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WATER & SEWER RATE AND CAPACITY FEE STUDY REPORT

**TO: JOHN WALLACE, GENERAL MANAGER
AVILA BEACH COMMUNITY SERVICES DISTRICT**

**FROM: KIM BOEHLER, NBS RATE CONSULTANT
GREG CLUMPNER, NBS DIRECTOR**

SUBJECT: WATER AND WASTEWATER RATE AND CAPACITY FEE STUDY

DATE: AUGUST 27, 2013

PURPOSE

The purpose of this report is to summarize NBS' findings resulting from the Water and Sewer Rate and Capacity Fee Study performed for Avila Beach Community Services District. The attachments to this transmittal include the quantitative nexus analysis used to derive the rates, rate structures, and capacity fees for both utilities. NBS plans to present information from this analysis at the regular meeting of the Board of Directors on September 10, 2013 help the Board of Directors determine which rates and fees to adopt and subsequently present in a noticed public hearing.

Five attachments are included for the purpose of further documenting these results:

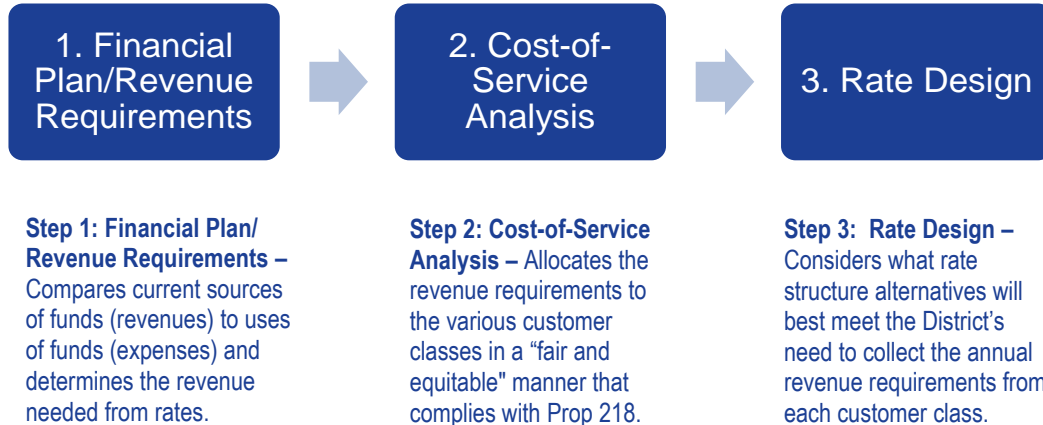
- Appendix A: Scenario 1 Water Financial Plan, Cost-of-Service Analysis and Rate Design Tables
- Appendix B: Scenario 2 Water Financial Plan, Cost-of-Service Analysis and Rate Design Tables
- Appendix C: Scenario 1 Sewer Financial Plan, Cost-of-Service Analysis and Rate Design Tables
- Appendix D: Scenario 2 Sewer Financial Plan, Cost-of-Service Analysis and Rate Design Tables
- Appendix E: Water and Wastewater Capacity Fee Study

OVERVIEW OF THE RATE STUDY

Avila Beach Community Service District retained NBS to prepare comprehensive rate and capacity fee studies for the District's water and wastewater utilities. As a part of this study, NBS evaluated projected revenues and expenditures, net revenue requirements, and projected new rates for the water and wastewater utilities based on well-accepted industry practices. Over the course of this study, NBS evaluated numerous alternatives and scenarios for the District's review. District staff and Board have provided extensive direction on financial alternatives and rate design options. This report presents an overview of the methodologies and data used and the various financial and rate alternatives developed.

A comprehensive utility rate study typically analyzes three components: the utility's overall revenue requirements, the cost-of-service for each customer class, and the appropriateness of the rate structure design. These components are summarized in Figure 1.

Figure 1. Primary Components of a Rate Study



The components shown in Figure 1 are based on industry standard cost of service methodologies, primarily from the American Water Works Association (AWWA) and Water Environment Federation (WEF). These steps address Proposition 218 and general requirements for equity and fairness. In terms of the chronology, these three steps represent the order they were performed in this study for the water and sewer utilities.

As a part of this study, NBS evaluated rate structure alternatives for ABCSD to consider including the recommended single-commodity volumetric rate with fixed charges by meter size and the current rate structure for the water rates. Current sewer customer classes and rate structures were also evaluated with the intent of improving the overall efficiency and equity of the rates. An overview of the methodologies, data used, and the various rate alternatives is presented below.

WATER RATE STUDY

KEY WATER RATE STUDY ISSUES

The water rate analysis was undertaken with a few specific objectives, including:

- Ensuring that there is sufficient revenue to meet projected funding requirements.
- Developing rates that provide revenue stability.
- Reflecting projected water consumption and likely water conservation.
- Ensuring equity among customer classes.
- Implementing a water rate structure that is consistent with industry standards and promotes water conservation.
- Providing a subsidy to low income/senior users.

