

**TO:** ERIC TYNAN, GENERAL MANAGER, CCSD  
**FROM:** K. DENNIS KLINGELHOFER, HARRIS & ASSOCIATES  
**SUBJECT:** COST OF SERVICE ANALYSIS AND RATE ANALYSIS  
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## **Introduction**

The Castroville CSD retained Harris & Associates to review the financial needs for the District's Sewer Zone 2 (Moro Cojo, NMCHS & Monte Del Lago Mobile Home Park) sewer system and recommend a new rate structure that will:

- Provide the revenues needed for sewer operations, maintenance, and capital projects needed to provide reliable sewer service to the parcels of land served by Zone 2
- Proportion the costs to ratepayers in an equitable manner consistent with the requirements of Proposition 218;
- Respond to the changing economic and environmental factors in which the system operates; and
- Provide a rate structure that will meet the financial obligations of Zone 2.

The annual revenues from sewer service charges have not been adequate to fully cover annual operating and maintenance costs, and capital project expenditures within Zone 2. Based upon the estimated expenditures for Fiscal Year 2015-16, revenues from sewer user fees would need to increase by more than 50% to equal planned expenditures.

## **Existing Fee Structure**

The District assumed the responsibilities and assets for sewer and storm drain activities as of February 2008 from County Service Area 14 (CSA 14), including responsibility for the operation and maintenance of the sewer collection and lift stations in Zone 2. Treatment is the responsibility of the Monterey Regional Water Pollution Control Agency which levies a charge to parcels for treatment (currently \$15.35 per month for residential customers).

Prior the District assuming responsibility for the sewer collection system, the County entered into an agreement with the developers of the Rancho Moro Cojo Subdivision which has a total of 201 units (175 residential units and 90 townhouse units) to provide property related services (including the maintenance and repair of streets, street lighting, open space, sewer mains and drainage improvements) in exchange for the authority to levy a fee on parcels not to exceed \$1,100 per lot or living unit (adjusted for inflation). With the transfer of responsibility, CCSD Zone 2 receives this revenue and is responsible for placing the annual parcel charge on the property tax roll for collection. For Tax Year 2015, the total charge to parcels in the Moro Cojo Subdivision for the maintenance of the sewer collection system and the storm drains was \$53,775, of which approximately \$2,500 was for storm sewer maintenance based upon the District's budget for Zone 2. This equates to \$193.49 per dwelling unit for sewer collection. (total revenue collected of \$53,775 which excludes the \$2,500 budget for storm drain maintenance, divided by 265 dwelling units = \$193.49/unit)

Zone 2 also provides sewer collection for the Monte Del Lago Mobile Home Park (310 sites) and the NMCHS (1,100 students) and places a charge on the County property tax roll for operation and maintenance of the sewer collection system. The fees levied for tax year 2015 are shown below:

<u>Customer/Account</u>	<u>Units</u>	<u>Revenue</u>
NMCHS	1,100 students	\$ 4,400.00
Monte Del Lago Mobile Home Park	311 connections	\$ 30,160.00

### Revenue Requirements

The following section looks at the projected annual revenue requirements for the operation and maintenance of the Zone 2 sewer collection system, and future capital expenditure requirements. A “cash basis” approach was used for establishing revenue requirements. This approach conforms to most public utility budgetary requirements. The calculation is easy to understand and is based upon:

- Identifying the total estimated cash expenditures needed for operations and maintenance for a period of time to determine required revenues; and
- Calculating the costs of any capital improvements financed with rate revenues.

Figure 1 on the following page shows the budgeted and projected annual expenses for Fiscal Years 2014/15 through 2020/21. As shown in Figure 1, the costs included within each category include:

- **Operation** –miscellaneous expenses including supplies and tools related to maintenance of the collection system.
- **Lift Station Expenses** – includes electricity and repairs/operation of the two (2) sewer lift stations serving Zone 2.
- **Depreciation** – annual depreciation expense based upon remaining life
- **Automobile** – fuel and miscellaneous repair/maintenance expenses
- **Payroll** – personnel costs for maintenance personnel.
- **Sewer Line** – costs associated with the repair/maintenance of the sewer collection lines.
- **Storm Drain** – costs associated with the repair/maintenance of storm drainage facilities.
- **Office Expenses** – miscellaneous costs for office supplies/expenses, training and membership dues, building maintenance, computer supplies and related costs.
- **Payroll Costs** - pro-rata share of District administrative salaries and benefit costs.
- **Utilities** – pro-rata share of District utility costs.
- **Consulting** – estimated annual expense for consultant services.
- **Director Fees** – pro-rata share of Director fees.
- **Insurance** – pro-rata share of District insurance expenses.
- **Capital Improvements** – Annual estimated contributions towards capital projects within Zone 2.

