



# San Miguel Community Services District

## Rate Study Workshop

October 27, 2022



# Presentation Overview



**Bartle Wells Associates**



**Study Objectives**



**Rate Study Process**



**Existing Rates and Rate Survey**



**Proposition 218**



**Schedule**



# BARTLE WELLS ASSOCIATES

INDEPENDENT PUBLIC FINANCE ADVISORS

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Independent public finance advisory firm founded 1964

## Areas of Expertise:

- Cost-of-service rate studies
- Strategic financial planning
- Municipal advisor for debt
- Litigation support and expert witness
- Served over 500 public agencies in CA
- Charter Member of the National Association of Municipal Advisors

### BWA Key Services

- *Rate & Fee Studies*
- *Financial Plans*
- *Project Financing*

# District Financial Overview



- SMCSD utilities are financially self-supporting enterprises
- Rates are the main source of revenues
- Rates for each utility need to be set at levels adequate to fund the cost of providing service
- In 2018 the District was months away from insolvency. The Board took the difficult step to “right the ship” and implement significant rate increases to keep the District solvent and to be able to fund critical system repairs and improvements
- The 2018 rate increases allowed the District to:
  - Be eligible for grants (received \$1m since 2018)
  - Be eligible for low cost financing (SRF, USDA)
  - Build an emergency reserve
- SMCSD is in better financial health but is facing financial challenges that will require modest rate increases

# Capital Projects Since 2018 (\$1m in grants)

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## WATER

**2018** - SLT Blending Line, \$174,000 grant funded

**2021** – Four backup generators installed on District wells, \$230,000 grant funded

**2021** - 10<sup>th</sup> & 11<sup>th</sup> Street water Replacement lines, \$380,000 grant funded, \$100,000 District funded

**2021** - 12th Street emergency main line repair, \$50,000 District funded

**2022** - Temporary office for admin and utility staff at WWTF, \$91,000 District Funded

## WASTEWATER

**2020** - Awarded contract for initial design and contract for environmental review of the WWTF expansion, \$177,750 Grant funded

**2021** – Awarded contract for \$6,894,512.30 to design, fabricate and install a Pre-Engineered Package Membrane Bioreactor Municipal Wastewater Treatment System as part of the Machado Wastewater Treatment Facility Upgrade & Expansion Project District is funding the \$215,000 design portion.

**2021** – Prepurchase Headworks screening & grit removal equipment, \$250,251 District Funded

**2022** – Contract to complete the design and engineering for the WWTF expansion, \$798,000 District Funded

# Approved and Expected Grants \$1.9m

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## WATER

**Expected** \$300,000 - Grant for replacement of alley water main

**Expected** \$150,000 - Grant funding for planning and design for new tank and booster pump station.

## WASTEWATER

**Approved** \$1 million - Grant to design and install a recycled water distribution line from the WWTF to neighboring vineyard for disposal

**Expected** \$396,000 - Grant for inspection and plans for all sewer mains and manholes. Lining, manhole rehabilitation project to cost an estimated \$5 million

**Approved** \$100,000 - Smoke testing grant funding

# Rate Study Objectives



**Financial Sufficiency**



**Legal Compliance (Prop. 218)**



**Rates Aligned with District Objectives**



**Customer Focus**

# Rate Study Process







# Kick-Off

- Financial policy review
- Rate structure review
- Data collection



# Demand Analysis

- Analyze and project
  - Customer growth
  - Customer demand
- Review treatment / production data



# Ten-Year Financial Plan



Developed 10-year financial projections to identify rate revenue necessary to:

- Fund operating & maintenance expenses
- Fund capital improvement needs
- Maintain adequate fund reserves
- Meet debt service coverage requirements
- Support different rate increase options

Financial plans serve as roadmaps for funding operating and capital programs and maintaining long-term financial health.

