



**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: April 8, 2014

SUBJECT: Rate Study—Water and Sewer Service Charges; Approval of Prop 218
Notice and setting of date for Protest Hearing for June 10, 2014

Recommendations:

1. Receive this report with proposed new rates for water and sewer service charges.
2. Take any public testimony re: this status report and proposed new rates in general.
3. Confirm the proposed rates as the rates intended for adoption pending the required Prop 218 Protest Hearing.
4. Review and approve the attached Notice for Proposed Rate Increase for Water and Sewer Service Charges (Prop 218 Notice).
5. Set June 10, 2014 as the date for a public hearing and to receive any protests to the proposed rates

Discussion:

At the Board meeting on March 11, 2014, the Board received a report on the final rate adjustments proposed by staff and the Finance Committee. The proposed rates had been reviewed over several months concluding with a presentation from Mr. Bill Statler on the process for setting new rates. The District had 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.

After receiving public comment, and after further review from the Finance Committee, the Board has scheduled the meeting of April 8, 2014 for the initiation of the Prop 218 process utilizing the rates proposed on March 11, 2014 and tentatively agreed upon as the appropriate rate increases to be scheduled over the next period of time. The proposed rates, staff believes will meet the goals of:

- Setting appropriate reserve targets,
- Meeting necessary total revenue requirements, and
- Reducing, as much as possible, the overall financial impact to the ratepayers

The proposed rate increases for water and sewer services are shown in Exhibit 1 (attached).

As noted in previous reports, the scheduling of the Prop 218 process will not allow the new rates to go into effect until the next fiscal year (FY 2014-15); see schedule (Exhibit No. 2).

What has been studied and what was explored in the processing of the Rate Study leading up to the Board's direction to proceed with the Prop 218 process at the meeting on April 8, 2014?

The following scenarios were prepared by staff and reviewed with the Finance Committee:

- Revenue generated by existing rates and the resulting shortfall of financing necessary for on-going O&M of the existing infrastructure.
- Revenue generated by a 15% increase in water (unit rates), and a 20% increase in sewer rates.
- Revenue generated by a 10% increase in water (unit rates) and a 25 % increase in sewer rates.
- There were also variations of these alternatives using a different amount of water to be billed as a minimum amount, ie. Zero, three and five units.

With the exception of the 10% water/25% sewer the analysis from each of these scenarios indicated that the revenue generated was not sufficient to cover the expenses and reserves needed.

The rate scenarios were evaluated with a recommendation for full Board consideration as discussed below.

Suggested Rate Structure as derived from the Finance Committee deliberations and by general concurrence by the Board at the March 1, 2014 meeting.

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 ¾ -5/8 meters where a 1" meter was installed for fire protection.
3. Restaurant rates were adjusted to eliminate an unreasonable minimum charge for medium and small restaurants.
4. The question of some relief (ie possibly a \$10 credit) for lower income families was continued as a separate item for future discussion and not applied to the proposed rate structure at this time.
5. It is recognized that the future wastewater expenses of operating and maintaining the sewer and wastewater treatment plant are greater than that for the water system and therefore a scenario using a 10% increase in water rates and a 25% increase to the existing sewer rates was analyzed. These adjustments:
 - Eliminated the existing projected deficit in the water and sewer revenues of approximately \$68,000/year (against expenses) and provided about a \$11,000 surplus/yr with which to bolster reserves and to assist with capital improvement projects (CIP's). Also, the currently scheduled CIP's have been rescheduled to spread out those costs into future years where justified.
 - Keep the five (5) unit minimum as currently employed in the District's existing rate structure.
 - Recognize that the major CIP's, namely the WWTP upgrade, will be funded by a State Revolving Fund loan, but there will be significant expense with the WWTP upgrade and a revised rate structure will need to be implemented to be able to pay off the loan amounts
 - Also provides for a constant five-year increase (with the same percentages if needed by the District. **It is important to note that if the revenue projections indicate that the full increase is not needed each successive year, then the Board may make the decision to postpone the increase or adopt a smaller increase.**

Also attached as Exhibit No. 3 is a chart showing the results of applying these increases across the next five years as well is a modified five year Capital Improvement Program (Exhibit 4), that will be presented and considered as part of the FY 204-15 Budget.

