



Oceano Community Services District

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Date: April 9, 2025

To: Board of Directors

From: Peter Brown, General Manager

Subject: Agenda Item 8(A): Consider Staff and HDR Engineering reports and assessments of current and future sewer and water rates and provide direction on future five-year rates through 2030 and to set a Proposition 218 public hearing on June 11, 2025

Recommendation

It is recommended that the Oceano Community Services District Board review and provide comment on (1) the 2025 Sewer Rate Study, and (2) the 2025 Water Rate Study, and (3) direct staff to follow the Proposition 218 process for informing rate payers of potential maximum rate changes to both sewer and water rates, and (4) schedule two Proposition 218 Public Hearings for each rate structure at the June 11, 2025, Board meeting.

Discussion

Sewer Rates –

A sewer rate study is an essential tool for public agencies and elected officials responsible for managing a sewer conveyance utility. By providing a thorough analysis of the utility's financial needs, capital/labor costs projects, service demands, and rate structures, a sewer rate study ensures that the utility can continue to provide reliable, sustainable, and equitable services to the community. It helps to align revenue generation with operational expenses, compliance requirements, and future infrastructure improvements. In the case of OCSD, the last sewer rate study was conducted in 2009, with the last set of rate adjustments taking place between 2010 and 2015. While rate payers have not experienced sewer cost increases since 2015 and the District has been operating the system effectively for the last decade, the District has foregone regular assessments and any substantial capital investments in sewer infrastructure for the last ten years, resulting in a backlog of CIP projects which are currently unfunded. HDR Engineering consultant services have provided an independent rate study to ensure compliance with Proposition 218 regulations, and well as other state law requirements for developing and justifying the minimum required rate increases for water and sewer services within the District.

OCSD's public sewer system is a vital part of critical infrastructure, ensuring that wastewater is safely transported from homes, businesses, and other facilities to the South San Luis Obispo County Sewer Sanitary District (SSLOCSD) treatment plant, thus preventing public health risks and environmental damage. Effective sewer system management relies on sound financial planning to ensure that sufficient funds are available to operate, maintain, and upgrade the system. A sewer rate study serves as a comprehensive financial and operational assessment that supports the development of fair and sustainable sewer rates. The study is not only



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valuable for meeting day-to-day financial requirements but also for addressing long-term needs, regulatory requirements, and equity considerations within the community.

Key Reasons for Conducting a Sewer Rate Study:

1. **Financial Sustainability:** Sewer utilities are capital-intensive, requiring significant investment in infrastructure, maintenance, and compliance with environmental regulations. A sewer rate study evaluates the utility's revenue needs and helps determine the appropriate rate structure to meet these needs. It considers both operating expenses, such as labor, energy costs, and maintenance, as well as capital expenses for infrastructure repair and expansion. Proper rate-setting ensures that the utility remains financially solvent without overburdening customers.
2. **Regulatory Compliance:** Public sewer systems are subject to local, state, and federal regulations. These regulations include water quality standards, reporting requirements, and limits/reporting on sewer system overflows (SSOs). A sewer rate study helps ensure that the utility has adequate resources to meet these regulatory demands, which may involve substantial capital expenditures or operational changes. By identifying current and future regulatory obligations, a sewer rate study helps align financial strategies with compliance requirements.
3. **Equitable and Transparent Rate Setting:** One of the most critical aspects of a sewer rate study is its ability to establish fair and equitable rates for all customers, especially in a community like Oceano. Different user categories (residential, commercial, industrial) may have different levels of demand on the system, which should be reflected in the rates they pay. The study ensures that rates are aligned with the actual cost of service delivery, preventing cross-subsidization where some customer groups pay more than their fair share. Additionally, the study provides transparency, allowing staff, consultants and elected officials to explain and justify rate increases to constituents based on data-driven insights.
4. **Long-Term Planning and Infrastructure Investment:** Sewer systems require ongoing maintenance, upgrades, and expansions to address population growth, aging infrastructure, and environmental concerns. A sewer rate study helps identify the funding needed for capital projects, such as replacing old pipes, expanding capacity, or upgrading lift stations. The study supports long-term planning by projecting future capital and operational needs, allowing the utility to plan for infrastructure improvements without disrupting services or accumulating unsustainable debt.
5. **Enhanced Decision-Making for Elected Officials:** Elected officials have a responsibility to make informed decisions that balance the needs of the sewer utility with the interests of the community. A sewer rate study provides the data and analysis required for effective decision-making. By understanding the financial status of the utility, the cost of providing service, and the potential impact of rate changes, officials can make more informed policy decisions, ensuring that rate adjustments are necessary, fair, and



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in the best interest of the public. As required by State Law and the Proposition 218 process, OCSD can only charge rates equal to the present and future cost of service, but not above that.