# Gradual Rate Increases



- Gradual annual rate increases are key
- Keep revenues aligned with costs of service
- Minimize annual impact on ratepayers
- Avoid need for infrequent rate spikes

## Deferred Rate Increase, \$1.00 Example

<b>Gradual Rate Increases</b>	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	<b>Total Revenue</b>
Rate Increase	n/a	5.0%	5.0%	5.0%	5.0%	5.0%	
Rates	\$1.00	<b>\$1.05</b>	<b>\$1.10</b>	<b>\$1.16</b>	<b>\$1.22</b>	<b>\$1.28</b>	<b>\$5.81</b>

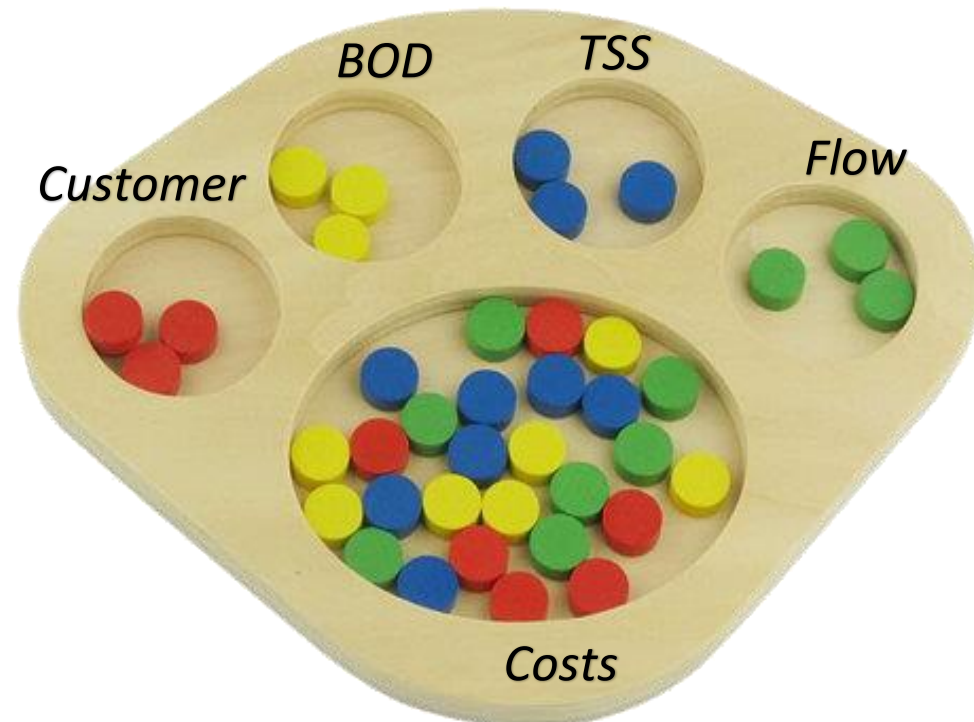
<b>Delayed Rate Increase</b>	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	<b>Total Revenue</b>
Rate Increase	n/a	0.0%	0.0%	0.0%	0.0%	28.0%	
Rates	\$1.00	<b>\$1.00</b>	<b>\$1.00</b>	<b>\$1.00</b>	<b>\$1.00</b>	<b>\$1.28</b>	<b>\$5.28</b>

# Equitable Cost Allocation



- Goal: Rates reflect cost of service and are equitable and fair to all customers
- Costs are allocated between functional categories
- Costs are allocated to customer classes

## Sewer Functional Allocation Example



# Existing Water Rates

<b>Water Monthly Fixed Rates</b>		
<b>All Customers</b>		<b>FY 22-23</b>
<i>Meter Size</i>		
5/8"		\$53.09
¾"		\$53.09
1"		\$53.09
1 ½"		\$88.34
2"		\$130.64
6"		\$722.87
<b>Volumetric Rates</b>		<b>FY 22-23</b>
<b>Single-Family Residential</b>		
<i>Tier Structure</i>		
Tier 1 (0-5 CCF)		\$0.00
Tier 2 (6-12 CCF)		\$4.77
Tier 3 (>12 CCF)		\$7.97
<b>Non-Residential</b>		
<i>Tier Structure</i>		
Tier 1 (0-5 CCF)		\$0.00
Tier 2 (>6 CCF)		\$5.55

