

Nipomo CSD

Blacklake Sewer Rate Study



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Why is a rate study needed?

- The Blakelake sewer utility is an enterprise fund that is self-supported by rates
- Last rate study was conducted in 2007 and rates were last adjusted in 2013

Customer Class	Apr 2009	Jan 2010	Jan 2011	Jan 2012	Jan 2013 to Current
Single Family	\$107.12	\$118.90	\$131.98	\$138.58	\$145.51
Multi-Family	\$69.99	\$77.69	\$86.24	\$90.55	\$95.08

- Since 2013, Blacklake has experienced inflationary cost increases



Why is a rate study needed?

- **Master Plan was developed over the past four years and identifies \$3.5 million in projects (for continued operation of the local treatment plant) through FY2023 = main driver of the rate study**
- The treatment plant is 33 years old and has never had major retrofits
- In contrast, the Town treatment plant is the same age and has been rebuilt
- Most sewer treatment equipment has a 25 year service life



Blacklake Operations

- FY2018 End of Year Results: slight positive operating revenues, met operating reserve targets (50% of operating costs)
- Current operating balance is \$243,000 plus \$50,000 in the rate stabilization reserve
- Current rate revenues are \$475,000 annually (plus a few thousand in interest earnings)
- 3% annual inflationary cost increases for most budget categories
 - Increase from \$287,000 in current costs in FY2018 to \$352,000 in FY2023
 - Staffing adjustment +0.7 FTE (full time equivalent) wastewater treatment operator
 - New operator is +\$62,000/yr starting in FY2020 + inflation
- Total operations in FY2023 is projected to be \$420,000 before capital contribution and improvements



Blacklake Operations Continued

- Projected \$30,000/yr in equipment purchases (shared with the Town system)
- Capital Replacement
 - Current balance of \$819,000
 - Target is \$1.2 million
 - Strategic goal is to use the capital reserve to fund projects as needed
 - Increase current set aside of \$168,000/yr by +3% annually
- With the equipment purchase and capital replacement, the total operating costs will increase from \$477,000 (FY2018) to \$638,000 (FY2023)





