

TO: BOARD OF DIRECTORS

FROM: MARIO IGLESIAS  
GENERAL MANAGER



DATE: MAY 3, 2019

**AGENDA ITEM**

**C**

**MAY 8, 2019**

## **PRESENTATIONS AND REPORTS**

The following presentations and reports are scheduled:

- C-1) QUARTERLY ENGINEER'S REPORT – DIRECTOR OF ENGINEERING AND OPERATIONS REPORT ON DISTRICT PROJECTS SYSTEM-WIDE  
[RECOMMEND RECEIVE AND FILE REPORT]
- C-2) SOLID WASTE RATE ADJUSTMENT EVALUATION AND REVIEW  
[RECOMMEND RECEIVE REPORT AND DIRECT STAFF]
- C-3) DIRECTORS' ANNOUNCEMENTS OF DISTRICT AND COMMUNITY INTEREST AND REPORTS ON ATTENDANCE AT PUBLIC MEETINGS, TRAINING PROGRAMS, CONFERENCES AND SEMINARS.  
[RECEIVE ANNOUNCEMENTS AND REPORTS FROM DIRECTORS]
- C-4) RECEIVE PUBLIC COMMENT ON PRESENTATIONS AND REPORTS PRESENTED UNDER ITEM C AND BY MOTION RECEIVE AND FILE PRESENTATIONS AND REPORTS

TO: BOARD OF DIRECTORS

FROM: MARIO E. IGLESIAS  
GENERAL MANAGER

DATE: MAY 3, 2019

**AGENDA ITEM**

**C-1**

**MAY 8, 2019**

**QUARTERLY ENGINEER'S REPORT  
DIRECTOR OF ENGINEERING AND OPERATIONS REPORT  
ON DISTRICT PROJECTS SYSTEM-WIDE**

**ITEM**

Engineering and Operations update for January through March 2019

**BACKGROUND**

Director of Engineering and Operations, Peter Sevcik will overview his update (Attachment A) and discuss District projects for the October through December 2018 period.

**RECOMMENDATION**

Staff recommends that your Honorable Board receive the update.

**ATTACHMENTS**

- A. Engineering and Operations Update for January to March 2019

MAY 8, 2019

ITEM C-1

ATTACHMENT A



# **Engineering and Operations Update**

## **– January to March 2019**



**Peter V. Sevcik, P.E.**  
**Director of Engineering and Operations**  
**Nipomo Community Services District**  
**May 8, 2019**

# Projects Completed

## Southland WWTf Drying Bed Cover Project

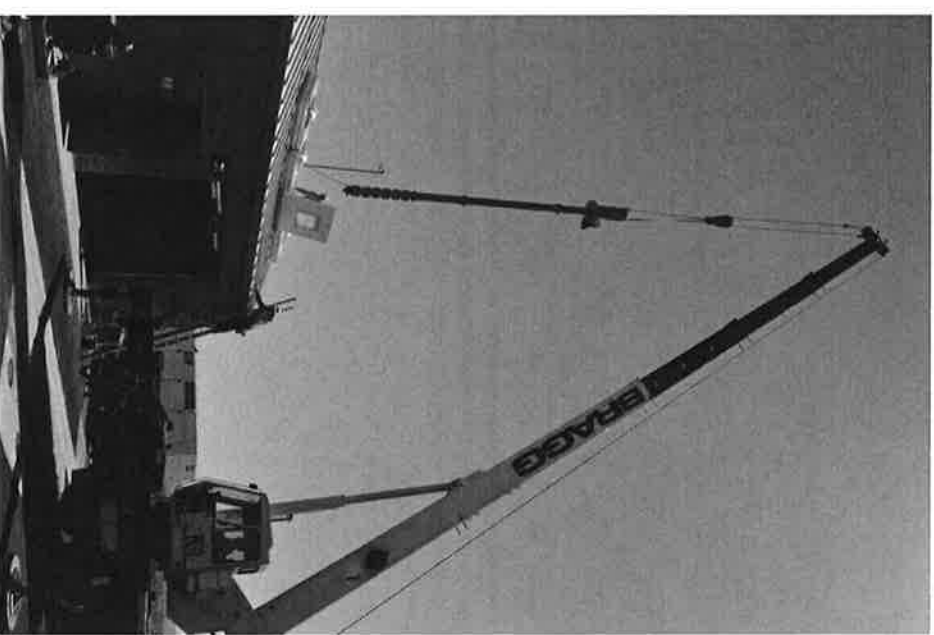
- Construction completed in February
- Board accepted – March 13, 2019
- Original contract amount \$121,900
- Final contract amount \$116,500



# Projects in Construction

## Supplemental Water Project Joshua Road Pump Station Pump 4 Improvements

- Notice to Proceed Issued
- Original scheduled completion  
June 2019
- Completion delayed due to  
pump availability to at least  
August 2019
- Contract Cost \$238,800





# Projects in Bid Phase

## Southland WWTf Storage Building

- Design completed – February 2019
- Board authorization to bid – March 13, 2019
- Bids due – April 18, 2019
- No bids received
- FY 18/19 amended budget project cost \$200,000



# Projects in Design

## Supplemental Water Project Nipomo Area Pipeline Improvements

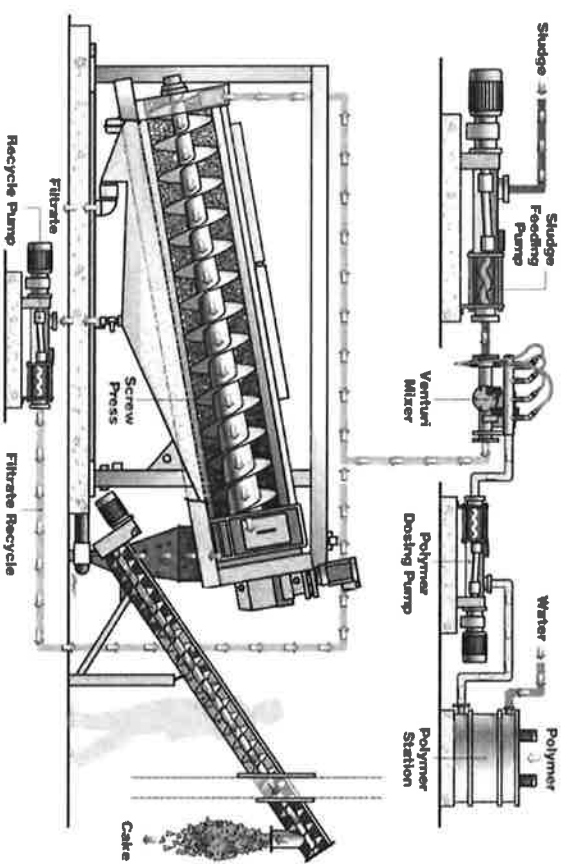
- 95% design pending
- CEQA review completed
- Board authorization to bid – May 8, 2019
- Tentative Bid Award – September 2019
- Construction cost of \$3,700,000 not budgeted in FY 18/19



# Projects in Design

## Southland WWTf Screw Press

- 60% design completed
- Tentative Board authorization to bid – July, 2019
- FY 18/19 budgeted project cost \$920,000





# Projects in Design

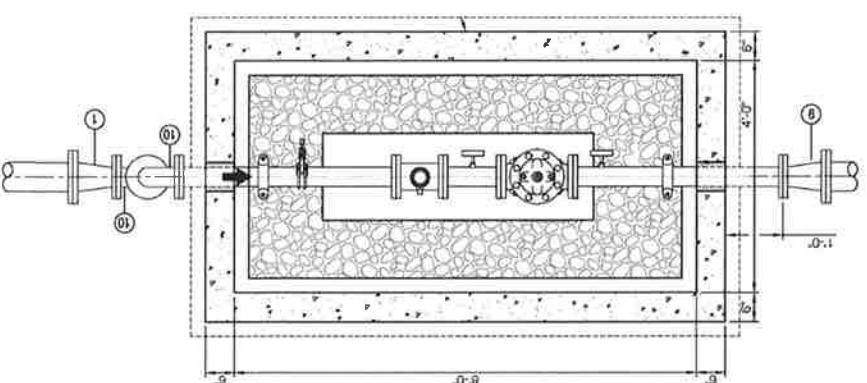
## Eureka Well Replacement

- Easement acquisition in progress
  - Need to secure temporary construction easements for development water disposal
- 60% design review in progress
- Tentative bid date – July 2019
- FY 18/19 budgeted project cost \$1,000,000

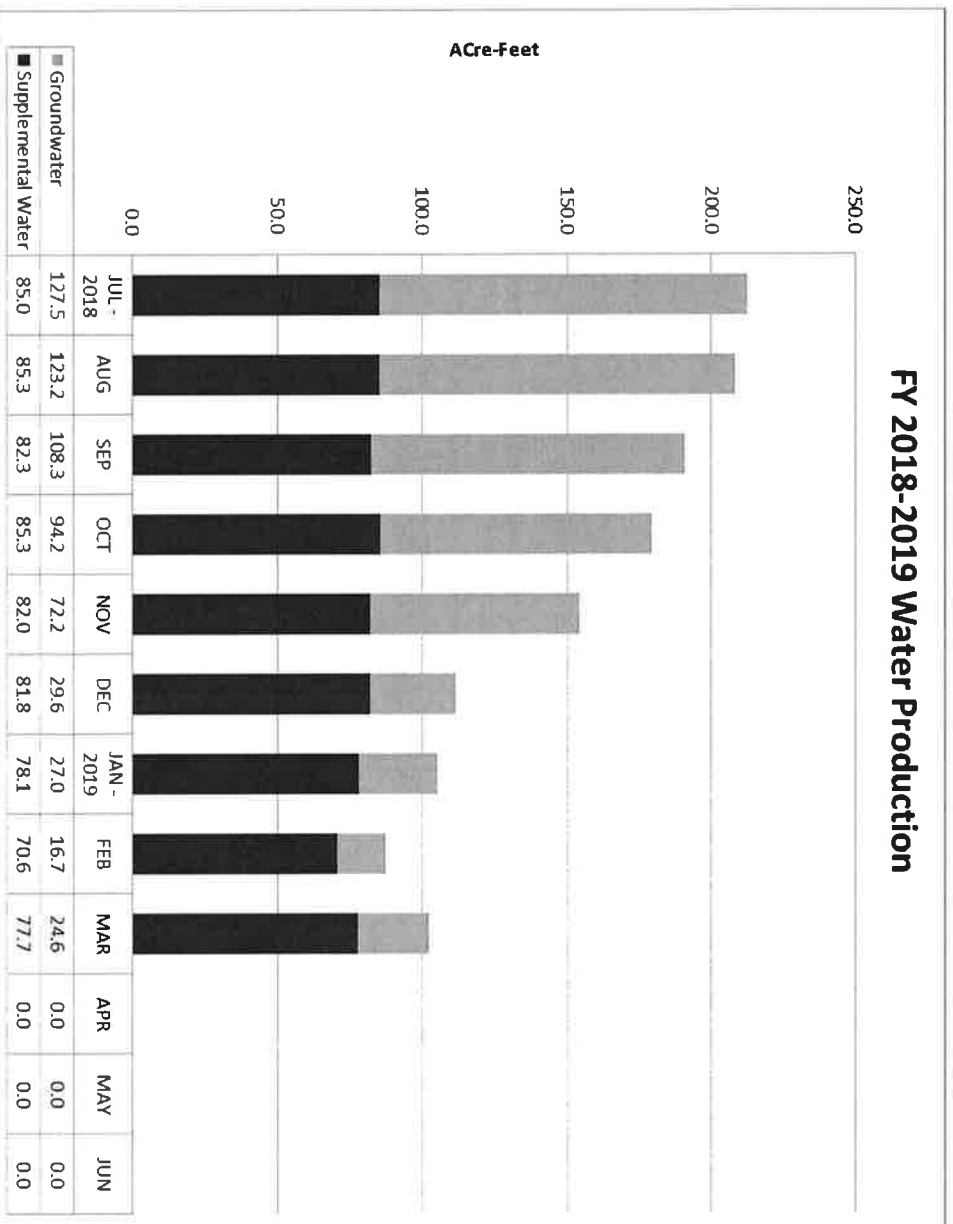
# Projects in Design

## Supplemental Water Project Interconnects

- Final design in progress
- Radio survey completed
- 95% Design pending
- CEQA review in progress
- Tentative Board authorization to bid – To be determined
- FY 18/19 budgeted project cost \$630,000



# Operations – Water System

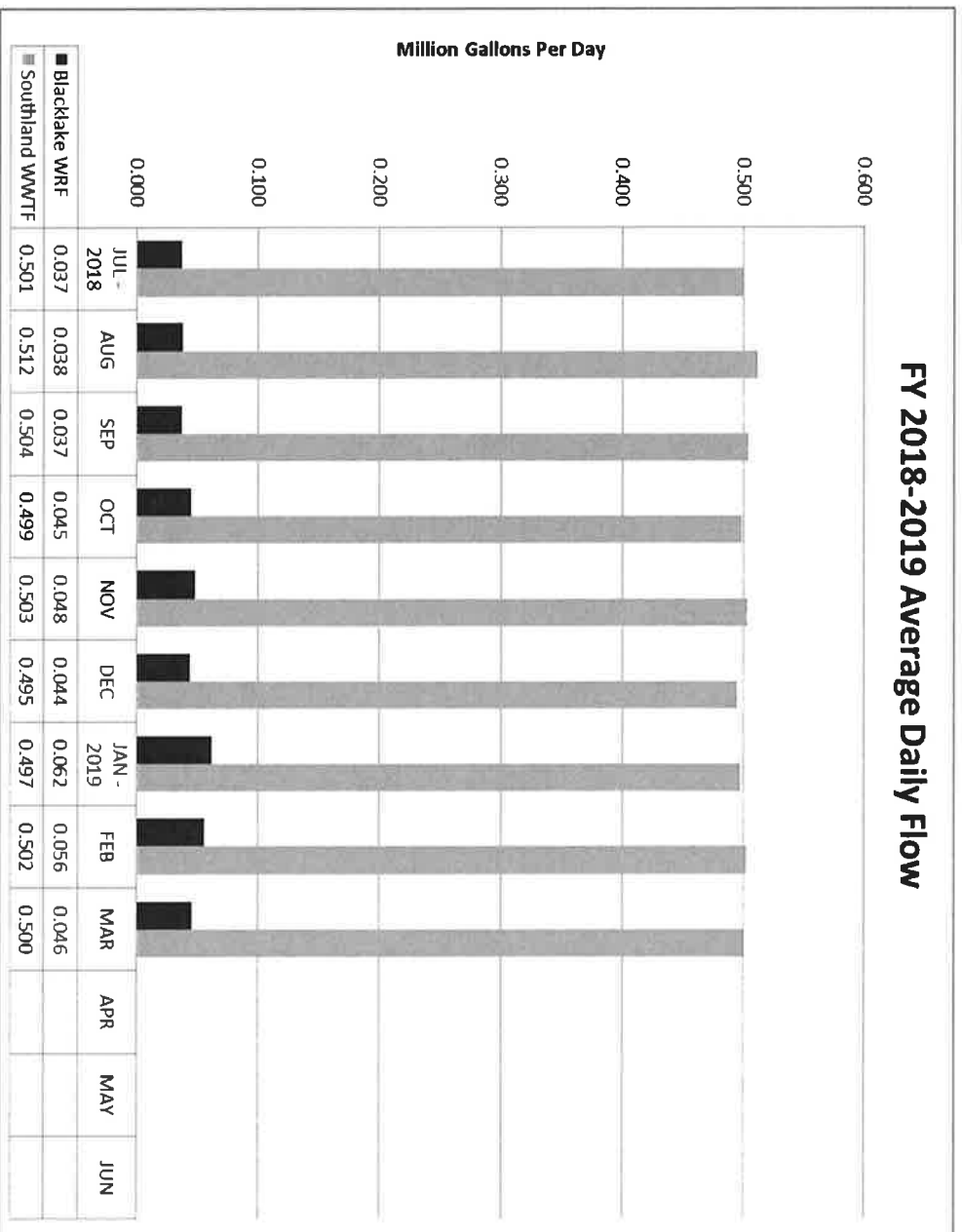




# Operations – Water System

- **State Water Resources Control Board Division of Drinking Water**
  - Routine monthly and quarterly reports submitted
  - UICMR<sub>4</sub> second round completed March 2019
- **Other Water Operations**
  - Replaced Sundale Well motor
  - Hit hydrant – 1
  - Service line leaks – 1
  - Watermain breaks - 1

# Operations – Wastewater





# Operations – Wastewater System

- **San Luis Obispo Air Pollution Control District Notice of Violation**
  - Mutual settlement approved by the Board
  - Completed sludge bed covers as interim measure
  - Continuing to aerate drying biosolids regularly
- **Other Wastewater Operations**
  - WIMS Operator Training
  - SLO APCD Permit Renewal Inspection at Southland WWTF
  - Repaired RAS Pump #1 at Southland WWTF
  - Board authorized dewatering contract to facilitate drying of biosolids that were rewetted during the winter rainy season



# Other Engineering and Operations

- **Districtwide**
  - SCADA Server Replacement – Completed
  - SCADA Radio Assessment – Completed
  - Hazardous materials business plan – Updated
- **Personnel**
  - Assistant Engineer – Started January 2019
  - Wastewater Operator 1 Recruitment – In progress





# Other Engineering and Operations

- **New Development in Construction**
  - 164 Mallagh – Multifamily
  - CO 17-0131 – Frank Court – Single Family Residential
  - Tract 2441 – Blume – Single Family Residential
  - Tract 2558 – Magenta – Single Family Residential
  - Tract 2650 – Via Concha – Single Family Residential



# Engineering and Operations

## Questions

TO: BOARD OF DIRECTORS

FROM: MARIO E. IGLESIAS  
GENERAL MANAGER

DATE: MAY 3, 2019

**AGENDA ITEM**

**C-2**

**MAY 8, 2019**

## **SOLID WASTE RATE ADJUSTMENT EVALUATION AND REVIEW**

### **ITEM**

South County Sanitary, Waste Connection Inc. requested rate adjustment evaluation and review [RECOMMEND RECEIVE REPORT AND DIRECT STAFF].

### **BACKGROUND**

South County Sanitary ("SCS") currently holds the franchise for the Nipomo Community Services District's ("District") solid waste collections enterprise. SCS has proposed a rate adjustment for their services. Bill Statler, ("Consultant") was engaged by the District to evaluate and review SCS's request for the rate adjustment. Consultant will present to the District's Board of Directors, his findings and recommendations.

Based on the Board's direction, staff can return to the Board and provide a staff report outlining a response to SCS's request.

### **FISCAL IMPACT**

There are no fiscal impacts to receiving the Consultant's report. Funding for the Consultant's effort are provided by SCS as required in the District's Franchise Agreement.

### **STRATEGIC PLAN**

Goal 8. ADDITIONAL COMMUNITY SERVICES. Staff should focus on meeting the goals and objectives of existing services. Adding new services will be considered on a case-by-case basis and entered into only if funding can be found and existing services are not harmed.

#### 8.A. Activities for Completion

- A.1 SOLID WASTE. Seek to maximize solid waste services for community and build understanding of services like hazardous waste, recycling, etc. and District's role.

### **RECOMMENDATION**

Recommend receive report and direct staff.

### **ATTACHMENTS**

- A. Consultant's Draft Memorandum – Solid Waste Rate Review

MAY 8, 2019

ITEM C-2

ATTACHMENT A

## William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

Draft

# MEMORANDUM

May 2, 2019

TO: Mario Iglesias, General Manager, Nipomo Community Services District

FROM: Bill Statler *W.C. Statler*

SUBJECT: SOLID WASTE RATE REVIEW

### RECOMMENDATION

Approve the requested rate increase from South County Sanitary Service (SCSS) for solid waste services of 8.89%.

### DISCUSSION

#### Background

SCSS submitted a rate application on March 26, 2019 requesting an 8.89% rate increase for all customers. This application was prepared in accordance with the District's Franchise Agreement with SCSS, which calls for rate requests to be prepared based on the "City of San Luis Obispo Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates" (*Rate Manual*). The SCSS application supporting the proposed 8.89% increase is provided in Attachment 1.

#### Rate Request Review

SCSS, a subsidiary of Waste Connections, provides service to all south county communities under formal Franchise Agreements, including the:

- City of Arroyo Grande
- City of Grover Beach
- City of Pismo Beach
- Oceano Community Services District
- Nipomo Community Services District

## Solid Waste Rate Review

- Avila Beach Community Services District
- County of San Luis Obispo for other unincorporated areas in the south county such as Rural Arroyo Grande

Provided in Attachment 2 is a rate review prepared for the communities of Arroyo Grande, Grover Beach, Oceano and Pismo Beach. As discussed in the report, joint agency review for these four agencies makes sense because:

- SCSS provides the same services to each of these agencies under formally approved Franchise Agreements.
- Each of these Franchise Agreements use the same methodology for regulating rates and establishing procedures for considering rate increases.
- Financial information for SCSS is closely related for these four agencies (as well as all other south county communities).
- All agencies have adopted franchise fees of 10%.

In general, all the findings set forth in the attached report are applicable to the District, with three key differences:

- The franchise fee is 7.3% (versus 10.0% in the other agencies).
- The “allowable profit” (which is described in the attached report) is 7% (versus 8% in the other communities).
- Requirement that SCSS demonstrate that the requested rates are 1% less than what other agencies are paying for similar services.

These factors are why the requested rate increase of 8.89% is less than the proposed rate increase of 10.06% in other south county communities; and as presented on page 7 of the rate application (Attachment 1), why rates are at least 1% less than what other communities are paying for similar services.

### Findings

The key findings presented in the attached report also apply to the District:

- **Complete Application.** With its latest application, SCSS has fully provided the supporting documentation required for rate requests under the District’s Franchise Agreement. The revised application (Attachment 1) has been correctly prepared and requests an across-the-board rate increase of 8.89%.
- **High Level of Service at a Reasonable Cost.** SCSS provides a broad level of high-quality services to the District – including garbage, recycling and green waste collection and disposal as well as hauler-provided “waste wheeler” containers for all three services – at very competitive rates compared with many other communities. In fact, even with the

recommended rate increase of 8.89%, rates in the District will be among the lowest of those surveyed. In short, the District has the best of both worlds: high quality services at a low cost (compared with other communities).