# Existing Sewer Rates

<b>Wastewater Monthly Rates</b>	<b>FY 22-23</b>
<b><i>Single-Family Residential</i></b>	
Fixed	\$108.36
<b><i>Multi-Family Residential</i></b>	
Fixed (per unit)	\$67.72
<b><i>Commercial</i></b>	
Fixed Charge	\$81.55
<b><i>Volumetric (Per CCF of Water Billed)</i></b>	
Low Strength	\$6.44
Medium Strength	\$7.30
High Strength	\$10.72
<b><i>Lift Station Charges</i></b>	
River Zone Charge	\$26.30



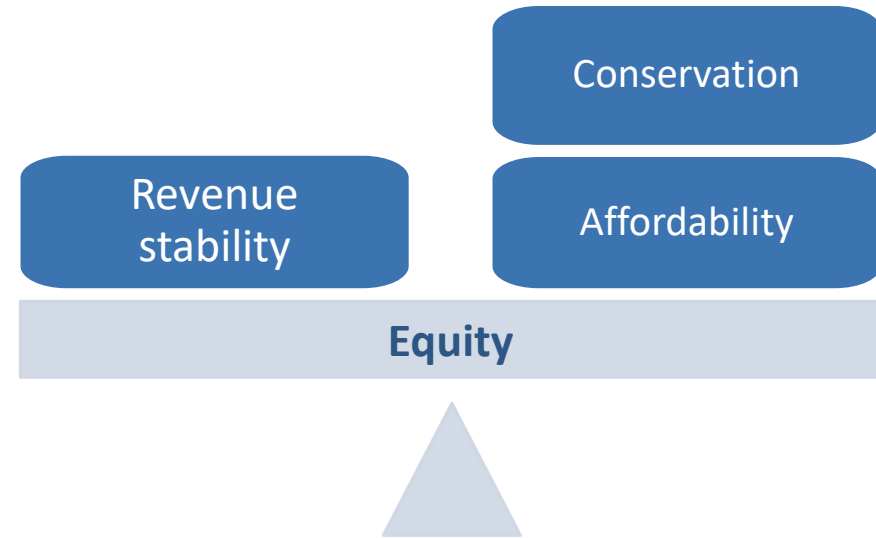
# Rate Design Considerations

## Rate Requirements

- Financial sufficiency
- Proportionate cost recovery & legal compliance

## Rate Policy Considerations

- Revenue stability
- Ease of administration
- Impact of rate changes to customers
- Fairness
- Conservation incentives
- Affordability



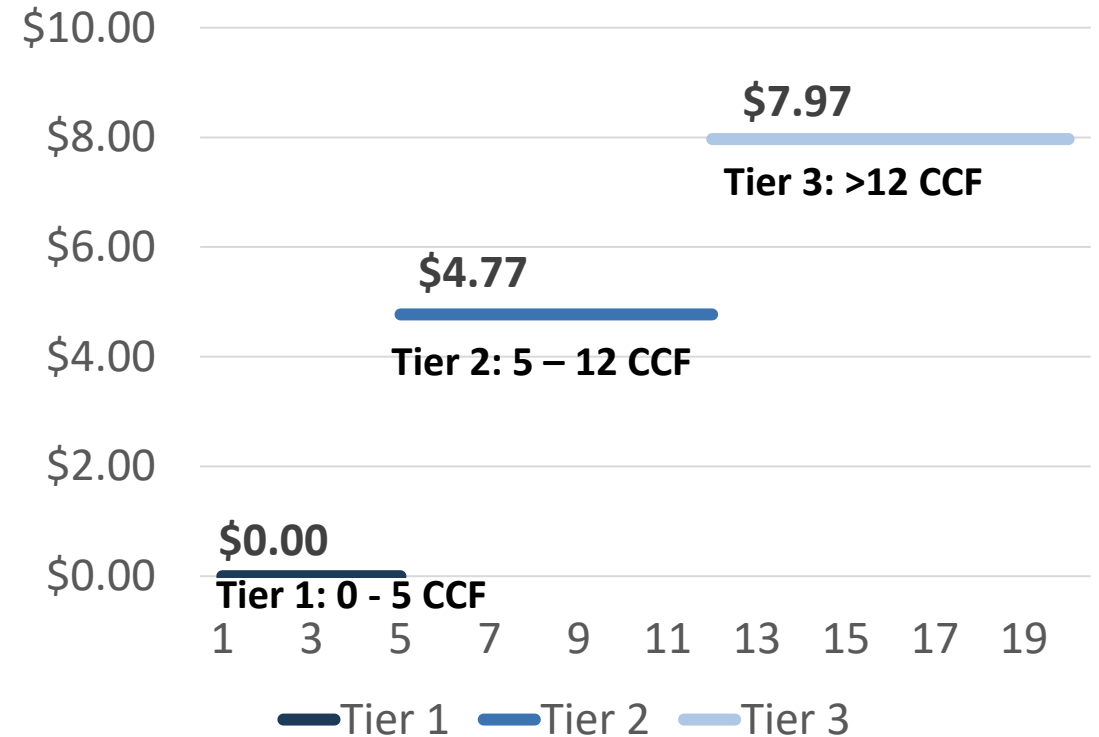
***Develop rates which strike the right balance for SMCS D***