Next Steps

At this point, the Board is being asked to make a final review of the proposed rate structure and initiate the Prop 218 process. Attached as Exhibit 4 is the proposed notice of hearing that will need to be sent out to residents and property owners by April 25, 2014 in accordance with the schedule shown in Exhibit 2.

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.

Exhibits:

1. Proposed rate structure for water and sewer
2. Prop 218 estimated rate implementation schedule
3. Adjusted Five Year Capital Improvement Budget and Graphs for various customer types across the next five years.
4. Prop 218 Notice to Property Owners and Tenants.

ABCSD EXISTING MONTHLY RATE STRUCTURE and Commodity Charge

CLASS	WATER RATE	SEWER RATE	MINIMUM USE	WATER MINIMUM	SEWER MINIMUM	TOTAL MINIMUM
	Existing	Existing	Existing	Existing	Existing	Existing
RESIDENTIAL	8.14	\$5.74	5 UNITS	\$40.70	\$28.70	\$69.40
MULTI-FAMILY	8.14	\$6.07	5 UNITS	\$40.70	\$30.35	\$71.05
RESTAURANTS	8.14	\$8.27	5 UNITS	\$40.70	\$41.35	\$82.05
COMMERCIAL/PUBLIC	8.14	\$7.74	5 UNITS	\$40.70	\$38.70	\$79.40
INDUSTRIAL/LAUNDRY	8.14	\$8.83	5 UNITS	\$40.70	\$44.15	\$84.85

ABCSD EXISTING MONTHLY RATE STRUCTURE Increased Commodity Charge 2014/15

Water Rate increase 10%

Sewer Rate Increase 25%

CLASS	WATER RATE	SEWER RATE	MINIMUM USE	WATER MINIMUM	SEWER MINIMUM	TOTAL MINIMUM
	proposed	proposed	Existing	Proposed	Proposed	Proposed
RESIDENTIAL	8.95	7.18	5	\$ 44.75	\$35.90	\$80.65
MULTI-FAMILY	8.95	7.59	5	\$ 44.75	\$37.95	\$82.70
RESTAURANTS	8.95	10.34	5	\$ 44.75	\$51.70	\$96.45
COMMERCIAL/PUBLIC	8.95	9.68	5	\$ 44.75	\$48.40	\$93.15
INDUSTRIAL/LAUNDRY	8.95	11.04	5	\$ 44.75	\$55.20	\$99.95

ABCSD EXISTING MONTHLY RATE STRUCTURE Increased Commodity Charge 2015/16

Water Rate increase 10%

Sewer Rate Increase 25%

CLASS	WATER RATE proposed	SEWER RATE proposed	MINIMUM USE Existing	WATER MINIMUM Proposed	SEWER MINIMUM Proposed	TOTAL MINIMUM Proposed
RESIDENTIAL	\$9.85	\$8.98	5	\$49.25	\$44.90	\$94.15
MULTI-FAMILY	\$9.85	\$9.49	5	\$49.25	\$47.45	\$96.70
RESTAURANTS	\$9.85	\$12.93	5	\$49.25	\$64.65	\$113.90
COMMERCIAL/PUBLIC	\$9.85	\$12.10	5	\$49.25	\$60.50	\$109.75
INDUSTRIAL/LAUNDRY	\$9.85	\$13.80	5	\$49.25	\$69.00	\$118.25

ABCSD EXISTING MONTHLY RATE STRUCTURE Increased Commodity Charge 2016/17

Water Rate increase 10%

Sewer Rate Increase 25%

CLASS	WATER RATE proposed	SEWER RATE proposed	MINIMUM USE Existing	WATER MINIMUM Proposed	SEWER MINIMUM Proposed	TOTAL MINIMUM Proposed
RESIDENTIAL	\$10.84	\$11.23	5	\$54.20	\$56.15	\$110.35
MULTI-FAMILY	\$10.84	\$11.86	5	\$54.20	\$59.30	\$113.50
RESTAURANTS	\$10.84	\$16.16	5	\$54.20	\$80.80	\$135.00
COMMERCIAL/PUBLIC	\$10.84	\$15.13	5	\$54.20	\$75.65	\$129.85
INDUSTRIAL/LAUNDRY	\$10.84	\$17.25	5	\$54.20	\$86.25	\$140.45