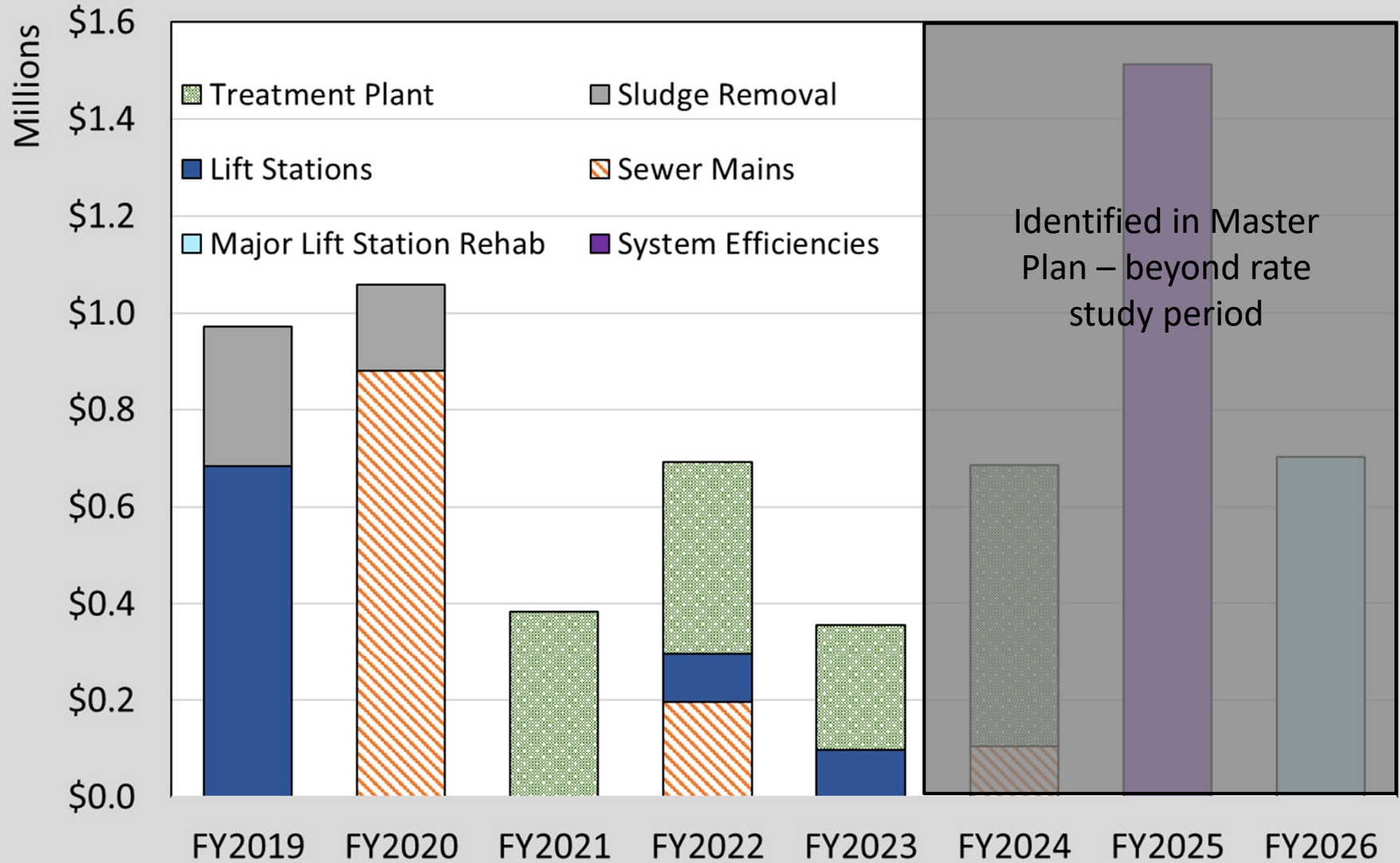
Master Plan Capital Improvements

- Local improvements (excludes projects for regionalization)
- Costs escalated from 2013 (noted in Master Plan) to year of construction
- Rate study is from FY2019 to FY2023 = \$3.5 million

Capital Cost Category	Total Expense Through FY2023
Lift Stations	\$883,700
Sewer Mains	\$1,076,600
Sludge Removal	\$468,600
Treatment Plant	<u>\$1,035,100</u>
Total	\$3,464,000

Blacklake Sewer Capital Improvement Plan

(costs escalated to year of construction)





Why are projects needed?

- Maintain compliance with regulations
- Avoid costly emergency repairs and intensive maintenance spending
- Avoid State take-over of the system (extreme scenario)
- Avoid lift station collapse and bypass pumping
- Avoid main breaks and sewage leaks
- Avoid treatment plant overflows and fines from the State



Sewer overflow



Sewer main
destroyed by roots



Sewage spill



Capital Improvement Funding

- Funding of \$3.5 million in capital projects
 - \$819,000 in existing capital reserves
 - \$168,000 (+3%/yr increase) annual cash contribution (\$890,000 total)
 - New debt of \$1.8 million in FY2020
 - Debt provides ratepayer equity – those taking service from the projects will pay down the debt over time
- For the planning period beyond FY2023:
 - Community should determine continued local operation or regionalization of the treatment plant
 - Conduct an additional engineering analysis for
 - long-term repairs and replacements (beyond next 8 years)
 - Review regulatory concerns, permitting requirements, and unknown wastewater constituents





Financial Planning

- New debt of \$1.8 million for master plan projects
- Estimated debt service cost of \$144,000 annually beginning in FY2021 (rough planning estimate based on 20 years at 5% interest)
- Current total annual revenues: \$479,000
- Current total expenses: \$477,000
- FY2023 Expenses:

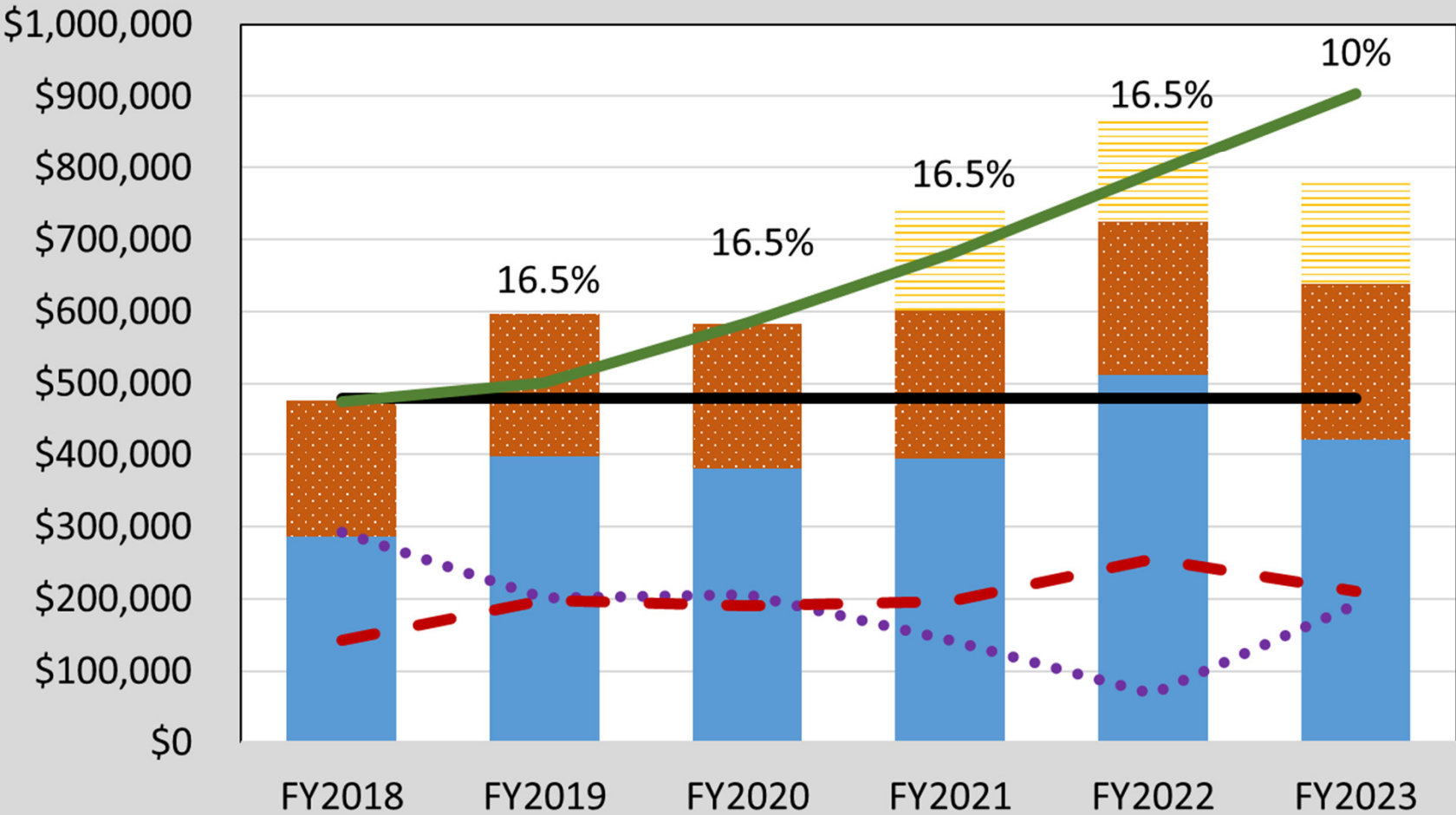
Expense Category	FY2023 Projected Cost
Operations	\$420,000
Equipment Purchase	\$30,000
Capital Replacement	\$188,000
New Debt	<u>\$144,000</u>
Total	\$782,000