- **“Trigger Option.”** As discussed in greater detail in the report, the rate increase exceeds the cost of living threshold that “triggers” the option of terminating the Franchise Agreement within nine months after rate approval.
- **Need for Updated Rate-Setting Methodology.** Several complex issues have surfaced in this review (most notably corporate overhead, greenwaste and material recovery facility costs as well as rate structure concerns) that have not been encountered in the past in using the rate-setting methodology, which as noted above, is based on the *Rate Manual* adopted in 1994. In short, with very minor modifications, this approach has been in place for 25 years. Accordingly, given the passage of time and the emergence of issues not envisioned in 1994, it is timely to update this methodology.

**Key Rate-Setting Factors**

As discussed in the attached report, reviewing rates under the Franchise Agreement with SCSS is based on organizing costs into three main categories, which will be treated differently in determining a reasonable “operating profit ratio:”

***Allowable Costs (Operations and Maintenance)***

- Direct collection labor
- Vehicle maintenance and repairs
- Insurance
- Fuel
- Depreciation
- Billing and collection

***Pass-Through Costs***

- Landfill disposal (“tipping”) fees
- Franchise fees
- Payments to affiliated companies (such as facility rent, interest and trucking charges)

***Excluded and Limited Costs***

- Charitable and political contributions
- Entertainment
- Income taxes
- Non-IRS approved profit-sharing plans
- Fines and penalties
- Limits on corporate overhead

After organizing costs into these three categories, determining “operating profit ratios” and overall revenue requirements is based on the following factors:

- The target is an 7% operating profit ratio on “allowable costs.”
- Pass-through costs may be fully recovered through rates, but no profit is allowed on these costs.
- No revenues are allowed for any excluded or limited costs.

**Rate Request Summary**

The following summarizes the calculations that support the requested and recommended rate increase:

	<b>Requested</b>
Allowable Costs	9,014,178
Allowable Profit (7% Operating Ratio)	678,486
Pass-Through Costs	
Tipping Fees: Landfill	1,821,241
Tipping Fees: MRF	852,390
Franchise Fees	1,385,290
Related Party Costs	309,151
Total Pass-Through Costs	4,368,072
Allowed Revenue Requirements	14,060,736
Revenue without Rate Increase	12,991,486
Revenue Requirement Shortfall	1,069,250
Rate Base Revenue	12,973,924
% Change in Revenue Requirement	8.24%
Allowed Revenue Increase *	8.89%

*\*Adjusted for franchise fee of 7.3%*

As noted above, all the factors discussed in the Attachment 2 that drive rate increases are the same for the District, with two key exceptions:

- The franchise fee is 7.3% (versus 10.0% in the other agencies).
- The “allowable profit” (which is described in the attached report) is 7% (versus 8% in the other communities).

These two factors are why the requested rate increase of 8.89% is less than the proposed rate increase of 10.06% in other south county communities;

For this reason, the schedules supporting the rate increase on pages 2 to 6 of the application (Attachment 1) are the same as the rate review report (Attachment 2). It is only page 1 of the application that is different in reflecting the two key differences notes above.

**SUMMARY**

Based on the rate-setting policies and procedures formally adopted by the District, this report concludes that:

- SCSS has submitted the required documentation required under its Franchise Agreement with the District.
- This results in a recommended rate increase of 8.89%.



**ATTACHMENTS**

1. Rate Application to the Nipomo Community Services District
2. Solid Waste Rate Review for the Communities of Arroyo Grande, Grover Beach, Oceano and Pismo Beach



South County Sanitary Service

2019 Base Year Rate Adjustment Application-4th Amended (Nipomo)

**Summary**

**NIPOMO COMMUNITY SERVICE DISTRICT**

**Requested Increase**

	CNG Trucks/Infrastructure	4.40%
	Organics	3.10%
	Recycle Processing	6.48%
	Other	-5.09%
1. Rate Increase Requested		<b>8.89%</b>

**Rate Schedule**

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
<b>Single Family Residential</b>				
2. Economy Service (1 - can curb)	\$ 17.18	\$1.53		\$18.71
4. Standard Service (2- can curb)	\$ 24.61	\$2.19		\$26.80
5. Premium Service (3 - can curb)	\$ 32.26	\$2.87		\$35.13

(a) Calculated rates are rounded up to the nearest \$0.01.

6. <b>Multunit Residential and Non-residential</b>	Rate increases of	<b>8.89%</b>
	will be applied to all rates in each structure	
	with each rate rounded to the nearest \$0.01	

**Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: **Jeff Smith** Title: **District Manager**

Signature: \_\_\_\_\_ Date: **03/26/19**

## South County Sanitary Service

## 2019 Base Year Rate Adjustment Application-4th Amended (Nipomo)

## Financial Information

Historical		Current	Projected	
			Base Year	
2016	2017	2018	2019	2020

(from Pg. 4)

## Section I-Allowable Costs

6. Direct Labor	\$3,083,345	\$3,150,539	\$3,385,970	\$3,489,134	\$3,593,808
7. Corporate Overhead	\$332,113	\$153,045	\$340,461	\$350,334	\$363,647
8. Office Salaries	\$478,072	\$901,055	\$386,322	\$397,911	\$409,849
9. Other General and Admin Costs	\$3,820,842	\$4,026,894	\$4,098,450	\$4,776,799	\$4,958,317
10. <b>Total Allowable Costs</b>	<b>\$7,714,372</b>	<b>\$8,231,533</b>	<b>\$8,211,202</b>	<b>\$9,014,178</b>	<b>\$9,325,620</b>

## Section II-Allowable Operating Profit

11. Operating Ratio	87.3%	91.1%	96.1%	93.0%	93.0%
12. <b>Allowable Operating Profit</b>	<b>\$1,126,283</b>	<b>\$803,795</b>	<b>\$336,505</b>	<b>\$678,486</b>	<b>\$701,929</b>

## Section III-Pass Through Costs

13. Tipping Fees	\$1,891,183	\$1,886,262	\$2,680,988	\$2,673,630	\$2,673,630
14. Franchise Fees	\$1,318,502	\$1,357,533	\$1,368,864	\$1,385,290	\$1,401,894
15. AB939 Fees	\$0	\$0	\$0	\$0	\$0
16. <b>Payments to Affiliated Companies*</b>	<b>\$137,595</b>	<b>\$208,272</b>	<b>\$243,980</b>	<b>\$309,151</b>	<b>\$320,899</b>
17. <b>Total Pass Through Costs</b>	<b>\$3,347,280</b>	<b>\$3,452,067</b>	<b>\$4,293,832</b>	<b>\$4,368,072</b>	<b>\$4,396,423</b>

\* Affiliate Payments include interest, lease payments, and transportation

## Section III-Pass Through Costs

18. Revenue Requirement	\$12,187,936	\$12,487,395	\$12,841,539	\$14,060,736	\$14,423,972
19. <b>Total Revenue Offsets</b> (from Page 3)	<b>\$12,187,936</b>	<b>\$12,487,395</b>	<b>\$12,841,539</b>	<b>\$12,991,486</b>	<b>\$13,147,193</b>

## Section III-Pass Through Costs

20. Net Shortfall (Surplus)	\$1,069,250
-----------------------------	-------------

21. Total Residential and Non-residential Revenue without increase in Base Year (pg.5, line 76)	Nipomo \$12,973,924
22. Percent Change in Residential and Non-residential Revenue Requirement	8.24%
23. <b>Franchise Fee Adjustment Factor (1 - 6 percent)</b>	<b>92.700%</b>
	<b>8.89%</b>
Limitation due to cumulative increases	
24. Percent Change in Existing Rates	<b>8.89%</b>

## South County Sanitary Service

## 2019 Base Year Rate Adjustment Application-4th Amended (Nipomo)

## Revenue Offset Summary

	Section VII - Revenue Offsets				
	Historical		Current	Projected	
	2016	2017	2018	Base Year 2019	2020
<i>Residential Revenue (without increase in Base Yr.)</i>					
28. Single Family Residential	\$7,163,810	\$7,341,537	\$7,541,246	\$7,631,741	\$7,723,322
Multiunit Residential Dumpster					
29. Number of Accounts					
30. Revenues					
31. Less Allowance for Uncollectible Resi Accounts	\$0	\$0	\$0	\$0	\$0
<b>32. Total Residential Revenue</b>	<b>\$7,163,810</b>	<b>\$7,341,537</b>	<b>\$7,541,246</b>	<b>\$7,631,741</b>	<b>\$7,723,322</b>
<i>Non-residential Revenue (without increase in Base Yr.)</i>					
Account Type					
Non-residential Can					
33. Number of Accounts	8	8	8	8	8
34. Revenues			\$4,535	\$4,589	\$4,644
Non-residential Wastewheeler					
35. Number of Accounts	392	425	460	466	471
36. Revenues			\$477,469	\$483,199	\$488,997
Non-residential Dumpster					
37. Number of Accounts	1,738	1,684	1,629	1,649	1,668
38. Revenues	\$5,004,136	\$5,133,957	\$4,796,508	\$4,854,067	\$4,912,315
39. Less: Allowance for Uncollectible Non-resid	\$0	\$0	\$0	\$0	\$0
<b>40. Total Non-residential Revenue</b>	<b>\$5,004,136</b>	<b>\$5,133,957</b>	<b>\$5,278,512</b>	<b>\$5,341,854</b>	<b>\$5,405,956</b>
<b>45. Interest on Investments</b>	<b>\$6,104</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,035</b>	<b>\$2,059</b>
<b>46. Other Income</b>	<b>\$13,885</b>	<b>\$11,901</b>	<b>\$21,780</b>	<b>\$15,856</b>	<b>\$15,856</b>
<b>47. Total Revenue Offsets</b>	<b>\$12,187,936</b>	<b>\$12,487,395</b>	<b>\$12,841,539</b>	<b>\$12,991,486</b>	<b>\$13,147,193</b>

## South County Sanitary Service

## 2019 Base Year Rate Adjustment Application-4th Amended (Nipomo)

## Cost Summary for Base Year

Description of Cost	BASE YEAR			
	2016	2017	2018	2019
Labor	\$2,849,547	\$2,906,100	\$3,127,283	\$3,219,834
Payroll Taxes	\$233,798	\$244,439	\$258,686	\$269,300
48. <b>Total Direct Labor</b>	<b>\$3,083,345</b>	<b>\$3,150,539</b>	<b>\$3,385,970</b>	<b>\$3,489,134</b>
49. Corporate Overhead	\$332,113	\$153,045	\$436,899	\$453,501
Less limitation (enter as negative)			(\$96,438)	(\$103,167)
<b>Total Corporate Overhead</b>	<b>\$332,113</b>	<b>\$153,045</b>	<b>\$340,461</b>	<b>\$350,334</b>
Office Salary	\$442,804	\$864,061	\$350,384	\$360,895
Payroll Taxes	\$35,268	\$36,995	\$35,938	\$37,016
50. <b>Total Office Salaries</b>	<b>\$478,072</b>	<b>\$901,055</b>	<b>\$386,322</b>	<b>\$397,911</b>
Bad Debt	\$2,448	\$4,271	\$11,283	\$4,300
Allocated expenses	\$0	\$0	\$0	\$0
Bond expense	\$6,482	\$5,325	\$5,325	\$5,527
Depreciation on Bldg and Equip	\$0	\$16,598	\$6,297	\$27,275
Depreciation on Trucks/Containers	\$274,514	\$229,543	\$304,867	\$596,497
Drive Cam fees	\$28,997	\$28,680	\$22,949	\$23,821
Dues and Subscriptions	\$6,738	\$8,196	\$6,221	\$6,457
Facilities	\$0	\$50,977	\$0	\$0
Gas and oil	\$796,069	\$880,285	\$969,634	\$965,300
Laundry (Uniforms)	\$21,452	\$24,462	\$26,679	\$27,693
Legal and Accounting	\$29,459	\$30,952	\$31,145	\$37,328
Miscellaneous and Other	\$16,522	\$8,372	\$8,433	\$8,753
Office Expense	\$206,325	\$242,249	\$275,612	\$286,086
Operating Supplies	\$39,671	\$39,710	\$40,674	\$42,219
Other insurance - Medical	\$1,238,436	\$1,195,973	\$1,041,356	\$1,080,928
Other Taxes	\$35,985	\$35,080	\$34,854	\$36,179
Outside Services	\$431,794	\$518,013	\$541,595	\$867,435
Public Relations and Promotion	\$1,578	\$1,699	\$1	\$1
Postage	\$6,574	\$2,005	\$2,047	\$4,125
Permits	\$63,007	\$60,347	\$60,101	\$62,385
Relocation	\$22,576	\$3,186	\$9,302	\$9,656
Rent	\$3,000	\$3,000	\$0	\$0
Telephone	\$20,909	\$20,182	\$13,956	\$14,486
Tires	\$146,896	\$139,628	\$87,488	\$88,145
Travel	\$26,944	\$13,991	\$27,278	\$28,315
Truck Repairs	\$365,282	\$436,531	\$543,855	\$525,345
Utilities	\$29,184	\$27,637	\$27,497	\$28,542
51. <b>Total Other Gen/Admin Costs</b>	<b>\$3,820,842</b>	<b>\$4,026,894</b>	<b>\$4,098,450</b>	<b>\$4,776,799</b>
52. <b>Total Tipping Fees</b>	\$1,891,183	\$1,886,262	\$2,680,988	\$2,673,630
53. <b>Total Franchise Fee</b>	1,318,501.56	\$1,357,533	1,368,863.98	1,385,290
54. <b>Total AB 939/Regulatory Fees</b>	\$0	\$0	\$0	\$0
55. <b>Total Lease Pmt to Affil Co.'s</b>	\$89,051	\$91,703	\$145,337	\$150,860
55a. <b>Interest Expense (to affiliate)</b>	\$0	\$62,222	\$50,099	\$107,902
55b. <b>Transportation costs (to affiliate)</b>	\$48,544	\$54,347	\$48,545	\$50,389
56. <b>Total Cost</b>	<b>\$11,061,652</b>	<b>\$11,683,600</b>	<b>\$12,505,034</b>	<b>\$13,382,249</b>

2019 Base Year Rate Adjustment Application-4th Amended (Nipomo)

Base Year Revenue Offset Summary

For Information Purposes Only

Description of Revenue	Section VII-Revenue Offsets						
	Overall	Franchise	Refuse Collection				Non-franchise
	Total	Total	Arroyo	Pismo	Grover	Unincorporated	Total
<i>Residential Revenue</i> (without increase in Base Year)							
57. Single Family Residential	\$7,631,741	\$7,631,741	\$1,293,703	\$852,859	\$868,551	\$4,616,628	
<i>Multiunit Residential Dumpster</i>							
58. Number of Accounts	0	0					
59. Revenues	\$0	\$0					
60. Less Allowance for Uncollectable	\$0	\$0					
61. <b>Total Residential Revenue</b>	<b>\$7,631,741</b>	<b>\$7,631,741</b>	<b>\$1,293,703</b>	<b>\$852,859</b>	<b>\$868,551</b>	<b>\$4,616,628</b>	<b>\$0</b>
<i>Non-residential Revenue (without increase in Base Year)</i>							
Account Type							
<i>Non-residential Can</i>							
62. Number of Accounts	8	8	2	4	0	2	
63. Revenues	\$4,589	\$4,589	\$503	\$1,468	\$0	\$2,617	
<i>Non-residential Wastewheeler</i>							
64. Number of Accounts	466	466	131	132	95	108	
65. Revenues	\$483,199	\$483,199	\$134,345.31	\$180,384.79	\$64,852.36	\$103,616.13	
<i>Non-residential Dumpster</i>							
66. Number of Accounts	1,649	1643	352	236	327	728	6
67. Revenues	\$4,854,067	\$4,777,761	\$1,059,880	\$1,004,808	\$688,810	\$2,024,263	\$76,305
68. Less: Allowance for Uncollectable Non-residential Accounts	\$0	\$0					
69. <b>Total Non-residential Revenue</b>	<b>\$5,341,854</b>	<b>\$5,265,549</b>	<b>\$1,194,729</b>	<b>\$1,186,661</b>	<b>\$753,662</b>	<b>\$2,130,497</b>	<b>\$76,305</b>
74. <b>Interest on Investments</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
75. <b>Other Income</b>	<b>\$328</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$328</b>
76. <b>Total Revenue Offsets</b>	<b>\$12,973,924</b>	<b>\$12,897,290</b>	<b>\$2,488,432</b>	<b>\$2,039,520</b>	<b>\$1,622,213</b>	<b>\$6,747,125</b>	<b>\$76,634</b>

## South County Sanitary Service

## 2019 Base Year Rate Adjustment Application-4th Amended (Nipomo)

## Operating Information

Historical				Current		Projected		
	Percent		Percent		Percent	Base Year	Percent	
2016	Change	2017	Change	2018	Change	2019	Change	2020

## Section IX-Operating Data

## Residential

## Accounts

77.	Arroyo Grande	5,742	0.5%	5,769	1.1%	5,833	1.0%	5,891	1.0%	5,950
	Grover Beach	4,198	0.3%	4,211	0.7%	4,239	1.0%	4,281	1.0%	4,324
	Pismo Beach	3,748	0.5%	3,768	-0.2%	3,762	1.0%	3,800	1.0%	3,838
	Oceano CSD	1,838	0.1%	1,840	-0.3%	1,834	1.0%	1,852	1.0%	1,871
	Nipomo CSD	4,001	0.8%	4,035	0.9%	4,070	1.0%	4,111	1.0%	4,152
	County	6,436	1.8%	6,551	1.4%	6,643	1.0%	6,709	1.0%	6,777
		25,963	0.8%	26,174	0.8%	26,381	1.0%	26,645	1.0%	26,911
78.	Routes-Garbage	7	0.0%	7	0.0%	7	0.0%	7	0.0%	7
79.	Routes-Recycling	7	0.0%	7	0.0%	7	0.0%	7	0.0%	7
80.	Direct Labor Hours	32,722	0.0%	32,722	0.0%	32,722	0.0%	32,722	0.0%	32,722

## Non-residential Garbage

## Accounts

80.	Arroyo Grande	486	-1.0%	481	-0.4%	479	1.0%	484	1.0%	489
	Grover Beach	442	-2.0%	433	-3.7%	417	1.0%	421	1.0%	425
	Pismo Beach	380	-1.1%	376	-2.4%	367	1.0%	371	1.0%	374
	Oceano CSD	190	0.5%	191	-12.0%	168	1.0%	170	1.0%	171
	Nipomo CSD	211	-0.9%	209	-16.3%	175	1.0%	177	1.0%	179
	County	475	2.3%	486	6.8%	519	1.0%	524	1.0%	529
		2,184	-0.4%	2,176	-2.3%	2,125	1.0%	2,146	1.0%	2,168
81.	Routes-garbage	5	0.0%	5	0.0%	5	0.0%	5	0.0%	5
	Routes-recycling	3	0.0%	3	0.0%	3	0.0%	3	0.0%	3
82.	Direct Labor Hours	22,334	0.0%	22,334	0.0%	22,334	0.0%	22,334	0.0%	22,334

## Recyclable Materials - All areas-Commingled Recycling (in tons)

## Accounts

83.	Tri-Cities	8,965	-3.1%	8,686	-1.1%	8,587	0.0%	8,587	0.0%	8,587
	Nipomo/Oceano CSD	3,296	-3.1%	3,193	-1.1%	3,157	0.0%	3,157	0.0%	3,157
84.	County	1,055	-3.1%	1,022	-1.1%	1,010	0.0%	1,010	0.0%	1,010
		13,316	-3.1%	12,901	-1.1%	12,754	0.0%	12,754	0.0%	12,754

## Recyclable Materials - All areas-Greenwaste Recycling

	Routes	5	0.0%	5	0.0%	5	0.0%	5	0.0%	5
	Tons Collected	11,294	5.6%	11,931	5.3%	12,567	1.0%	12,693	1.0%	12,820
	Direct Labor Hours	7,271	0.0%	7,271	0.0%	7,271	0.0%	7,271	0.0%	7,271

	Garbage Tons Collected	40,552	1.5%	41,142	1.2%	41,621	1.0%	42,037	1.0%	42,457
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Attachment 1

**South County Sanitary Service  
Analysis of Differentiation of Operating Ratio Between Nipomo and the Remainder of South County Sanitation**

Description	Total Company	Nipomo Test	Comments
Allowable Costs from Page 2 (2019)	\$9,014,178	\$9,014,178	
Operating Ratio	92%	93%	Nipomo's Operating Ratio is 93
Allowable Profit	\$ 783,842	\$ 678,487	
Allowable Costs	\$9,014,178	\$9,014,178	
Pass Through Costs	\$4,368,072	\$4,368,072	
Revenue Requirement	<u>\$ 14,166,091</u>	<u>\$ 14,060,736</u>	
Current Revenue Offset	\$12,991,486	\$12,991,486	
Additional Revenue Required	\$ 1,174,605	\$ 1,069,250	
Increase Required	9.04%	8.23%	
Franchise Fee Adjustment Factor	90%	92.70%	Nipomo's Franchise fee is 7.3%
Resulting Rate Adjustment	<u>10.05%</u>	<u>8.88%</u>	1.17%

Nipomo's increase is 1.17% less than the other South County agencies

*With this demonstration that an operating ratio of 93 is used to determine the revenue requirement and the resulting rates, Nipomo rate payers can be assured that in aggregate, their total cost before franchise fees is less than the other South County jurisdictions, which use a 92 operating ratio. Due to differences in rate design and distribution of customer count, this does not mean that all individual tariffed rates are at one percent lower than other rates in the South County.*



*South County Sanitary Service*  
**SOLID WASTE RATE REVIEW**

*For the Communities of*

Arroyo Grande  
Grover Beach  
Oceano  
Pismo Beach

April 2019



**William C. Statler**

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

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South County Sanitary Service  
**Solid Waste Rate Review**  
 April 2019

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**APPENDIX**

- A. Base Year Rate Request Application from South County Sanitary Service
- B. Boston Group Outlook on Recycling Costs
- C. Cold Canyon Processing Facility Background

124 Cerro Romauldo Avenue  
San Luis Obispo, CA 93405  
805.544.5838 ■ Cell: 805.459.6326  
bstatler@pacbell.net  
www.bstatler.com

## William C. Statler

Fiscal Policy ■ Financial Planning ■ Analysis ■ Training ■ Organizational Review

### South County Sanitary Service **SOLID WASTE RATE REVIEW**

*For the Communities of Arroyo Grande, Grover Beach,  
Oceano and Pismo Beach*

#### REPORT PURPOSE

On September 25, 2018, South County Sanitary Service (SCSS) submitted a *Base Year* rate increase application to be effective January 1, 2019 to the Cities of Arroyo Grande, Grover Beach and Pismo Beach and the Oceano Community Services District (CSD). However, due to the complexity and concerns with the rate application, four supplemental applications were submitted, with the most recent one received on March 28, 2019.