ABCSD EXISTING MONTHLY RATE STRUCTURE Increased Commodity Charge 2017/18

Water Rate increase 10%

Sewer Rate Increase 25%

CLASS	WATER RATE proposed	SEWER RATE proposed	MINIMUM USE Existing	WATER MINIMUM Proposed	SEWER MINIMUM Proposed	TOTAL MINIMUM Proposed
RESIDENTIAL	\$11.92	\$14.04	5	\$59.60	\$70.20	\$129.80
MULTI-FAMILY	\$11.92	\$14.83	5	\$59.60	\$74.15	\$133.75
RESTAURANTS	\$11.92	\$20.20	5	\$59.60	\$101.00	\$160.60
COMMERCIAL/PUBLIC	\$11.92	\$18.91	5	\$59.60	\$94.55	\$154.15
INDUSTRIAL/LAUNDRY	\$11.92	\$21.56	5	\$59.60	\$107.80	\$167.40

ABCSD EXISTING MONTHLY RATE STRUCTURE Increased Commodity Charge 2018/19

Water Rate increase 10%

Sewer Rate Increase 25%

CLASS	WATER RATE proposed	SEWER RATE proposed	MINIMUM USE Existing	WATER MINIMUM Proposed	SEWER MINIMUM Proposed	TOTAL MINIMUM Proposed
RESIDENTIAL	\$13.11	\$17.55	5	\$65.55	\$87.75	\$153.30
MULTI-FAMILY	\$13.11	\$18.54	5	\$65.55	\$92.70	\$158.25
RESTAURANTS	\$13.11	\$25.25	5	\$65.55	\$126.25	\$191.80
COMMERCIAL/PUBLIC	\$13.11	\$23.64	5	\$65.55	\$118.20	\$183.75
INDUSTRIAL/LAUNDRY	\$13.11	\$26.95	5	\$65.55	\$134.75	\$200.30