Blacklake Cash Flow

		FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
		Year-End	Budget	Projected	Projected	Projected	Projected
Line	Revenues						
1	Rate Revenues	475,000	501,000	584,000	680,000	792,000	904,000
2	Interest Income	<u>4,000</u>	<u>3,000</u>	<u>2,000</u>	<u>2,000</u>	<u>1,000</u>	<u>0</u>
3	Total Revenues	479,000	504,000	586,000	682,000	793,000	904,000
	Operations						
4	General & Admin	33,800	45,000	47,300	49,600	51,900	54,200
5	Legal & Professional Services	8,700	99,000	10,300	10,600	115,000	11,200
6	Operations Staffing	121,000	116,000	119,000	123,000	127,000	131,000
7	Staffing Adjustment	0	0	62,000	64,000	66,000	68,000
8	Other O&M	<u>123,400</u>	<u>137,000</u>	<u>141,700</u>	<u>146,400</u>	<u>151,100</u>	<u>155,800</u>
9	Subtotal	286,900	397,000	380,300	393,600	511,000	420,200
10	Asset Replacement	168,000	168,000	173,000	178,000	183,000	188,000
11	Fixed Asset Purchase	<u>22,000</u>	<u>31,000</u>	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>	<u>30,000</u>
12	Subtotal	190,000	199,000	203,000	208,000	213,000	218,000
13	Debt Service	0	0	0	144,000	144,000	144,000
14	Total Expenses	476,900	596,000	583,300	745,600	868,000	782,200
15	Net Revenues	2,100	(92,000)	2,700	(63,600)	(75,000)	121,800

Blacklake Cash Flow



- O&M
- Replacement & Purchase
- ▨ Debt Service
- Revenues w/o Increase
- Revenues w/Increase
- Ops Reserves
- - - Target Reserves



Capital Cash Flow

		FY2019	FY2020	FY2021	FY2022	FY2023
		Budget	Projected	Projected	Projected	Projected
Line						
1	Beginning Fund Balance	819,000	25,000	938,600	732,000	223,900
	REVENUES					
2	Interest Income	11,000	0	0	0	0
3	Transfer from Operations	168,000	173,000	178,000	183,000	188,000
4	Debt Proceeds	<u>0</u>	<u>1,800,000</u>	<u>0</u>	<u>0</u>	<u>0</u>
5	Total Revenues	179,000	1,973,000	178,000	183,000	188,000
	PROJECTS					
6	Lift Stations	683,400	0	0	102,500	97,800
7	Sewer Mains	0	880,400	0	196,200	0
8	Sludge Removal	289,600	179,000	0	0	0
9	Treatment Plant	<u>0</u>	<u>0</u>	<u>384,600</u>	<u>392,400</u>	<u>258,100</u>
10	Total Expenses	973,000	1,059,400	384,600	691,100	355,900
11	Net Revenues	(794,000)	913,600	(206,600)	(508,100)	(167,900)
12	Ending Balance	25,000	938,600	732,000	223,900	56,000



Rate Setting Background

- Sewer rates are subject to Proposition 218
 - Rates must be based on the reasonable cost of service
 - Rates must proportionally recover costs based on how customers take service
 - Covers rates over a 5-year period
 - Procedural requirements: conduct a rate study, mail a notice to property owners, hold a hearing a minimum of 45 days later, protest vote



