

TO: FINANCE AND AUDIT COMMITTEE

FROM: RAY DIENZO R.D.
GENERAL MANAGER

DATE: JANUARY 27, 2025



REVIEW PRESENTATION FROM RATE CONSULTANT ON WASTEWATER COST OF SERVICE AND RATES

ITEM

Review Tuckfield and Associates ("Consultant") wastewater rate presentation and direct staff to prepare report for February 12, 2025 Board Meeting [RECOMMEND REVIEW, DISCUSS, AND DIRECT STAFF]

DISCUSSION

At your July 10, 2024 Board Meeting, your Board directed staff to draft a town sewer rate study with the aid of our Consultant that would apply for the town sewer District rate payers for the July 2025 rate adjustment. Additionally, the Consultant was to build a rate structure that would address the financial needs of the Wastewater Enterprise as it moved through Fiscal Year 2028-29.

The presentation is attached. [Attachment A]

FISCAL IMPACT

The cost of hiring the Consultant to define the impact, as well as staff time to work with the consultant and draft the staff report is included in this year's budget.

STRATEGIC PLAN

Strategic Plan Goal 6. – Governance and Administration. Periodically review, update and reaffirm District policies and procedures.

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 the Committee receive the Consultant's presentation and analysis; review information provided in this staff report, take public comment, discuss and provide direction to staff.

ATTACHMENTS

- A. Wastewater Rate Study Presentation

JANUARY 29, 2025

ITEM 2

ATTACHMENT A



NIPOMO
Community Services District

Wastewater Rate Study Presentation

Presented By:
Mr. Clayton Tuckfield PE
Tuckfield & Associates

JANUARY 29, 2025

Rate Study Objectives

- Goal is to establish rates that follow industry practice and legal framework while providing sufficient revenues.
- Develop a 10-year financial plan that ...
 - Funds O&M expense, capital improvements and debt service payments as well as increase reserves to adequate levels
- Create a schedule of wastewater rates that ...
 - Is fair and equitable to rate payers
 - Provides stable revenue
 - Complies with Proposition 218

Major Assumptions

- Blacklake connects to Town Sewer System July 1, 2025.
 - Assumes any Blacklake reserves are spent on Blacklake and does not carry over to Town Sewer fund. Originally thought to connect July 1, 2020.
- Dana Reserve project expected to begin connecting July 1, 2027.
 - Originally thought to connect July 1, 2024.
- District obtains a loan for certain CIP projects.
 - \$2.9M funding requested July 1, 2025 - this loan will assist to keep rates lower in the first few years than without the loan.
- Inflation in expenses and capital escalate as planned or better.

Assumptions (cont.)

- Use Capital Improvement Program Developed by NCSD
- Provide CIP Financing
 - \$2.9M first year financing of general CIP projects
 - Terms: 20-year debt service payment schedule provided by NCSD's Municipal Advisor

Inflation Assumptions

- Operation and Maintenance Expense and Capital
 - Wages and Salaries – 5% annually
 - Benefits – 5% annually
 - Electricity – 8% annually
 - Chemicals – 3% annually
 - All Other O&M Exp – 2% annually
 - Capital – 3% annually
- Town customer growth – 0.5% annually
- Interest earnings rate – 4% annually

Current Reserves

Reserves as of June 30, 2024. Used for financial planning purposes.

Reserve Type	Reserve Balance	Reserve Target
Operating Reserve	\$540,000	\$1,110,000
Capital Replacement Reserve	\$1,400,000	\$1,095,000
Rate Stabilization	\$340,000	\$340,000
Total	\$2,280,000	\$2,545,000

Target Reserves defined in Resolution No. 2018-1489.