- Public Trust and Community Support:** Transparency and engagement are critical when it comes to changes in public utility rates. A well-conducted sewer rate study helps foster public trust by providing clear, data-supported justifications for rate adjustments. When the public understands the reasoning behind rate changes—such as infrastructure upgrades, regulatory compliance, deferred maintenance, aging lift station, or cost increases, they are more likely to support those decisions, or at least not oppose them. Moreover, involving the community in the rate-setting process can help address concerns and ensure that the rates do not disproportionately affect vulnerable or low-income populations.

This sewer rate study is a critical tool for OCSD to ensure the long-term financial health, operational efficiency, and fairness to rate payers of the cost of operating our sewer conveyance utility. This comprehensive analysis of financial needs, service costs, and rate structures, supports sustainable rate-setting, helps meet regulatory obligations, and ensures that our sewer utility can serve the community effectively. It fosters transparency, strengthens public trust, and aids in sound decision-making by providing data-driven insights.

Three options have been developed for the Board's consideration:

- The Base Case Alternative supports funding in the first year (FY 2025-26) to implement the District's Sanitary Sewer Capital Improvement Plan in year one:

	<i>Present Rates</i>	<i>Proposed Rates</i>				
		FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Fee	<i>\$/Acct.</i>					
Residential	\$19.49	\$38.68	\$58.41	\$60.74	\$63.17	\$65.70
Non-Residential	19.49	21.98	33.19	34.52	35.90	37.34
School	1.37	2.98	4.49	4.67	4.86	5.05
RV Park	10.96	19.84	29.96	31.16	32.40	33.70
Volume Charge	<i>\$/ CCF</i>					
<i>Non-Residential</i>						
< 10 CCF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
> 10 CCF	0.75	2.20	3.32	3.45	3.59	3.73



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2. The Smoothed Alternative increases the rates gradually but excludes the funds required to implement the District's Sanitary Sewer Capital Improvement Plan in year one:

		<i>Present Rates</i>	<i>Proposed Rates</i>				
			FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Fee		<i>\$/Acct.</i>					
Residential		\$19.49	\$32.60	\$46.45	\$59.46	\$68.38	\$74.53
Non-Residential		19.49	20.70	29.50	37.76	43.42	47.33
School		1.37	2.33	3.31	4.24	4.88	5.32
RV Park		10.96	19.18	27.33	34.98	40.22	43.84
Volume Charge		<i>\$/ CCF</i>					
<i>Non-Residential</i>							
< 10 CCF		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
> 10 CCF		0.75	2.07	2.95	3.78	4.34	4.73

3. HDR Engineering and Staff recommendation: The Admin Building Alternative supports funding for the District's Sanitary Sewer Capital Improvement Plan in year one and begins to provide funding for a new Administration Building yielding \$3.0 Million over the next 10 years. While increases are slightly higher in year one, by year five the rates are actually lower for rate payers which has cost savings in years 5-10 to Oceano residents:

		<i>Present</i>	<i>Proposed Rates</i>				
		<i>Rates</i>	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Fee	<i>\$/Acct.</i>						
Residential	\$19.49	\$38.68	\$63.82	\$66.69	\$69.69	\$72.83	
Non-Residential	19.49	21.98	36.27	37.90	39.61	41.39	
School	1.37	2.98	4.91	5.13	5.36	5.60	
RV Park	10.96	19.84	32.74	34.21	35.75	37.36	
Volume Charge	<i>\$/ CCF</i>						
<i>Non-Residential</i>							
< 10 CCF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	
> 10 CCF	0.75	2.20	3.63	3.79	3.96	4.14	



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Water Rates

The rationale for sewer rate studies outlined in detail above, equally applies to water rates for District residents and business owners. OCSD's last rate study for our municipal water system was conducted and completed in 2019. The Board adopted a set of five-year water rates to meet the District's needs at that time. The existing rates expire on June 30, 2025, and with increasing capital costs, construction escalations, a CIP of 31 construction projects that are yet completed, rising labor and materials costs, rising Lopez and State Water costs, this 2025 Water Rate Study is critical for the District's long term financial sustainability and customer service.