NBS developed multiple financial plan and water rate alternatives that District Staff considered over the course of this study. The rate alternative presented in this report is the one that was ultimately recommended by NBS and selected by the District. The rates were developed using industry standards and cost-of-service principles. The fixed and volume-based charges were calculated based on the net revenue requirements, number of customer accounts, water consumption, and other District-provided information. The following are some of the basic components included in this analysis:

- **Unit Costs:** The water revenue requirements were “functionalized” into three categories: (1) customer service costs; (2) fixed capacity costs; and (3) variable (or volume-based) costs. Unit

costs for each of these functions were determined based on allocations to functional areas, water consumption, peaking factors, number of accounts by meter size and customer class.¹

- **Revenue Requirements by Customer Class:** The total revenue that should be collected from each customer class was determined using the unit costs and the total units for each class. For example, customer costs are allocated based on number of accounts, while volume-related costs are allocated based on the water consumption for each class by meter size.
- **Fixed vs. Variable Costs and Rates:** The revenue requirements for each customer class are collected through a combination of fixed monthly charges and variable rates. Fixed costs, such as customer service, billing, and general administrative costs, are typically collected through a fixed monthly charge, while variable costs such as pumping costs and water supply are typically collected through volumetric charges. For ABCSD, the cost of purchased water is primarily fixed, therefore, it was determined in the Cost-of-Service Analysis that the District should actually collect 82% of revenue from fixed charges and 18% from variable charges. NBS recommended the District actually collect 70% of revenue from fixed charges and 30% from variable charges in an effort to get closer to the pure cost of service results, while trying to minimize the impact to low-end users.

WATER UTILITY REVENUE REQUIREMENTS

It is important for the District to follow sound financial management practices. This includes maintaining reasonable reserves in order to handle emergencies, fund working capital, and maintain a good credit rating. Rate increases are governed by the need to meet operating and capital costs and build reserve funds. The current state of the District's water utility, with regard to these objectives, is as follows:

- **Meeting Operating Costs:** For Fiscal Years 2013/14 through 2017/18, the annual operating costs are estimated to be approximately \$415,000 to \$470,000. It was determined in the revenue requirement analysis that existing water rates are not sufficient to cover purchased water and other operating costs. The deficit projected approximately \$45,000 to \$96,000 annually over the next five years. This is not a sustainable position and it should be corrected immediately.
- **Meeting Capital Improvement Costs:** The water utility must also be able to fund necessary capital improvements. The District has identified roughly \$940,000 in planned capital improvements for the next five years that are assumed to be funded by the following sources:
 - \$400,000 of these costs will be funded by capacity fees held in reserve,
 - Approximately \$113,000 may be funded by a development agreement contribution, and
 - The balance of approximately \$425,000 to \$540,000 will be funded by rates.
- **Building and Maintaining Reserve Funds:** The District should build sufficient reserves for the Utility. NBS recommends that the District accumulate reserves in order to meet the following targets:
 - **Operating Reserve** equal to 25% of the Utility's budgeted annual operating expenses. This reserve target is equal to a three month (or 90 day) cash cushion for normal operations. An Operating Reserve is intended to promote financial viability in the event of any short-term fluctuation in revenues and/or expenditures. Fluctuations might be caused by weather patterns, the natural inflow and outflow of cash during billing cycles, natural variability in demand-based revenue streams (e.g., variable charges), and – particularly in periods of economic distress – changes or trends in age of receivables.
 - **Capital Reserves** equal to two times the average annual capital expenditures planned for 2013 through 2019 for capital repair and replacement needs, which serves simply as a starting point for addressing long-term needs. If ratepayers can generate revenues at

¹ The California Urban Water Conservation Council recommends recovering 70 percent of rate revenue through volume-based rates. However, water utilities generally develop their own policy and conservation objectives.

this level and pace, they will have reserved a partial cash resource that can be applied toward the future replacement and rehabilitation needs.

Two financial plan scenarios were prepared for the Water Utility. Scenario 1 assumes that the District will receive approximately \$113,000 from Chevron to fund a portion of the Capital Improvement Program and Scenario 2 assumes that the District will not receive that contribution. There is not a significant difference in the outcomes under these two scenarios; therefore the figures that follow are for financial plan Scenario 1. The detail of the analysis for Scenario 2 can be found in Appendix B.

Figure 2 summarizes the sources and uses of funds, including net revenue requirements, for the next five years. Figure 3 summarizes the projected reserve fund balances and reserve targets. The proposed water utility 10-year financial plan, including revenue requirements, reserve funds, revenue sources, proposed rate increases, and the District's capital improvement program are summarized in Appendix A.