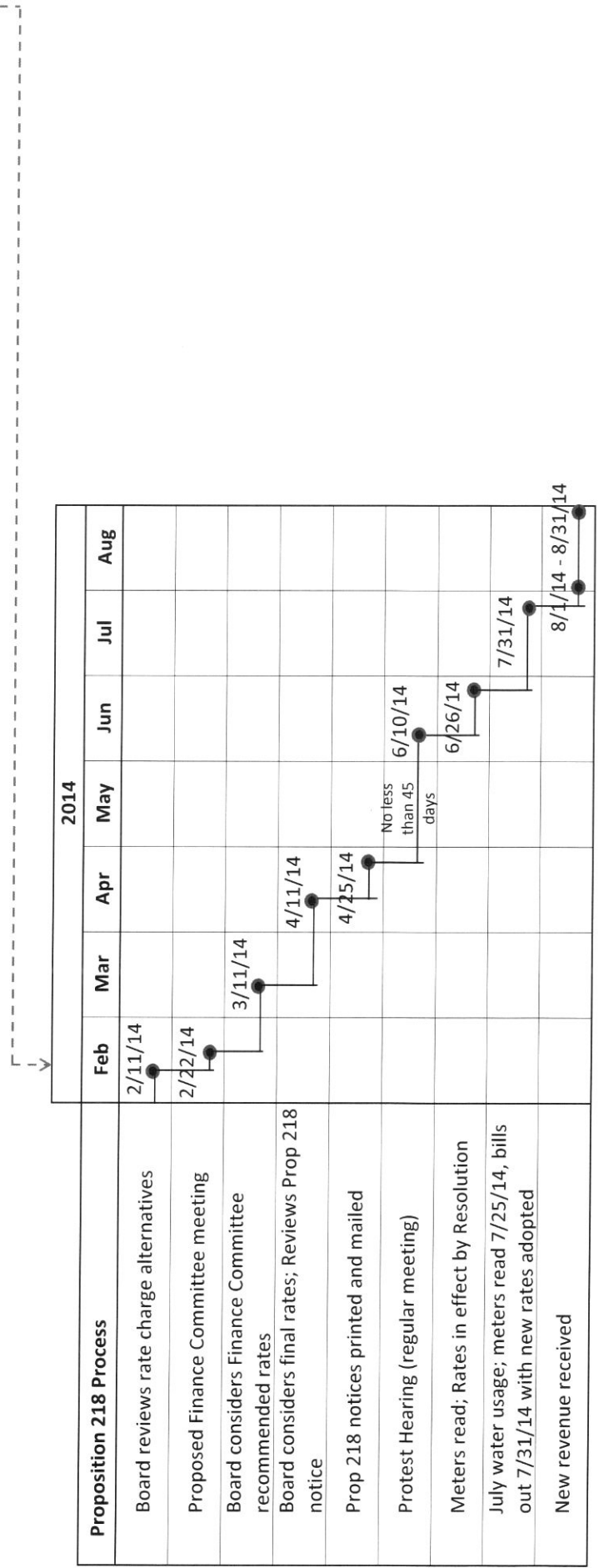
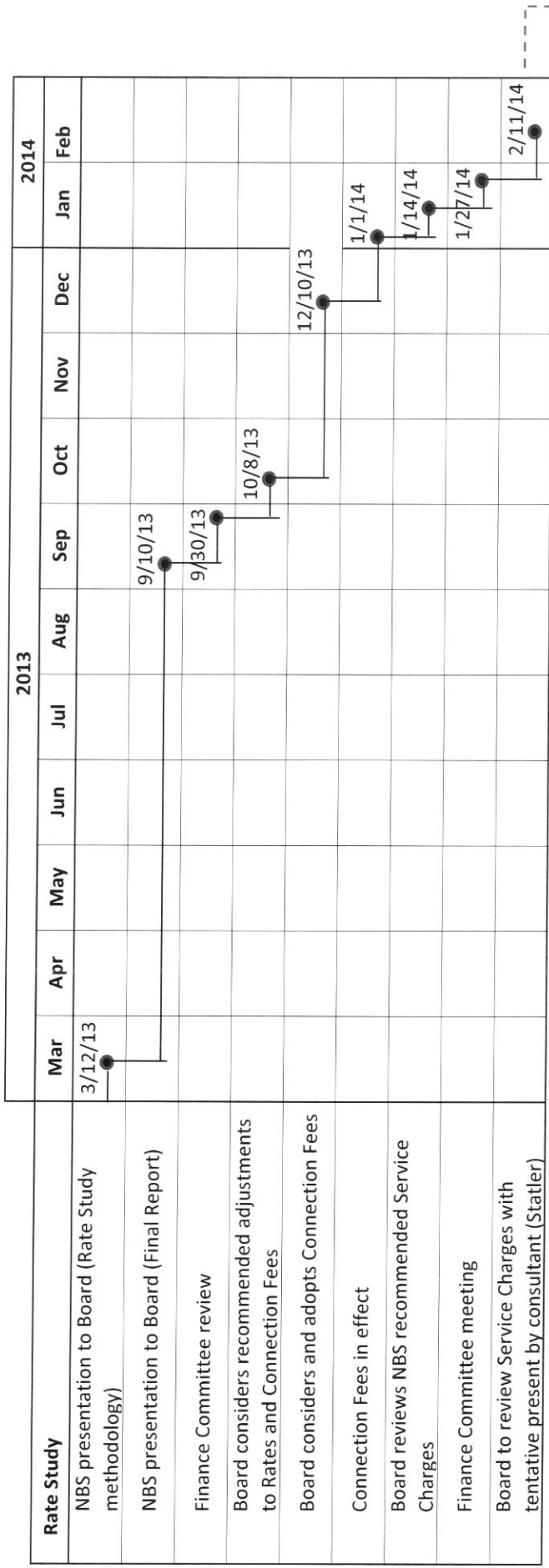
Proposed Water and Sewer Rates

The minimum charge includes 5 billing units of consumption. One billing unit equals 748 gallons.

The commodity charge is per billing unit in excess of the 5 billing units included in the minimum charge.