The prior rate study has served as the backbone of the current water rate analysis but has undergone significant updates in order to assess the future five years of fiscal need, including incorporation of a new and more nuanced rate model. For example, Lopez Lake costs, State Water and even groundwater may become more expensive to deliver over the coming five-year period because of legal requirements, court orders, habitat conservation, and resiliency projects such as Delta Conveyance. In the case of Lopez water, given the ongoing lawsuit against San Luis Obispo County for the operation of the dam related to the Endangered Species Act and Steelhead Trout, there is potential the future studies, capital upgrades, fish passage assessments, habitat restoration will all create escalating costs that will be passed along to Zone 3 partners, and in turn, local rate payers. In the case of State Water, costs may be increasing for normal operations and construction of the Delta Conveyance project, and at the same time, cost savings may be realized as a result of the County and its Subcontractors making sales of excess/stored water as was done this year. HDR Engineering is assisting District staff in updating our Water Rates with an independent assessment of future needs, while relying heavily on the prior rate study to achieve economy of scale, reduce fiscal impacts, and save in consultant costs.



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Two options have been developed for the Board's consideration:

1. The Base Case Alternative supports funding in the first year (FY 2025-26) to implement the District's Water Capital Improvement Plan in year one:

	<i>Present</i>	<i>Proposed</i>				
	<i>Rates</i>	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Rate	\$ / Bi-Monthly					
Single Family	\$77.69	\$81.67	\$86.57	\$92.63	\$98.19	\$104.08
Multi-Family	58.27	65.33	69.25	74.10	78.55	83.26
Non-Residential						
5/8"	\$86.74	\$81.67	\$86.57	\$92.63	\$98.19	\$104.08
3/4"	105.62	99.44	105.41	112.79	119.56	126.73
1"	161.59	152.14	161.27	172.56	182.91	193.88
1 1/2"	291.87	274.81	291.29	311.68	330.38	350.20
2"	453.33	426.83	452.43	484.10	513.15	543.94
3"	721.37	679.19	719.95	770.35	816.57	865.56
4"	1,225.44	1,153.79	1,223.02	1,308.63	1,387.15	1,470.38
6"	1,910.57	1,798.87	1,906.80	2,040.28	2,162.70	2,292.46
Water Use	\$ / CCF					
Tier 1 (0 - 6 CCF)	\$4.19	\$4.61	\$5.04	\$5.51	\$6.02	\$6.58
Tier 2 (6 + CCF)	8.91	9.35	9.75	11.68	12.11	12.56



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- HDR Engineering and Staff recommendation: The Admin Building Alternative supports funding for the District's Capital Improvement Plan in year one and begins to provide funding for a new Administration

	<i>Present</i>	<i>Proposed</i>				
	<i>Rates</i>	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Rate	<i>\$/ Bi-Monthly</i>					
Single Family	\$77.69	\$84.90	\$91.69	\$99.94	\$107.94	\$116.58
Multi-Family	58.27	67.92	73.35	79.95	86.35	93.26
Non-Residential						
5/8x3/4"	\$86.74	\$84.90	\$91.69	\$99.94	\$107.94	\$116.58
3/4"	105.62	103.37	111.64	121.69	131.43	141.94
1"	161.59	158.15	170.81	186.18	201.07	217.16
1 1/2"	291.87	285.66	308.52	336.29	363.19	392.25
2"	453.33	443.69	479.19	522.32	564.11	609.24
3"	721.37	706.03	762.52	831.15	897.64	969.45
4"	1,225.44	1,199.39	1,295.34	1,411.92	1,524.87	1,646.86
6"	1,910.57	1,869.95	2,019.55	2,201.31	2,377.41	2,567.60
Water Use	<i>\$/ CCF</i>					
Tier 1 (0 - 6 CCF)	\$4.19	\$4.61	\$5.04	\$5.51	\$6.02	\$6.58
Tier 2 (6 + CCF)	8.91	9.35	9.75	11.68	12.11	12.56

Building yielding \$3.0 Million over the next 10 years:

Other Agency Involvement

N/A

Financial Considerations

The attached Wastewater and Water Rate Analysis reports establish the revenue requirements for the five-year study period and the rate structure necessary to generate the revenue requirements in each fund. The Proposition 218 notice will be mailed at least 45 days in advance of the June 11, 2024 Public Hearing. The rate increase would become effective with the billing period which begins on July 18, 2025.