The last application is the focus of this report in reviewing the SCSS rate increase request in accordance with adopted Franchise Agreement provisions regarding rate increase applications and to make rate recommendations to these four agencies as appropriate.

#### SUMMARY OF FINDINGS AND RECOMMENDATIONS

In its latest application, SCSS is requesting a rate increase of 10.06%. This compares with its initial request of 13.36% in September 2018. As discussed in greater detail below, all of the concerns that surfaced in the iterations and further analysis that followed in addressing issues with proposed costs for 2019 have been resolved. However, the following highlights a key cost driver in this review:

#### Joint Agency Review

SCSS provides similar services to each of these agencies under formally approved franchise agreements that regulate rates and establish procedures for considering rate increases.

Because the financial information for SCSS is closely related for these four agencies, this report jointly reviews rate requests and provides recommendations for each of them.

## Solid Waste Rate Review

**Materials recovery facility (MRF) costs** for “single stream” recycling (one container for all recyclables that must be sorted at a MRF) have increased from \$7.80 in 2017 per ton to \$67.50 per ton for 2019, an increase of 765%. This results in cost increases of \$760,000 from 2017 and accounts for about half of the requested 10.06% rate increase.

It is clear from market realities (higher costs to produce higher-quality recyclables and lower prices for the resulting product from MRF operations) and the supporting data provided by SCSS, that cost increases in this area are warranted. While the increase is significant, it is acceptable given market conditions and the higher cost of other alternatives.

It should be noted that SCSS requested a rate restructuring in their initial application in order to send “better cues” to residential customers about correctly sizing trash containers, since many customers are placing trash in their recycling (blue containers). However, due to other complex cost issues associated with its rate application, SCSS has rescinded this request.

### Findings

- ***Complete Application.*** With its latest application, SCSS has fully provided the supporting documentation required for rate requests under the Franchise Agreements in Arroyo Grande, Oceano, Pismo Beach and Grover Beach. The revised application (Appendix A) has been correctly prepared and requests an across-the-board rate increase of 10.06%.
- ***High Level of Service at a Reasonable Cost.*** SCSS provides a broad level of high-quality services to these four agencies—including garbage, recycling and green waste collection and disposal as well as hauler-provided “waste wheeler” containers for all three services—at very competitive rates compared with many other communities. In fact, even with the recommended rate increase of 10.06%, rates in these four agencies will be among the lowest of those surveyed. In short, South County communities have the best of both worlds: high quality services at a low cost (compared with other communities).
- ***“Trigger Option.”*** As discussed in greater detail below, the rate increase exceeds the cost of living threshold that “triggers” the option of terminating the Franchise Agreements within nine months after rate approval.
- ***Need for Updated Rate-Setting Methodology.*** Several complex issues have surfaced in this review (most notably corporate overhead, greenwaste and MRF costs as well as rate structure concerns) that have not been encountered in the past in using the rate-setting methodology, which is based on the City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates* (Rate Manual) adopted in 1994. In short, with very minor modifications, this approach has been in place for 25 years. Accordingly, given the passage of time and the emergence of issues not envisioned in 1994, it is timely to update this methodology.

Undertaking this work is supported by Waste Connections (the parent company of SCSS) as well as by the staff of all agencies serviced by SCSS (which includes the County, Avila CSD and Nipomo CSD as well as the City of San Luis Obispo). Waste Connections has conceptually agreed to fund half of this cost; if the remaining cost is shared by the central

## Solid Waste Rate Review

coast agencies serviced by Waste Connections, the consultant service cost for each agency should be very modest. There are several highly-respected consultant firms that could assist with this update, such as:

HF&H Consultants  
<http://hfh-consultants.com>

FCS Group  
<http://fcsgroup.com>

NBS  
<https://www.nbsgov.com>

MSW Consultants  
<https://MSW-Consultants.com>

R3 Consulting Group  
<https://r3cgi.com>

Bell & Associates  
[Chris@bellassociatesinc.com](mailto:Chris@bellassociatesinc.com)

If the governing bodies are interested in pursuing an update, the next steps include developing a funding strategy; preparing and issuing a request for proposals (RFP); and selecting the vendor.

### Rate Recommendations

It is recommended that the governing bodies of each agency adopt an across-the-board rate increase of 10.06%.

As discussed below, this rate increase exceeds the cost of living threshold that triggers the option of terminating the Franchise Agreements within nine months after rate approval. However, it is important to note that this “trigger” calculation does not limit the allowable rate increase that SCSS may request under the methodology set forth in the Franchise Agreements.

**Cost of Living “Trigger” Option.** Along with establishing the rate review methodology, Section 8.3 of the Franchise Agreements provides that if the rate increase request compared with the rate in effect at the date of the agreement exceeds the cumulative cost of living increase from that same date, each agency has the *option* of terminating the agreement at any time within nine months following approval of the requested rate increase (assuming it was submitted in accordance with the rate-setting methodology). This provision was subsequently amended in 2016 allowing for an added increase based on landfill rate increases (“weighted” for their proportion of total costs). It is important to note that other than a waiver for greenwaste cost increases in 2011, no other adjustments (including other pass-through costs) are allowed under the Franchise Agreements. As detailed later in this report, the calculated threshold limit for an increase that would avoid triggering this option is 3.32% (in short, the requested rate increase is 6.74% above the trigger).

It is important to note that the “trigger option” does not directly limit rate increase requests by SCSS to an amount that may be less than that allowed under the rate-setting methodology.

### About Proposition 218 Notices

Not all agencies prepare and issue “Proposition 218” notices for private sector solid waste rate increases. However, for those that do, the notice sets the maximum amount that rates can be increased at the public hearing: rates can be approved at lesser amounts without re-noticing. However, agencies cannot adopt higher rates – even if they only apply to a few customers – without another 45-day re-noticing. As such, it is recommended that the notices reflect the rates requested by SCSS.

## Solid Waste Rate Review

However, subjecting the Franchise Agreement to *possible* termination if the rate request is greater than the cost of living threshold provides an incentive for SCSS to do so if possible.

### Rate Summary for Single Family Residential Customers

Table 1 summarizes the requested rates for single family residential (SFR) customers. As reflected in this summary, given the significant cost drivers facing SCSS, the increases will be modest under the proposed rate increase. For example, for collection of a 32-gallon garbage container (the most common SFR service level) as well as separate waste wheelers for recycling and green waste, the proposed monthly rate will increase by about \$1.57 on average for the four agencies.

### BACKGROUND

On September 25, 2018, SCSS submitted a *Base Year* rate increase to be effective January 1, 2019. As noted above, due to the complexity and concerns with the rate application, four supplemental applications were submitted, with the most recent one received on March 28, 2019. This application was prepared in accordance with the rate review process and methodology formally set forth in its Franchise Agreements with Arroyo Grande, Grover Beach, Oceano and Pismo Beach.

In establishing a rate-setting process and methodology, each of these Franchise Agreements specifically reference the City of San Luis Obispo's *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates*. This comprehensive approach to rate reviews was adopted by San Luis Obispo in 1994 and establishes detailed procedures for requesting rate increases and the required supporting documentation to do so. It also sets cost accounting standards and allowable operating profit ratios.

As noted above, the financial information for Arroyo Grande, Grover Beach, Oceano and Pismo Beach is closely related. For this reason, these four agencies jointly contracted with William C. Statler (who has extensive experience in evaluating rate requests in accordance with the adopted methodology) on October 31, 2019 to evaluate SCSS's rate increase application.

This is the sixth *Base Year* analysis performed under this rate-setting methodology. The first was prepared in September 2001; second in August 2004; the third in August 2007; the fourth in December 2012; and the last one in September 2015. As discussed below, several *Interim Year* rate reviews have prepared since then.

**Table 1. Single Family Residential Rates**

	Container Size (Gallons)		
	32	64	96
<b>Current</b>			
Arroyo Grande	\$17.26	\$22.44	\$27.63
Grover Beach	15.65	21.16	26.64
Oceano	14.00	20.13	39.40
Pismo Beach	15.36	30.73	46.09
<b>Requested</b>			
Arroyo Grande	19.00	24.70	30.41
Grover Beach	17.22	23.29	29.32
Oceano	15.41	22.16	43.36
Pismo Beach	16.91	33.82	50.73
<b>Increase: Requested Rates</b>			
Arroyo Grande	1.74	2.26	2.78
Grover Beach	1.57	2.13	2.68
Oceano	1.41	2.03	3.96
Pismo Beach	1.55	3.09	4.64

**Solid Waste Rate Review**

**Franchise Agreement Summary**

Historically, each agency has had its own approach to determining service levels and adopted differing Franchise Agreements accordingly. While these became similar beginning in 1999, in 2008 the Cities of Arroyo Grande, Grover

Beach and Pismo Beach adopted renewed franchise agreements, followed by the Oceano Community Service District in Summer 2010, which are the same in all key provisions:

- Each agency contracts with SCSS for garbage, green/food waste and recycling; and SCSS provides the container (waste wheelers) for each service.
- As noted above, each agency has adopted the same rate-setting methodology, including the *option* of terminating the agreement within nine months following approval of the requested rate increase if it exceeds the cost of living threshold.
- All agencies have adopted franchise fees of 10%.

Each of these agreements were similarly amended in 2016 to:

- Extend the term of the agreement for 20 years in recognizing the amortization of extensive investments in food and green waste processing.
- Revise the cost of living threshold “trigger” to include prorated landfill cost increases.

**RATE REVIEW WORKSCOPE**

This report addresses four basic questions:

- Should SCSS be granted a rate increase? And if so, how much?
- How much does it cost to provide required service levels?
- Are these costs reasonable?
- And if so, what is a reasonable level of return on these costs?

The following documents were closely reviewed in answering these questions:

- Franchise Agreements and any Amendments for each agency
- Audited financial statements for SCSS for 2016 and 2017
- City of San Luis Obispo’s *Rate Setting Process and Methodology Manual for Integrated Solid Waste Management Rates (Rate Manual)*
- SCSS rate increase application and supporting documentation
- Follow-up interviews, correspondence and briefings with agency and SCSS staff
- Rate surveys of Central Coast communities

*Table 2. Franchise Agreement Effective Dates*

Agency	Agreement	Amendments
Arroyo Grande	June 10, 2008	March 22, 2016 July 26, 2016
Grover Beach	July 7, 2008	June 20, 2016
Oceano	July 14, 2010	July 29, 2016
Pismo Beach	June 3, 2008	August 3, 2016

## Solid Waste Rate Review

### REVENUE AND RATE SETTING OBJECTIVES

In considering SCSS's rate increase request, it is important to note the revenue and rate setting objectives for solid waste services as set forth in the Franchise Agreements via the *Rate Manual*.

**Revenues.** These should be set at levels that:

- Are fair to customers and the hauler.
- Are justifiable and supportable.
- Ensure revenue adequacy.
- Provide for ongoing review and rate stability.
- Are clear and straightforward for the agency and hauler to administer.

**Rate Structure.** Almost any rate structure can meet the revenue principles outlined above and generate the same amount of total revenue. Moreover, almost all rate structures will result in similar costs for the *average* customer: what different rate structures tell us is how costs will be distributed among *non-average* customers. The following summarizes adopted *rate structure* principles for solid waste services:

- Promote source reduction, maximum diversion and recycling.
- Provide equity and fairness within classes of customers (similar customers should be treated similarly).
- Be environmentally sound.
- Be easy for customers to understand.

### COST ACCOUNTING ISSUES

#### *Who's Paying What?*

As noted above, SCSS's financial operations for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are closely related. Keeping costs and revenues segregated is further complicated by the fact that SCSS, as a subsidiary of Waste Connections Incorporated (which acquired the parent company in April 2002), shares ownership with the following local companies:

- San Luis Garbage Company
- Mission Country Disposal
- Morro Bay Garbage Service
- Coastal Roll-Off Service
- Cold Canyon Land Fill
- Cold Canyon Processing Facility

Additionally, within the South County, SCSS's service area includes:

- City of Arroyo Grande
- City of Grover Beach
- City of Pismo Beach
- Oceano Community Services District



## Solid Waste Rate Review

- Nipomo Community Services District
- Avila Beach Community Services District
- Other unincorporated areas in the South County such as Rural Arroyo Grande

### Cost Accounting System

**Between Companies.** Separate “source” accounting systems are maintained for each company. Moreover, audited financial statements are prepared for each company by an independent certified public accountant; and SCSS’s auditors have consistently issued “clean opinions” on its financial operations. In short, appropriate systems appear to be in place to ensure that the financial results reported for SCSS do not include costs and revenues related to other companies. Additionally, virtually all of the financial operations of SCSS and its affiliated companies are regulated by elected governing bodies such as cities, special districts and the County.

**Within the SCSS Service Area.** Within the SCSS service area, a combination of direct and allocation methodologies are used in accounting for costs and revenues between communities. In general, revenues are directly accounted for each franchising agency, while costs are allocated using generally accepted accounting principles.

**Cost Accounting Findings.** The accounting and financial reporting system used by SCSS is reasonable and consistent with generally accepted accounting principles and practices. It treats similar costs similarly (such as collection and disposal, where there are no significant differences in service levels and unit costs between the four agencies), while recognizing community differences (such as different franchise fee rates). Because the financial operations of SCSS are closely related for all of the communities it serves, there are significant advantages to performing concurrent reviews.

**Area of Possible Concern.** While the service characteristics and resulting per unit costs are very similar for Arroyo Grande, Grover Beach, Oceano and Pismo Beach, this is unlikely to be true for the more rural areas in the South County serviced by SCSS. Because of their lower densities, collection costs are probably higher in these areas but these are not accounted for separately by SCSS.

On the other hand, there are three mitigating factors that reduce this concern:

- **Higher rates.** Depending on service type, rates are up to 30% higher in these areas, recognizing the higher collection costs for similar services. In short, these rate differentials significantly mitigate “equity” and cost accounting concerns.
- **Smaller percentage of accounts.** The four agencies covered by this report account for about two-thirds of the accounts serviced by SCSS. Accordingly, while there may be “cost per account” differences in these other areas, they account for a smaller portion of SCSS operations.
- **About 40% of revenues are from non-SFR accounts.** 41% of SCSS revenues come from multi-family and non-residential accounts, which have the same rate structure and similar service-versus-cost characteristics throughout the SCSS service area.

## Solid Waste Rate Review

*If costs for Arroyo Grande, Grover Beach, Oceano and Pismo Beach are so similar, why are the residential rates so different?*

The short answer is: history and different approaches to rate structure philosophies.

### History

Until 1999, service levels under the Franchise Agreements with SCSS between these four agencies were significantly different. The rates in place at that time became the basis for subsequent rate reviews.

### Rate Structure Principles

Most significantly, each agency has adopted different rate structure principles to recover similar costs. For example, Pismo Beach has adopted a rate structure for its residential customers that more closely reflects a “pay-as-you-throw” philosophy under which the “per gallon” costs for 32, 64 and 96 gallon containers are the same (for example, a 64-gallon container costs twice as much as a 32-gallon one.) This results in lower monthly costs for 32-gallon customers and relatively higher rates for 64 and 96-gallon customers.

On the other hand, Arroyo Grande has adopted rates that do not have as much difference between container sizes (but still offer an incentive for smaller containers over larger ones), recognizing collection economies of scale for larger versus smaller containers. In this case, 32-gallon containers in Arroyo Grande are more expensive than in Pismo Beach, but 64-gallon containers are less.

Both rate structures have their strong points: in the case of Pismo Beach, rates are more reflective of disposal costs, whereas in Arroyo Grande they are more reflective of collection costs. But the important point is that the revenue generating capability is the same even though the rates are different.

### Multi-Family and Non-Residential Rates

Lastly, multi-family and non-residential rates (which account for 41% of SCSS revenues) are similar in all four agencies: it is only in *single family residential* rates that there are significant differences between communities.

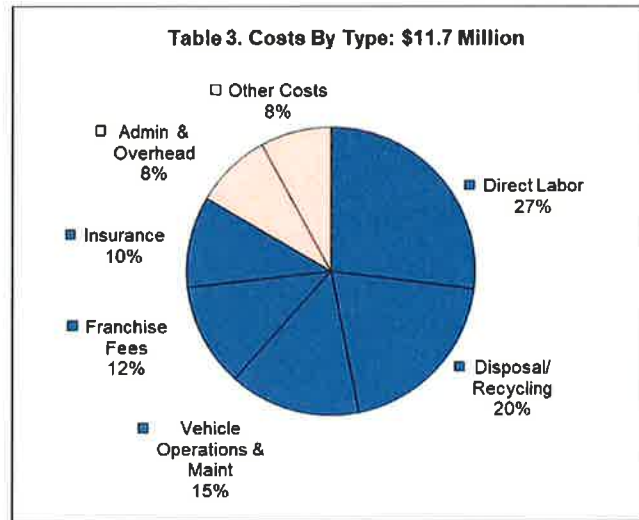
## FINANCIAL OVERVIEW

While detailed financial and service information is provided in the SCSS rate request application (Appendix A), the following summarizes their actual costs, revenues and account information for 2017 (the last completed fiscal year for which there are audited financial statements) for all areas serviced by them.

**Solid Waste Rate Review**

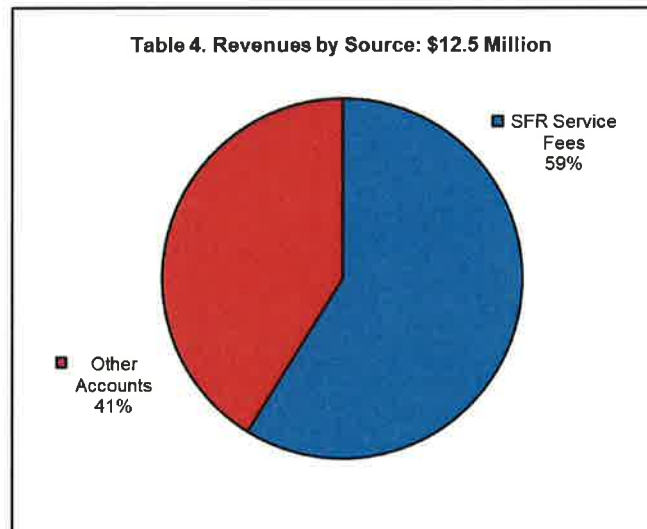
**Costs by Type.** Total expenses for 2017 (after deducting for non-allowable and limited costs as discussed later in this report) were \$11.7 million. As reflected in Table 3, five cost areas accounted for 84% of total costs:

- Direct labor for collection: 27%
- Disposal and recycling: 20%
- Vehicle operations and maintenance (including depreciation): 15%
- Franchise fees: 12%
- Insurance: 10%



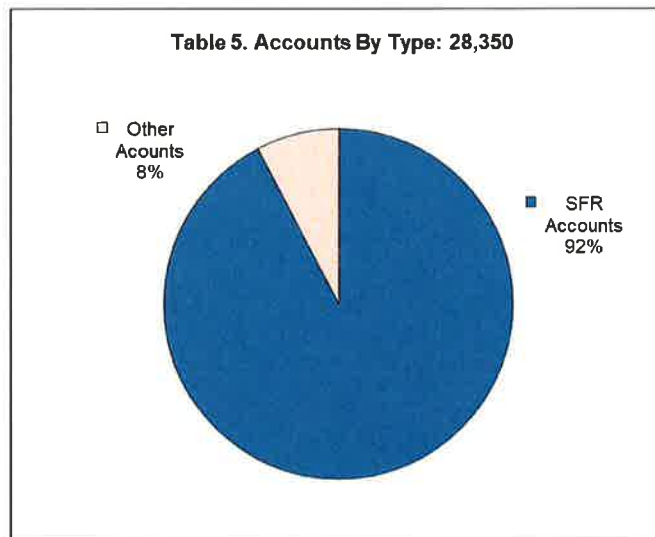
**Revenues by Source.** Total revenues in 2017 were \$12.5 million. As reflected in Table 4, 59% of SCSS's revenues come from single-family residential (SFR) accounts.

Services to multi-family residential and non-residential customers account for 41% of their revenues, with less than 1% from other revenues.



**Service Accounts by Type.** While single-family residences account for 59% of revenues, they represent 92% of total accounts (Table 5).

This reflects the fact that per account, multi-family and non-residential customers generate more solid waste than single-family residential customers (and thus more revenue per account).



## Solid Waste Rate Review

### RATE-SETTING PROCESS

Under the *Rate Manual*, the rate-setting process follows a three-year cycle:

- **Base Year.** The first year of the cycle—the *Base Year*—requires a comprehensive, detailed analysis of revenues, expenses and operating data. This information is evaluated in the context of agreed upon factors in the franchise agreements in determining fair and reasonable rates. As noted above, the last *Base Year* analysis for SCSS under this approach was prepared in September 2015.
- **Two Interim Years.** In both the second and third years, SCSS is eligible for *Interim Year* rate adjustments that address three key change factors: changes in the consumer price index for “controllable” operating costs; changes in “pass-through costs” (primarily landfill tipping fees, which SCSS does not control: they are set by the County Board of Supervisors); and an adjustment to cover increased franchise fees.

The first two adjustment factors are “weighted” by the proportionate share that these costs represent of total costs (excluding franchise fees). For example, in the current *Base Year* analysis for recommended 2019 rates, controllable costs account for 84% of total costs, with landfill disposal costs accounting for 16%.

The rate review for the two *Interim Years* requires less information and preparation time than the *Base Year* review, while still providing fair and reasonable rate adjustments.

### Rate Increase History

The following summarizes the SCSS rate review history since 2004 (last twelve years) based on the year of the application (rate increases took place the following year).