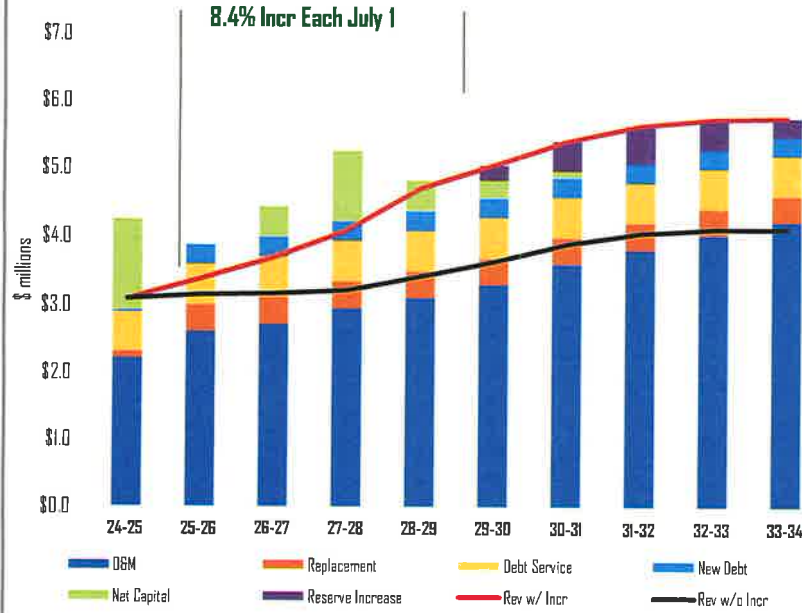
Capital Improvements

Line No.	Description	Budget									
		Fiscal Year									
		FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34
Current Capital Improvement Projects (CIP) [1]											
Replacement Projects (Fund #810)											
1	Teft Street Nipomo Creek Utility Crossings	\$25,000	\$257,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2	SCADA System Improvements	50,000	51,500	-	-	-	-	-	-	-	-
3	Southland Sewer Collection System Pipeline Replacement	4,000,000	-	-	-	-	-	-	-	-	-
4	Southland WWTF Influent Pump Station Bypass	-	-	265,200	-	-	-	-	-	-	-
5	Maria Vista Lift Station Generator Replacement	150,000	-	-	-	-	-	-	-	-	-
6	Manhole Rehabilitation	150,000	154,500	159,100	163,900	168,800	173,900	179,100	184,500	190,000	195,700
7	Lift Station Replacement Pumps	40,000	41,200	42,400	43,700	45,000	46,400	47,800	49,200	50,700	52,200
8	Lift Station Rehabilitation - Tejas	-	-	265,200	1,219,500	-	-	-	-	-	-
9	Lift Station Rehabilitation - The Oaks - Carryover	-	105,600	-	-	-	-	-	-	-	-
10	Lift Station Rehabilitation - The Misty Glen - Carryover	-	-	103,800	-	-	-	-	-	-	-
11	Golf Course Trunk Main Replacement - Carryover	-	-	-	-	630,300	-	-	-	-	-
12	Touney Hill Sewer Main Replacement - Carryover	-	-	-	-	-	369,800	-	-	-	-
13	Oakmont Sewer Main Replacement - Carryover	-	-	-	-	-	-	234,300	-	-	-
14	Augusta Sewer Main Replacement - Carryover	-	-	-	-	-	71,200	-	-	-	-
15	Repair Off-set Joints - Carryover	-	-	-	-	-	-	36,000	-	-	-
16	Total Capital Improvement Projects	\$4,415,000	\$610,300	\$835,700	\$1,427,100	\$844,100	\$661,300	\$497,200	\$233,700	\$240,700	\$247,900