Current Bi-monthly Rates

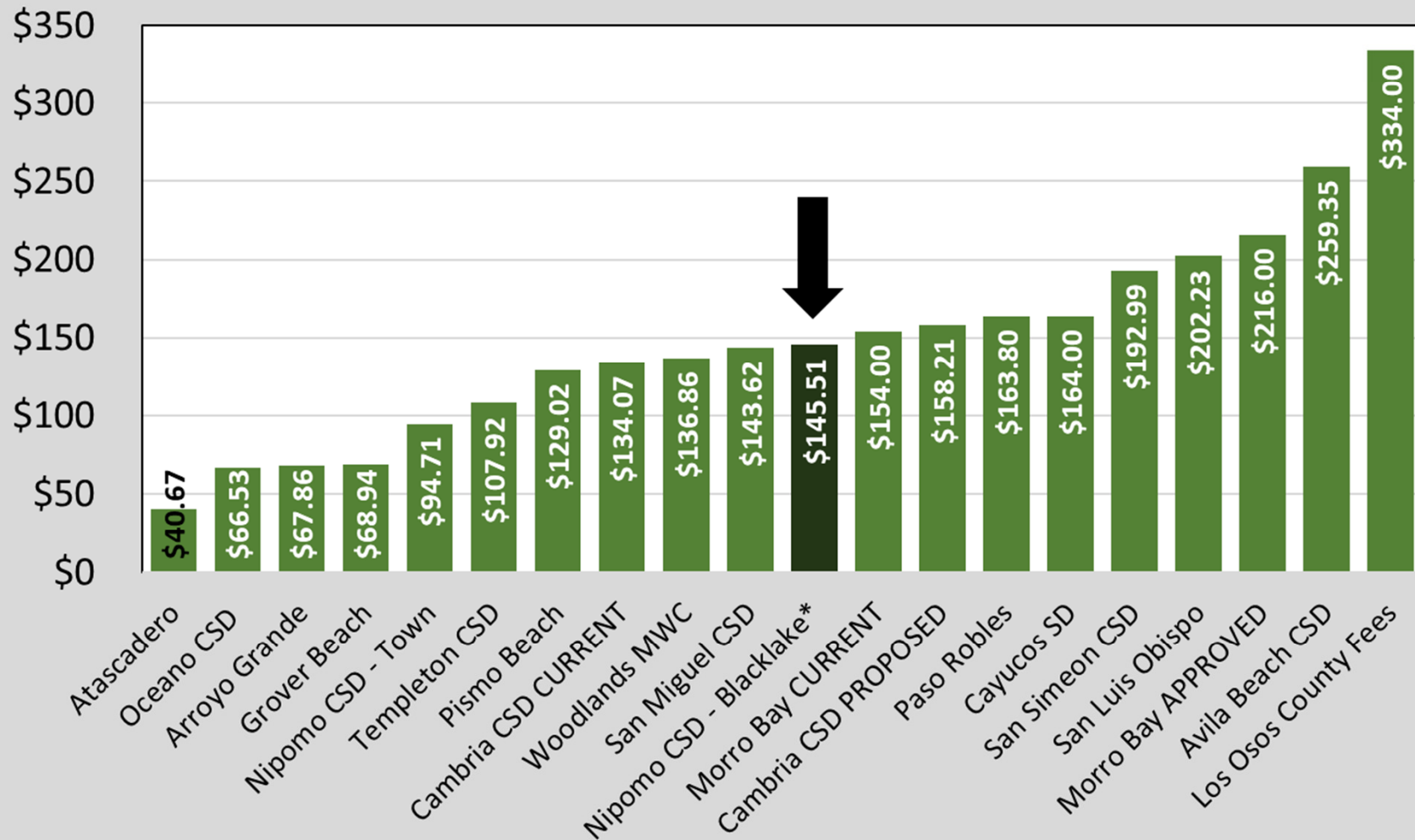
Customer Class	Current Charge	
Bi-Monthly Residential Service Charges		
Single Family	\$145.51	487 customers
Multi-Family	\$95.08	68 customers
Non-Residential Service Charges		
Fixed Meter Charges		
Up to 1"	\$65.52	3 meters
1.5"	\$186.50	
2"	\$295.38	1 meter
3"	\$549.43	
4"	\$912.36	
6"	\$1,819.68	
8"	\$2,908.48	

Non-Residential Usage Rates (\$/HCF)	
Low Strength	\$3.56
Medium Strength	\$4.80
High Strength	\$7.59