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**Table 6. Review History: 2005 to 2019 (Last 15 Years)**

Year	Review Type	Arroyo Grande	Grover Beach	Oceano	Pismo Beach (1)
2005	Base Year	5.60%	5.60%	5.60%	5.30%
2006	Interim Year	3.09%	3.09%	3.09%	2.95%
2007	Interim Year	3.76%	3.76%	3.76%	3.60%
2008	Base Year	3.00%	3.00%	3.00%	2.90%
2009	Interim Year	0.00%	0.00%	0.00%	0.00%
2010	Interim Year (2)	0.00%	0.00%	0.00%	0.00%
2011	Interim Year	0.00%	0.00%	0.00%	0.00%
2012	Interim Year (2)	5.15%	5.15%	5.15%	5.15%
2013	Base Year	3.20%	3.20%	3.20%	3.20%
2014	Interim Year	2.05%	2.05%	2.05%	2.05%
2015	Interim Year	0.00%	0.00%	0.00%	0.00%
2016	Base Year	3.25%	3.25%	3.25%	3.25%
2017	Interim Year	1.10%	1.10%	1.10%	1.10%
2018	Interim Year	1.60%	1.60%	1.60%	1.60%
2019	Base Year (3)	10.06%	10.06%	10.06%	10.06%

1. *From 2004 to 2011, the franchise fee rate in Pismo Beach was 6% compared with 10% in the other three agencies, and as such, its rate increase was slightly less. In July 2011, Pismo Beach adopted a 10% franchise fee, bringing it in alignment with the other three agencies (as well as most other agencies in San Luis Obispo County). In implementing the 10% rate in 2011, Pismo Beach adopted an added 3.9% increase beyond the interim year rate increase of 5.15% requested by SCSS.*
2. *SCSS did not request a rate increase in 2010 (which would have been the “normal” cycle to do so), and accordingly, did not submit a Base Year rate application. However, SCSS did submit a rate request in 2011 using an Interim Year methodology. The reasonableness of using the resulting “hybrid” approach was discussed in detail in the 2011 Interim Year report, which concluded that this approach was reasonable given the circumstances.*
3. *Proposed rate increase.*

Assuming the proposed rate increase of 10.06% for 2019 is approved, this will result in an average annual rate increase of 2.75% over the last fifteen years, which reflects a high level of rate stability and price containment for SCSS customers.

### **RATE SETTING METHODOLOGY**

#### **Are the Costs Reasonable?**

The first step in the rate review process is to determine if costs are reasonable. There are three analytical techniques that can be used in assessing this:

## Solid Waste Rate Review

- Detailed review of costs and service responsibilities over time.
- Evaluation of external cost factors, such as general increases in the cost of living (as measured by the consumer price index).
- Comparisons of rates with other communities.

Each of these was considered in preparing this report, summarized as follows.

### *Detailed Cost Review*

In its rate application (Appendix A), SCSS provides detailed financial data for five years:

- Audited results for the two prior years (2016 and 2017).
- Estimated results for the current year (2018, which is still in progress).
- Projected costs for the Base Year (2019).
- Estimated costs for the following year (2020).

Additionally, for virtually all line items, SCSS provided supplemental detail upon request to support cost increases from 2017 to 2019.

Table 7 below provides actual costs for 2017 (most recent audit results) compared with requested and recommended cost projections for 2019.

While there are significant cost increases in several categories, they are reasonable given the cost drivers facing SCSS; and in the case of MRF costs, this is an acceptable increase due to higher processing costs and lower revenues combined with the lack of other viable alternatives.

**The Short Story.** The key drivers behind the proposed 10.06% rate increase for 2019 can be summarized by three cost factors over the past two years:

- 4.5% for recycling via MRF operations.
- 2.2% for truck depreciation.
- 1.6% for investments in food and green waste recycling.
- 1.8% for all other cost increases including labor, vehicle fuel, ongoing maintenance, labor and other pass-through costs.

## Solid Waste Rate Review

**Table 7. Detailed Cost Review: 2017 vs 2019**

	2017 Actual	2019 Requested	
		Amount	Change
Direct Labor	\$3,150,539	\$3,489,134	\$338,595
Administrative Costs *	1,105,077	748,245	(356,832)
Other Expenses			
Depreciation: Bldgs & Equipment	16,598	27,275	10,677
Depreciation: Trucks & Containers	229,543	596,497	366,954
Gas and Oil	880,285	965,300	85,015
Insurance: Health Care	638,285	704,092	65,807
Insurance: Liability and Other	557,688	376,836	(180,852)
Outside Services: Food/Greenwaste	441,100	706,984	265,884
Outside Services: Truck Repairs	31,669	119,696	88,027
Truck Repairs	436,531	525,345	88,814
All Other Costs	744,216	754,773	10,557
<b>Total Allowable Costs</b>	<b>8,231,531</b>	<b>9,014,177</b>	<b>782,646</b>
Pass-Through Costs			
Tipping Fees: Landfill	1,794,208	1,821,241	27,033
Tipping Fees: MRF (Related Party)	92,054	852,390	760,336
Franchise Fees	1,357,533	1,385,290	27,757
Interest, Related Party	62,222	107,902	45,680
Transportation, Related Party	54,347	50,389	(3,958)
Facility Rent, Related Party	91,703	150,860	59,157
<b>Total Pass-Through Costs</b>	<b>3,452,067</b>	<b>4,368,072</b>	<b>916,005</b>
<b>Total Costs</b>	<b>11,683,598</b>	<b>13,382,249</b>	<b>1,698,651</b>

\* Corporate overhead and office salaries

The following describes the basis for each for the significant changes.

### **Allowable Costs**

- **Direct Labor.** This reflects a two-year increase of 10.7%, or about 5.2% per year. SCSS says this increase is due to cost of living increases of about 2% per year plus an across the board increase of 5% for retention and attraction. Given the tight labor market, this increase is reasonable.
- **Administrative Costs.** This is a combination of corporate overhead (which is limited to increases in the consumer price index) and office salaries. SCSS's initial application and 2017 audit reassigned costs between corporate overhead and office salaries. While there may be merit in its revised approach, this is a change from its past practice that was not discussed with staff beforehand. In response to this concern, SCSS revised their application. As such, the best "apples to apples" comparison is to combine the two categories, which results in an overall reduction of \$356,000 in administrative expenses from 2007. This virtually offsets all of the increases in direct labor.

**Solid Waste Rate Review**

- **Depreciation: Buildings and Equipment.** This increase results from the SCSS share (31%) of yard repaving costs of \$482,000 in 2018, amortized over twenty-five years, offset by other reductions.
- **Depreciation: Trucks and Containers.** In the 2015 *Base Year* report, I noted there was a significant decrease in depreciation costs due to an aging fleet: as vehicles begin to remain in service after their useful lives, they become fully-depreciated and no further annual expenses are recorded. This lower cost is a good thing initially. However, I noted that these vehicles will need to be replaced at some point and higher depreciation costs will then be incurred.

This is reflected in projected costs for 2019, which reflects the replacement of six trucks at a cost of about \$432,000 per vehicle. In assessing the reasonableness of this cost, SCSS provided the invoice for its most recent purchase. Additionally, recent costs for similar vehicles by other agencies were also reviewed. Based on this review, the proposed cost base is reasonable. Amortized over seven years as set forth in the *Rate Manual*, this results in added depreciation costs of \$370,000, which fully accounts for the increase from 2017 of \$367,000.

It should be noted that with these additions, the overall fleet age will decrease from 12.8 years to 11.2 years, a reduction of about 10% with these replacements, compared with the *Rate Manual* target of seven years. According, when these remaining vehicles that have exceed their useful lives are replaced, additional increases in depreciation costs in future *Base Year* rate applications are likely.

- **Gas and Oil.** These costs are projected to increase by about 4.5% annually. Given the volatility (both up and down) of diesel and CNG costs, this is a reasonable assumption for 2019 costs.
- **Insurance: Health Care.** These costs are projected to increase from 2017 by about 5% annually. Given increases in health care costs, this is a reasonable assumption for 2019 costs.
- **Insurance: Liability and Other.** Projected costs have decreased significantly from 2017, which reflects favorably on SCSS’s risk management efforts.
- **Outside Services: Food and Greenwaste.** These cost increases are driven by the 20-year investment in new equipment (on-site Digester) for food and green waste. This increased cost was envisioned in the 2016 Franchise Agreement amendments, where the term was correspondingly extended for 20 years.

The proposed rate is \$51.44 per ton, an increase from \$36.97 per ton in 2017. This increase is consistent with estimates discussed at the time. However, as reflected in Table 8, the key issue is allocating excess capacity. Currently about 25,000

**Table 8. Food and Greenwaste: All Customers**

Current Agency Use (Delivered Tons)	25,000
Reserve for Cold Canyon	3,000
Total Capacity	28,000
Excess (Reserve) Capacity	34,000
Tons	6,000
Percent	24.0%



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tons are delivered to the Digester from all of Waste Connections' central coast customers; and another 3,000 tons have been reserved by Waste Connections for diversion from the landfill (plans to do so are in progress). However, the Digester is capable of processing 34,000 tons, an excess capacity of 6,000 tons (24%). It makes sense to reserve a reasonable capacity for the future: the question is: how much?

For rate-setting purposes, SCSS is proposing to share this capacity 67%/33%. This reserves about 18% growth for central coast agencies, allowing for about 1% growth over the 20-year franchise term. I concur that this is a reasonable basis for projecting this cost for 2019. This results in the following cost increase (roughly equal to the costs presented in Table 7):

**Table 9. Increased Food and Greenwaste Costs**

	2017	2019	Increase
Tonnage	11,931	13,727	1,796
Cost per ton	36.97	51.44	14.47
Annual Cost	\$441,089	\$706,097	265,008

It should be noted that an alternative of a "50/50" split of the excess capacity would reduce the cost allocated to SCSS by about \$36,000, for a lower increase of 9.72% versus the requested increase of 10.06% (difference of 0.34%). This would have a very minor impact on single family residential rates (about 5 cents per month for 32-gallon customers). Accordingly, reserving a larger capacity for future growth makes sense. That said, addressing the allocation of the Digester capacity is another area that would benefit from an update to the *Rate Manual*.

- **Truck Repairs: Outside Services and In-House.** As summarized below, the rate application requests an increase of \$353,682 (75.5%) in this cost category:

**Table 10. Truck Repairs**

	Actual 2017	Requested 2019	Increase	
			Amount	Percent
Outside Services	31,669	119,696	88,027	278.0%
In-House	436,531	525,345	88,814	20.3%
Total	\$468,200	\$645,041	\$176,841	37.8%

While significant, the proposed costs reflect a decrease from their initial application of \$821,882. Based on follow-up requests for more information and added review by SCSS of current trends, they have reduced the proposed amount by \$176,841. On one hand, this is disconcerting, since the average age of the fleet is going down by 10%, and as such, a modest decrease might otherwise be expected. However, SCSS's explanation for this increase is that it reflects a more proactive approach to vehicle maintenance, which it believes is necessary in meeting safety concerns. Along with other efforts, this focus on safety appears to be working, as reflected by the significant reduction in insurance costs.

- **All Other Allowable Costs.** While there are ups and downs in individual line items, in total these reflect modest annual increases of less than 1%.

## Solid Waste Rate Review

### Pass-Through Costs

- **Tipping Fees: Landfill.** No rate increases are reflected in the rate application. The modest two-year increase of 1.5% reflects increased tonnage.
- **Tipping Fees: MRF (Related Party).** This cost category reflects a significant cost increase from 2017. As summarized below, this is driven by a rate increase from \$7.80 per ton to \$67.50 per ton by a separate company that is controlled by Waste Connections (Cold Canyon Processing Facility):

**Table 11. Recycling: MRF Operations**

	Actual 2017	Requested 2019	Increase	
			Amount	Percent
Tonnage	12,773	12,628	(145)	-1.1%
Cost per ton	7.80	67.50	59.70	765.4%
Annual Cost	\$99,629	\$852,390	\$752,761	755.6%

Note: The net costs for 2017 in Table 7 reflect other offsetting costs of about \$7,000.

Waste Connections believes that its MRF rates are not subject to regulatory review and that its basis for setting these rates is proprietary and not subject to disclosure under the Franchise Agreements. That said, SCSS offers the following explanation for this cost increase:

**Competitive Rates.** The following information was provided by SCSS is comparing their proposed rate with other communities:

**Table 12. MRF Rates Survey**

Facility	Location	Distance (Miles)	Per Ton Pricing				
			Processing	Reload (If SLO)	Transport from SLO	Revenue Sharing	All-In Cost
Cold Canyon Processing Facility	San Luis Obispo	0	\$67.50	\$0.00	\$0.00	No	\$67.50
Monterey Regional Waste Facility (1)	Monterey	144	50.00	10.00	45.00	No	105.00
Burtec (2)	West Valley	215	57.50	10.00	45.00	No	112.50
Mid Valley Disposal	Fresno	140	67.50	10.00	40.00	No	117.50
Gold Coast Recycling	Ventura	162	77.44	10.00	40.00	No	127.44
Mid-State (3)	Templeton	23	78.00	10.00	25.00	No	113.00
Tajiguas Landfill	Santa Barbara	112	160.00	10.00	30.00	No	200.00
Recology	Pier 96 (Bay Area)	214	190.00	10.00	45.00	Unknown	245.00

1. Expected rate in 90 days.
2. Eliminated revenue share
3. Unable to handle SLO County volume

In short, SCSS believes its pricing is far lower than that otherwise available to South County communities; and even if loading and transportation costs are excluded, Waste Connections' MRF costs are very competitive.

In reviewing these costs, it is important to note that while SCSS is responsible under the Franchise Agreements for separately collecting co-mingled recyclables and delivering them to a recycling facility that will accept them for processing, it is not required to operate such a

## Solid Waste Rate Review

facility. As such, the \$67.50 rate, while a significant increase, is more cost-effective for SCSS than other alternatives.

*Given increased costs and lower market prices, the increased rate for 2019 reflects the same operating margin as 2017.* Subject to several key caveats, this may be true.

1. It is clear that market realities have significantly impacted the net cost of recycling. As discussed by the President of the Boston Group in Appendix B, this is largely due to the collapse of markets in China, which affects both costs and revenues: the quality of the recycled product needs to be higher (resulting in higher costs); and the price of recycled products is significantly lower.
2. It is reasonable for operating margins for recycling to be higher than they are for collection services like those provided under the Franchise Agreements. As discussed below under Rate-Setting Methodology, SCSS is allowed an operating profit margin of 8% for “non-pass through costs.” In essence, this recognizes that while there are risks in effectively managing costs, there are minimal revenue risks, since rates are guaranteed and service is required. However, with recycling costs, revenues are highly volatile depending on the market. Thus, there is both cost and revenue risk.

A complex econometric model developed by the firm of Sound Resource Economics (located in Tacoma Washington: Neal Johnson, PhD, Principal) indicates that 16% is an appropriate operating profit margin for utilities where costs and revenues are at risk. Setting aside the math and assumptions behind this conclusion, it intuitively makes sense that operating margins should be higher where both costs and revenues are at risk, versus where just costs are. Placed in context for SCSS collection services, which have an 8% operating margin for cost risks, an added margin for revenue risks (especially in a volatile market) makes sense.

3. Based on a non-disclosure agreement, SCSS shared with me very high-level data showing that based on projected higher costs and lower revenues from 2017, that the operating margin between 2017 and 2019 remained the same.
4. While I was not provided with the underlying detail for the high-level cost and revenue data provided to me, I can conclude that based on market forces that are driving higher costs and lower revenues, and a reasonable operating margin in excess of 8%, that a significant increase in recycling costs is reasonable. The question is: how much?

Answering this question clearly is made difficult by the fact that the *Rate Manual* did not foresee this situation (in fact, it thought there would be net revenues offsetting rate requirements). More appropriately addressing this cost issue is a key factor in my recommendation to update the *Rate Manual*.

That said, given the higher costs and lower revenues undoubtedly faced by the MRF combined with the lack of more cost-effective options, the proposed rate of \$67.50 is acceptable.

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Provided in Appendix C is additional information from Waste Connections about its MRF operations.

- **Franchise Fees.** This reflects a modest two-year increase of 2% based on customer growth.
- **Interest (Related Party).** Interest is an allowable cost under the *Rate Manual*. In this case, interest costs are assessed internally by Waste Connections based on a methodology that takes into account its corporate costs of borrowing and financed assets. Accordingly, this is treated as a “pass-through” cost. SCSS’s auditors have provided a written opinion on the reasonableness of the methodology; and I have reviewed the calculations underlying the projected costs in accordance with this methodology. Based on this, I believe the projected interest costs for 2019 are reasonable.
- **Transportation (Related Party).** These costs have decreased modestly.
- **Facility Rent (Related Party).** This increase is based on an updated assessment of the market value of SCSS’s share of the yard and office facilities. Based on reviewing a recent independent market value assessment and Waste Connections methodology for allocating SCSS’s share of these costs, I believe that the cost increase is reasonable.

### *Trends in External Cost Drivers*

The most common external “benchmark” for evaluating cost trends is the consumer price index. Over the past two years, the U.S. CPI-U increased by 4.4%. Excluding the cost drivers discussed above, all other costs increased by 1.4%.

### *Rates in Comparable Communities*

Lastly, reasonableness of rates (and underlying costs) can also be evaluated by comparing rates with comparable communities. However, survey results between “comparable” communities need to be carefully weighed, because every community is different. For example, even in the South County where service levels and costs are very similar, there are rate differences. In short, making a true “apples-to-apples” comparison is easier said than done.

Nonetheless, surveys are useful assessment tools—but they are not perfect and they should not drive rate increases. Typical reasons why solid waste rates may be different include:

- Franchise fees and AB 939 fee surcharges
- Landfill costs (tipping fees)
- Service levels (frequency, quality)
- Labor market
- Operator efficiency and effectiveness
- Voluntary versus mandatory service

## Solid Waste Rate Review

- Direct services provided to the franchising agency at no cost, such as free trash container pick-up at city facilities, on streets and in parks
- Percentage of non-residential customers, and how costs and rates are allocated between customer types
- Revenue collection procedures: Does the hauler or the franchising agency bill for service? And what are the procedures for collecting delinquent accounts?
- Services included in the base fee (recycling, green waste, containers, pick-up away from curb)
- Different rates structures
- Land use and density (lower densities will typically result in higher service costs)
- Mix of residential and non-residential accounts

With these caveats, the following summarizes single family residential rates for other cities in the Central Coast area compared with the proposed rates for SCSS. As reflected below, even with the recommended or proposed rate increases, Arroyo Grande, Grover Beach, Oceano and Pismo Beach will have among the lowest rates of the agencies surveyed.

**Table 13. Single-Family Residential Rate Survey**

Single Family Residential Monthly Trash Rates			
	Container Size (Gallons)		
	30-40	60-70	90-101
Atascadero	\$26.49	\$41.56	\$52.18
Morro Bay	17.91	35.81	53.72
Paso Robles	32.33	42.41	46.81
San Luis Obispo*	14.49	28.99	43.48
Santa Maria	na	30.69	34.81
San Miguel	28.23	44.48	61.06
Templeton	28.72	41.15	45.67
Requested: South County Sanitation Service Area			
Arroyo Grande	19.00	24.70	30.41
Grover Beach	17.22	23.29	29.32
Oceano	15.41	22.16	43.36
Pismo Beach	16.91	33.82	50.73

\* Currently under review

**Summary: Are the costs reasonable?** Based on the results of the three separate cost-review techniques—trend review, external factor review and rate comparisons—the proposed cost assumptions for 2019 are reasonable.

### What Is a Reasonable Return on these Costs?

After assessing if costs are reasonable, the next step is to determine a reasonable rate of return on these costs. The rate-setting method formally adopted by Arroyo Grande, Grover Beach, Oceano

## Solid Waste Rate Review

and Pismo Beach in their Franchise Agreements with SCSS includes clear criteria for making this assessment. It begins by organizing costs into three main categories, which will be treated differently in determining a reasonable “operating profit ratio:”

### *Allowable Costs (Operations and Maintenance)*

- Direct collection labor
- Vehicle maintenance and repairs
- Insurance
- Fuel
- Depreciation
- Billing and collection

### *Pass-Through Costs*

- Tipping fees
- Franchise fees
- Payments to affiliated companies (such as facility rent, interest and trucking charges)

### *Excluded and Limited Costs*

- Charitable and political contributions
- Entertainment
- Income taxes
- Non-IRS approved profit-sharing plans
- Fines and penalties
- Limits on corporate overhead

After organizing costs into these three categories, determining “operating profit ratios” and overall revenue requirements is straightforward:

- The target is an 8% operating profit ratio on “allowable costs.”
- Pass-through costs may be fully recovered through rates but no profit is allowed on these costs.
- No revenues are allowed for any excluded or limited costs.

In the case of SCSS, about 70% of their costs are subject to the 8% operating profit ratio; and 30% are pass-through costs that may be fully recovered from rates but no profit is allowed. No recovery is allowed for excluded costs.

### **Preparing the Rate Request Application**

Detailed “spreadsheet” templates for preparing the rate request application—including assembling the required information and making the needed calculations—are provided in the *Rate Manual*. SCSS has prepared their rate increase application in accordance with these requirements (Appendix A); and the financial information provided in the application for 2016 and 2017 ties to its audited financial statements.

### **Rate Request Summary**

The following summarizes the calculations that support the requested and recommended rate increases:

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**Table 15. Rate Increase Summary**

	Requested
Allowable Costs	9,014,178
Allowable Profit (8% Operating Ratio)	783,841
Pass-Through Costs	
Tipping Fees: Landfill	1,821,241
Tipping Fees: MRF	852,390
Franchise Fees	1,385,290
Related Party Costs	309,151
Total Pass-Through Costs	4,368,072
Allowed Revenue Requirements	14,166,091
Revenue without Rate Increase	12,991,486
Revenue Requirement: Shortfall (Surplus)	1,174,605
Rate Base Revenue	12,973,924
Percent Change in Revenue Requirement	9.05%
Allowed Revenue Increase *	10.06%

\* Adjusted for 10% Franchise Fee

### Implementation

The following summarizes key implementation concepts in the adopted rate-setting model:

- The “8%” operating profit ratio is a target; in the interest of rate stability, adjustments are only made if the calculated operating profit ratio falls outside of 10% to 6%.
- There is no provision for retroactivity: requested rate increases are “prospective” for the year to come; there is no provision for looking back. This means that any past shortfalls from the target operating profit cannot be recaptured.
- On the other hand, if past ratios have been stronger than this target, then the revenue base is re-set in the *Base Year* review.
- As discussed above, detailed *Base Year* reviews are prepared every three years; *Interim Year* reviews to account for focused changes in the consumer price and tipping fees are prepared in the two “in-between” years.
- Special rate increases for extraordinary circumstances *may* be considered. This has never occurred in any of the agencies that use this rate-setting methodology.

The result of this process is a proposed rate increase of 10.06%.