As seen in Figure 1, annual expenditures were projected to increase an average of 2% per year over the next 5 years, with the exception of payroll expenses which were projected to increase 4% per year.

Annual budgeted expenditures currently exceed annual revenues for Zone 2. There was a budgeted loss of \$24,300 for FY 2014/15 and \$40,804 for FY 2015/16. It is projected that the loss will continue to increase annually without an increase in the existing rates within Zone 2. As seen, in order to balance estimated expenditures and income for the period FY 2016/17 -20/21, a 62% increase in income from sewer rates would be needed.

### **Rate Structure Analysis**

In developing a recommended rate structure, the main objective was to develop a rate structure that is fair and equitable to all sewer users, does not violate the terms of the agreement between the County and the Moro Cojo development, and which will provide the level of revenue needed to meet projected revenue needs during the analysis period.

In analyzing the annual revenue needs of the Zone 2 Sewer Enterprise Fund, it was determined that the costs more closely related to the number of sewer customers or accounts that are connected to the system rather than the volume of wastewater discharged into the collection system. As a result, each sewer customer should bear their “fair share” of these fixed costs which are directly related to the availability of sewer service regardless of the volume of sewage discharged.

**Figure 1**  
**Summary of Budgeted & Estimated Future Income and Expenses**

Category	Fiscal Year						
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
<b>Income</b>							
User Fees - Moro Cojo	\$ 54,000	\$ 54,000	\$ 54,000	\$ 54,000	\$ 54,000	\$ 54,000	\$ 54,000
User Fees - NMCHS & Mobile Park	\$ 34,500	\$ 34,500	\$ 34,500	\$ 34,500	\$ 34,500	\$ 34,500	\$ 34,500
Interest	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500
<b>Total Income</b>	<b>\$ 89,000</b>	<b>\$ 89,000</b>	<b>\$ 89,000</b>	<b>\$ 89,000</b>	<b>\$ 89,000</b>	<b>\$ 89,000</b>	<b>\$ 89,000</b>
<b>Expenses</b>							
<b>Operating Expenses</b>							
General Operating Expenses	\$ 1,450	\$ 1,500	\$ 1,530	\$ 1,561	\$ 1,592	\$ 1,624	\$ 1,656
Lift Station	\$ 13,200	\$ 13,200	\$ 13,464	\$ 13,733	\$ 14,008	\$ 14,288	\$ 14,574
Depreciation	\$ 13,260	\$ 13,260	\$ 13,525	\$ 13,796	\$ 14,072	\$ 14,353	\$ 14,640
Automobile	\$ 4,000	\$ 4,000	\$ 4,080	\$ 4,162	\$ 4,245	\$ 4,330	\$ 4,416
Payroll	\$ 17,500	\$ 17,750	\$ 18,105	\$ 18,467	\$ 18,836	\$ 19,213	\$ 19,597
Sewer Line Repair/Maint	\$ 3,000	\$ 2,000	\$ 2,040	\$ 2,081	\$ 2,122	\$ 2,165	\$ 2,208
Storm Drain Expense	\$ 2,500	\$ 2,500	\$ 2,500	\$ 2,550	\$ 2,601	\$ 2,653	\$ 2,706
<b>Total Operating Expenses</b>	<b>\$ 54,910</b>	<b>\$ 54,210</b>	<b>\$ 55,244</b>	<b>\$ 56,349</b>	<b>\$ 57,476</b>	<b>\$ 58,626</b>	<b>\$ 59,798</b>
<b>Administrative Expenses</b>							
Office Expenses	\$ 1,100	\$ 3,350	\$ 3,417	\$ 3,485	\$ 3,555	\$ 3,626	\$ 3,699
Payroll	\$ 44,933	\$ 45,937	\$ 47,774	\$ 49,685	\$ 51,673	\$ 53,740	\$ 55,889
Utilities	\$ 833	\$ 840	\$ 857	\$ 874	\$ 891	\$ 909	\$ 927
Consulting Svcs	\$ 5,000	\$ 4,100	\$ 4,182	\$ 4,266	\$ 4,351	\$ 4,438	\$ 4,527
Director Fees	\$ -	\$ 2,200	\$ 2,244	\$ 2,289	\$ 2,335	\$ 2,381	\$ 2,429
<b>Total Admin. Expenses</b>	<b>\$ 51,866</b>	<b>\$ 56,427</b>	<b>\$ 58,474</b>	<b>\$ 60,599</b>	<b>\$ 62,805</b>	<b>\$ 65,095</b>	<b>\$ 67,471</b>
<b>Insurance</b>							
Auto & General Liability	\$ 2,564	\$ 2,564	\$ 2,615	\$ 2,668	\$ 2,721	\$ 2,775	\$ 2,831
<b>Total Insurance</b>	<b>\$ 2,564</b>	<b>\$ 2,564</b>	<b>\$ 2,615</b>	<b>\$ 2,668</b>	<b>\$ 2,721</b>	<b>\$ 2,775</b>	<b>\$ 2,831</b>
<b>Total Expenses</b>	<b>\$ 109,340</b>	<b>\$ 113,201</b>	<b>\$ 116,334</b>	<b>\$ 119,616</b>	<b>\$ 123,002</b>	<b>\$ 126,495</b>	<b>\$ 130,100</b>
<b>Capital Expenditures</b>							
Lift Station Pumps	\$ 4,000	\$ 4,000		\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
Main Repair/replacement	\$ -	\$ 20,000	\$ 19,000		\$ -		
New Truck				\$ 5,000			
New Jetter Truck					\$ 30,000		
New Generator @ Castrille Blvd				\$ 30,000			
<b>Total Capital Expenditures</b>	<b>\$ 4,000</b>	<b>\$ 24,000</b>	<b>\$ 19,000</b>	<b>\$ 40,000</b>	<b>\$ 35,000</b>	<b>\$ 5,000</b>	<b>\$ 5,000</b>
<b>Net Income/(Loss)</b>	<b>\$ (24,340)</b>	<b>\$ (48,201)</b>	<b>\$ (46,334)</b>	<b>\$ (70,616)</b>	<b>\$ (69,002)</b>	<b>\$ (42,495)</b>	<b>\$ (46,100)</b>
<b>% of increase in revenue needed</b>		<b>54%</b>	<b>52%</b>	<b>79%</b>	<b>78%</b>	<b>48%</b>	<b>52%</b>