# Inclining Block Rates – Residential

All water sold at increasingly higher price per unit

Provides conservation incentive- the more you use the more you pay

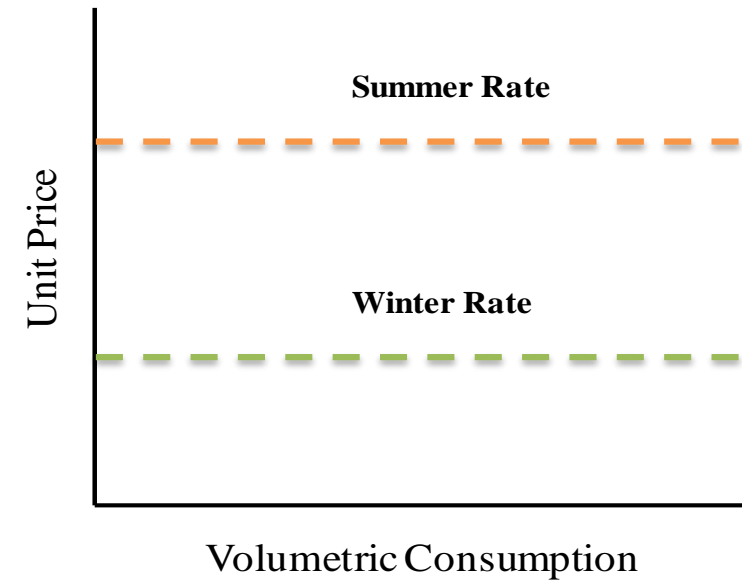




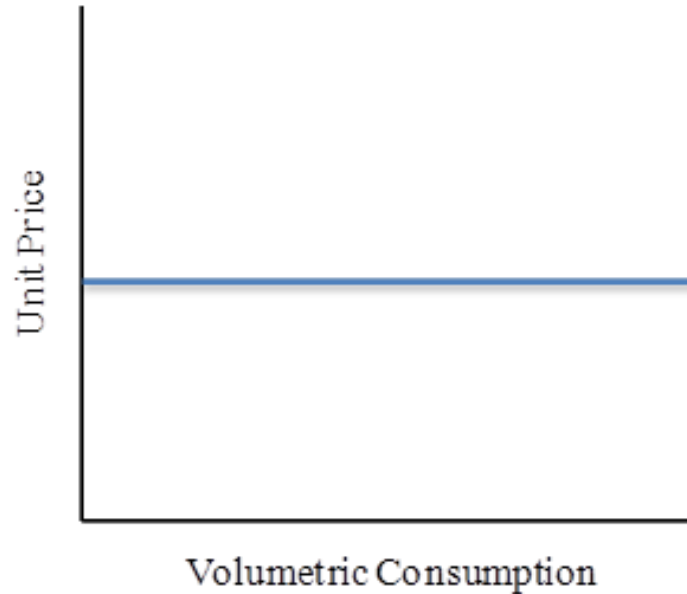


# Other Rate Designs - Water

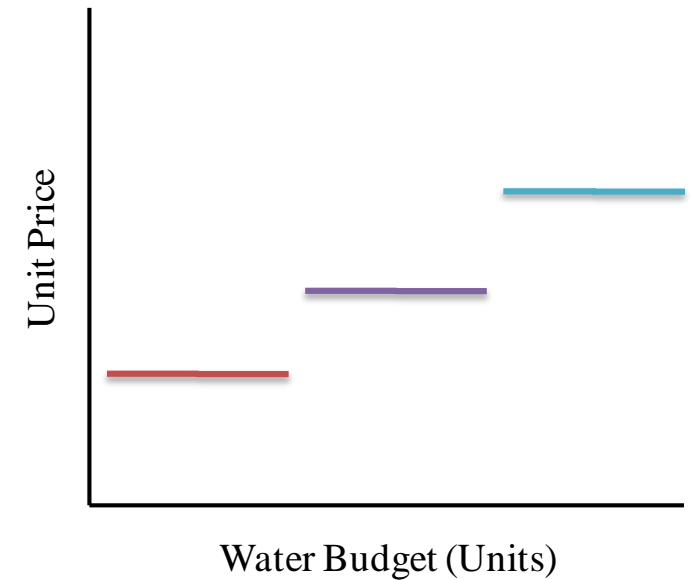
### Seasonal Rates



### Uniform Rates



### Water Budget Rates



# Possible Rate Options

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## Revenue recovered from fixed charge vs variable rate

- More fixed recovery improves revenue stability