### COST OF LIVING “TRIGGER OPTION”

As noted above, Section 8.3 of the Franchise Agreements provides that if the rate increase request compared with the rate in effect at the date of the agreement exceeds the cumulative cost of living increase from that same date, each agency has the *option* of terminating the agreement

## Solid Waste Rate Review

at any time within nine months following approval of the requested rate increase. While this provision does not directly limit rate increase requests by SCSS to an amount that may be less than that allowed under the rate-setting methodology, subjecting the Franchise Agreement to *possible* termination if the rate request is greater than the cost of living threshold provides a strong incentive for SCSS to do so, if possible.

### Calculation of the Costs of Living Threshold

As recommended in the 2013 *Interim Year* rate review for consistency and clarity, the CPI-U rate increases used in calculating *Interim Year* increases and the “trigger” threshold are based on changes from June to June (given application submittal targets, this was the most recent date that would consistently be available).

Along with the adjustment for the “weighted” greenwaste rate increase in 2012 of 1.7% previously approved, the 2016 Franchise Agreement amendments provided for adjustments to the threshold “trigger” of landfill rate increases, weighted by the ratio of landfill costs to total costs (assumed at 16% based on long-term trends).

Table 16(a) provides the threshold calculation compared with actual rate increases and those recommended for 2019; and Table 16(b) provides landfill rates since 2008.

As reflected in Table 16(a), the cumulative changes in the cost of living (with adjustments for greenwaste and landfill cost increases) is 22.53%. This compares with cumulative rate increases, including those recommended of 10.06% for 2019, of 29.27%. This would result in exceeding the “trigger” by 6.74%. Correspondingly, the rate increase would be limited to 3.32% to remain under the “trigger.”

**Table 16(a). Trigger Threshold Calculation**

US CPI-U Increase				Allowed Adjustments		Threshold	Rate Year (2)	Rate Increase *
June	Index	Amount	Percent	Greenwaste	Landfill (1)			
2009	215.693							
2010	217.965	2.272	1.05%		2.74%	3.79%	2011	0.00%
2011	225.722	7.757	3.56%	1.70%	0.00%	5.26%	2012	5.15%
2012	229.478	3.756	1.66%		0.00%	1.66%	2013	3.20%
2013	233.504	4.026	1.75%		1.05%	2.81%	2014	2.05%
2014	238.343	4.839	2.07%		0.99%	3.06%	2015	0.00%
2015	238.638	0.295	0.12%		0.93%	1.05%	2016	3.25%
2016	241.018	2.380	1.00%		0.00%	1.00%	2017	1.10%
2017	244.955	3.937	1.61%		0.00%	1.61%	2018	1.61%
2018	251.989	7.034	2.79%		0.00%	2.79%	2019	10.06%
Cumulative Total		36.296	16.83%	1.70%	5.70%	22.53%		29.27%

1. Landfill rate increases prorated at 16% of total costs
2. Recommended rate for 2019

Above Trigger Threshold: Requested Rate Increase	6.74%
Available Rate Increase to Avoid Trigger	3.32%



## Solid Waste Rate Review

**Table 16(b). Landfill Rates Per Ton**

Year	Actual	Increase		Prorated @ 16%
		Amount	Percent	
2008	29.25	-	0.00%	0.00%
2009	29.25	-	0.00%	0.00%
2010	29.25	-	0.00%	0.00%
2011	34.25	5.00	17.09%	2.74%
2012	34.25	-	0.00%	0.00%
2013	34.25	-	0.00%	0.00%
2014	36.50	2.25	6.57%	1.05%
2015	38.75	2.25	6.16%	0.99%
2016	41.00	2.25	5.81%	0.93%
2017	41.00	-	0.00%	0.00%
2018	41.00	-	0.00%	0.00%
2019	41.00	-	0.00%	0.00%

*Note: Under long-term rate increases approved by the County, Cold Canyon Landfill was eligible for annual rate increases of \$2.25 per ton in 2017, 2018 and 2019, with a resulting rate of \$47.75 by 2019, However, it chose not to do so.*

However, it is important to note that this “trigger” calculation does not limit the allowable rate increase that may be requested under the methodology set forth in the Franchise Agreements.

Accordingly, the agencies may want to consider (as they did in as part of the 2016 *Base Year* review and *Interim Year* increases for 2017 and 2018), if the recommended or requested rate increases are approved, making findings that they will not pursue the “trigger” option.

### COORDINATION WITH OTHER AGENCIES

SCSS has submitted similar rate requests to the three other agencies that regulate rates and services in the other South County areas that it serves: County of San Luis Obispo, Avila Beach Community Services District and the Nipomo Community Services District. These agencies are likely to act on the requested rate increases within the same time frame as the four agencies covered in this report.

Waste Connections (as San Luis Garbage Company) has also submitted a rate increase application to the City of San Luis Obispo, which has also undergone several amendments. Based on similar rate increase drivers as those provided for SCSS, the most recent version requests an increase of 13.72%.

### SUMMARY

Based on the rate-setting policies and procedures formally adopted by Arroyo Grande, Grover Beach, Oceano and Pismo Beach in their Franchise Agreements, this report concludes that:

**Solid Waste Rate Review**

- SCSS has submitted the required documentation required under its Franchise Agreements with the four agencies.
- This results in a recommended rate increase of 10.06%.

**ATTACHMENTS**

Appendix A: Base Year Rate Request Application from South County Sanitary Service

Appendix B: Boston Group Outlook on Recycling Costs

Appendix C: Cold Canyon Processing Facility Background

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# **Appendix A**

## **BASE YEAR RATE REQUEST APPLICATION**

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### **1. Base Year Application Summary**

- City of Pismo Beach
- City of Arroyo Grande
- City of Grover Beach
- Oceano Community Services District

### **2. Supporting Schedules**

- Financial Information: Cost and Revenue Requirements Summary
- Revenue Offset Summary
- Cost Summary for Base Year
- Base Year Revenue Offset Summary
- Operating Information

**2019 Base Year Rate Adjustment Application-4th Amended**

**Summary**

**CITY OF ARROYO GRANDE**

**Requested Increase**

Recycle Processing	6.5%	CNG Trucks/Infrastructure	4.40%
		Organics	3.1%
		Other	-3.9%

1. Rate Increase Requested

**10.06%**

**Rate Schedule**

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
---------------	--------------	----------------	----------------	----------

**Single Family Residential**

2. Economy Service (1 - can curb)	\$ 17.26	\$1.74		\$19.00
4. Standard Service (2- can curb)	\$ 22.44	\$2.26		\$24.70
5. Premium Service (3 - can curb)	\$ 27.63	\$2.78		\$30.41

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of **10.06%**  
will be applied to all rates in each structure  
with each rate rounded to the nearest \$0.01

**Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: **Jeff Smith**

Title: **District Manager**

Signature:

Date: **03/18/19**

**Fiscal Year: 1-1-2019 to 12-31-2019**

**2019 Base Year Rate Adjustment Application-4th Amended**

**Summary**

**CITY OF GROVER BEACH**

Requested Increase			
Recycle Processing	6.5%	CNG Trucks/Infrastructure	4.40%
		Organics	3.1%
		Other	-3.9%
1. Rate Increase Requested			<b>10.06%</b>

**Rate Schedule**

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
<b>Single Family Residential</b>				
2. Economy Service (1 - can curb)	\$ 15.65	\$1.57		\$17.22
4. Standard Service (2- can curb)	\$ 21.16	\$2.13		\$23.29
5. Premium Service (3 - can curb)	\$ 26.64	\$2.68		\$29.32

(a) Calculated rates are rounded up to the nearest \$0.01.

6. <b>Multiunit Residential and Non-residential</b>	Rate increases of	<b>10.06%</b>
	will be applied to all rates in each structure	
	with each rate rounded to the nearest \$0.01	

**Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: **Jeff Smith** Title: **District Manager**  
 Signature: \_\_\_\_\_ Date: **03/18/19**

**Fiscal Year: 1-1-2019 to 12-31-2019**

## 2019 Base Year Rate Adjustment Application-4th Amended

**Summary****OCEANO COMMUNITY SERVICE DISTRICT****Requested Increase**

Recycle Processing	6.5%	CNG Trucks/Infrastructure	4.40%
		Organics	3.1%
		Other	-3.9%

1. Rate Increase Requested

**10.06%****Rate Schedule**

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
---------------	-----------------	-------------------	-------------------	-------------

**Single Family Residential**

2. Economy Service (1 - can curb)	\$ 14.00	\$1,41		\$15.41
4. Standard Service (2- can curb)	\$ 20.13	\$2.03		\$22.16
5. Premium Service (3 - can curb)	\$ 39.40	\$3.96		\$43.36

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential**

Rate increases of

**10.06%**will be applied to all rates in each structure  
with each rate rounded to the nearest \$0.01**Certification**

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: **Jeff Smith**Title: **District Manager**

Signature:

Date: **03/18/19****Fiscal Year: 1-1-2019 to 12-31-2019**

2019 Base Year Rate Adjustment Application-4th Amended

Summary

CITY OF PISMO BEACH

Requested Increase

Recycle Processing	6.5%	CNG Trucks/Infrastructure	4.40%
		Organics	3.1%
		Other	-3.9%

1. Rate Increase Requested **10.06%**

Rate Schedule

Rate Schedule	Current Rate	Increased Rate	Adjustment (a)	New Rate
<b>Single Family Residential</b>				
2. Economy Service (1 - can curb)	\$15.36	\$1.55		\$16.91
4. Standard Service (2- can curb)	\$30.73	\$3.09		\$33.82
5. Premium Service (3 - can curb)	\$46.09	\$4.64		\$50.73

(a) Calculated rates are rounded up to the nearest \$0.01.

6. **Multiunit Residential and Non-residential** Rate increases of **10.06%**  
 will be applied to all rates in each structure  
 with each rate rounded to the nearest \$0.01

Certification

To the best of my knowledge, the data and information in this application is complete, accurate, and consistent with the instructions provided by the Rate Setting Manual.

Name: **Jeff Smith** Title: **District Manager**

Signature: \_\_\_\_\_ Date: **03/18/19**

**Fiscal Year: 1-1-2019 to 12-31-2019**

## South County Sanitary Service

## 2019 Base Year Rate Adjustment Application

## Financial Information

Historical		Current	Projected	
2016	2017	2018	Base Year 2019	2020

(from Pg. 4)

## Section I-Allowable Costs

6. Direct Labor	\$3,083,345	\$3,150,539	\$3,385,970	\$3,489,134	\$3,593,808
7. Corporate Overhead	\$332,113	\$153,045	\$340,461	\$350,334	\$363,647
8. Office Salaries	\$478,072	\$901,055	\$386,322	\$397,911	\$409,849
9. Other General and Admin Costs	\$3,820,842	\$4,026,894	\$4,098,450	\$4,776,799	\$4,958,317
10. Total Allowable Costs	<b>\$7,714,372</b>	<b>\$8,231,533</b>	<b>\$8,211,202</b>	<b>\$9,014,178</b>	<b>\$9,325,620</b>

## Section II-Allowable Operating Profit

11. Operating Ratio	87.3%	91.1%	96.1%	92.0%	92.0%
12. Allowable Operating Profit	\$1,126,283	\$803,795	\$336,505	\$783,841	\$810,924

## Section III-Pass Through Costs

13. Tipping Fees	\$1,891,183	\$1,886,262	\$2,680,988	\$2,673,630	\$2,673,630
14. Franchise Fees	\$1,318,502	\$1,357,533	\$1,368,864	\$1,385,290	\$1,401,894
15. AB939 Fees	\$0	\$0	\$0	\$0	\$0
16. Payments to Affiliated Companies*	\$137,595	\$208,272	\$243,980	\$309,151	\$320,899
17. Total Pass Through Costs	<b>\$3,347,280</b>	<b>\$3,452,067</b>	<b>\$4,293,832</b>	<b>\$4,368,072</b>	<b>\$4,396,423</b>

\* Affiliate Payments include interest, lease payments, and transportation

## Section III-Pass Through Costs

18. Revenue Requirement	\$12,187,936	\$12,487,395	\$12,841,539	\$14,166,091	\$14,532,967
19. Total Revenue Offsets (from Page 3)	<b>\$12,187,936</b>	<b>\$12,487,395</b>	<b>\$12,841,539</b>	<b>\$12,991,486</b>	<b>\$13,147,193</b>

## Section III-Pass Through Costs

20. Net Shortfall (Surplus)	\$1,174,605
-----------------------------	-------------

21. Total Residential and Non-residential Revenue without increase in Base Year (pg.5, line 76)	\$12,973,924	Nipomo \$12,973,924
22. Percent Change in Residential and Non-residential Revenue Requirement	9.05%	8.2%
23. Franchise Fee Adjustment Factor (1 - 6 percent)	90.000%	92.700%
	<b>10.06%</b>	<b>8.89%</b>
Limitation due to cumulative increases		
24. Percent Change in Existing Rates	<b>10.06%</b>	<b>8.89%</b>



South County Sanitary Service

# 2019 Base Year Rate Adjustment Application

## Revenue Offset Summary

	Section VII - Revenue Offsets				
	Historical		Current	Projected	
	2016	2017	2018	Base Year 2019	2020
<i>Residential Revenue (without increase in Base Yr.)</i>					
28. Single Family Residential	\$7,163,810	\$7,341,537	\$7,541,246	\$7,631,741	\$7,723,322
Multiunit Residential Dumpster					
29. Number of Accounts					
30. Revenues					
31. Less Allowance for Uncollectible Resi Accounts	\$0	\$0	\$0	\$0	\$0
<b>32. Total Residential Revenue</b>	<b>\$7,163,810</b>	<b>\$7,341,537</b>	<b>\$7,541,246</b>	<b>\$7,631,741</b>	<b>\$7,723,322</b>
<i>Non-residential Revenue (without increase in Base Yr.)</i>					
Account Type					
Non-residential Can					
33. Number of Accounts	8	8	8	8	8
34. Revenues			\$4,535	\$4,589	\$4,644
Non-residential Wastewheeler					
35. Number of Accounts	392	425	460	466	471
36. Revenues			\$477,469	\$483,199	\$488,997
Non-residential Dumpster					
37. Number of Accounts	1,738	1,684	1,629	1,649	1,668
38. Revenues	\$5,004,136	\$5,133,957	\$4,796,508	\$4,854,067	\$4,912,315
39. Less: Allowance for Uncollectible Non-resid	\$0	\$0	\$0	\$0	\$0
<b>40. Total Non-residential Revenue</b>	<b>\$5,004,136</b>	<b>\$5,133,957</b>	<b>\$5,278,512</b>	<b>\$5,341,854</b>	<b>\$5,405,956</b>
<b>45. Interest on Investments</b>	<b>\$6,104</b>	<b>\$0</b>	<b>\$0</b>	<b>\$2,035</b>	<b>\$2,059</b>
<b>46. Other Income</b>	<b>\$13,885</b>	<b>\$11,901</b>	<b>\$21,780</b>	<b>\$15,856</b>	<b>\$15,856</b>
<b>47. Total Revenue Offsets</b>	<b>\$12,187,936</b>	<b>\$12,487,395</b>	<b>\$12,841,539</b>	<b>\$12,991,486</b>	<b>\$13,147,193</b>

Fiscal Year: 1-1-2019 to 12-31-2019

Pg. 3 of 6

## South County Sanitary Service

## 2019 Base Year Rate Adjustment Application

## Cost Summary for Base Year

Description of Cost	BASE YEAR			
	2016	2017	2018	2019
Labor	\$2,849,547	\$2,906,100	\$3,127,283	\$3,219,834
Payroll Taxes	\$233,798	\$244,439	\$258,686	\$269,300
<b>48. Total Direct Labor</b>	<b>\$3,083,345</b>	<b>\$3,150,539</b>	<b>\$3,385,970</b>	<b>\$3,489,134</b>
49. Corporate Overhead	\$332,113	\$153,045	\$436,899	\$453,501
Less limitation (enter as negative)			(\$96,438)	(\$103,167)
<b>Total Corporate Overhead</b>	<b>\$332,113</b>	<b>\$153,045</b>	<b>\$340,461</b>	<b>\$350,334</b>
Office Salary	\$442,804	\$864,061	\$350,384	\$360,895
Payroll Taxes	\$35,268	\$36,995	\$35,938	\$37,016
<b>50. Total Office Salaries</b>	<b>\$478,072</b>	<b>\$901,055</b>	<b>\$386,322</b>	<b>\$397,911</b>
Bad Debt	\$2,448	\$4,271	\$11,283	\$4,300
Allocated expenses	\$0	\$0	\$0	\$0
Bond expense	\$6,482	\$5,325	\$5,325	\$5,527
Depreciation on Bldg and Equip	\$0	\$16,598	\$6,297	\$27,275
Depreciation on Trucks/Containers	\$274,514	\$229,543	\$304,867	\$596,497
Drive Cam fees	\$28,997	\$28,680	\$22,949	\$23,821
Dues and Subscriptions	\$6,738	\$8,196	\$6,221	\$6,457
Facilities	\$0	\$50,977	\$0	\$0
Gas and oil	\$796,069	\$880,285	\$969,634	\$965,300
Laundry (Uniforms)	\$21,452	\$24,462	\$26,679	\$27,693
Legal and Accounting	\$29,459	\$30,952	\$31,145	\$37,328
Miscellaneous and Other	\$16,522	\$8,372	\$8,433	\$8,753
Office Expense	\$206,325	\$242,249	\$275,612	\$286,086
Operating Supplies	\$39,671	\$39,710	\$40,674	\$42,219
Other insurance - Medical	\$1,238,436	\$1,195,973	\$1,041,356	\$1,080,928
Other Taxes	\$35,985	\$35,080	\$34,854	\$36,179
Outside Services	\$431,794	\$518,013	\$541,595	\$867,435
Public Relations and Promotion	\$1,578	\$1,699	\$1	\$1
Postage	\$6,574	\$2,005	\$2,047	\$4,125
Permits	\$63,007	\$60,347	\$60,101	\$62,385
Relocation	\$22,576	\$3,186	\$9,302	\$9,656
Rent	\$3,000	\$3,000	\$0	\$0
Telephone	\$20,909	\$20,182	\$13,956	\$14,486
Tires	\$146,896	\$139,628	\$87,488	\$88,145
Travel	\$26,944	\$13,991	\$27,278	\$28,315
Truck Repairs	\$365,282	\$436,531	\$543,855	\$525,345
Utilities	\$29,184	\$27,637	\$27,497	\$28,542
<b>51. Total Other Gen/Admin Costs</b>	<b>\$3,820,842</b>	<b>\$4,026,894</b>	<b>\$4,098,450</b>	<b>\$4,776,799</b>
<b>52. Total Tipping Fees</b>	<b>\$1,891,183</b>	<b>\$1,886,262</b>	<b>\$2,680,988</b>	<b>\$2,673,630</b>
<b>53. Total Franchise Fee</b>	<b>1,318,501.56</b>	<b>\$1,357,533</b>	<b>1,368,863.98</b>	<b>1,385,290</b>
<b>54. Total AB 939/Regulatory Fees</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>55. Total Lease Pmt to Affil Co.'s</b>	<b>\$89,051</b>	<b>\$91,703</b>	<b>\$145,337</b>	<b>\$150,860</b>
<b>55a. Interest Expense (to affiliate)</b>	<b>\$0</b>	<b>\$62,222</b>	<b>\$50,099</b>	<b>\$107,902</b>
<b>55b. Transportation costs (to affiliate)</b>	<b>\$48,544</b>	<b>\$54,347</b>	<b>\$48,545</b>	<b>\$50,389</b>
<b>56. Total Cost</b>	<b>\$11,013,108</b>	<b>\$11,567,031</b>	<b>\$12,406,390</b>	<b>\$13,223,958</b>

# 2019 Base Year Rate Adjustment Application

**Base Year Revenue Offset Summary**

**For Information Purposes Only**

Description of Revenue	Section VII-Revenue Offsets						
	Overall	Franchise	Refuse Collection				Non-franchise
	Total	Total	Arroyo	Pismo	Grover	Unincorporated	Total
<i>Residential Revenue (without increase in Base Year)</i>							
57. Single Family Residential	\$7,631,741	\$7,631,741	\$1,293,703	\$852,859	\$868,551	\$4,616,628	
<i>Multiunit Residential Dumpster</i>							
58. Number of Accounts	0	0					
59. Revenues	\$0	\$0					
60. Less Allowance for Uncollectable	\$0	\$0					
<b>61. Total Residential Revenue</b>	<b>\$7,631,741</b>	<b>\$7,631,741</b>	<b>\$1,293,703</b>	<b>\$852,859</b>	<b>\$868,551</b>	<b>\$4,616,628</b>	<b>\$0</b>
<i>Non-residential Revenue (without increase in Base Year)</i>							
<i>Account Type</i>							
<i>Non-residential Can</i>							
62. Number of Accounts	8	8	2	4	0	2	
63. Revenues	\$4,589	\$4,589	\$503	\$1,468	\$0	\$2,617	
<i>Non-residential Wastewheeler</i>							
64. Number of Accounts	466	466	131	132	95	108	
65. Revenues	\$483,199	\$483,199	\$134,345.31	\$180,384.79	\$64,852.36	\$103,616.13	
<i>Non-residential Dumpster</i>							
66. Number of Accounts	1,649	1,643	352	236	327	728	6
67. Revenues	\$4,854,067	\$4,777,761	\$1,059,880	\$1,004,808	\$688,810	\$2,024,263	\$76,305
68. Less: Allowance for Uncollectable Non-residential Accounts	\$0	\$0					
<b>69. Total Non-residential Revenue</b>	<b>\$5,341,854</b>	<b>\$5,265,549</b>	<b>\$1,194,729</b>	<b>\$1,186,661</b>	<b>\$753,662</b>	<b>\$2,130,497</b>	<b>\$76,305</b>
74. Interest on Investments	\$0	\$0	\$0	\$0	\$0	\$0	\$0
75. Other Income	\$328	\$0	\$0	\$0	\$0	\$0	\$328
<b>76. Total Revenue Offsets</b>	<b>\$12,973,924</b>	<b>\$12,897,290</b>	<b>\$2,488,432</b>	<b>\$2,039,520</b>	<b>\$1,622,213</b>	<b>\$6,747,125</b>	<b>\$76,634</b>

## South County Sanitary Service

## 2019 Base Year Rate Adjustment Application

## Operating Information

Historical		Current		Projected			
	Percent		Percent		Percent	Base Year	Percent
2016	Change	2017	Change	2018	Change	2019	Change
						2020	