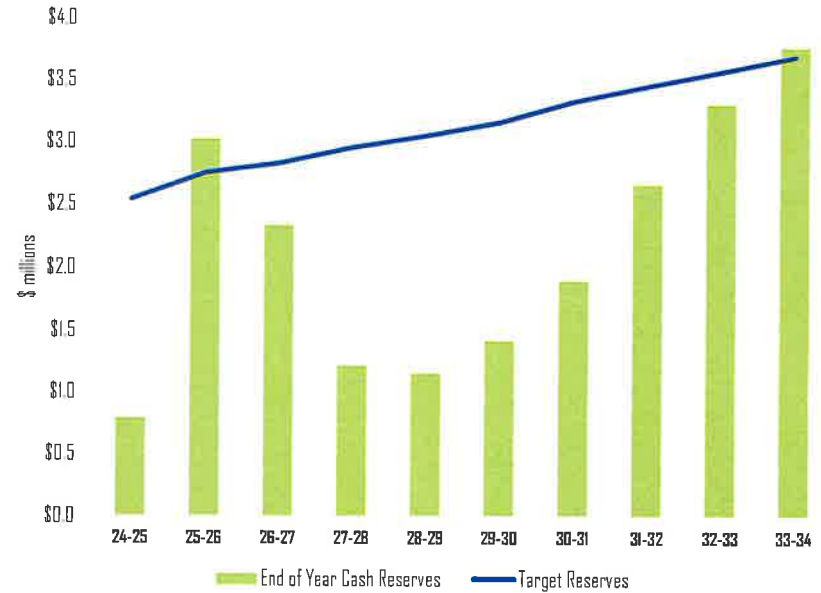
[1] CIP Source: FY 2024-25 Budget provided by the District and District staff.

Financial Plan - 8.4% Increases for 4 years

Financial Plan



Reserves vs. Target Reserves





What is Cost of Service?

- A method to assign annual costs of the wastewater system to customer classifications based on how those customer groups use the wastewater system.
- Study uses methodology from Water Environment Federation (WEF).

Annual Cost of Service

FY 2025-26

The Cost of Service is the amount of total revenue that needs to be generated from rates.

Description	Annual Cost
Revenue Requirements	
Operation and Maintenance Expense	\$2,526,371
Capital Outlay	99,100
2022 Revenue COPs Debt Service	585,700
New Bond Debt Service	245,000
Capital Improvements	610,300
Subtotal	<u>\$4,066,471</u>
Less Revenue Requirements Met From Other Sources	
Interest Earnings	(\$41,723)
Miscellaneous Revenues	(11,000)
Debt Proceeds	(2,900,000)
Subtotal	<u>(\$2,952,723)</u>
Adjustments	
Adjustments for Annual Cash Balance	\$2,219,771
Adjustments to Annualize Rate Increase	21,698
Subtotal	<u>\$2,241,469</u>
Total Costs to be Recovered	\$3,355,217

Cost of Service Analysis

- Allocate total annual cost of providing wastewater service to wastewater parameter
 - Parameters are flow, BOD, SS, Capacity, Customer, and Collection
- Allocate the costs by parameter to each customer classification based on their use of the wastewater system, or their contribution to each of the parameters (units of service)

Cost of Service Allocation

Description	Allocated	Flow	Strength		Capacity	Customer	Collection
	Total Cost		BOD	SS			
Total Costs of Service	\$3,355,217	\$288,677	\$280,188	\$280,188	\$1,641,864	\$48,900	\$815,400

- Cost of service has been assigned to each parameter based on the functional operation and design of the wastewater facilities
- Each customer class is responsible for a portion of each parameter's cost, based on how they use the system.

COS vs Current Revenue

FY 2025-26

Cost of service by customer class is compared with projected revenue.

Last column shows how well the projected revenue recovers the COS of each class.

