing the cost of the services. However, there does come a point in time where increasing the water and sewer rates must be considered. It is vitally important that rates for services keep up with the cost of providing those services.

Attachments:

1. Report on briefing presented to Finance Committee on January 27, 2014
2. Prop 218 estimated rate implementation schedule

**Avila Beach Community Services District
Rate Study / Proposition 218 Process**

Rate Study	2013												2014		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
NBS presentation to Board (Rate Study methodology)	3/12/13														
NBS presentation to Board (Final Report)							9/10/13								
Finance Committee review							9/30/13								
Board considers recommended adjustments to Rates and Connection Fees							10/8/13								
Board considers and adopts Connection Fees									12/10/13						
Connection Fees in effect											1/1/14				
Board reviews NBS recommended Service Charges											1/14/14				
Finance Committee meeting											1/27/14				
Board to review Service Charges with tentative present by consultant (Statler)															2/11/14

Proposition 218 Process	2014							
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Board reviews rate charge alternatives	2/11/14							
Proposed Finance Committee meeting	2/18/14							
Board considers final rates; Reviews Prop 218 notice		3/11/14						
Prop 218 notices printed and mailed		3/21/14						
Protest Hearing (regular meeting)				5/13/14				
Meters read; Rates in effect by Resolution				5/27/14				
June water usage; meters read 6/26/14, bills out 6/30/14 with new rates adopted					6/30/14			
New revenue received							7/1/14 - 7/31/14	