**Rate Calculation**

Under the “Agreement for Property Related Services for Rancho Moro Cojo Subdivision” which was recorded on December 13, 1997, the charge to per dwelling unit is limited to \$1,100 per year adjusted for inflation annually based upon the change in the Consumer Price Index for All Urban Consumers for the San Francisco-Oakland-San Jose Metropolitan Area published by the US Department of Labor. For Fiscal Year 2015/16, the actual total levy for all services per unit on parcels in the Rancho Moro Cojo Subdivision was \$403.04 per dwelling unit, which was well below the maximum allowable charge.

Figure 2 shows the recommended annual Sewer Charge per equivalent connection that would be required to fully fund the operation and maintenance of the sewer collection system within Zone 2

for the period FY 2016/17 through FY 2020/21. Also shown are the annual Net Income/(Loss) for Zone 2 based upon the proposed rate structure.

**Figure 2**  
**Summary of Proposed Rates and Revenues**

Description	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Planned Expenditures	\$ 135,334	\$ 159,616	\$ 158,002	\$ 131,495	\$ 135,100
Net Income/(Loss) Current Rates	\$ (46,334)	\$ (70,616)	\$ (69,002)	\$ (42,495)	\$ (46,100)
Proposed Rate Increase	\$ 212.84	\$ 223.48	\$ 234.65	\$ 246.39	\$ 258.71
Projected Revenues at Proposed Rates	\$ 134,210	\$ 140,921	\$ 147,967	\$ 155,365	\$ 163,133
Net Income/(Loss) Proposed Rates	\$ (1,124)	\$ (18,695)	\$ (10,035)	\$ 23,870	\$ 28,033

Figure 3 shows the estimated Revenue for FY 2016/17 based upon the proposed rate of \$212.84 per equivalent connection. Also shown, are the current revenue and equivalent rate per connection for FY 2015/16.

The number of equivalent connections for NMC High School was calculated based upon a student population of 1,100 students and an average of 9 gpd/student (the typical range is 8-25 gpd/student for high school with cafeteria and locker rooms) and the average discharge per residential connection used by the Monterey Regional Water Pollution Control Agency of 189/gpd per residential connection.