Figure 2. Summary of Water Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget		Projected				
	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Sources of Water Funds							
Rate Revenue Under Prevailing Rates	\$ 331,866	\$ 331,866	\$ 370,953	\$ 370,953	\$ 370,953	\$ 370,953	\$ 370,953
Non-Rate Revenues	64,201	64,201	67,218	67,218	95,318	95,322	95,330
Interest Earnings	45	95	64	512	701	1,084	1,490
Use of Reserves for Capital projects	-	66,266	117,926	271,309	57,465	-	-
Total Sources of Funds	\$ 396,112	\$ 462,428	\$ 556,160	\$ 709,992	\$ 524,437	\$ 467,359	\$ 467,773
Uses of Water Funds							
Purchased Water Costs	\$ 224,000	\$ 230,720	\$ 237,642	\$ 244,771	\$ 252,114	\$ 259,677	\$ 267,468
Other Operating Expenses	162,970	171,799	178,028	181,599	187,484	193,568	199,856
Debt Service	-	-	-	-	-	-	-
Rate-Funded Capital Expenses	-	-	-	6,192	114,930	89,249	215,619
Reserve Funded Capital Expenses	-	66,266	117,926	271,309	57,465	-	-
Additions to Meet Minimum Operating Reser	7,842	13,999	55,601	1,759	2,174	2,243	40,724
Total Use of Funds	\$ 394,812	\$ 482,784	\$ 589,197	\$ 705,630	\$ 614,168	\$ 544,737	\$ 723,667
Surplus (Deficiency) before Rate Increase	\$ 1,300	\$ (20,356)	\$ (33,036)	\$ 4,362	\$ (89,731)	\$ (77,378)	\$ (255,894)
Additional Revenue from Rate Increases	-	-	44,514	94,370	150,209	171,298	171,830
Surplus (Deficiency) after Rate Increase	\$ 1,300	\$ (20,356)	\$ 11,478	\$ 98,732	\$ 60,479	\$ 93,920	\$ (84,064)
Projected Annual Rate Increase	0.00%	0.00%	12.00%	12.00%	12.00%	4.00%	0.00%
Cumulative Rate Increases	0.00%	0.00%	12.00%	25.44%	40.49%	46.11%	46.11%
Net Revenue Requirement¹	\$ 330,566	\$ 352,222	\$ 403,989	\$ 366,591	\$ 460,684	\$ 448,331	\$ 626,847

1. Total Use of Funds less non-rate revenues and interest earnings. This is the annual amount needed from water rates.

Figure 3. Summary of Water Reserve Funds

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget		Projected				
	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Operating Reserve							
Ending Balance	\$ 19,084	\$ 12,728	\$ 68,329	\$ 70,088	\$ 72,263	\$ 74,506	\$ 31,166
<i>Recommended Minimum Target</i>	<i>19,084</i>	<i>33,084</i>	<i>68,329</i>	<i>70,088</i>	<i>72,263</i>	<i>74,506</i>	<i>115,231</i>
Capital Rehab & Replacement Reserve							
Ending Balance	\$ 17,464	\$ 17,551	\$ 29,117	\$ 128,068	\$ 189,827	\$ 286,595	\$ 292,327
<i>Recommended Minimum Target</i>	<i>300,000</i>	<i>300,000</i>	<i>300,000</i>	<i>300,000</i>	<i>300,000</i>	<i>300,000</i>	<i>300,000</i>
Capacity Fee Reserve							
Ending Balance	\$ 400,000	\$ 333,734	\$ 215,809	\$ -	\$ -	\$ -	\$ -
<i>Recommended Minimum Target</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Total Ending Balance	\$ 436,548	\$ 364,014	\$ 313,255	\$ 198,156	\$ 262,090	\$ 361,101	\$ 323,493
Total Recommended Minimum Target	\$ 319,084	\$ 333,084	\$ 368,329	\$ 370,088	\$ 372,263	\$ 374,506	\$ 415,231
Surplus / (Deficit)	\$ 117,464	\$ 30,930	\$ (55,074)	\$ (171,932)	\$ (110,173)	\$ (13,405)	\$ (91,738)

CURRENT VS. PROPOSED WATER RATE STRUCTURES

The process of designing water rates provides the opportunity to incorporate a number of rate-design objectives and policies, including revenue stability, equity among customer classes, and water conservation. Currently all metered accounts, regardless of customer class, are billed a minimum charge of \$40.70 per account each month which includes five units (hcf) of water consumption. Customers are not charged per unit of water unless their consumption exceeds five units, where at that point they are charged \$8.14 per hcf of water consumption, in addition to the minimum monthly charge.

The multiple water rate alternatives that NBS developed and District Staff reviewed over the course of this study resulted in the recommended rate alternative presented below. The proposed rates consist of a fixed charge based on the size of the water meter and a per unit charge for water starting at one hcf. This rate structure is consistent with industry standards and reflects how a majority of communities in California bill their customers for water service. This rate structure does two major things that the current rate structure does not allow for:

- (1) Better reflects the cost of delivering water to each customer, and
- (2) Encourages water conservation.

The advantages of this alternative are (1) that the fixed charge is based on meter size which is related to the capacity requirements that each meter size places on the water system, and (2) customers pay for each unit of water consumed, so they will be able to see the impact of what they are using in their monthly bill.

In addition, low income/senior customers will receive a \$10 credit per month on their water bill, if they qualify and submit the necessary paperwork to ABCSD in order to enroll in the program. Figure 4 presents a comparison of the current and alternative rate structure for FY 2013/14 through 2017/18 for all users. More detailed tables on the development of the proposed water rates are documented in Appendix A.

Figure 4. Current 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%
Fixed Meter Charge (currently, this is the base/minimum charge)						
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
Commodity Charge (per hcf)						
All Users						
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).