While at a slightly higher set of rates, staff recommends pursuing both water and sewer rates which support building both emergency reserves and reserves to resecure an administrative building for agency and Board of Director operations. This approach maximizes flexibility, keeps all options open to pursue a future lease or building purchase, and regardless of future outcome, has long-term potential to reduce costs to rate payers as well as restore functionality of Fire Station 3 as a dedicated FCFA operations center.

Results



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Considering the necessary revenues and rate structure to operate the wastewater and water system is important to promote a safe, healthy, and well-governed District.

Addendums posted to the District Website:

1. Sewer Rate Study by HDR Engineering, Inc.
2. Water Rate Study with assistance from HDR Engineering, Inc.

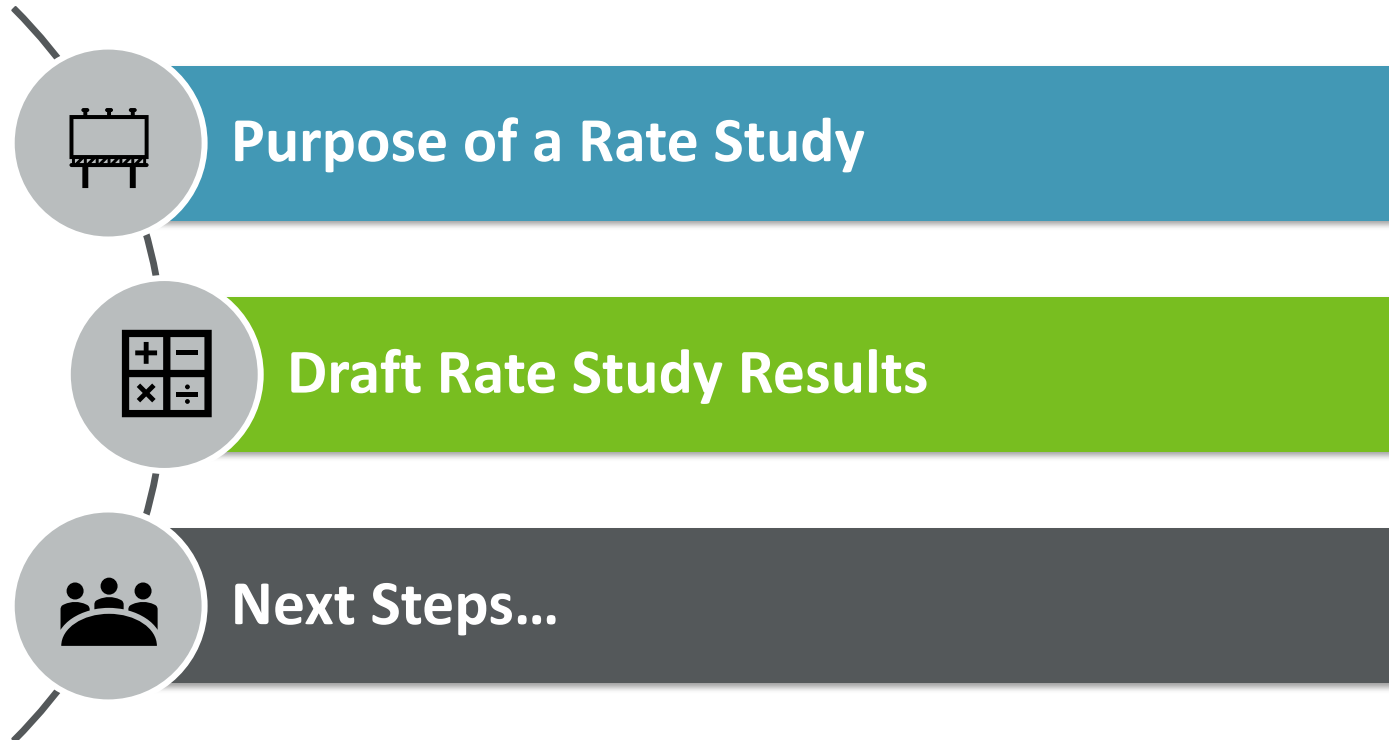
Water and Wastewater Rate Study

Draft Alternative Results and Recommendations

April 9, 2025



Overview of the Presentation

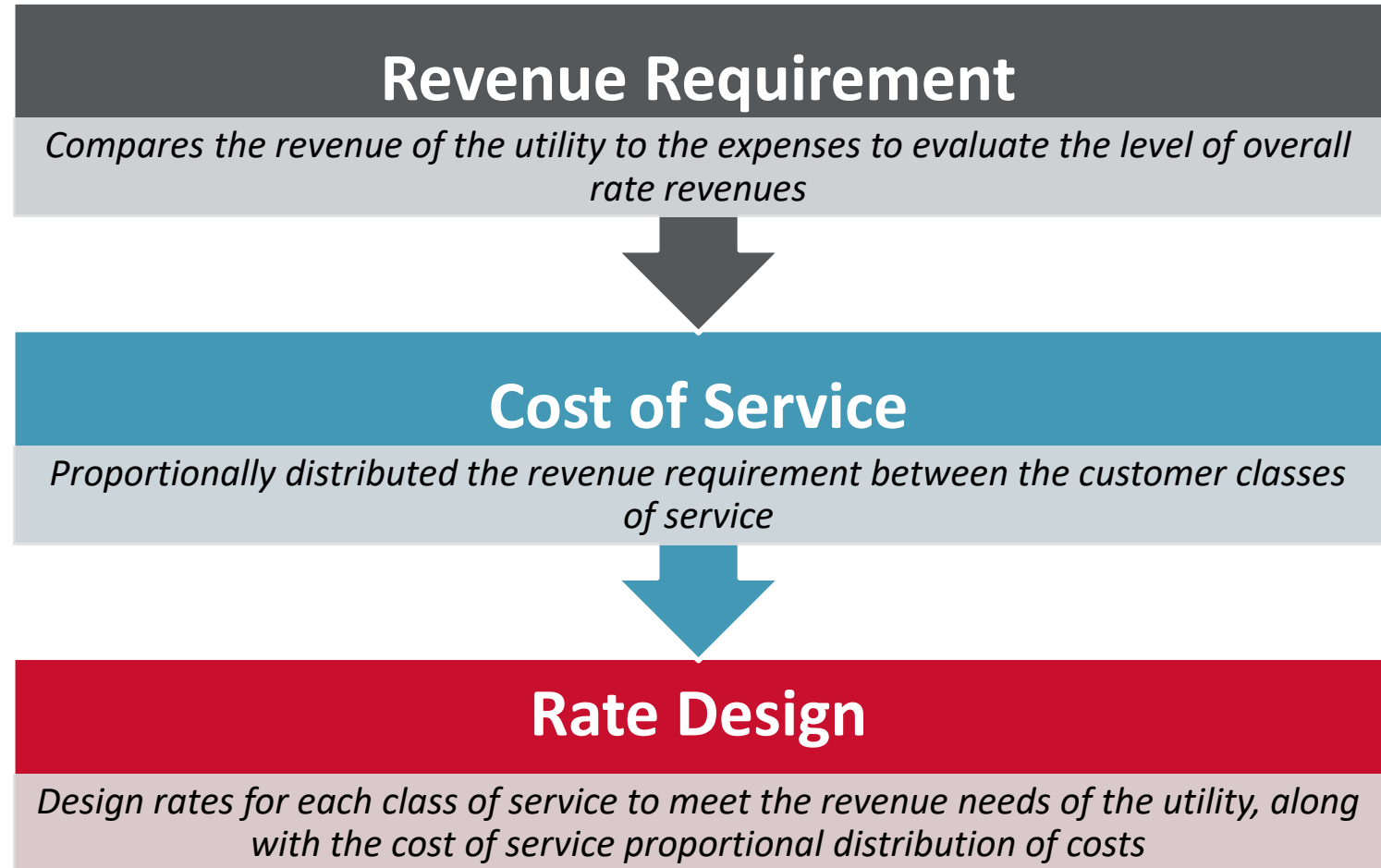


Purpose of the Study

- Provide sufficient revenue to operate and maintain the District's water and wastewater utilities
 - Annual O&M expenses
 - Capital improvement needs
- Develop proportional and cost-based rates
 - Meet the requirements of Proposition 218
- Reflect prudent financial planning criteria
 - Maintain target debt service coverage (DSC) ratio
 - Prudent level of rate funding for capital projects
 - Meet minimum reserve balances
- Develop the study using generally accepted methodologies tailored to the District's system and customer characteristics