**Figure 3**  
**Summary of Estimated Revenue – FY 2016/17**

Sewer Accounts	Units	Equiv. Connections	Current Revenue	FY 2015/16 Rate per Equiv. Connection	Proposed FY 2016/17 Rate per Equiv. Connection	Total Estimated Revenue
Mojo Cojo	175 residence 90 MFR	265.0	\$ 51,274.50	\$ 193.49	\$ 212.84	\$ 56,402.60
North County Park & Rec	1 connect	1.0	193.49	\$ 193.49	\$ 212.84	\$ 212.84
NMC High School	1,100 students	53.6	\$ 4,400.00	\$ 82.13	\$ 212.84	\$ 11,402.14
Monte De Lago Mobile Park	311 sites	<u>311.0</u>	<u>\$ 30,160.00</u>	\$ 96.98	\$ 212.84	<u>\$ 66,193.24</u>
		630.6	\$ 86,027.99			\$ 134,210.82

It is recommended that the District adopt rates for a 5 year period, which would include an annual escalator for each subsequent year, not to exceed 4 percent annually. The District would need to send a notice to each customer annually of the annual adjustment in rates, but would not need to conduct a protest hearing.

**Steps for Adoption of Recommended Sewer Fees**

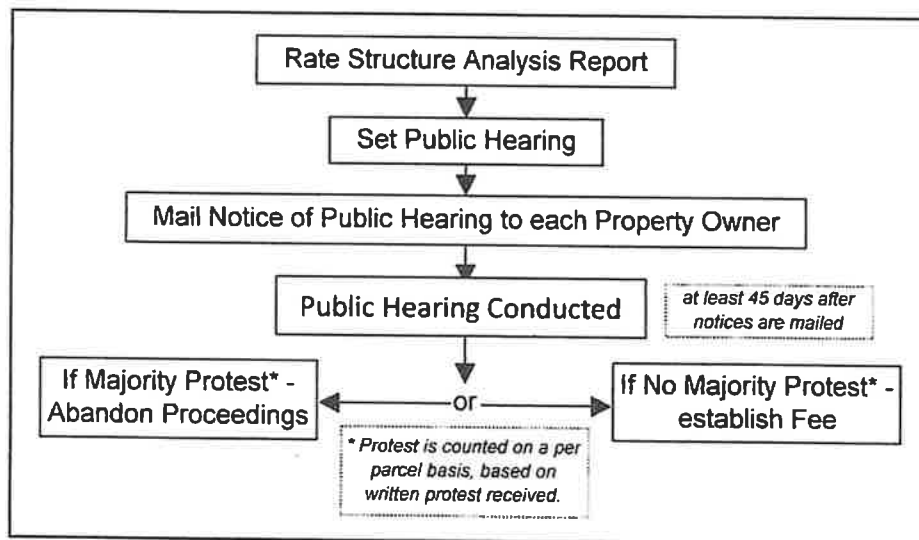
Because the rates will be increasing, the District will need to comply with the requirements of Article XIID of the California Constitution (Proposition 218) for adoption of the recommended sewer fees. Under Proposition 218, all new or increased fees and charges require a public hearing process with mailed notices to all affected property owners a minimum of 45 days prior to the date of the public

hearing. If a majority of the affected properties submit written protests prior to the close of the public hearing, then the increased fee or charge may not be imposed.

The following outlines that steps required for the adoption of the recommend sewer user fee by the District.

1. Develop Sewer Rate Structure which will generate the required revenue for the maintenance and operation of the sewer system and sewer capital improvement program.
2. Prepare a draft Rate Analysis Report, for review by District staff.
3. Finalize the Rate Analysis Report for presentation to the District’s Board of Directors.
4. After approval of the Rate Analysis Report by the Board, mail notices to all affected property owners a minimum of 45-days prior to the public hearing.
5. If less than a majority of the properties affected by the proposed sewer fee submit written protests to the fee, then the Board may adopt the increased fee.

The flowchart, shown below, outlines the legal steps required to establish a Sewer User Fee after finalization of the Rate Analysis Report.



**Proposed Schedule of Events**

The following provides a preliminary schedule for establishing the Annual Sewer Service Charge to be collected for FY 2016-17

1. Prepare rate analysis report ..... March-April, 2016
2. Approve Rate Report and set public hearing date ..... May 17, 2016
3. Mail notice of public hearing to property owners..... by May 20, 2016
4. First reading of Rate Adoption Ordinance ..... June 21, 2016

5. Conduct public hearing and 218 Protest ..... July 19, 2016
6. Submit FY 2016/17 rates on property tax roll\* ..... August, 2016  
\*this will need to be coordinated with the County for CSA 14