SEWER RATE STUDY

KEY SEWER RATE STUDY ISSUES

Similar to the water rate study, the three comprehensive rate study components (revenue requirements, cost-of-service, and rate design) previously noted in Figure 1 are also addressed in the sewer rate study. In the sewer rate analysis, a number of key issues were specifically addressed, including:

- Ensuring that there is sufficient revenue to meet projected funding requirements.
- Evaluating customer classes and make adjustments as needed.
- Ensuring equity among customer classes.
- Evaluating rate design with respect to the percentage of revenue derived from fixed vs. variable (volumetric) charges and implementing rates that provide stable revenues.
- Implementing a water rate structure that is consistent with industry standards and reflects the cost of providing sewer collection and wastewater treatment services.

More detailed tables are shown in Appendices C and D.

RATE STUDY METHODOLOGY AND ASSUMPTIONS

Although the basic steps in a sewer rate analysis are similar for water and sewer utilities, whereas water rates focus on volume-related charges for consumption levels, sewer rates incorporate unit costs related to both hydraulic flow and treatment of wastewater effluent. These are generally referred to as flow and strength factors, and include the following three components:

- Flow (or volume of effluent)
- Biochemical Oxygen Demand (BOD)
- Total Suspended Solids (or TSS)

In this analysis, NBS has relied on the District's data for the total amount of effluent treated at the wastewater treatment plant, along with estimated water consumption from billing records. That is, in allocating effluent costs to District customers, NBS calibrated flows from customer classes to match wastewater treatment plant flow records (i.e., the estimated effluent received at the District's plant).

SEWER UTILITY REVENUE REQUIREMENTS

To identify the District's long-term financial needs, NBS developed a 10-year financial plan that forecasts sewer revenues and expenditures, including reserves. This plan is based on the District's current operating budget for the utility, discussions with District staff, and related information such as capital improvement plans.

The District's financial plan addresses four primary components:

- **Meeting Operations Costs:** For Fiscal Years 2013/14 through 2017/18, annual operating costs alone are estimated to be approximately \$475,000 to \$540,000. It was determined in the revenue requirement analysis that rates alone are nowhere near sufficient to cover operating costs. Even with considering the property tax revenue and revenue from the Harbor District, rate revenue under existing rates is not sufficient to pay operating costs alone in the long term. It is projected that the Utility will begin running a deficit of approximately \$13,000 in FY 2015/16 that is projected to increase to \$44,000 by FY 2017/18. The District should take action to prevent this deficit position.
- **Meeting Capital Improvement Costs:** The sewer utility must also be able to fund necessary capital improvements. The District has identified roughly \$3.5 million in planned capital improvements for the next five years that are assumed to be funded by the following sources:
 - \$700,000 of these costs will be funded by capacity fees held in reserve,
 - \$600,000 will be funded by low-interest State Revolving Fund Loans,

- Approximately \$960,000 may be funded by a development agreement contribution,
- \$900,000 to \$1.2 million will be funded by contributions from the Harbor District, depending on how much project funding (if any) comes from a development agreement,
- The balance of approximately \$370,000 to \$1 million will be funded by rates, depending on development agreement contributions.
- **Building and Maintaining Reserve Funds:** The District should accumulate reserve funds for the Utility. NBS recommends that the District build and maintain reserves in order to meet the following targets:
 - **Operating Reserve** equal to 25% of the Utility's budgeted annual operating expenses. This reserve target is equal to a three month (or 90 day) cash cushion for normal operations.
 - **Capital Reserves** equal to the average annual capital expenditures planned for 2013 through 2019 for capital repair and replacement projects, which serves simply as a starting point for addressing long-term needs.
 - **Debt Reserve** equal to the reserve requirement for planned debt issues, which is equal to the maximum annual debt service payment due for those anticipated issues.

Two financial plan scenarios were prepared for the Sewer Utility. Scenario 1 assumes that the District will receive approximately \$960,000 from Chevron to fund a portion of the Capital Improvement Program. Scenario 2 assumes that the District will not receive that contribution. The financial plan figures shown below provide a comparison for both scenarios.

Figure 8 and 9 summarize the next five years of the financial plan under each scenario, showing a more traditional "sources and uses" of funds, along with the estimated annual surplus or deficiency. Figures 10 and 11 show a summary of the utility's projected reserve funds and target balances. The detail of the entire 10-year financial plan, showing revenue requirements, revenue sources (including rate revenue), and necessary rate increases are presented in Appendices C and D.