	Existing Rate	Proposed Rates: July 1 of Each Year				
		2014	2015	2016	2017	2018
Monthly Water Rates (Same for All Customer Types)						
Minimum Charge	\$40.70	\$44.75	\$49.25	\$54.20	\$59.60	\$65.55
Commodity Charge	\$8.14	\$8.95	\$9.85	\$10.84	\$11.92	\$13.11
Monthly Sewer Rates (By Customer Type)						
Residential						
Minimum Charge	\$28.70	\$35.90	\$44.90	\$56.15	\$70.20	\$87.75
Commodity Charge	\$5.74	\$7.18	\$8.98	\$11.23	\$14.04	\$17.55
Multi-Family						
Minimum Charge	\$30.35	\$37.95	\$47.45	\$59.30	\$74.15	\$92.70
Commodity Charge	\$6.07	\$7.59	\$9.49	\$11.86	\$14.83	\$18.54
Restaurants						
Minimum Charge	\$41.35	\$51.70	\$64.65	\$80.80	\$101.00	\$126.25
Commodity Charge	\$8.27	\$10.34	\$12.93	\$16.16	\$20.20	\$25.25
Commercial/Public						
Minimum Charge	\$38.70	\$48.40	\$60.50	\$75.65	\$94.55	\$118.20
Commodity Charge	\$7.74	\$9.68	\$12.10	\$15.13	\$18.91	\$23.64
Industrial/Laundry						
Minimum Charge	\$44.15	\$55.20	\$69.00	\$86.25	\$107.80	\$134.75
Commodity Charge	\$8.83	\$11.04	\$13.80	\$17.25	\$21.56	\$26.95

Avila Beach Community Services District
Rate Study / Proposition 218 Process



**2013/14 Fiscal Year Budget
Avila Beach Community Services District
Capital Equipment / Projects**

Proposed Revision for Rate Study/Cost Spread

Item Description		Total 5 Years	2013/14 1	2014/15 2	2015/16 3	2016/17 4	2017/18 5
Administration							
ADM-1	General Administrative Capital Equipment	\$ 14,500	\$ 2,500	\$ 3,500	\$ 2,500	\$ 3,500	\$ 2,500
	Subtotal:	\$ 14,500	\$ 2,500	\$ 3,500	\$ 2,500	\$ 3,500	\$ 2,500
Water							
W-C1	Storage System Improvements Phase 1 - Water Tank #1	\$ 35,000	\$ 35,000				
W-C2	Storage System Improvements Phase 2 - Water Tank #1	\$ 9,000	\$ 9,000				
W-C3	Regulatory Permit Compliance (moved to Ops Budget)	\$ 0.00		\$ 0.00			
W-1	Misc Water Projects	\$ 375,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000	\$ 75,000
WF-1	Lopez Booster Pumps	\$ 150,000			\$ 75,000	\$ 75,000	
WF-2	Misc Water Line Replacements	\$ 150,000			\$ 50,000	\$ 50,000	\$ 50,000
	Subtotal:	\$ 719,000	\$ 119,000	\$ 75,000	\$ 200,000	\$ 200,000	\$ 125,000
Wastewater							
WW-C1	Continuation of Secondary Treatmt Expansion Study at WWTP (2)	\$ 5,000	\$ 5,000				
WW-C2	Secondary Treatment Expansion at WWTP (2,3)	\$ 1,575,000	\$ 50,000	\$ 75,000	\$ 250,000	\$ 1,200,000	
WW-C3	Regulatory Permit Compliance (moved to Ops Budget)	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
WW-C4	Chlorine Contact Chamber Coating (2)	\$ 65,000	\$ 10,000	\$ 55,000			
WW-C5	San Luis Street Sewer Replacement	\$ 220,000		\$ 220,000			
WW-C6	Wastewater Collection Line Repair Contingency	\$ 150,000	\$ 50,000		\$ 50,000		\$ 50,000
WW-C7	Influent Wet Well Coating Repairs (2)	\$ 24,000	\$ 4,000	\$ 20,000			
WW-C8	Pump Room Improvements at WWTP (2)	\$ 5,000	\$ 5,000				
WW-1	Update Sewer Use Ordinance (moved to Ops Budget)	\$ 0.00	\$ 0.00		\$ 0.00		
WW-2	Miscellaneous Wastewater Projects (2)	\$ 485,000	\$ 10,000	\$ 75,000	\$ 100,000	\$ 150,000	\$ 150,000
WW-3	Permit Application Process for NPDES Permit (2)	\$ 25,000	\$ 5,000	\$ 20,000			
WW-F1	Avila Beach Drive Sewer Line Replacement	\$ 150,000		\$ 150,000			
WW-F2	Marine Outfall Cleaning (combine w/WW-F4)	\$ 0.00					
WW-F3	First Street Sewer Line Replacement	\$ 200,000				\$ 200,000	
WW-F4	Ocean Outfall Inspection, Cleaning and Benthic Monitoring (2)	\$ 100,000					\$ 100,000
WW-F5	Front Street Sewer Line Replacement	\$ 150,000					\$ 150,000
WW-F6	San Miguel Street Sewer Line Replacement	\$ 500,000					\$ 500,000
	Subtotal:	\$ 3,654,000	\$ 139,000	\$ 615,000	\$ 400,000	\$ 1,550,000	\$ 950,000
Street Lighting							
L-1	Repair or Replace Lights and Electrical Systems (As Needed)	\$ 37,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500
	Subtotal:	\$ 37,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500	\$ 7,500
Total Capital Equipment / Projects by Fiscal year:			\$ 268,000	\$ 701,000	\$ 610,000	\$ 1,761,000	\$ 1,085,000
Total 5-Year Capital Equipment / Projects		\$ 4,425,000					