## Section IX-Operating Data

## Residential

## Accounts

77.	Arroyo Grande	5,742	0.5%	5,769	1.1%	5,833	1.0%	5,891	1.0%	5,950
	Grover Beach	4,198	0.3%	4,211	0.7%	4,239	1.0%	4,281	1.0%	4,324
	Pismo Beach	3,748	0.5%	3,768	-0.2%	3,762	1.0%	3,800	1.0%	3,838
	Oceano CSD	1,838	0.1%	1,840	-0.3%	1,834	1.0%	1,852	1.0%	1,871
	Nipomo CSD	4,001	0.8%	4,035	0.9%	4,070	1.0%	4,111	1.0%	4,152
	County	6,436	1.8%	6,551	1.4%	6,643	1.0%	6,709	1.0%	6,777
		25,963	0.8%	26,174	0.8%	26,381	1.0%	26,645	1.0%	26,911
78.	Routes-Garbage	7	0.0%	7	0.0%	7	0.0%	7	0.0%	7
79.	Routes-Recycling	7	0.0%	7	0.0%	7	0.0%	7	0.0%	7
80.	Direct Labor Hours	32,722	0.0%	32,722	0.0%	32,722	0.0%	32,722	0.0%	32,722

## Non-residential Garbage

## Accounts

80.	Arroyo Grande	486	-1.0%	481	-0.4%	479	1.0%	484	1.0%	489
	Grover Beach	442	-2.0%	433	-3.7%	417	1.0%	421	1.0%	425
	Pismo Beach	380	-1.1%	376	-2.4%	367	1.0%	371	1.0%	374
	Oceano CSD	190	0.5%	191	-12.0%	168	1.0%	170	1.0%	171
	Nipomo CSD	211	-0.9%	209	-16.3%	175	1.0%	177	1.0%	179
	County	475	2.3%	486	6.8%	519	1.0%	524	1.0%	529
		2,184	-0.4%	2,176	-2.3%	2,125	1.0%	2,146	1.0%	2,168
81.	Routes-garbage	5	0.0%	5	0.0%	5	0.0%	5	0.0%	5
	Routes-recycling	3	0.0%	3	0.0%	3	0.0%	3	0.0%	3
82.	Direct Labor Hours	22,334	0.0%	22,334	0.0%	22,334	0.0%	22,334	0.0%	22,334

## Recyclable Materials - All areas-Commingled Recycling (in tons)

## Accounts

83.	Tri-Cities	8,965	-3.1%	8,686	-1.1%	8,587	0.0%	8,587	0.0%	8,587
	Nipomo/Oceano CSD	3,296	-3.1%	3,193	-1.1%	3,157	0.0%	3,157	0.0%	3,157
84.	County	1,055	-3.1%	1,022	-1.1%	1,010	0.0%	1,010	0.0%	1,010
		13,316	-3.1%	12,901	-1.1%	12,754	0.0%	12,754	0.0%	12,754

## Recyclable Materials - All areas-Greenwaste Recycling

Routes	5	0.0%	5	0.0%	5	0.0%	5	0.0%	5
Tons Collected	11,294	5.6%	11,931	5.3%	12,567	1.0%	12,693	1.0%	12,820
Direct Labor Hours	7,271	0.0%	7,271	0.0%	7,271	0.0%	7,271	0.0%	7,271
Garbage Tons Collected	40,552	1.5%	41,142	1.2%	41,621	1.0%	42,037	1.0%	42,457

## GLOBAL OUTLOOK

## CHINA NOT IN THE FUTURE

It seems odd that in the middle of the Amazon craze we are looking at a decrease in the demand of waste paper from China. In fact, it's hard to understand why China is not on board with the recent growth of the packaging sector. International Paper, Georgia Pacific etc. are having record years.

This is a complex issue. First, we have to look at the government which is the polar opposite of the United States. I know this sounds simple but it really is not. We are a free capitalistic republic and China is, well a Communist country. We continue to say, this just does not make sense, and it truly does not. Communist Countries do not look for sense but control. This control is in the form of new regulations that come down from the leaders without understanding the economic impact to their own country. What is truly amazing is all the paper mills in China feel the same way but if they were to say anything against the Chinese Government they would literally be thrown in jail or removed from their position. China is really not about a "Team approach".

Here is a little history on how we all got to 2018 and the new laws and regulations currently being enforced by the Chinese Government. 20 years ago, China began building infrastructure, buildings and equipment to help propel them to an industrial power. Included in this was papermills, to be able to make packaging for all the products that were going to be produced in China. Previous to 2000, very little waste paper was consumed in China. Other countries such as European countries, Taiwan, Korea, Indonesia and Japan were the largest consumers. Interestingly enough the quality standards in these countries was very high. You either needed to make this quality or you would not be able to sell your product to these mills. This was also indeed the practice in the USA. Part of this was because the technology of cleaning equipment was very expensive and cost prohibitive. It was actually more cost effective to pay more for cleaner paper than to pay less for lesser quality paper.

In the 1990's sorting lines were being built to help separate office paper produced from large office buildings to help the growing demand of pulp substitutes. Sorted white ledger and sorted office paper arrived as a very good alternative to expensive pulp. The unfortunate remaining product of this process was mixed paper, such as groundwood grades, file folders, OCC and other unbleachables. Concurrently, China was building state of the art paper mills. They were looking for low cost fiber to make their products. That low cost contaminated mixed paper combined with OCC was a viable raw material for them and they started purchasing machines that could clean this fiber from contamination and make paper. Still USA mills were not going to entertain this because they new it was not sustainable with costs.

By 2000 China had begun its journey as the largest mixed paper consumer in the world. Growing Chinese mill groups were able to convince all of the major waste haulers in the United States that they could make paper out of this mixed paper. Even lowering the grade and consolidating it as single stream in their recycling programs. When the waste haulers figured out the money they could save by using one truck instead of multiple trucks, sorting lines started being purchased. These sorting technologies came from the basics of mining equipment to efficiently separate grades of paper, OCC, news and mixed paper. However, this material would be comingled with glass, plastic, tin, aluminum cans, plastic bags,

dog poop, kitty litter and garbage. That's right garbage, if you're garbage can overflowed, toss it in the recycling bin who will say anything there is no quality control. (wishful recycling) In fact, the City of Los Angeles in the late 1990's had residual garbage at 40% from their single stream. However, China kept buying this material. You would see quality claims on a consistent basis but you knew this was part of the business and you paid the claim and moved on.

During this industrial boom China was recognizing that there was a cost to all of this growth to China's Environment. In 2012, President Jinping Xi was elected by the Communist party and started to enforce new reforms and initiatives including new Environmental policies. The first which was made very public was the computer recycling business in many documentaries.

In 2014, Green Fence policy was put into place after China realized that the wastepaper stream developed was a majorly flawed system. Mixed paper and curbside news were containing approximately 5 to 10 percent prohibitive and the yield from this grade is approximately 70 percent. Simple math tells us if China is importing 6 million tons of mixed paper they are also importing 1.8 million tons of material that will go to the landfill. Part of this however is the papermaking process, but with lower grades you get lower yield. As mentioned earlier, the US papermills were very aware this was going to happen this is why we don't buy much mixed paper domestically.

This new influx of landfill bound material caused China's government to have a knee jerk reaction. China decided to hold strict inspections and they started rejecting material and sending shipments back to their origin. Green fence policy was created to get control of the waste that was being shipped. Since 2014, China noticed that mills were still disposing the same amount of waste and instead of telling the government that this is part of the paper making process the mills kept quiet as new regulations became stricter. Once again, in a communist country you don't have the freedom to find a reasonable solution, you just hit the brakes.

In 2017, China flat out made a decision to no longer accept recycled plastic in any form. Before this, they were the largest consumer of HDPE, PET, plastic bags and a grade called MRF film. Once again China developed this market by accepting low quality plastic that in some cases like MRF film was filled with terrible contamination. Previous to this there was no market for MRF grade. So instead of coming to a reasonable standard, the Chinese government just banned plastic all together and all the factories that were recycling plastic just went under.

Currently we are watching the same scenario play out with metals. It could be partially related to the trade talks but we are unsure. We do know that China has said it will ban importing metals by the end of 2018.

So where does this leave waste paper. Currently as of January 1<sup>st</sup> 2018 mixed paper is banned from China. That is 6 million tons of paper. Who will buy this, for now it is limited, India is a far second to China and everyone is running to shove 6 million tons into a market that will consume 1 million tons.

The next question is what has happened to our waste stream at our homes in just 10 years. There is a simple answer, look at your recycling bin at your house. You have lots of OCC, lots of junk mail with little to no newsprint. The newsprint market is limited and there are only a couple of mills in the world now that produce recycled newsprint. This leaves only a couple of answers for diversion from the landfill for

mixed paper, use it for fuel for a waste to energy plant or anaerobic digesting. Both of these options are the same, they will cost landfill rates if not higher.

Under the current China Leadership, they want to move away from importing paper and have an initiative to be self sufficient by 2020. It is hard for us to believe this is possible with billions of dollars of investments in paper mills. If China follows what they are currently doing with computers, plastic and metal recycling then, they can do this with wastepaper as well. Our belief at the Boston Group is that the market for grades like OCC and office paper will continue to be in demand globally. Mixed paper by pure recycled stream at the house hold will continue to be an item that will be in to much supply for the demand. As mentioned earlier, it will have to be used in other manners that will divert it from the land fill but will be costly. It is also important to note that garbage at the curbside is not sorted but mixed paper that is destine for more expensive tip fees will be sorted.

The conclusion of our cost of recycling is no longer a shared profit but pure cost. Adding labor to sort mixed paper is at a minimum doubling you're costs. In California, my estimate at profitable recycling and diversion will be \$75 per ton charge at the door of recycling facilities.

I am more than welcome to always talk about different markets and how they will change in the future. Always feel free to call me.

Regards,

Kevin Kodzis  
**President**  
**The Boston Group Inc.**



# COLD CANYON PROCESSING FACILITY

*A Waste Connections Company*

March 19, 2019

Aaron Floyd  
Deputy Public Works Director  
City of San Luis Obispo  
Public Utilities  
879 Morro Street.  
San Luis Obispo, CA 93401

Subject: MRF Recycling Background

Dear Mr. Floyd,

It is my pleasure to continue with the partnership created many years ago between the City of San Luis Obispo, San Luis Garbage Company and the Cold Canyon Processing Facility.

As the local service provider, the Cold Canyon Processing Facility has always tried to stay a few steps ahead of the trends affecting the processing of recyclables. Global commodity markets are volatile. As of 2012, we stopped sending material to China as we began to see that with China, there was too much unpredictability in the market. We also started seeing price manipulation that was actually hurting the local market. We knew then that, as a local service provider, we needed to manage volatility and build stronger relationships within our own community. We started building those relationships with our local partners like George Kardashian at San Miguel Garbage and Faron Bento in Cayucos. We did this by securing reasonably priced transportation when and where we needed it for our local community, as we are approximately five hours from any port or mill. These moves allowed us to keep recycling costs as low as possible for our customers.

We also continued to build relationships along the West Coast with mills and manufacturers that use our recyclable materials. We moved materials within California as much as possible with an eye on cost predictability and control. Mixed paper is approximately 30% of our recycle stream, so we had to find a way to recycle this material type. While others in the County were disposing of mixed paper in landfills, we continued to maintain relationships in places such as Malaysia, Vietnam and South Korea, which allowed us to continue processing mixed paper, although often at a significant loss.

In late 2013 and early 2014, China rolled out a program called the "Green Fence," through which China began restricting the recycling materials the country was willing to accept. Luckily, our relationships with our other partners were well established by this point, minimizing the initial impact of this





program. Then in 2017, China instituted what amounted to a ban on foreign recyclables. Called the “National Sword” campaign, this action created a new norm—going forward, China would only accept materials with no more than 0.5% of what the Chinese now deemed ‘trash.’ In 2018, China banned 24 materials from being imported at all.

These changes meant that a typical MRF in the U.S., like the Cold Canyon Processing Facility, had to alter its operations drastically. The first step was to slow the line down from processing 20 to 22 tons of materials per hour, to 12 to 14 tons per hour. This has greatly increased costs at our facility by requiring the doubling of our workforce and increasing overtime by over 100% in order to process the materials.

Since the inception of the “National Sword” campaign, commodity values have continued to drop. In the past three months, we have seen another 60% decrease in commodity values. Many markets have completely shut down and no longer accept recyclable materials. However, we have still been able to move all materials types to our end market processors because of our trusted relationships and ability to navigate challenging market conditions.

As the local service provider, we chose to do the right thing, at the right time, for the right reason. During the beginning of this crisis in 2017 and 2018, many other processors began disposing of recyclable materials in landfills because they couldn’t sell them, didn’t want to pay for acceptable disposal, or couldn’t create a product that anyone could take even at cost. The Cold Canyon Processing Facility is one of the few MRFs in the region that chose to continue to process materials even if it cost us more money through additional processing costs, increased transportation fees, and final destination fees.

Between the additional headcount to process the materials correctly and produce a product that is marketable, coupled with a decrease in the overall average commodity price of 35% to 65% depending on the material type, we have no choice but to increase our per-ton processing fee. The per-ton processing fee increase allows us to continue operations as the lowest cost service provider to our customers, and it is our intent to continue to operate in a manner that will allow us to be the lowest cost service provider going forward.

You have our commitment that we will continue to work to find the best value for the materials generated. We will continue to focus on outreach and education to eliminate non-recyclable materials from our recycle stream. We will look for opportunities to update our equipment to meet future recycling needs as California marches on toward a 75% diversion goal.

For the reasons outlined above, and as we’ve discussed with you over the past several months, the purpose of this notice is to inform you that the Cold Canyon Processing Facility will be increasing its per-ton recyclable materials processing fee it charges San Luis Garbage Company for the City’s recyclable materials from \$7.80 to \$67.50, effective June 1, 2019.

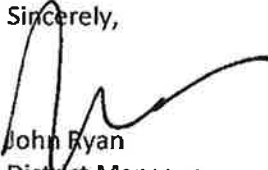
For your reference, I have included below links to a couple of articles that may further help the City understand how the recycling market has changed.

<https://www.npr.org/sections/goatsandsoda/2019/03/13/702501726/where-will-your-plastic-trash-go-now-that-china-doesnt-want-it>

<https://www.theatlantic.com/technology/archive/2019/03/china-has-stopped-accepting-our-trash/584131/>

We thank you for your long-term partnership and look forward to many more years of working together toward common goals with regard to recycling.

Sincerely,

A handwritten signature in black ink, appearing to read 'John Ryan', with a stylized flourish extending to the right.

John Ryan  
District Manager  
Cold Canyon Processing Facility  
a Waste Connections company

cc: Mychal Boerman, Peter Cron, Ron Munds, Bill Statler, Jeff Smith, Sue VanDelinder

TO: BOARD OF DIRECTORS

FROM: MARIO IGLESIAS  
GENERAL MANAGER

DATE: MAY 3, 2019

**AGENDA ITEM**

**D**

**MAY 8, 2019**

## **CONSENT AGENDA**

The following items are considered routine and non-controversial by staff and may be approved by one motion if no member of the Board wishes an item removed. If discussion is desired, the item may be removed from the Consent Agenda by a Board member and will be considered separately at the conclusion of the Administrative Items. Individual items on the Consent Agenda are approved by the same vote that approves the Consent Agenda, unless an item is pulled for separate consideration. The recommendations for each item are noted in bracket. Members of the public may comment on the Consent Agenda items.

**Questions or clarification may be made by the Board members  
without removal from the Consent Agenda.**

- D-1) WARRANTS  
[RECOMMEND APPROVAL]
- D-2) APPROVE APRIL 24, 2019 REGULAR BOARD MEETING MINUTES  
[RECOMMEND APPROVE MINUTES]
- D-3) APPROVAL OF THE ENGINEER'S LEVY REPORT AND DECLARATION OF  
INTENTION TO LEVY ANNUAL ASSESSMENTS FOR STREET LANDSCAPE  
MAINTENANCE DISTRICT NO. 1 FOR FISCAL YEAR 2019-2020  
[RECOMMEND ADOPT RESOLUTION]
- D-4) ACCEPT THIRD QUARTER FISCAL YEAR 2018-2019 QUARTERLY FINANCIAL  
REPORT  
[RECOMMEND ACCEPT AND FILE REPORT]

TO: BOARD OF DIRECTOR

REVIEWED: MARIO IGLESIAS  
GENERAL MANAGER



FROM: LISA BOGNUDA  
FINANCE DIRECTOR



DATE: MAY 3, 2019

**AGENDA ITEM**  
**D-1**  
**MAY 8, 2019**

WARRANTS WILL BE DISTRIBUTED ON TUESDAY, MAY 7, 2019

TO: BOARD OF DIRECTORS  
FROM: MARIO IGLESIAS  
GENERAL MANAGER  
DATE: MAY 3, 2019

**AGENDA ITEM**  
**D-2**  
**MAY 8, 2019**

**APPROVE APRIL 24, 2019  
REGULAR BOARD MEETING MINUTES**

**ITEM**

Approve action minutes from previous Board meetings. [RECOMMEND APPROVE MINUTES]

**BACKGROUND**

The draft minutes are a written record of the previous Board Meeting action.

**RECOMMENDATION**

Approve Minutes

**ATTACHMENT**

- A. April 24, 2019 draft Regular Board Meeting Minutes

MAY 8, 2019

ITEM D-2

ATTACHMENT A

# NIPOMO COMMUNITY SERVICES DISTRICT

*Serving the Community Since 1965*

## DRAFT REGULAR MINUTES

APRIL 24, 2019 AT 9:00 A.M.

JON S. SEITZ BOARD ROOM 148 SOUTH WILSON STREET, NIPOMO, CA

### BOARD of DIRECTORS

ED EBY, PRESIDENT  
DAN ALLEN GADDIS, VICE PRESIDENT  
BOB BLAIR, DIRECTOR  
CRAIG ARMSTRONG, DIRECTOR  
DAN WOODSON, DIRECTOR

### PRINCIPAL STAFF

MARIO IGLESIAS, GENERAL MANAGER  
LISA BOGNUDA, FINANCE DIRECTOR  
WHITNEY MCDONALD, GENERAL COUNSEL  
PETER SEVCIK, DIRECTOR OF ENG. & OPS.

Mission Statement: The Nipomo Community Services District's mission is to provide its customers with reliable, quality, and cost-effective services now and in the future.

#### A. CALL TO ORDER AND FLAG SALUTE

*President Eby called the Regular Meeting of April 24, 2019, to order at 9:00 a.m. and led the flag salute.*

#### B. ROLL CALL, AND PUBLIC COMMENT FOR ITEMS NOT ON AGENDA

*At Roll Call, all Directors were present.*

*There were no public comments.*

#### C. PRESENTATIONS AND REPORTS

##### C-1) DIRECTORS' ANNOUNCEMENTS OF DISTRICT AND COMMUNITY INTEREST AND REPORTS ON ATTENDANCE AT PUBLIC MEETINGS, TRAINING PROGRAMS, CONFERENCES AND SEMINARS [RECEIVE ANNOUNCEMENTS AND REPORTS FROM DIRECTORS]

###### Director Woodson

- April 22, attended Oso Flaco Ad Hoc Committee meeting.

###### Director Gaddis

- April 1, attended Board Officers' meeting.
- April 3, attended IRWM meeting.
- April 15, attended Board Officers' meeting.
- April 19, attended Finance and Audit Committee meeting.

###### Director Armstrong

- April 1, attended WRAC meeting.

###### Director Eby

- April 1, attended Board Officers' meeting.
- April 2, attended Blacklake Master Association meeting.
- April 3, attended IRWM and WRAC meetings.
- April 4, attended Blacklake Ad Hoc Committee meeting.
- April 11, attended Blacklake Ad Hoc Committee meeting.
- April 12, attended meeting of the Blacklake Oversight Committee.
- April 15, attended Board Officers' meeting.
- April 18, attended LAFCO meeting.

SUBJECT TO BOARD APPROVAL

Nipomo Community Services District  
DRAFT REGULAR MEETING  
MINUTES

C-2) RECEIVE PUBLIC COMMENT ON PRESENTATIONS AND REPORTS PRESENTED UNDER ITEM C AND BY MOTION RECEIVE AND FILE PRESENTATIONS AND REPORTS

*There were no public comments.*

*Upon the motion of Director Gaddis and seconded, the Board unanimously approved receiving and filing presentations and reports.  
Vote 5-0.*

YES VOTES	NO VOTES	ABSENT
Directors Gaddis, Woodson, Blair, Armstrong and Eby	None	None

D. CONSENT AGENDA

D-1) WARRANTS [RECOMMEND APPROVAL]

D-2) APPROVE MARCH 27, 2019 REGULAR BOARD MEETING MINUTES [RECOMMEND APPROVE MINUTES]

D-3) INVESTMENT POLICY – FIRST QUARTER REPORT [RECOMMEND ACCEPT AND FILE REPORT]

D-4) INITIATE PROCEEDINGS FOR ANNUAL LEVY OF ASSESSMENTS FOR STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1 [RECOMMEND ADOPT RESOLUTION]

*Item D-2 was pulled for separate consideration as Director Gaddis was not present at the March 27, 2019 Board Meeting.*

*There were no public comments.*

*Upon the motion of Director Woodson and seconded, the Board unanimously approved Consent Agenda items D-1, D-3 and D-4.  
Vote 5-0.*

YES VOTES	NO VOTES	ABSENT
Directors Woodson, Blair, Armstrong, Gaddis and Eby	None	None

**RESOLUTION 2019-1504  
A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE NIPOMO COMMUNITY SERVICES DISTRICT  
INITIATING PROCEEDINGS FOR ANNUAL LEVY OF  
ASSESSMENTS FOR THE STREET LANDSCAPE MAINTENANCE  
DISTRICT NO. 1 FOR FISCAL YEAR 2019-2020 PURSUANT  
TO THE PROVISIONS OF PART 2 OF DIVISION 15 OF THE  
CALIFORNIA STREETS AND HIGHWAYS CODE**

*Upon the motion of Director Blair and seconded, the Board approved Consent Agenda item D-2.  
Vote 4-0.*

YES VOTES	NO VOTES	ABSTAIN
Directors Blair, Woodson, Armstrong, and Eby	None	Gaddis



Nipomo Community Services District  
DRAFT REGULAR MEETING  
MINUTES

E. ADMINISTRATIVE ITEMS

E-1) REVIEW PROPOSED LATE-FEE POLICY AND ADOPT RESOLUTION  
[REVIEW AND DISCUSS PROPOSED POLICY, EDIT AS NEEDED, AND CONSIDER  
ADOPTING A RESOLUTION IN SUPPORT OF LATE-FEE WAIVER POLICY]

*Mario Iglesias, General Manager, presented the item and answered questions from the Board. Director Woodson suggested an edit to the Late Waiver Request Application.*

*There were no public comments.*

*Upon the motion of Director Woodson, and seconded, the Board unanimously approved the Resolution and amendment to the Late Waiver Request Application.  
Vote.5-0.*

YES VOTES	NO VOTES	ABSENT
Directors Woodson, Blair, Armstrong, Gaddis and Eby	None	None

**RESOLUTION 2019-1505**  
A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE NIPOMO COMMUNITY SERVICES DISTRICT  
ADOPTING A POLICY GOVERNING THE EXERCISE  
OF THE GENERAL MANAGER'S AUTHORITY TO  
WAIVE FEES ASSESSED ON CUSTOMER UTILITY  
ACCOUNTS AS A RESULT OF A DELINQUENT UTILITY BILL

F. GENERAL MANAGERS REPORT

*Mario Iglesias, General Manager, presented the item and answered questions from the Board.*

*Pam Wilson, NCSD resident, asked about Will Serve Letters and the setting of water meters.*

G. COMMITTEE REPORTS

- FINANCE AND AUDIT COMMITTEE
- AD HOC COMMITTEE – BLACKLAKE/NCSD OVERSIGHT COMMITTEE

Reports were given by Committee members.