Figure 8. Scenario 1: Summary of Wastewater Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget		Projected				
	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Sources of Wastewater Funds							
Rate Revenue Under Prevailing Rates	\$ 227,500	\$ 227,500	\$ 255,500	\$ 255,500	\$ 255,500	\$ 255,897	\$ 256,691
Non-Rate Revenues	240,063	244,638	240,128	239,708	240,421	240,161	240,137
Interest Earnings	382	357	484	782	803	1,673	2,582
Use of Reserves for Capital projects	-	442,426	493,144	462,103	464,339	300,988	993,786
Total Sources of Funds	\$ 467,945	\$ 914,922	\$ 989,256	\$ 958,093	\$ 961,062	\$ 798,719	\$1,493,197
Uses of Wastewater Funds							
Operating Expenses	\$ 434,608	\$ 479,456	\$ 475,886	\$ 488,416	\$ 509,012	\$ 523,643	\$ 540,376
Debt Service	-	-	-	-	34,515	47,344	53,759
Rate-Funded Capital Expenses	-	-	0	54,049	24,113	127,406	164,396
Reserve Funded Capital Expenses	-	442,426	493,144	462,103	464,339	300,988	993,786
Additions to Meet Minimum Operating Reserve	-	7,372	13,746	2,060	3,386	45,444	4,126
Total Use of Funds	\$ 434,608	\$ 929,254	\$ 982,776	\$ 1,006,627	\$ 1,035,364	\$ 1,044,825	\$ 1,756,443
Surplus (Deficiency) before Rate Increase	\$ 33,337	\$ (14,333)	\$ 6,480	\$ (48,534)	\$ (74,302)	\$ (246,106)	\$ (263,246)
Additional Revenue from Rate Increases	-	-	48,545	106,314	175,058	257,263	258,061
Surplus (Deficiency) after Rate Increase	\$ 33,337	\$ (14,333)	\$ 55,025	\$ 57,780	\$ 100,756	\$ 11,157	\$ (5,185)
Projected Annual Rate Increase	0.00%	0.00%	19.00%	19.00%	19.00%	19.00%	0.00%
Cumulative Rate Increases	0.00%	0.00%	19.00%	41.61%	68.52%	100.53%	100.53%
Net Revenue Requirement¹	\$ 194,163	\$ 241,833	\$ 249,020	\$ 304,034	\$ 329,802	\$ 502,003	\$ 519,938

1. Total Use of Funds less non-rate revenues and interest earnings. This is the annual amount needed from wastewater rates.

Figure 9. Scenario 2: Summary of Wastewater Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget		Projected				
	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Sources of Wastewater Funds							
Rate Revenue Under Prevailing Rates	\$ 227,500	\$ 227,500	\$ 255,500	\$ 255,500	\$ 255,500	\$ 255,897	\$ 256,691
Non-Rate Revenues	240,063	244,638	240,128	239,708	240,421	240,161	240,137
Interest Earnings	382	357	484	782	803	1,673	2,582
Use of Reserves for Capital projects	-	442,426	493,144	372,532	370,958	249,938	605,364
Total Sources of Funds	\$ 467,945	\$ 914,922	\$ 989,256	\$ 868,522	\$ 867,681	\$ 747,669	\$1,104,775
Uses of Wastewater Funds							
Operating Expenses	\$ 434,608	\$ 479,456	\$ 475,886	\$ 488,416	\$ 509,012	\$ 523,643	\$ 540,376
Debt Service	-	-	-	-	34,515	47,344	53,759
Rate-Funded Capital Expenses	-	-	-	143,620	117,494	178,456	552,818
Reserve Funded Capital Expenses	-	442,426	493,144	372,532	370,958	249,938	605,364
Additions to Meet Minimum Operating Reserve	-	7,372	13,746	2,060	3,386	45,444	4,126
Total Use of Funds	\$ 434,608	\$ 929,254	\$ 982,776	\$1,006,627	\$1,035,364	\$1,044,825	\$1,756,443
Surplus (Deficiency) before Rate Increase	\$ 33,337	\$ (14,333)	\$ 6,480	\$ (138,105)	\$ (167,683)	\$ (297,156)	\$ (651,669)
Additional Revenue from Rate Increases	-	-	63,875	143,719	243,523	343,861	344,929
Surplus (Deficiency) after Rate Increase	\$ 33,337	\$ (14,333)	\$ 70,355	\$ 5,614	\$ 75,841	\$ 46,705	\$ (306,740)
Projected Annual Rate Increase	0.00%	0.00%	25.00%	25.00%	25.00%	20.00%	0.00%
Cumulative Rate Increases	0.00%	0.00%	25.00%	56.25%	95.31%	134.38%	134.37%
Net Revenue Requirement¹	\$ 194,163	\$ 241,833	\$ 249,020	\$ 393,605	\$ 423,183	\$ 553,053	\$ 908,360

1. Total Use of Funds less non-rate revenues and interest earnings. This is the annual amount needed from wastewater rates.

Figure 10. Scenario 1: Summary of Wastewater Reserve Funds

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget		Projected				
	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Operating Reserve							
Ending Balance	\$ 71,442	\$ 64,482	\$ 78,228	\$ 80,288	\$ 83,673	\$ 129,117	\$ 128,058
<i>Recommended Minimum Target</i>	<i>71,442</i>	<i>78,815</i>	<i>78,228</i>	<i>80,288</i>	<i>83,673</i>	<i>129,117</i>	<i>133,243</i>
Capital Rehab & Replacement Reserve							
Ending Balance	\$ 90,311	\$ 90,762	\$ 146,468	\$ 205,712	\$ 308,525	\$ 325,981	\$ 332,885
<i>Recommended Minimum Target</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>
Connection Fee Reserve							
Ending Balance	\$ 700,000	\$ 412,423	\$ 109,300	\$ -	\$ -	\$ -	\$ -
<i>Recommended Minimum Target</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Debt Reserve							
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ 6,415	\$ 19,244	\$ 25,659
<i>Recommended Minimum Target</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>6,415</i>	<i>19,244</i>	<i>25,659</i>
Total Ending Balance	\$ 861,753	\$ 567,667	\$ 333,995	\$ 285,999	\$ 398,613	\$ 474,342	\$ 486,602
Total Recommended Minimum Target	\$ 591,442	\$ 598,815	\$ 598,228	\$ 600,288	\$ 610,088	\$ 668,362	\$ 678,902
Surplus / (Deficit)	\$ 270,311	\$ (31,148)	\$ (264,233)	\$ (314,288)	\$ (211,475)	\$ (194,019)	\$ (192,300)