(1) WWTP Maintenance Projects (Total)	
n/a	ABCSD's Share (85%)
n/a	PSLHD's Share (15%)

(2) WWTP Capital Improvement Projects (Total)	
\$ 1,484,600	ABCSD's Share (65%)
\$ 7,437.50	PSLHD's Share (35%)

KEY

- ADM# = ADMINISTRATION
- ADM-C# = ADMINISTRATION (Carry over)
- W# = WATER
- W-C # = WATER (Carry Over)
- W-F# = FUTURE WATER - NEXT FISCAL YEAR
- WW# = WASTEWATER
- WW-F# = FUTURE WASTEWATER - NEXT FISCAL YEAR
- WW-C# = WASTEWATER (Carry Over)
- L# = STREET LIGHTING
- (1) = Maintenance Project (Cost Sharing is Flow Based, with PSLHD contributing 15% of the costs)
- (2) = Capital Improvement Project (Cost Sharing is Ownership Based, with PSLHD contributing 35% of the costs)
- (3) = Capital Improvement Project (to be funded by State Revolving Fund Loans)

Avila Beach Community Services District
 Projected Water and Sewer Rates for Minimum Service Charges
 FY 2014/15 through FY 2018/19





NOTICE OF PUBLIC HEARING

Proposed Water and Sewer Service Rate Increases

A public hearing on proposed rate increases for water and sewer services provided by the Avila Beach Community Services District will be held on:

Date: Tuesday, June 10, 2014

Time: 7:00 PM

Place: Avila Beach Community Center, 191 San Miguel Street, Avila Beach, CA, 93424

The hearing will cover proposed rate increases for the next five years for water and sewer services. This notice is provided to all property owners and customers who currently receive either of these services from the District. If adopted, the proposed rate increases will become effective July 1 of each year in 2014, 2015, 2016, 2017 and 2018.

Multi-year approach to setting rates

By taking a multi-year approach to rate-setting in meeting long-term infrastructure repair and improvement needs as well as delivering day-to-day services, the District can better prepare for the future and avoid significant unexpected rate increases. For this reason, the District is proposing rate increases for the next five years. It is important to note that if subsequent annual reviews of revenues and expenses show that future rate increases are not needed or can be adopted at lower amounts, the Board of Directors can postpone or adopt a smaller increase. However, the Board cannot approve rate increases beyond those proposed in this notice without additional notice to all of its customers.

Why are rates increasing?

Stated simply, these increases are needed to ensure safe, reliable delivery of essential water and sewer services to our customers that meet state and federal quality standards.