Establishing Cost-Based Rates

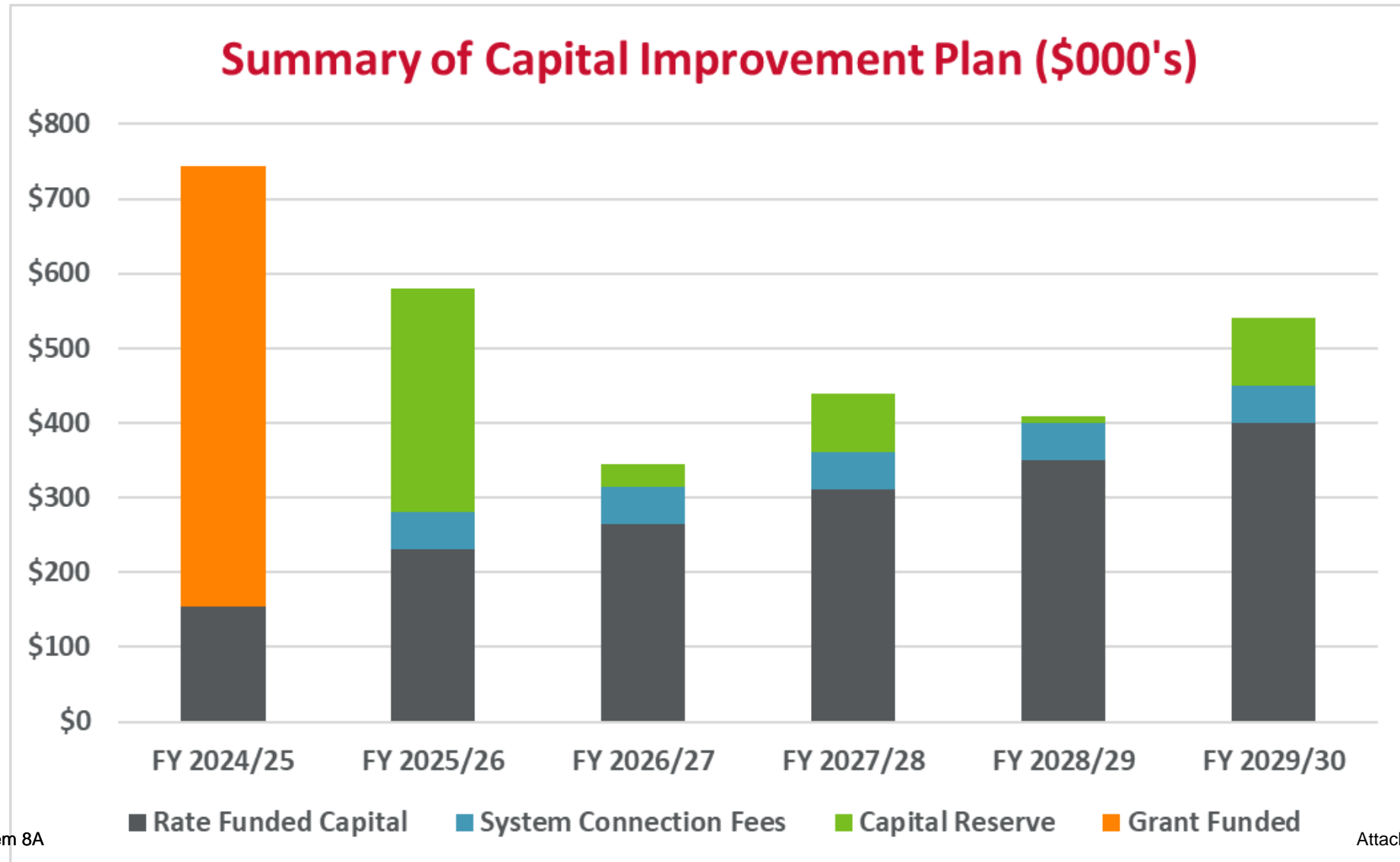


Study Assumptions

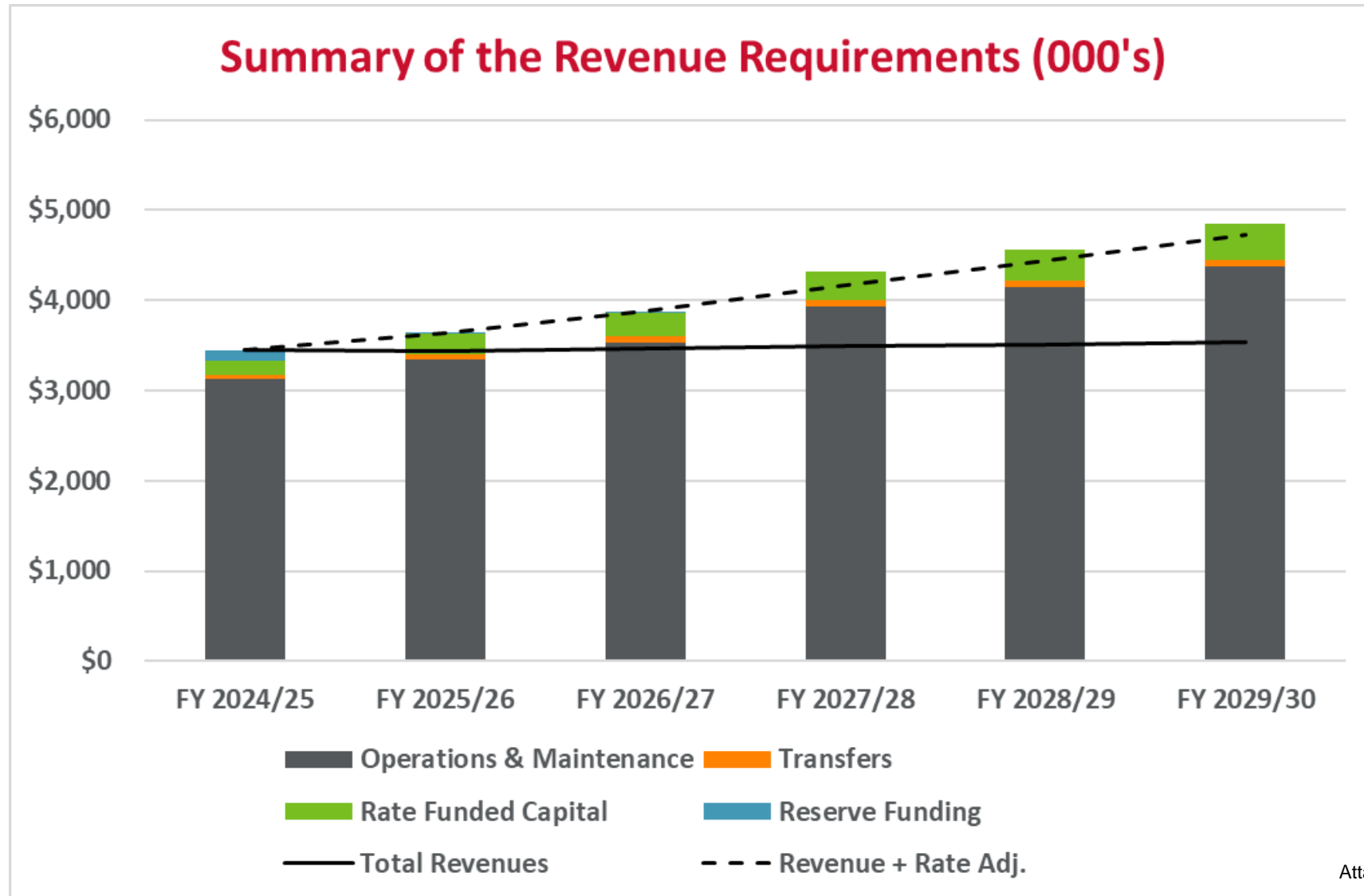
- Water rate study based on District provided information and assumptions
 - HDR provided assistance and review, and development of a model for District use
- HDR developed the wastewater study based on District provided information
- Revenues are based on current rate levels and customer characteristics
- O&M expenses based on FY 2024/25 budget
- Purchased water includes Lopez and State water plus Delta Conveyance costs in FY 2027/28-FY 2029/30
- CIP based on recent planning studies and resulting capital improvement needs
- Developed alternatives for Board direction and rate implementation
 - Funding future admin building for water and wastewater
 - Rate transition alternatives for wastewater