Figure 11. Scenario 2: Summary of Wastewater Reserve Funds

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget		Projected				
	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18
Operating Reserve							
Ending Balance	\$ 71,442	\$ 64,482	\$ 78,228	\$ 80,288	\$ 83,673	\$ 129,117	\$ (173,497)
<i>Recommended Minimum Target</i>	<i>71,442</i>	<i>78,815</i>	<i>78,228</i>	<i>80,288</i>	<i>83,673</i>	<i>129,117</i>	<i>133,243</i>
Capital Rehab & Replacement Reserve							
Ending Balance	\$ 90,311	\$ 90,762	\$ 161,798	\$ 169,029	\$ 246,560	\$ 298,325	\$ 304,676
<i>Recommended Minimum Target</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>	<i>520,000</i>
Connection Fee Reserve							
Ending Balance	\$ 700,000	\$ 412,423	\$ 91,879	\$ -	\$ -	\$ -	\$ -
<i>Recommended Minimum Target</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>
Debt Reserve							
Ending Balance	\$ -	\$ -	\$ -	\$ -	\$ 6,415	\$ 19,244	\$ 25,659
<i>Recommended Minimum Target</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>6,415</i>	<i>19,244</i>	<i>25,659</i>
Total Ending Balance	\$ 861,753	\$ 567,667	\$ 331,904	\$ 249,317	\$ 336,648	\$ 446,686	\$ 156,838
Total Recommended Minimum Target	\$ 591,442	\$ 598,815	\$ 598,228	\$ 600,288	\$ 610,088	\$ 668,362	\$ 678,902
Surplus / (Deficit)	\$ 270,311	\$ (31,148)	\$ (266,323)	\$ (350,971)	\$ (273,440)	\$ (221,675)	\$ (522,064)

CURRENT VS. ALTERNATIVE SEWER RATE STRUCTURES

NBS developed a rate structure for all customer classes that is somewhat different than the District's current rates. Currently, all metered accounts are billed a minimum charge per account, per month that varies by customer class and includes five units (hcf) of water consumption. Customers are not charged per unit of water unless their consumption exceeds five units, where at that point they are charged a specific rate per hcf of water consumption that varies by customer class, in addition to the minimum monthly charge.

The new rates developed by NBS and selected by District Staff consist of a fixed charge that varies by customer class and a per unit sewer charge for all water consumption. This rate structure is consistent with industry standards and reflects how many communities in California bill their customers for sewer service. The proposed sewer rates better reflect the cost of providing each customer with sewer service and correct the inequities between customer classes inherent in the existing rate structure.

In these new rates, the customer classes were expanded to better reflect the cost of service differences between customer classes. There is now a separate class for hotels and public facilities which were previously grouped with other commercial users. Figure 12 shows the new customer classes.

Figure 12. Sewer Customer Classes

Updated Sewer Customer Classes
Single-Family
Multi-Family
Commercial General
Commercial Hotel
Restaurant
Industrial
Public Facility

Figures 13 and 14 present a comparison of the current and alternative rate structures for FY 2013/14 through 2017/18 for all users, under each financial plan scenario. More detailed tables on the development of the proposed sewer rates are documented in Appendices C and D.

Figure 13. Scenario 1: Current and Proposed Sewer Rates

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>		19.00%	19.00%	19.00%	19.00%	0.00%
Fixed Charge (currently, this is the base/minimum charge)						
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 ¹	\$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
Commodity Charge (per hcf, currently > 5 hcf)						
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 ¹	\$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.

Figure 14. Scenario 2: Current and Proposed Sewer Rates

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>		25.00%	25.00%	25.00%	20.00%	0.00%
Fixed Charge (currently, this is the base/minimum charge)						
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 ¹	\$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
Commodity Charge (per hcf, currently >5 hcf)						
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 ¹	\$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

INTRODUCTION

Capacity fees are one-time fees imposed on new or modified connections to the systems, and are intended to reflect the cost of utility infrastructure made available to a new service. Capacity fees are subject to California’s Mitigation Fee Act (Government Code 66000 et seq.), which prescribes the means by which public agencies may impose development impact fees. The following sections provide a brief overview of the methodology, calculation, and statement of findings for this capacity fee analysis. The attachment to this transmittal includes the quantitative nexus analysis used to derive the capacity fees.

CAPACITY FEE METHODOLOGY

Various methodologies have been and are currently used to calculate water and sewer capacity fees. These include basing the fee on (1) the value of existing (historical) system assets, which is often called a buy-in methodology, (2) the value of planned future improvements, also called an incremental fee methodology, or (3) a combination of these two approaches. This analysis uses the combination approach, which requires new customers to pay both their fair and equitable share of existing system assets as well as their share of the future capital improvements needed to provide them with capacity in each system. As a result, new customers connecting to the District would enter the water and sewer utilities as equal participants with regard to their financial commitment and obligations to the utilities.