Extensive review before proposing rate increases. Water and sewer rates have not been increased for four years. To ensure that water and sewer rates are sufficient to adequately deliver day-to-day services as well as capital projects to maintain and improve key facilities like water and sewer lines, pumps, reservoirs and the wastewater treatment plant, the District contracted with NBS (one of the leading firms in the State that prepare these types of reviews) in 2012 to comprehensively analyze the District's revenue requirements. The NBS study, which was presented to the Board in September 2013, also analyzed the District's rate structure to ensure fairness among different types of water and sewer customers as well as connection fees to ensure that new development pays its fair share of the facilities needed to serve it. (Updated connection fees for new development were adopted by the Board in December 2013.)

Since then, the Board has held a number of workshops and hearings in balancing the need to adequately fund essential water and sewer services while also mitigating rate impacts on the District's customers. Key factors driving the need for rate increases at this time include adequately funding:

- Reasonable reserves to meet unexpected service needs and emergency repairs.
- Day-to-day delivery of services.
- Capital projects for facility maintenance and improvements. This is the most significant factor driving the need for rate increases: while reimbursements from other agencies, low interest loans and fees from new development will pay for most of the projected \$4.4 million in capital project costs over the next five years, revenues from rates are also required.

What are the proposed increases?

As outlined below, effective July 1, 2014, water rates are proposed to increase by 10% each year through July 1, 2018; and sewer rates are proposed to increase by 25% each year, also through July 1, 2018.

Proposed Water and Sewer Rates						
<i>The minimum charge includes 5 billing units of consumption. One billing unit equals 748 gallons.</i>						
<i>The commodity charge is per billing unit in excess of the 5 billing units included in the minimum charge.</i>						
	Existing	Proposed Rates: July 1 of Each Year				
	Rate	2014	2015	2016	2017	2018
Monthly Water Rates (Same for All Customer Types)						
Minimum Charge	\$40.70	\$44.75	\$49.25	\$54.20	\$59.60	\$65.55
Commodity Charge	\$8.14	\$8.95	\$9.85	\$10.84	\$11.92	\$13.11
Monthly Sewer Rates (By Customer Type)						
Residential						
Minimum Charge	\$28.70	\$35.90	\$44.90	\$56.15	\$70.20	\$87.75
Commodity Charge	\$5.74	\$7.18	\$8.98	\$11.23	\$14.04	\$17.55
Multi-Family						
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Commercial/Public						
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Commodity Charge	\$7.74	\$9.68	\$12.10	\$15.13	\$18.91	\$23.64
Industrial/Laundry						
Minimum Charge	\$44.15	\$55.20	\$69.00	\$86.25	\$107.80	\$134.75
Commodity Charge	\$8.83	\$11.04	\$13.80	\$17.25	\$21.56	\$26.95

As reflected above, the proposed rate increases, on a percentage basis, are the same for all customers, based on the existing rate structure. While the NBS study identified an alternative rate structure, after considering a wide range of options over the past months at a number of workshops and hearings, the Board has tentatively concluded that the current rate structure best meets community needs in balancing fairness among customer types, revenue stability, encouraging water conservation and being easy for customers to understand.

Why is the proposed sewer rate increase so much larger than the water one? As noted above, facility repairs and improvements are the main reasons for the proposed rate increases. In the case of sewer service, within the next five years the District will need to begin making major improvements to its wastewater treatment plant in meeting state and federal Clean Water Act requirements.

What's the impact on the average customer? In the most recent billing, over 80% of the District's customers paid only the minimum charge. As such, the "average" customer will pay the minimum charges shown in the chart above.

How can I find out more about the proposed rate increases? The District has placed all of the key agenda reports, studies and presentations related to the proposed rate increase on its web site at www.avilabeachcsd.org/proposedrateincrease. Additionally, you can contact us by phone at 805.595.2664 or email at avilacsd@gmail.com.

How do I protest the proposed water or sewer rate increases?

Under Proposition 218, if you are the owner of record for a parcel or parcels or a tenant directly liable for payment of the fees subject to the proposed rate increases, you may submit a written protest against the proposed rate increase for water or sewer. If written protests are filed by a majority of the affected customers, the applicable rate increase will not be imposed. For a protest to be valid, it must: be in writing and received by the General Manager at or before the public hearing either by mail or personal delivery at 191 San Miguel Street, Avila Beach, CA, 93424; specifically state which rate is being protested (water, sewer or both); contain the service address; and be signed by either the account holder or the property owner of the service address.