- More variable recovery reduces cost for low use customers and increases conservation signal

## Modify tiers

- Charge 1'st tier volumetrically instead of including in fixed charge
- Move to 2 tiers
- Move to uniform (1 tier) rate

# Other Charge Types

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## Standby Charges

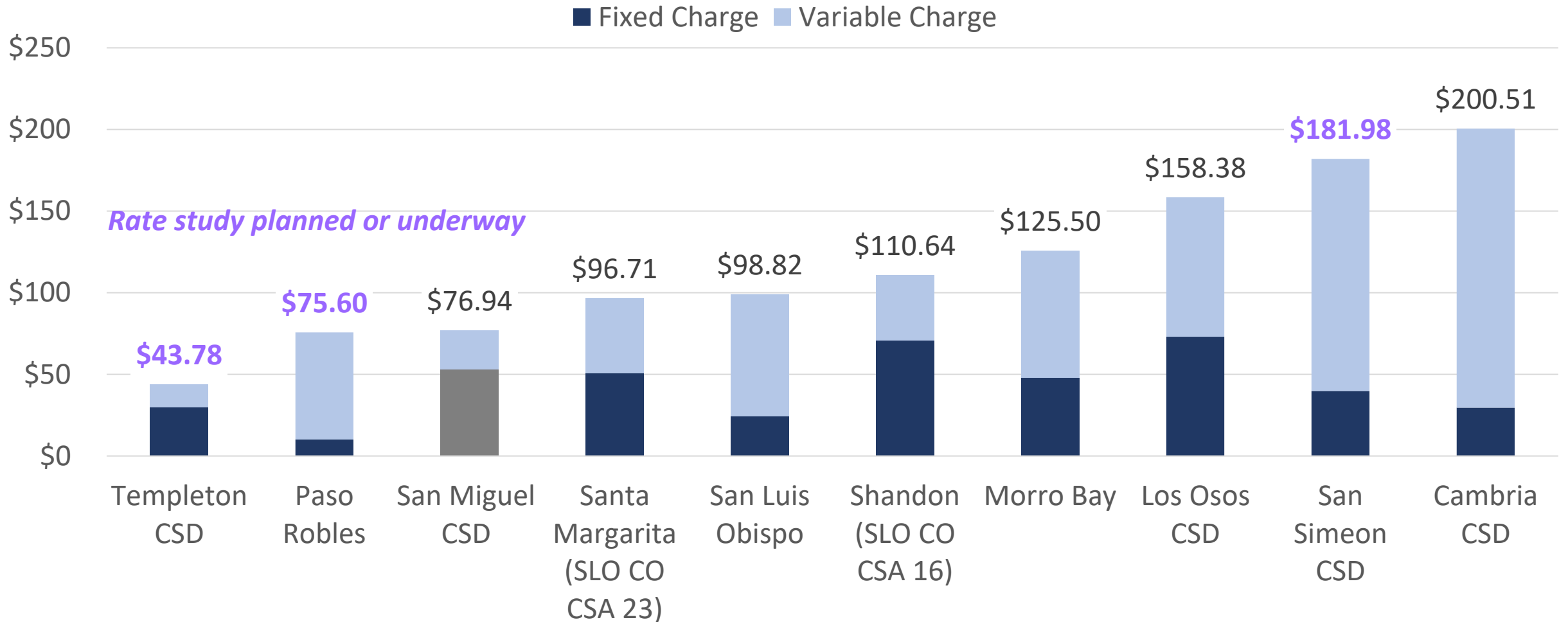
- Standby charges considered an assessment and require an election
  - 2/3 vote of the electorate or 50% vote of standby parcels
  - Elections are expensive with a low likelihood of success