Customer Class	COS Allocation	Projected Revenue	Indicated Revenue Increase	Percent Revenue Increase
Residential				
Single Family	\$2,548,029	\$2,357,107	\$190,922	8.1%
Multi-family	\$524,129	\$489,444	\$34,685	7.1%
Non-Residential				
Commercial - Low Strength	\$86,553	\$81,828	\$4,725	5.8%
Commercial - Medium Strength	\$32,187	\$28,576	\$3,611	12.6%
Commercial - High Strength	\$81,983	\$64,752	\$17,231	26.6%
Mixed Use				
Mixed Use - 0% High Strength	\$27,420	\$25,937	\$1,483	5.7%
Mixed Use - 10% High Strength	\$7,209	\$6,664	\$545	8.2%
Mixed Use - 20% High Strength	\$10,915	\$9,843	\$1,072	10.9%
Mixed Use - 30% High Strength	\$4,077	\$3,640	\$437	12.0%
Mixed Use - 40% High Strength	\$5,116	\$4,463	\$653	14.6%
Mixed Use - 50% High Strength	\$27,598	\$22,965	\$4,633	20.2%
Total System	\$3,355,217	\$3,095,219	\$259,998	8.4%

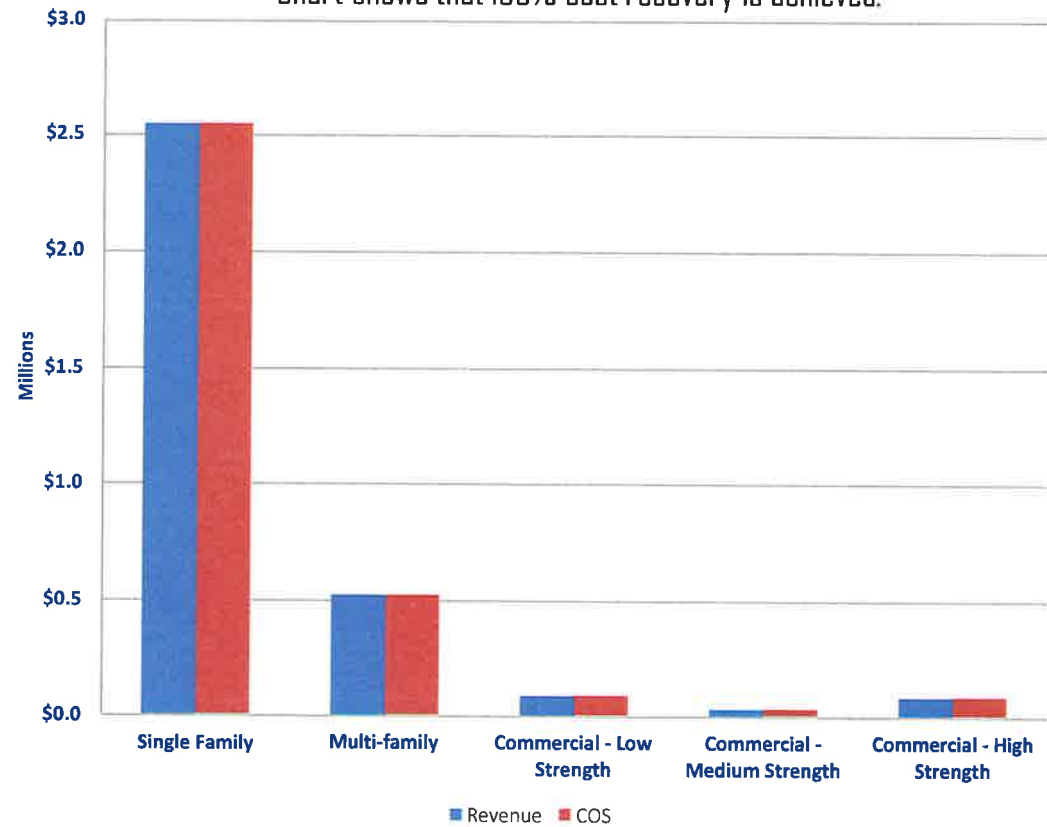
Proposed Rates

Description	Current	Date of Increase							
		July 1, 2025	% Incr	July 1, 2026	% Incr	July 1, 2027	July 1, 2028	July 1, 2029	
Residential Bi-monthly Fixed Charges									
Single Family	\$58.46	\$63.20	8.1%	\$68.50	8.4%	\$74.26	\$80.50	\$80.50	
Multi-family	\$48.73	\$52.18	7.1%	\$56.57	8.4%	\$61.32	\$66.47	\$66.47	
Non-Residential Bi-monthly Meter Charges by Size									
Up to 1 inch	\$30.69	\$32.14	4.7%	\$34.84	8.4%	\$37.77	\$40.94	\$40.94	
1.5 inch	\$88.37	\$94.52	7.0%	\$102.46	8.4%	\$111.07	\$120.40	\$120.40	
2 inch	\$140.29	\$150.67	7.4%	\$163.32	8.4%	\$177.04	\$191.91	\$191.91	
3 inch	\$261.43	\$281.67	7.7%	\$305.33	8.4%	\$330.98	\$358.78	\$358.78	
4 inch	\$434.48	\$468.81	7.9%	\$508.20	8.4%	\$550.88	\$597.16	\$597.16	
6 inch	\$867.11	\$936.68	8.0%	\$1,015.36	8.4%	\$1,100.65	\$1,193.10	\$1,193.10	
8 inch	\$1,386.28	\$1,498.11	8.1%	\$1,623.96	8.4%	\$1,760.37	\$1,908.24	\$1,908.24	
Non-Residential Usage Rates (\$ per HCF)									