HCF = hundred cubic feet, 748 gallons

Bi-Monthly Wastewater Bills

Residential Customer with 21 HCF Bi-monthly Winter Water Use



* Does not include loan surcharge which will be eliminated April 1, 2019



Rate Study Goals

- Update the cost of service – last rate change was in 2013
- Collect sufficient funds to cover:
 - Operations
 - Capital replacement
 - Accumulation of reserves for emergencies
 - Funding of capital improvements from the Master Plan
- Meet Proposition 218 legal requirements
- New rates effective April 2019





Rate Design

	FY2019	FY2020	FY2021	FY2022	FY2023
Revenue increase	16.5%	16.5%	16.5%	16.5%	10.0%

- Revised cost allocation. FY2019 budgeted costs allocated to:
 - Customer service
 - Capacity
 - Flow
 - Wastewater pollutant strength (BOD, TSS)
- Reviewed flow and strength characteristics
 - Single family residential flow is 21 HCF/bi-monthly period (current rate design assumes 22 HCF)
 - Multi-family residential flow is 5.2 HCF/bi-monthly period (current rate design assumes 4 HCF)
 - Residential strength assumptions to remain the same
 - Commercial strength assumptions to remain the same

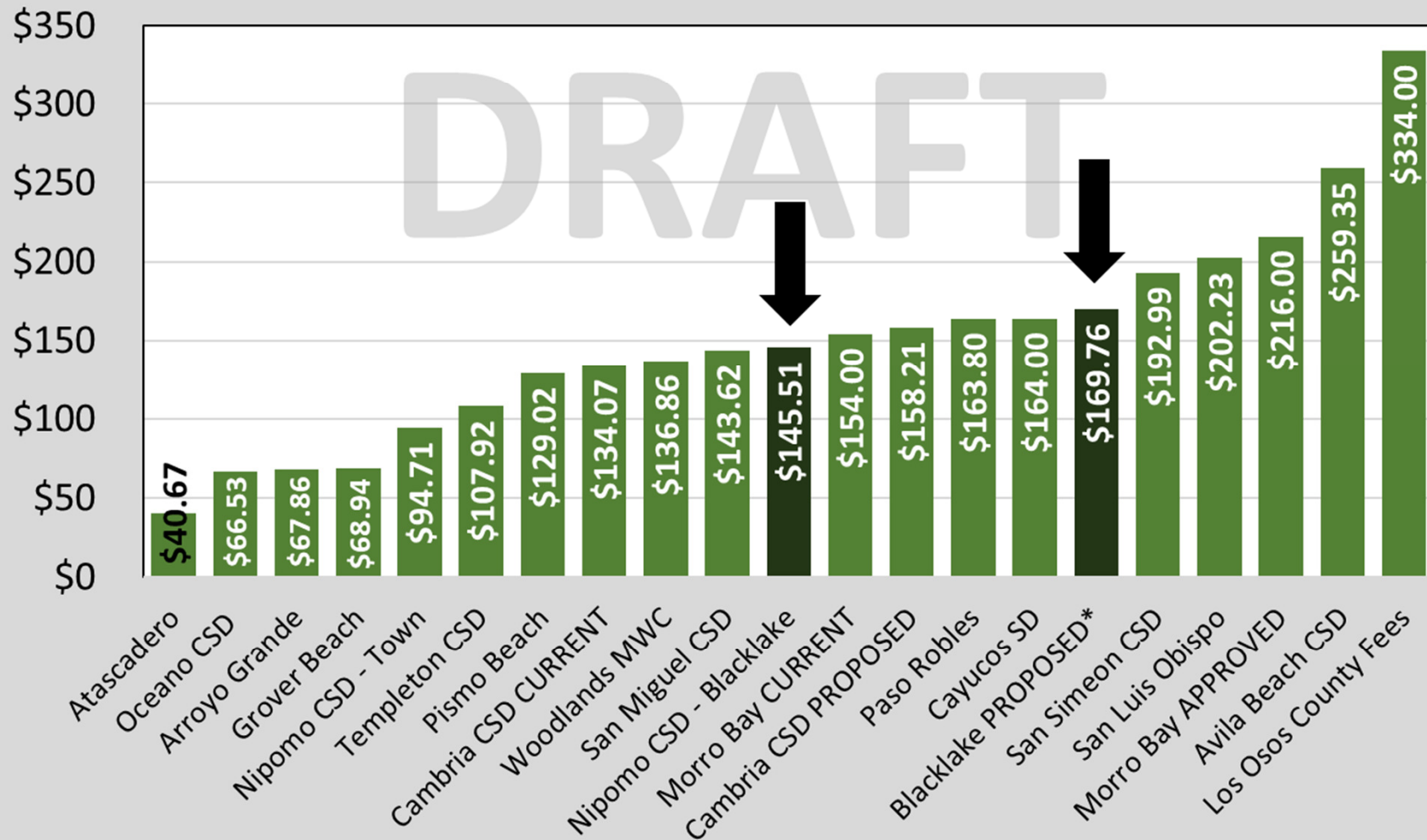


Proposed Rates

Customer Class	Current	Apr-19	Apr-20	Apr-21	Apr-22	Apr-23
Bi-Monthly Residential Service Charges						
Single Family	\$145.51	\$169.76	\$197.77	\$230.40	\$268.42	\$295.26
		16.7%	16.5%	16.5%	16.5%	10.0%
Multi-Family	\$95.08	\$109.08	\$127.07	\$148.04	\$172.47	\$189.72
		14.7%	16.5%	16.5%	16.5%	10.0%
Non-Residential Service Charges						
Fixed Meter Charges		34.8%	16.5%	16.5%	16.5%	10.0%
Up to 1"	\$65.52	\$88.35	\$102.93	\$119.91	\$139.70	\$153.67
1.5"	\$186.50	\$233.45	\$271.97	\$316.85	\$369.13	\$406.04
2"	\$295.38	\$364.04	\$424.11	\$494.09	\$575.61	\$633.17