In calculating the water and sewer capacity fees for Avila Beach Community Services District, the buy-in component of the capacity fee was calculated based on the value of existing system assets, minus depreciation and contributed capital assets. The incremental component of the capacity fees were calculated based on the cost of planned, future improvements. The sum of these two components is the total cost basis, which is then allocated to existing and future users. The total costs allocated to future users are then divided by the expected number of future customers, measured in equivalent dwelling units (or “EDU”, which is equivalent to a two bedroom single-family residential unit).

Based on the combined buy-in and incremental capacity fee methodology and the assumptions used in this analysis, NBS has calculated two scenarios for capacity fees, as shown in Figure 15. Scenario 1 assumes Chevron connects to the systems and Scenario 2 assumes Chevron does not connect to the systems. These fees represent the same structure as the District’s current schedule of fees: fees are based on the number of EDU’s and are adjusted depending on the type of use connecting to the systems. This approach represents the new customer’s proportional system capacity requirements. The fees listed in Figure 15 represent the maximum fee that the District could charge, although the District may choose to adopt lower fees.

Figure 15. Updated Water and Sewer Capacity Fees per EDU

Fee Description	Current Fee	Scenario 1 Updated Fee (w/Chevron)	Scenario 2 Updated Fee (wo Chevron)
Water Capacity Fee, Per EDU	\$7,171	\$5,163	\$6,452
Sewer Capacity Fee, Per EDU	\$1,471	\$9,379	\$12,481

Note: One EDU is equivalent to a two-bedroom SFR unit.

The capacity fees have been calculated based on the amount of expected growth in the District’s service area, as documented in the Master Plans for each utility and recent documentation related to the

development of the Chevron – Avila Tank Farm area. Figure 16 summarizes the calculations used to determine the maximum capacity fee per EDU, under each scenario.

Figure 16. 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	420,250	274,470	594,738	476,921
Subtotal	\$1,196,836	\$742,621	\$2,144,881	\$1,419,376
<u>Adjustments to Cost Basis:</u>				
Cash Reserves	\$9,583	\$5,777	\$46,693	\$28,389
Subtotal	\$9,583	\$5,777	\$46,693	\$28,389
Total Adjusted Cost Basis	\$1,206,419	\$748,398	\$2,191,574	\$1,447,765
Projected Future EDU's	234	116	234	116
Total Maximum Capacity Fee Per EDU	\$5,163	\$6,452	\$9,379	\$12,481

WATER AND SEWER CAPACITY FEE ANALYSIS FINDINGS

This study submits the following findings, which have been substantiated and quantified by the technical analysis in Appendix E and have appropriately considered the prevailing practices of the District:

- The purpose of the Water and Sewer Capacity Fees is to establish fair and equitable fees to be paid by both new and upsized connections. The purposes of these fees are to: (1) reimburse existing customers for historical assets that current customers paid for, and (2) to pay their fair share of planned capital improvements, including both those specifically intended to provide new customers with sufficient system capacity and those made to maintain and/or upgrade the water and sewer systems.
- The District uses revenue from capacity fees to fund capital investments in the Water and Sewer systems. Investments include reimbursement – through capital replacement and rehabilitation – for facilities already in service, as well as the future design and construction of planned facilities.
- All parcels seeking permission to connect to the District's Water and/or Sewer systems are subject to these capacity fees; this payment is a condition of connection approval. Attachment E, Exhibit 1, identifies the total number of projected future customers. In addition to the 400 equivalent meter service units currently in service, the District expects to add approximately 116 (scenario 1) to 234 (scenario 2) additional equivalent service units to its systems during the planning period covered by this analysis.
- The amount of the capacity fee varies depending on the type of user that is connecting to the systems. User type is directly related to the proportionate demands a parcel potentially may place on the utility systems. Attachment A, Exhibits 10 and 11, illustrate the equivalency (EDU's) many types of users have compared to a Single-Family Residence, which reflects the differences in capacity requirements of various types of customer classes place on the systems.

- The District has made past investments in Water and Sewer infrastructure and plans to invest further in expanded or upgraded facilities. These investments make possible the availability and continued reliable provision of utility service sufficient to meet demands inclusive of growth in connections expected from remaining known developable parcels within the District's service area. In Attachment E, Exhibits 2 through 5 derive and identify the total value of existing water and sewer system assets attributable to serving future connections, for the two scenarios described in this memo. The values are as follows:
 - Water System existing asset values allocated to growth:
 - Scenario 1 – 35% of existing assets, or \$776,586
 - Scenario 2 – 21% of existing assets, or \$468,151
 - Sewer System existing asset values allocated to growth:
 - Scenario 1 – 36% of existing assets, or \$1,550,142
 - Scenario 2 – 22% of existing assets, or \$942,455

- Without capital investment in existing facilities, there would not be sufficient capacity available in the water and sewer systems to serve the needs of future connections when necessary. Without planned investments in future facilities, utility service would not be sustainable at the level of service enjoyed by current users. In Attachment A, Exhibits 7 and 8 identify the total value of planned utility system assets attributable to serving future connections, for the two scenarios described in this memo. The values are as follows:
 - Water System planned asset values allocated to growth:
 - Scenario 1 – 35% of planned assets, or \$420,250
 - Scenario 2 – 21% of planned assets, or \$274,470
 - Sewer System planned asset values allocated to growth:
 - Scenario 1 – 36% of planned assets, or \$594,738
 - Scenario 2 – 22% of planned assets, or \$476,921