Low Strength	\$4.33	\$4.56	5.4%	\$4.95	8.4%	\$5.36	\$5.81	\$5.81	
Medium Strength	\$4.77	\$5.45	14.3%	\$5.91	8.4%	\$6.41	\$6.95	\$6.95	
High Strength	\$6.12	\$8.09	32.2%	\$8.77	8.4%	\$9.50	\$10.30	\$10.30	
Mixed Use Usage Rates (\$ per HCF)									
Standard Comm with 10% High Strength	\$4.51	\$4.92	9.1%	\$5.33	8.4%	\$5.78	\$6.27	\$6.27	
Standard Comm with 20% High Strength	\$4.69	\$5.27	12.4%	\$5.71	8.4%	\$6.19	\$6.71	\$6.71	
Standard Comm with 30% High Strength	\$4.86	\$5.62	15.6%	\$6.09	8.4%	\$6.60	\$7.16	\$7.16	
Standard Comm with 40% High Strength	\$5.04	\$5.97	18.5%	\$6.47	8.4%	\$7.02	\$7.60	\$7.60	
Standard Comm with 50% High Strength	\$5.22	\$6.33	21.3%	\$6.86	8.4%	\$7.44	\$8.06	\$8.06	
Standard Comm with 60% High Strength	\$5.40	\$6.68	23.7%	\$7.24	8.4%	\$7.85	\$8.51	\$8.51	
Standard Comm with 70% High Strength	\$5.58	\$7.03	26.0%	\$7.62	8.4%	\$8.26	\$8.95	\$8.95	
Standard Comm with 80% High Strength	\$5.76	\$7.39	28.3%	\$8.01	8.4%	\$8.68	\$9.41	\$9.41	
Standard Comm with 90% High Strength	\$5.94	\$7.74	30.3%	\$8.39	8.4%	\$9.09	\$9.86	\$9.86	

COS vs. Revenue from Proposed Rates

FY 2025-26

Chart shows that 100% cost recovery is achieved.



Rate Comparison – January 2025



All charges are fixed except Cambria, Paso Robles (PR), San Luis Obispo (SLO), and Arroyo Grande (AG).

Cambria and AG use NCSO average of 18 HCF/mo. PR uses 6 HCF/mo and SLO uses 8 HCF/mo for average winter period use.

Next Steps

Event	Suggested Date
Introduce Study to Board	February 12
Approve Rate Study and prepare Prop 218 Notices	February 26
Last Day to Mail Prop 218 Notices	March 24
Hold Public Hearing - Approve Rates	May 14
Implement Rates	July 1

Questions?

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Tuckfield & Associates

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January 29, 2025