## Frontage Based Fees

- Industry transitioned from frontage to capacity as basis development fees
- Frontage not directly linked to cost
  - Water system must reach entire service area
  - Water system is interconnected, view as entire system
  - Distance from wells and water treatment coincidental

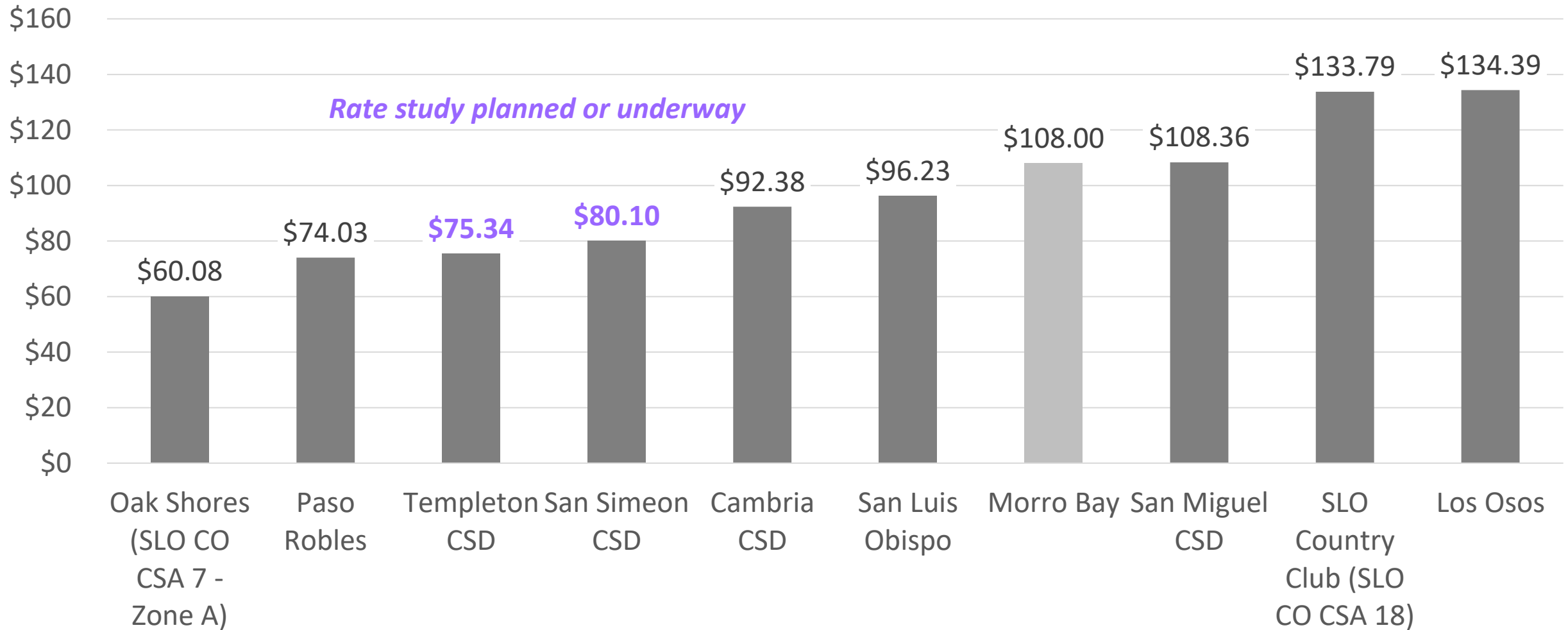
# Monthly Residential Water Rate Survey

## Average use of 10 ccf



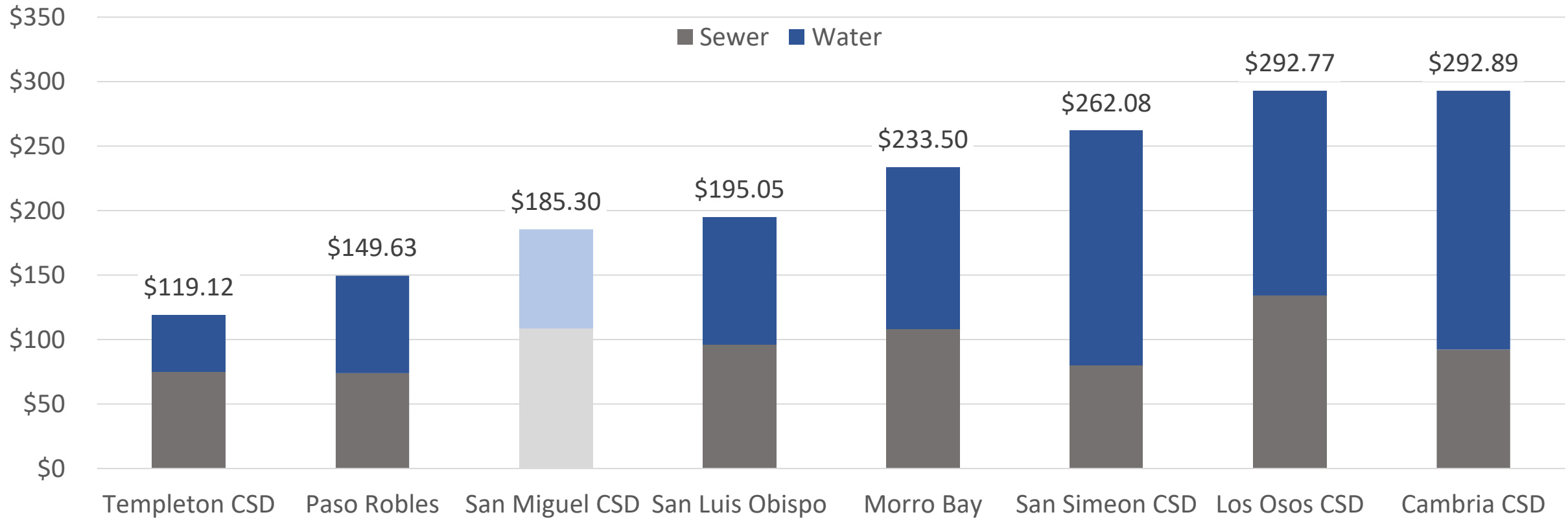
# Monthly Residential Sewer Rate Survey

## Average winter use 7.5 ccf



# Combined Monthly Residential Water and Sewer Rate Survey

Monthly Residential Water and Sewer Rate Survey  
Average use of 10 ccf, average winter use of 7.5 ccf



# Proposition 218



## **Voter-approved constitutional amendment 1996**

- Added Articles 13C & 13D to the California Constitution

## **Substantive requirements for property-related charges**

- Rates cannot exceed cost of providing service
- Proportionate cost recovery (fair and equitable)

## **Procedural requirements for rate increases**

- Mail notice of rate increases to all property owners/customers
- Hold public hearing at least 45 days after the mailing
- Rates are subject to “majority protest”

# Project Timeline

PROJECT TASK	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Project Initiation & Data Collection	■ ■ ■ ■			
Lighting and Landscaping		■ ■ ■ ■	■ ■ ■ ■	
Solid Waste		■ ■ ■ ■	■ ■ ■ ■	
10-Year Water Financial Plan	■ ■ ■	■ ■ ■		
Water Rate Design		■ ■ ■ ■		
Project Team Meetings	■ ■	■ ■	■ ■	■ ■
Draft & Final Report			■ ■ ■ ■	
Board & Community Meetings		■ ■	■ ■ ■ ■	■ ■
Prop 218 Noticing Process				■ ■ ■ ■





BARTLE WELLS  
ASSOCIATES