- Capacity fee amounts are derived directly from the value of capital investments in existing and planned water and sewer system facilities. In Attachment E, Exhibit 9 derives and identifies the infrastructure cost per equivalent dwelling unit for a new connection, for each scenario described in this memo. The values are as follows:
 - Water System cost per equivalent dwelling unit (EDU):
 - Scenario 1 – \$5,163
 - Scenario 2 – \$6,452
 - Sewer System cost per equivalent dwelling unit:
 - Scenario 1 – \$9,379
 - Scenario 2 – \$12,481

- Upon payment of a capacity fee, a new customer incurs the obligation to pay the same ongoing service rates as existing customers, regardless of the date of connection to the system or the actual start of service. Assessment of capacity fees ensures that over time, ongoing service rates are not disproportionately burdened by the accommodation of system growth.

RECOMMENDATIONS AND NEXT STEPS

CONSULTANT RECOMMENDATIONS

NBS recommends the District take the following actions:

- **Approve Recommended Rates and Study Report:** Based on the water and sewer rate analysis presented in this report, NBS recommends the Board of Directors formally adopt this report and its recommendations, and then proceed with the necessary actions outlined below to implement the recommended rate structures.
- **Adopt the Following Rates and Rate Structures for the Next Five Years:**
 - **Single-Commodity Water Rates:** NBS recommends the District adopt the single commodity rate that starts with the first unit of consumption, along with new fixed charges by meters size for all other customers, as shown in the table below.

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%
Fixed Meter Charge (currently, this is the base/minimum charge)						
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
Commodity Charge (per hcf)						
All Users						
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).

- **Sewer Rates Based on Water Use:** NBS recommends the District adopt the sewer rates shown in either of the two tables below, depending on what iteration of the financial plan the District wants to proceed with. The rates consist of a flat rate per month based on customer class, plus a variable charge that also varies by customer class that starts with one unit of water consumption.

Scenario 1: Proposed Sewer Rates (Assumes Chevron Development)

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>		19.00%	19.00%	19.00%	19.00%	0.00%
Fixed Charge (currently, this is the base/minimum charge)						
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 ¹	\$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
Commodity Charge (per hcf, currently > 5 hcf)						
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 ¹	\$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.

Scenario 2: Proposed Sewer Rates (Assumes No Chevron Development)

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>		25.00%	25.00%	25.00%	20.00%	0.00%
Fixed Charge (currently, this is the base/minimum charge)						
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 ¹	\$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
Commodity Charge (per hcf, currently >5 hcf)						
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 ¹	\$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.

- **Board of Directors Presentation and Review:** The recommended water and sewer rates developed as a part of this rate study should be reviewed by the Board of Directors in a public meeting.
- **Complete Public Hearing and Proposition 218 Noticing for New Rates:** To proceed with adoption and implementation of the recommended rates, the District will need to comply with Proposition 218 requirements, which include directing District staff to send out Prop 218-compliant public notices, followed by a public hearing no less than 45 days after sending out those notices.

- **Adopt the Recommended Capacity Fees:** The Board of Directors should adopt one set of capacity fees shown in the table below, depending on what iteration of the financial plan the District wants to proceed with. A detailed schedule of capacity fees based on customer class can be found in Appendix E, Exhibits 10 and 11.

Proposed Capacity Fees per EDU

Fee Description	Current Fee	Scenario 1 Updated Fee (w/Chevron)	Scenario 2 Updated Fee (w/o Chevron)
Water Capacity Fee, Per EDU	\$7,171	\$5,163	\$6,452
Sewer Capacity Fee, Per EDU	\$1,471	\$9,379	\$12,481

Note: One EDU is equivalent to a two-bedroom SFR unit.

- **Complete Public Hearing and Noticing Required to Adopt New Capacity Fees:** To proceed with adoption and implementation of the recommended capacity fees, the District will need to hold a public hearing no less than 10 days after publishing a notice of public in a local newspaper. Since capacity fees are not subject to Prop 218 requirement, this adoption process is different than for water and sewer rates.

NEXT STEPS

- **Annually Review Rates and Revenue** – Any time an agency adopts new utility rates or rate structures, those new rates should be closely monitored over the next several years to ensure the revenue generated is sufficient to meet the annual revenue requirements. Changing economic and water consumption patterns underscore the need for this review, as well as potential and unseen changing revenue requirements, particularly those related to environmental regulations that can significantly affect capital improvements and repair and replacement costs.

PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

In preparing this report and opinions and recommendations included herein, NBS has relied on information and documents provided by the District and its consultants, and various principal assumptions and considerations with regard to financial matters, conditions and events that may occur in the future. This information and assumptions, including the District’s budgets and capital improvement costs, were provided by sources we believe to be reliable.

While we believe NBS’ use of such information and assumptions is reasonable for the purpose of this report, some assumptions will invariably not materialize as stated herein and may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

Note: The attached Technical Appendices provide more detailed information on the analysis of the water and sewer revenue requirements, cost-of-service analysis and cost allocations, and the rate design analyses that have been summarized in this report.