*There were no public comments*

H. DIRECTORS' REQUEST TO STAFF AND SUPPLEMENTAL REPORTS

Director Woodson requested Staff investigate establishing a guest network for WiFi connection.

I. CLOSED SESSION ANNOUNCEMENTS

1. CONFERENCE WITH DISTRICT LEGAL COUNSEL RE: PENDING LITIGATION PURSUANT TO GC §54956.9
  - a) SMWWCD V. NCSD (SANTA CLARA COUNTY CASE NO. CV 770214, SIXTH APPELLATE COURT CASE NO. H032750 AND A LITIGATION PURSUANT TO GC §54956.9 ALL CONSOLIDATED CASES)

SUBJECT TO BOARD APPROVAL

Nipomo Community Services District  
DRAFT REGULAR MEETING  
MINUTES

- b) BENING Company, LLC v. Nipomo Community Services District  
(Court of Appeal, 2<sup>nd</sup> Dist., Case B286035

- 2. STEP ONE OF A TWO STEP ANNUAL PERFORMANCE REVIEW  
PROCESS OF DISTRICT LEGAL COUNSEL PURSUANT TO  
GOVERNMENT CODE SECTION §54957

J. PUBLIC COMMENT ON CLOSED SESSION ITEMS

There were no public comments.

The Board took a 5 minute recess.

*Whitney McDonald, District Legal Counsel, announced that the Board discussed Item 1(a) and 2. No update was required on Item 1(b) The Board took no reportable action.*

ADJOURN



*President Eby adjourned the meeting at 10:35 a.m.*

MEETING SUMMARY	HOURS & MINUTES
Regular Meeting	0 hour 37 minutes
Closed Session	0 hour 58 minutes
TOTAL HOURS	1 hours 35 minutes

Respectfully submitted,

\_\_\_\_\_  
Mario Iglesias, General Manager and Secretary to the Board

\_\_\_\_\_  
Date

TO: BOARD OF DIRECTOR  
REVIEWED: MARIO IGLESIAS   
GENERAL MANAGER  
FROM: PETER V. SEVCIK, P.E.   
DIRECTOR OF  
ENGINEERING & OPERATIONS  
DATE: MAY 2, 2019

**AGENDA ITEM  
D-3  
MAY 8, 2019**

**APPROVAL OF THE ENGINEER'S LEVY REPORT AND  
DECLARATION OF INTENTION TO LEVY ANNUAL ASSESSMENTS  
FOR STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1 FOR  
FISCAL YEAR 2019-2020**

**ITEM**

Consider adoption of resolution approving the engineer's levy report and declaration of intention to levy annual assessments for Street Landscape Maintenance District No. 1 for Fiscal Year 2019-2020. [RECOMMEND ADOPT RESOLUTION]

**BACKGROUND**

On April 24, 2019, the Board of Directors adopted Resolution 2019-1504 entitled:

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY SERVICES DISTRICT INITIATING PROCEEDINGS FOR ANNUAL LEVY OF ASSESSMENTS FOR THE STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1 FOR FISCAL YEAR 2019-2020 PURSUANT TO THE PROVISIONS OF PART 2 OF THE DIVISION 15 OF THE CALIFORNIA STREETS AND HIGHWAYS CODE**

Peter Sevcik, P.E., Director of Engineering and Operations, was directed to prepare the annual levy report (attached). Pursuant to Proposition 218 and the Petition Requesting Formation of the Street Landscape Maintenance District, the annual levy may be increased by a percentage equal to or less than the Consumer Price Index (CPI) without conducting a Protest Vote. The actual amount to be assessed is based on the annual budget and may be less or more than the CPI. Property owners within the Maintenance District must approve any proposed assessment that exceeds the adjusted maximum rate based on the CPI (via a Proposition 218 Protest Vote).

Installation of drought tolerant landscaping is planned along Lot 1 in FY 2019-2020 at an estimated cost of \$5,000.

It is recommended that the assessment remain \$435 for FY 2019-2020 (See Page 4 of Engineer's Levy Report). The County of San Luis Obispo adds a \$2.00 per parcel handling fee for processing special district benefit assessments on the tax roll. Total amount of \$437 per parcel will be billed on the tax roll. The computed Maximum Assessment Allowable is \$513.71.

With the proposed assessment amount, the Maintenance District is projected to have an approximate deficit of \$3095 in 2019-2020 and reserve balance at the end of FY 2019-2020 of \$11,905 (See Page 5 of Engineer's Levy Report). The Cash Reserve Goal is \$20,000. As the history of the Maintenance District's annual levy and maximum allowable levy below shows, the levy can be lowered in the future when reserves are adequate.

**History of Annual Levy and Maximum Allowable Levy**

Period Covered	Amount Assessed per Parcel	Maximum Assessment Allowable
Fiscal Year 2003-2004 (first year)	\$345.00	\$345.00
Fiscal Year 2004-2005	\$346.96	\$346.96
Fiscal Year 2005-2006	\$354.94	\$354.94
Fiscal Year 2006-2007	\$365.34	\$365.34
Fiscal Year 2007-2008	\$365.34	\$376.75
Fiscal Year 2008-2009	\$387.74	\$387.74
Fiscal Year 2009-2010	\$301.78	\$391.14
Fiscal Year 2010-2011	\$303.57	\$400.60
Fiscal Year 2011-2012	\$303.57	\$408.85
Fiscal Year 2012-2013	\$315.00	\$423.29
Fiscal Year 2013-2014	\$330.00	\$433.40
Fiscal Year 2014-2015	\$330.00	\$442.19
Fiscal Year 2015-2016	\$360.00	\$450.59
Fiscal Year 2016-2017	\$380.00	\$463.84
Fiscal Year 2017-2018	\$380.00	\$479.05
Fiscal Year 2018-2019	\$435.00	\$497.30

**Proposed Annual Levy and Maximum Allowable Levy for FY 2019-2020**

Proposed FY 2019-2020	\$435.00	\$513.71
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**FISCAL IMPACT**

Budgeted staff time was used to prepare this staff report.

**RECOMMENDATION**

Staff recommends that the Board, by motion and roll call vote, approve Resolution 2019-XXXX Approving the Engineer's Report and Declaring the Intention to Levy the Annual Assessment.

**ATTACHMENTS**

- A. Resolution 2019-XXXX Approving Engineer's Report and Declaring Intention to Levy
- B. FY 2019-2020 LMD No 1. Engineer's Report

MAY 8, 2019

ITEM D-3

ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT  
RESOLUTION NO. 2019-XXXX**

**A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE NIPOMO COMMUNITY SERVICES DISTRICT  
APPROVING THE ANNUAL ENGINEER'S LEVY REPORT,  
DECLARING ITS INTENTION TO LEVY ANNUAL ASSESSMENTS  
FOR STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1  
FOR FISCAL YEAR 2019-2020,  
AND SETTING A PUBLIC HEARING THEREON**

**WHEREAS**, the Board of Directors of the Nipomo Community Services District ("NCSD") has, by previous Petition and Resolutions, formed the Nipomo Community Services District Street Landscape Maintenance District No. 1 (hereinafter referred to as "Street Landscape Maintenance District No. 1") and initiated proceedings for the annual assessments for Fiscal Year 2019-2020 pursuant to the provisions of the Landscaping and Lighting Act of 1972, Streets and Highways Code of California, beginning with Section 22500 (hereinafter referred to as "Act"), which provides for the levy and collection of assessments by the County of San Luis Obispo for the NCSD to pay for the maintenance and services of all improvements and facilities related thereto; and

**WHEREAS**, the Street Landscape Maintenance District No. 1 and the associated assessments are in compliance with the provisions of California Constitution Article XIID; and

**WHEREAS**, by previous Resolution, the Board of Directors initiated proceedings for the annual levy of assessments for Street Landscape Maintenance District No. 1 for fiscal year 2019-2020 and appointed Peter Sevcik, P.E., Director of Engineering and Operations, as assessment engineer for the purpose of assisting with the annual levy and to prepare and file a Report in accordance with Chapter 1, Article 4 of the Act, and

**WHEREAS**, said Report has been prepared, filed, and presented to the Board of Directors, as required by Chapters 1 and 3 of said Act; and

**WHEREAS**, the Board of Directors has carefully examined and reviewed the Report as presented, is satisfied with the budget items and documents as set forth therein, and is satisfied that the proposed assessments have been spread in accordance with the Petition for Street Landscape Maintenance District No. 1 and with benefits received from the improvements, operation, maintenance, and services to be performed within Street Landscape Maintenance District No. 1 as set forth in said Report, and

**WHEREAS**, the NCSD intends to levy and collect the annual assessments for Street Landscape Maintenance District No. 1 as set forth in said Report, pursuant to the Act.

**NOW, THEREFORE, BE IT RESOLVED, DETERMINED, AND ORDERED BY THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY SERVICES DISTRICT, NIPOMO, AS FOLLOWS:**

SECTION 1: That the above recitals are all true and correct and incorporated herein by reference.

SECTION 2: That the presented Report consists of the following:

- a. A Description of the Improvements
- b. The Annual Budget (Costs and Expenses of Services, Operation, and Maintenance)
- c. The Method of Apportionment that details the method of calculating each parcel's proportional special benefits and annual assessment.
- d. The District Roll containing the proposed assessment for each parcel within the District for fiscal year 2019-2020.

SECTION 3: That the Report (Attached as Exhibit "A") is hereby approved and ordered to be filed in the NCSD Offices as a permanent record and remain open to public inspection.

SECTION 4: That the NCSD General Manager shall certify to the passage and adoption of this Resolution, and the minutes of this meeting shall so reflect the presentation of the Engineer's Annual Levy Report.

**BE IT FURTHER RESOLVED, DETERMINED, AND ORDERED BY THE BOARD OF DIRECTORS OF THE NIPOMO COMMUNITY SERVICES DISTRICT, PURSUANT TO SECTION 22624 OF THE ACT, AS FOLLOWS:**

SECTION 5: Intention: The NCSD hereby declares that it intends to levy and collect annual assessments pursuant to the Act over and including the land within the Street Landscape Maintenance District No. 1 boundary, and to levy and collect the assessments on all such land to pay the costs of the operation, maintenance, and servicing of landscaping and all appurtenant facilities and operations related thereto.

SECTION 6: Description of Improvements and Any Substantial Changes Proposed: The improvements within the Street Landscape Maintenance District No. 1 include: the maintenance and operation of and the furnishing of services and materials for landscaping which includes trees, shrubs, grass, and other ornamental vegetation, and appurtenant facilities, including irrigation systems within the Street Landscape Maintenance District No. 1. The Engineer's Annual Levy Report describes any new improvements or substantial changes in existing improvements.

SECTION 7: Boundaries and Designation: The boundaries of the Street Landscape Maintenance District No. 1 are generally described as Lots 1 through 29 of Tract 2409 located in the County of San Luis Obispo and more particularly described in the Report.

SECTION 8: Increase in Assessments: The assessment is proposed to remain the same as in the previous year (\$435.00).

SECTION 9: Engineer's Report: The Report is attached hereto as Exhibit "A" and is on file with the Secretary of NCSD Board of Directors. The Report contains a full and detailed description of the improvements, the boundaries of Street Landscape

Maintenance District No. 1, and the proposed assessments upon assessable lots and parcels of land within Street Landscape Maintenance District No. 1.

SECTION 10: Time of Public Hearing: Notice is hereby given that a public hearing will be held by the Board of Directors of the Nipomo Community Services District on June 12, 2019, at 9:00 a.m. in the Regular Meeting Room located within the District Offices located at 148 South Wilson Street, Nipomo. California 93444.

SECTION 11: Notice: Pursuant to Sections 22552, 22553, and 22626 of the Act, notice of the Public Hearing shall be provided in accordance with Section 6061 of the Government Code, including publication of this Resolution once in the Santa Maria Times not less than ten (10) days before the date of the public hearing and by posting a copy of this Resolution on the official bulletin board customarily used by the NCSD for the posting of notices.

SECTION 12: Incorporation of Recitals: The above Recitals are true and correct and incorporated herein by reference.

SECTION 13: Other Actions: The Board of Directors and such employees of the NCSD as are appropriate are authorized and directed to execute such other documents and take such further action as shall be consistent with the intent and purpose of this Resolution.

**PASSED AND ADOPTED** by the Board of Directors of the Nipomo Community Services District this 8<sup>th</sup> day of May, 2019.

**AYES:  
NOES:  
ABSTAIN:  
ABSENT:**

---

**ED EBY**  
President of the Board

ATTEST:  
EFFECT:

APPROVED AS TO FORM AND LEGAL

---

**MARIO IGLESIAS**  
General Manager and Secretary to the Board

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**WHITNEY G. McDONALD**  
District Legal Counsel



MAY 8, 2019

ITEM D-3

ATTACHMENT B

NIPOMO COMMUNITY SERVICES DISTRICT  
ENGINEER'S ANNUAL LEVY REPORT  
STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1  
FISCAL YEAR 2019-2020

=====

Introduction

Nipomo Community Services District (“NCSD”) annually levies and collects special assessments to maintain improvements within Street Landscape Maintenance District No. 1 (“District”). The District was formed and annual assessments are established pursuant to the Landscape and Lighting Act of 1972, Part 2 of Division 15 of the California Streets and Highways Code (the “1972 Act”).

This Engineer’s Annual Report (“Report”) describes the District and the proposed assessments for the fiscal year 2019-2020. The assessments are based on the historical and estimated future costs to maintain the improvements that provide a direct and special benefit to properties within the District.

For the purposes of this Report, the word “parcel” refers to an individual property assigned its own Assessor Parcel Number by the San Luis Obispo County Assessor’s Office. The San Luis Obispo County Auditor/Controller uses Assessor Parcel Numbers and specific Fund Numbers to identify properties assessed for special district benefit assessments on the tax roll.

Effect of Proposition 218

In November 1996, California voters approved Proposition 218 that established specific requirements for the on-going imposition of taxes, assessments and fees. The provisions of the Proposition are now contained in the California Constitutional Articles XIII C and XIII D.

All assessments described in this Report and approved by the Board of Directors are prepared in accordance with the 1972 Act and are in compliance with the provisions of the California Constitution Article XIII D.

The assessments adopted include the District’s annual inflationary adjustment to the maximum assessment rate. This annual inflationary adjustment to the maximum assessment rate is provided in this Report.

Description of the District and Services

The District (formed on April 9, 2003) provides and ensures the continued maintenance, servicing, administration and operation of landscaping located within a portion of the public rights-of-way and dedicated landscape easements in Tract 2409, a 28 lot subdivision commonly known as Vista Verde Estates, located off of West Tefft across from Dana Elementary School.

NIPOMO COMMUNITY SERVICES DISTRICT  
ENGINEER'S ANNUAL LEVY REPORT  
STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1  
FISCAL YEAR 2019-2020

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Improvements within the District include the maintenance and operation and the furnishing of services and materials for landscaping which include trees, shrubs, grasses and other ornamental vegetation, and appurtenant facilities, including irrigation systems.

The landscape maintenance obligation is limited to the following:

- Landscaping bordering the frontage of lots 1 through 6 on Tefft Street
- Landscaping bordering the frontage of lots 1, 15, 16, and 28 on Tejas Place
- Landscaping bordering the southwest and northwest sides of lot 29 (drainage basin) on Tejas Place
- The pathway between lots 4 and 5 between Tefft Street and Vista Verde

Installation of drought tolerant landscaping is planned along Lot 1 in FY 2019-2020 at an estimated cost of \$5000.

Method of Apportionment

General

The 1972 Act permits the establishment of assessment districts by agencies for the purpose of providing certain public improvements which include the construction, maintenance and servicing of landscaping and appurtenant facilities. The 1972 Act further requires that the cost of these improvements be levied according to benefit rather than assessed value:

*“The net amount to be assessed upon lands within an assessment district may be apportioned by any formula or method which fairly distributes the net amount among all assessable lots or parcels in proportion to the estimated benefits to be received by each such lot or parcel from the improvements.”*

The formula used for calculating assessments of the District therefore reflect the composition of the parcels, and the improvements and services provided, to fairly apportion the costs based on the benefits to each parcel.

Benefit Analysis

The associated costs and assessments have been carefully reviewed, identified and allocated based on special benefit pursuant to the provisions of the California Constitution and 1972 Act. The improvements associated with the District have been identified as necessary, required and/or desired for the orderly development of the properties within the District to their full potential, consistent with the proposed development plans. As such, these improvements would be necessary and required of individual property owners for the development of

NIPOMO COMMUNITY SERVICES DISTRICT  
ENGINEER'S ANNUAL LEVY REPORT  
STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1  
FISCAL YEAR 2019-2020

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such properties, and the ongoing operation, servicing and maintenance of these improvements would be the financial obligation of those properties. Therefore, the improvements and the annual costs of ensuring the maintenance and operation of the improvements are of direct and special benefit to the properties.

The method of apportionment (method of assessment) is based on the premise that each assessed parcel within the District receives special benefit from the improvements provided by the District. The desirability of properties is enhanced by the presence of local improvements in close proximity to those properties.

The special benefits associated with landscaped improvements are specifically:

- Enhanced desirability of properties through association with the improvements.
- Improved aesthetic appeal of properties providing a positive representation of the area.
- Enhanced adaptation of the urban environment within the natural environment from adequate green space and landscaping.
- Environmental enhancement through improved erosion resistance, dust and debris control.
- Increased sense of pride in ownership of property within the District resulting in well-maintained improvements associated with the properties.
- Reduced criminal activity and property-related crimes (especially vandalism) against properties in the District through well-maintained surroundings.

Based on the preceding special benefits, it has been determined that the improvements provided through the District and for which parcels are assessed, contribute to aesthetic value and desirability of those properties. It has further been determined that these improvements, either individually or collectively are provided for the special benefit and enhancement of properties within the District and provide no measurable general benefit to properties outside the District or to the public at large.

NIPOMO COMMUNITY SERVICES DISTRICT  
ENGINEER'S ANNUAL LEVY REPORT  
STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1  
FISCAL YEAR 2019-2020

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Assessment Methodology

The maximum annual assessment that may be levied each fiscal year includes an annual inflationary adjustment to the maximum assessment rate based on the percentage change in the Consumer Price Index for Urban Wage Earners and Clerical Workers in San Francisco/San Jose for February 28 of the current year over the previous year's index on the same date. Although the maximum rate for the District may increase each year, the actual amount to be assessed is based on the annual budget and may be less than the maximum rate. The property owners must approve any proposed assessment that exceeds the adjusted maximum rate before it can be imposed.

The maximum assessment that may be levied in a fiscal year is increased annually by the following formula

$$\begin{array}{r}
 \text{(Prior Year's Annual Maximum Assessment x CPI)} \\
 \text{Plus} \\
 \text{Prior Year's Annual Maximum Assessment}
 \end{array}
 \left. \vphantom{\begin{array}{r} \text{(Prior Year's Annual Maximum Assessment x CPI)} \\ \text{Plus} \\ \text{Prior Year's Annual Maximum Assessment} \end{array}} \right\} = \begin{array}{l} \text{Current Year's} \\ \text{Annual} \\ \text{Maximum} \\ \text{Assessment} \end{array}$$

The percentage change used is the annual change for the preceding 12 months. The annual inflation factor applied for the fiscal year 2019-2020 is based on the percentage change from February 2018 to February 2019 and has been identified as 3.3% (annual percentage change currently available).

MAXIMUM ALLOWABLE ASSESSMENT PER PARCEL (APPLYING INFLATIONARY ADJUSTMENT)	
2018-2019 Maximum Assessment	(A) \$497.30
X CPI (3.3%)	(B) \$16.41
	-----
Maximum Assessment Allowable 2019-2020	(A) + (B) \$513.71 =====
Proposed 2019-2020 Annual Assessment	\$435.00 =====

The County of San Luis Obispo adds a \$2.00 per parcel handling fee for processing special district benefit assessments on the tax roll. Total amount of \$437 per parcel will be billed on tax roll.

NIPOMO COMMUNITY SERVICES DISTRICT  
ENGINEER'S ANNUAL LEVY REPORT  
STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1  
FISCAL YEAR 2019-2020

=====

Fiscal Year 2019-2020 District Budget

DESCRIPTION		2019-2020 BUDGET
Beginning Estimated Fund Balance (July 1, 2019)		\$15,000
<b>Proposed Assessment Levy</b>		<b>\$12,180</b>
<b>Estimated Interest Income</b>		<b>\$375</b>
<b>Estimated Expenditures</b>		
Contract Landscape Maintenance	(\$10,000)	
Water	(\$3,500)	
Electricity	(\$150)	
Public Notifications	(\$500)	
Administration	(\$1,500)	
<b>Total Estimated Expenditures</b>		<b>(\$15,650)</b>
Estimated Ending Fund Balance (1) (June 30, 2020)		\$11,905

(1) In accordance with the Reserve Policy adopted by the Nipomo Community Services District Board in 2012, the target fund balance reserve for Street Landscape Maintenance District No. 1 is \$20,000. Reserve is for landscaping repair/replacement and irrigation system repair/replacement.