3"	\$549.43	\$668.75	\$779.09	\$907.64	\$1,057.40	\$1,163.14
4"	\$912.36	\$1,104.05	\$1,286.22	\$1,498.45	\$1,745.69	\$1,920.26
6"	\$1,819.68	\$2,192.30	\$2,554.03	\$2,975.44	\$3,466.39	\$3,813.03
8"	\$2,908.48	\$3,498.20	\$4,075.40	\$4,747.84	\$5,531.23	\$6,084.35
Non-Residential Usage Rates (\$/HCF)						
Low Strength	\$3.56	\$3.97	\$4.63	\$5.39	\$6.28	\$6.91

Bi-Monthly Wastewater Bills

Residential Customer with 21 HCF Bi-monthly Winter Water Use



* Does not include loan surcharge which will be eliminated April 1, 2019



Procedural Overview

- Finalize rate recommendations and report
- Mail Proposition 218 notices to customers explaining proposed rates and protest procedures
 - Protests must be in writing and received by the end of the public hearing
 - If more than 50% of property owners protest, rates cannot be implemented
 - Mail notices in November (more than 45 days in advance of the public hearing)
- Hold a public hearing in January
- If approved, rates will go into effect April 2019
- Each year, Board will review the budget and rates (if approved). Board has the option to adopt lower rates without additional hearings.



Proposed Schedule

Date	Event
October 10, 2018	Board Meeting – Rate Presentation
October 24, 2018	Board Meeting – Rate Study Report
October 24, 2018	Presentation to Blacklake Residents 3:00PM Blacklake Golf Course Clubhouse
November 14, 2018	Board Meeting – Receive Final Report and initiate Proposition 218 proceedings
November 29, 2018	Date for mailing Proposition 218 notices
January 14, 2019	45 day notice period
January 23, 2019	Board Meeting – Proposition 218 Hearing
February 13, 2019	30-day waiting period
April 1, 2019	If approved, new rates effective



Questions?