NIPOMO COMMUNITY SERVICES DISTRICT  
ENGINEER'S ANNUAL LEVY REPORT  
STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1  
FISCAL YEAR 2019-2020

Lot Number	Assessor Parcel Number	Annual Assessment
1	092-512-001	\$435.00
2	092-512-002	\$435.00
3	092-512-003	\$435.00
4	092-512-004	\$435.00
5	092-512-005	\$435.00
6	092-512-006	\$435.00
7	092-512-007	\$435.00
8	092-512-008	\$435.00
9	092-512-009	\$435.00
10	092-512-010	\$435.00
11	092-512-011	\$435.00
12	092-512-012	\$435.00
13	092-512-013	\$435.00
14	092-512-014	\$435.00
15	092-512-015	\$435.00
16	092-512-016	\$435.00
17	092-512-017	\$435.00
18	092-512-018	\$435.00
19	092-512-019	\$435.00
20	092-512-020	\$435.00
21	092-512-021	\$435.00
22	092-512-022	\$435.00
23	092-512-023	\$435.00
24	092-512-024	\$435.00
25	092-512-025	\$435.00
26	092-512-026	\$435.00
27	092-512-027	\$435.00
28	092-512-028	\$435.00
	TOTAL	\$12,180.00

Annual assessment amount does not include the County of San Luis Obispo \$2.00 per parcel handling fee for processing special district benefit assessments on the tax roll.

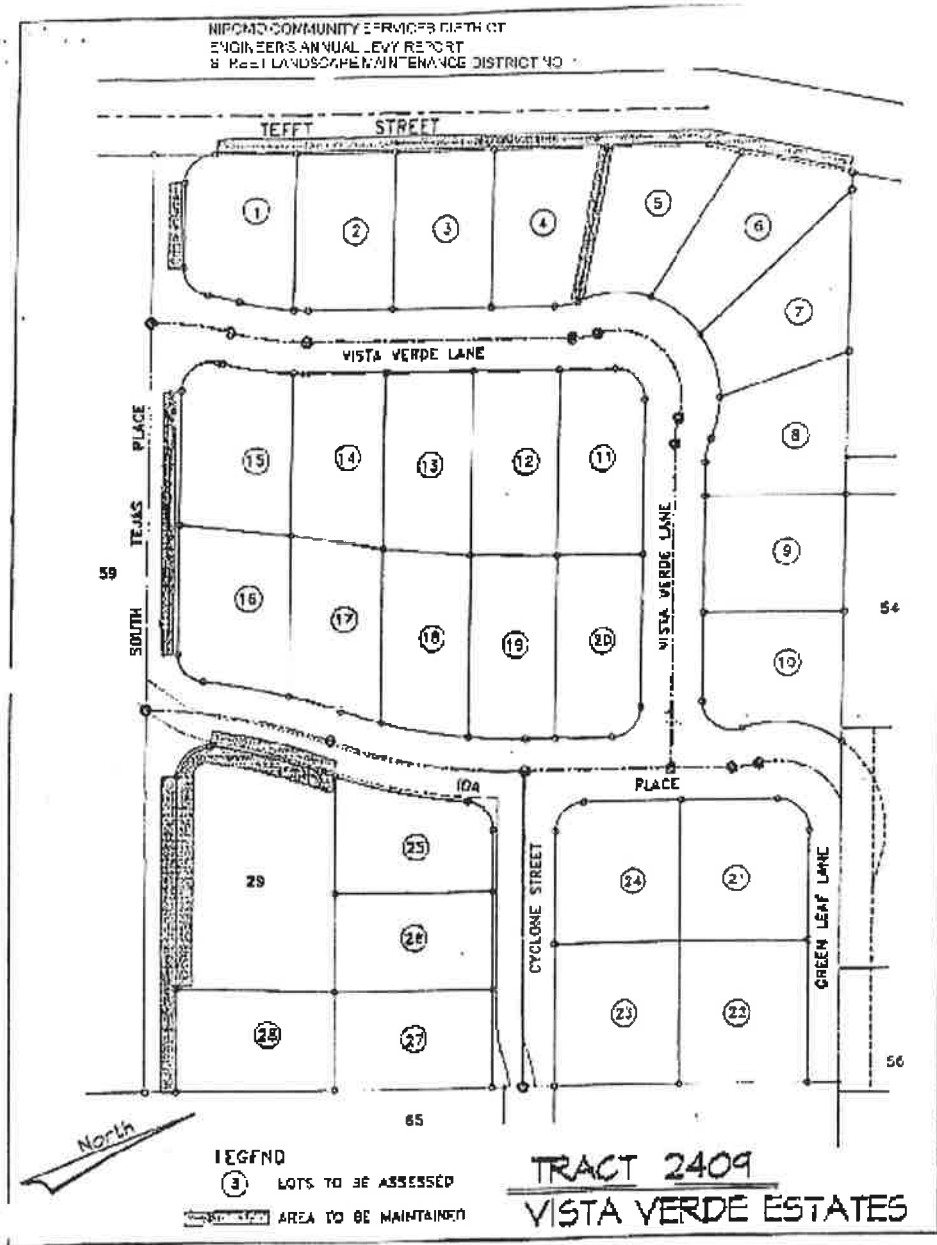


*Peter V. Sevcik*  
 \_\_\_\_\_  
 PETER V. SEVCIK, P.E.  
 DISTRICT ENGINEER

*May 3, 2019*  
 \_\_\_\_\_  
 DATE

NIPOMO COMMUNITY SERVICES DISTRICT  
 ENGINEER'S ANNUAL LEVY REPORT  
 STREET LANDSCAPE MAINTENANCE DISTRICT NO. 1  
 FISCAL YEAR 2019-2020

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TO: BOARD OF DIRECTORS

REVIEWED: MARIO IGLESIAS  
GENERAL MANAGER

FROM: LISA BOGNUDA  
FINANCE DIRECTOR

DATE: MAY 3, 2019

**AGENDA ITEM**

**D-4**

**MAY 8, 2019**

**ACCEPT THIRD QUARTER FISCAL YEAR 2018-2019  
QUARTERLY FINANCIAL REPORT**

**ITEM**

Review third quarter Fiscal Year 2018-2019 quarterly financial report [RECOMMEND ACCEPT AND FILE REPORT].

**BACKGROUND**

As of March 31, 2019, the 2018-2019 Fiscal year is 75% complete. The consolidated operating revenues are 76.43% of budget, operating expenditures are at 69.52% of budget and general and administrative expenditures are at 63.52% of budget.

Attached are the following which provide an overview of the first nine months of the fiscal year:

Page 1	Consolidated Statement of Net Position
Page 2-3	Consolidated Statement of Revenues and Expenses
Page 4	Summary of Revenues, Expenses and Cash Balances by Fund
Page 5	Summary of Approved Budget Adjustments
Page 6-7	Graphs for Consolidated Revenues and Expenses
Page 8-10	Graphs for major funds (Water, Town Sewer, and Blacklake Sewer)

**STRATEGIC PLAN**

Goal 4. FINANCE. Maintain conservative, long-term financial management to minimize rate impacts on customers while meeting program financial needs.

**RECOMMENDATION**

It is recommended that your Honorable Board accept report and direct Staff to file the quarterly financial report for the third quarter of fiscal year 2018-2019.

**ATTACHMENT**

A. Pages 1-10 – NCSD Quarterly Financial Report

MAY 8, 2019

ITEM D-4

ATTACHMENT A

**NIPOMO COMMUNITY SERVICES DISTRICT  
STATEMENT OF NET POSITION - (Unaudited)  
MARCH 31, 2019**

ASSETS

Current assets:	
Cash and cash equivalents	\$ 19,108,023
Accounts receivable	353,684
Unbilled utilities receivable	1,025,000
Accrued interest receivable	119,119
Due from partner purveyors	154,929
Contracts receivable, current portion	101,819
Total current assets	<u>20,862,574</u>
Noncurrent assets:	
Restricted cash-NSWP funded replacement	735,979
Cash with fiscal agent and held in Trust	892,718
Deposits and other assets	322,714
Contracts receivable, less current portion	6,608,419
Net OPEB asset	0
Capital assets:	
Capital assets, net of depreciation	65,870,306
Total noncurrent assets	<u>74,430,136</u>
Total assets	<u>95,292,710 (A)</u>

Deferred Outflows of Resources	
OPEB related	87,370
Pension related	763,644
Total deferred outflows of resources	<u>851,014 (B)</u>

LIABILITIES

Current liabilities:	
Accounts payable	585,877
Deposits	302,168
Accrued Liabilities	511,476
Current portion of long-term debt	249,361
Total current liabilities	<u>1,648,882</u>
Noncurrent liabilities:	
Net OPEB liability	648,238
Net pension liability	1,686,681
Long-term debt, less current portion	20,000,000
Total noncurrent liabilities	<u>22,334,919</u>
Total liabilities	<u>23,983,801 (C)</u>

Deferred Inflows of Resources	
OPEB related	40,084
Pension related	57,871
Total deferred inflows of resources	<u>97,955 (D)</u>

NET POSITION

Net investment in capital assets	44,662,685
Restricted for system expansion, replacement and debt service	12,079,117
Unrestricted	<u>                    </u>
Total net position	<u>\$ 56,741,802</u>

**NIPOMO COMMUNITY SERVICES DISTRICT  
STATEMENT OF REVENUES AND EXPENSES - (Unaudited)  
FOR THE NINE MONTHS ENDED MARCH 31, 2019**

	YEAR-TO- DATE	BUDGET	% OF BUDGET
<u>OPERATING REVENUES</u>			
Water fixed charges	\$ 891,071	1,162,000	76.68%
Water usage charges	3,035,130	4,380,000	69.30%
Sewer charges	1,916,131	2,547,000	75.23%
Miscellaneous fees and charges	158,515	151,900	104.35%
Street light and landscape maintenance charges	31,106	40,030	77.71%
Franchise fees	52,853	62,000	85.25%
NSWP - collections from purveyors for water purchased	404,226	480,058	84.20%
NSWP - collections from purveyors for related expenses	47,250	56,332	83.88%
NSWP - collections for funded replacement	155,150	206,865	75.00%
Operating transfers in - Funded Administration	317,321	482,760	65.73%
Operating transfers in - Funded Replacement	868,500	1,158,000	75.00%
Total Operating Revenues	<u>7,877,253</u>	<u>10,726,945</u>	<u>73.43%</u>
<u>OPERATING EXPENSES - OPERATIONS AND MAINTENANCE</u>			
Wages and benefits	1,007,284	1,646,100	61.19%
Purchased water -NCSD share	808,938	961,000	84.18%
Purchased water-purveyors	404,226	480,058	84.20%
Operating costs, admin and funded replacement-NCSD share	176,137	262,000	67.23%
Electricity	404,295	618,700	65.35%
Water	4,112	4,950	83.07%
Chemicals	44,675	81,000	55.15%
Lab tests	73,374	105,500	69.55%
Operating supplies	147,530	210,000	70.25%
Outside services	124,749	249,500	50.00%
Permits and operating fees	36,175	49,500	73.08%
Repairs and maintenance	119,452	248,500	48.07%
Engineering	11,678	28,000	41.71%
Fuel	29,903	33,000	90.62%
Meters	66,945	50,000	133.89%
Safety program	1,055	7,900	13.35%
Uniforms	13,749	18,000	76.38%
Landscape maintance district	3,670	8,000	45.88%
Solid waste program	948	7,500	12.64%
Conservation program	16,328	50,000	32.66%
Operating transfer out - Funded Replacement	868,500	1,158,000	75.00%
Subtotal - Operating Expenses (Operations and Maintenance)	<u>4,363,723</u>	<u>6,277,208</u>	<u>69.52%</u>

continued on next page

**NIPOMO COMMUNITY SERVICES DISTRICT  
STATEMENT OF REVENUES AND EXPENSES - (Unaudited)  
FOR THE NINE MONTHS ENDED MARCH 31, 2019**

	<u>YEAR-TO- DATE</u>	<u>BUDGET</u>	<u>% OF BUDGET</u>
<u>OPERATING EXPENSES - GENERAL AND ADMINISTRATIVE</u>			
Wages and benefits	548,449	889,050	61.69%
Outside services	12,393	17,575	70.51%
Bank charges and fees	7,420	10,300	72.04%
Computer expense	97,748	121,000	80.78%
Dues and subscriptions	67,620	47,865	141.27%
Education and training	3,949	16,000	24.68%
Elections	549	10,000	0.00%
Liability insurance	74,059	85,000	87.13%
Landscape and janitorial	11,198	15,000	74.65%
Legal counsel-general	60,304	127,500	47.30%
Legal counsel-water	33,515	75,000	44.69%
Professional services	131,544	234,050	56.20%
Miscellaneous	2,167	7,000	30.96%
Newsletters and mailers	1,507	10,000	15.07%
Office supplies	11,232	17,000	66.07%
Postage	14,417	25,700	56.10%
Public notices	5,588	8,300	67.33%
Repairs and maintenance	13,900	28,550	48.69%
Property taxes	1,429	1,400	102.07%
Telephone	6,456	8,500	75.95%
Travel and mileage	6,373	13,500	47.21%
Utilities	13,013	19,500	66.73%
Operating transfer out - Funded Administration	317,321	482,760	65.73%
Subtotal - Operating Expenses (General and Administrative)	1,442,151	2,270,550	63.52%
Total Operating Expenses	5,805,874	8,547,758	67.92%
Total Operating Revenues and (Expenses)	2,071,379	2,179,187	95.05%
<u>NON-OPERATING INCOME (EXPENSES)</u>			
Interest income	552,185	384,565	143.59%
Property tax revenue	517,729	654,400	79.12%
Cell site revenue	31,414	41,000	76.62%
Other revenue - purveyors	53,044	521,238	10.18%
Capacity Charges collected	1,160,396	0	0.00%
Interest expense	(667,326)	(851,116)	78.41%
Total non-operating revenues (expenses)	1,647,442	750,087	
Total Operating and Non-operating Revenues (Expenses)	\$ 3,718,821	2,929,274	

NIPOMO COMMUNITY SERVICES DISTRICT  
SUMMARY OF REVENUES AND EXPENSES BY FUND  
NINE MONTHS ENDING MARCH 31, 2019

FUND	FUND #	YTD REVENUES	YTD EXPENSES	SUBTOTAL	FUNDED REPLACEMENT	TRANSFERS B/W FUNDS	YTD SUPRPLUS/ (DEFICIT)
Administration	110	339,170	(339,170)	0	0	0	0
Water	125	4,117,528	(3,102,860)	1,014,668	(446,250)	0	568,418
Water Rate Stabilization	128	7,040	0	7,040	0	0	7,040
Town Sewer	130	1,619,980	(995,063)	624,917	(296,250)	0	328,667
Town Sewer Rate Stabilization	135	5,294	0	5,294	0	0	5,294
Blacklake Sewer	150	336,946	(261,671)	75,275	(126,000)	0	(50,725)
Blacklake Sewer Rate Stabilization	155	880	0	880	0	0	880
Blacklake Street Lighting	200	22,065	(21,601)	464	0	0	464
Street Landscape Maintenance	250	9,559	(4,832)	4,727	0	0	4,727
Solid Waste	300	57,483	(9,323)	48,160	0	0	48,160
Drainage Maintenance	400	15,092	0	15,092	0	(46,600)	(31,508)
Supplemental Water Capacity Fees	500	775,645	(387,822)	387,823	0	413,325	801,148
Property Taxes	600	508,301	(108,639)	399,662	0	(366,725)	32,937
Water Capacity Fees	700	154,265	0	154,265	0	0	154,265
Town Sewer Capacity Fees	710	579,164	0	579,164	0	0	579,164
Funded Replacement-Water	805	68,591	0	68,591	446,250	0	514,841
Funded Replacement-Town Sewer	810	73,376	0	73,376	296,250	0	369,626
Funded Replacement-BL Sewer	830	16,144	0	16,144	126,000	0	142,144
NSWP Operations & Maintenance	910	1,354,979	(1,277,221)	77,758	0	0	77,758
NSWP Funded Replacement	915	165,521	0	165,521	0	0	165,521
TOTAL		10,227,023	(6,508,202)	3,718,821	0	0	3,718,821

CASH BALANCE OF EACH FUND

FUND	FUND #	CASH BALANCE 3/31/2019
Administration	110	(178,635)
Water	125	2,230,648
Water Rate Stabilization	128	417,233
Town Sewer	130	363,464
Town Sewer Rate Stabilization	135	313,742
Blacklake Sewer	150	168,659
Blacklake Sewer Rate Stabilization	155	52,154
Blacklake Street Lighting	200	18,392
Street Landscape Maintenance	250	14,946
Solid Waste	300	303,170
Drainage Maintenance	400	51,085
Supplemental Water	500	2,649,293
Property Taxes	600	259,443
Water Capacity Fees	700	1,850,661
Town Sewer Capacity Fees	710	950,170
Funded Replacement-Water	805	4,265,830
Funded Replacement-Town Sewer	810	4,331,405
Funded Replacement-BL Sewer	830	1,012,667
NSWP	910	33,695
TOTAL		19,108,022

NOTE:

BALANCE SHEETS AND STATEMENTS OF REVENUES AND EXPENSES FOR EACH FUND ARE AVAILABLE FOR REVIEW UPON REQUEST

NIPOMO COMMUNITY SERVICES DISTRICT  
SUMMARY OF APPROVED BUDGET AMENDMENTS  
FISCAL YEAR JUNE 30, 2018

FIRST QUARTER ENDING SEPTEMBER 30, 2018

DATE	DESCRIPTION	FUNDS	APPROVED BUDGET	APPROVED AMENDMENT	AMENDED BUDGET
9/12/2018	Engineering services for supplemental water project	500	\$0	\$63,599	\$63,599

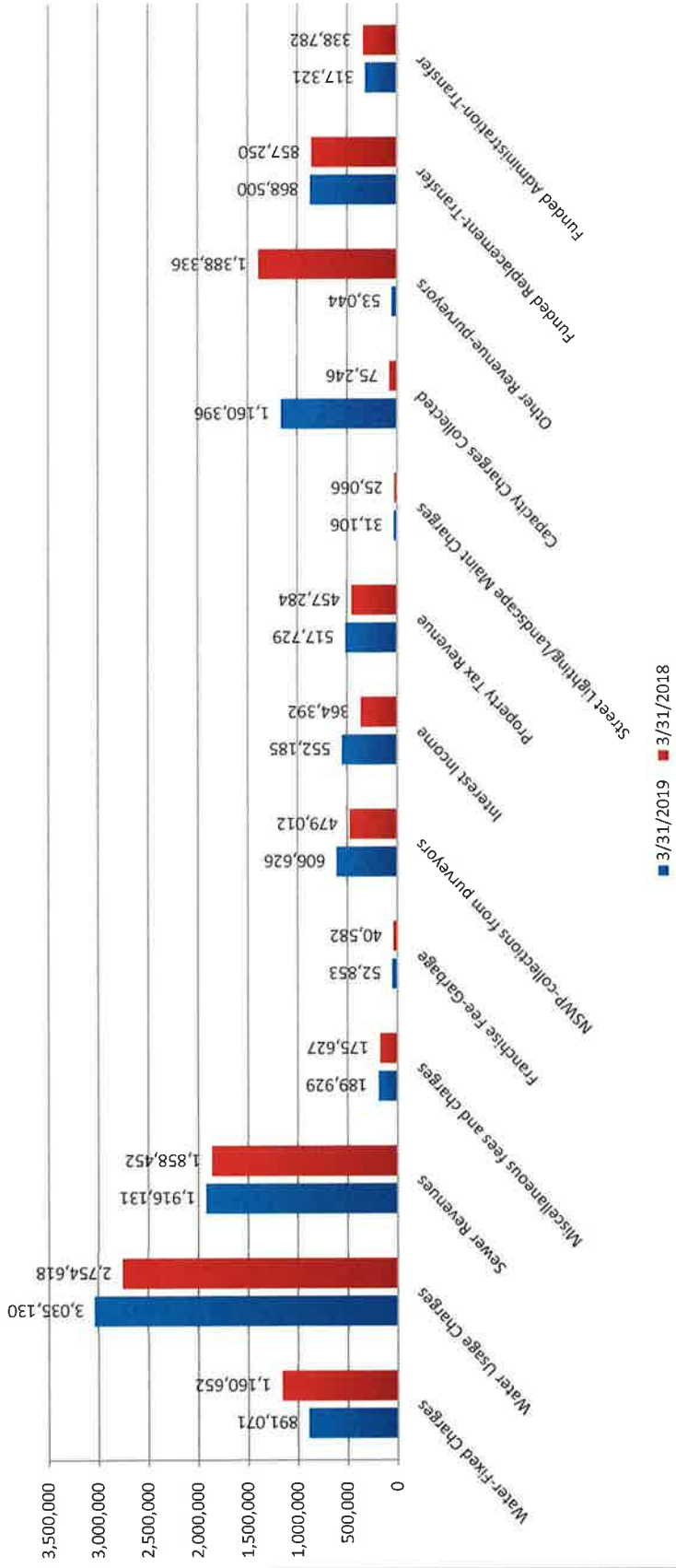
SECOND QUARTER ENDING DECEMBER 31, 2018

DATE	DESCRIPTION	FUNDS	APPROVED BUDGET	APPROVED AMENDMENT	AMENDED BUDGET
10/10/2018	Sludge Drying Bed Cover Project and defer Storage Building project	710	\$150,000	(\$100,000)	\$50,000
		130	\$0	\$100,000	\$100,000
11/28/2018	Sludge Drying Bed Cover Project and defer Storage Building project	710	\$50,000	(\$43,000)	\$7,000
		130	\$100,000	\$43,000	\$143,000

THIRD QUARTER ENDING MARCH 31, 2019

DATE	DESCRIPTION	FUND(S)	APPROVED BUDGET	APPROVED AMENDMENT	AMENDED BUDGET
3/13/2019	Storage Building project	710	50,000	200,000	250,000
3/27/2019	Dewatering of Southland WWTF Biosolids	130	0	\$154,900	\$154,900

**NIPOMO COMMUNITY SERVICES DISTRICT  
TOTAL REVENUES  
FOR NINE MONTHS ENDED MARCH 31, 2019 AND 2018**





**NIPOMO COMMUNITY SERVICES DISTRICT  
TOTAL EXPENDITURES  
FOR THE NINE MONTHS ENDED MARCH 31, 2019 AND 2018**