Water Rate Study

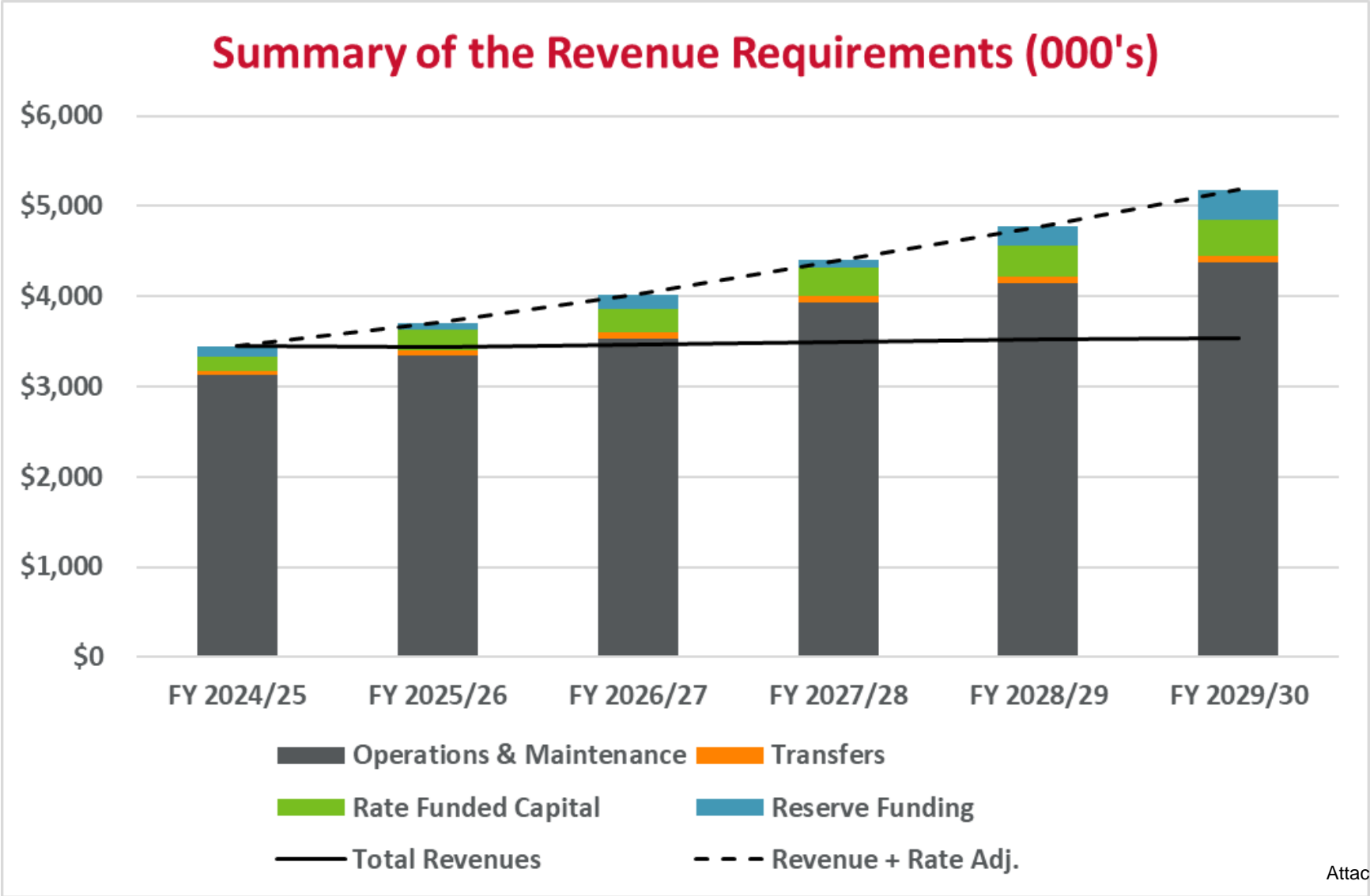
Water Capital Plan



Water Summary



Water Summary (w/Admin Building Funding)



Water Alternative Comparison

	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Bi-Monthly Customer Bill @ 12 CCF						
Base Case	\$156.29	\$165.47	\$175.35	\$195.78	\$206.97	\$218.89
Admin Building Funding	\$156.29	\$168.69	\$180.47	\$203.09	\$216.72	\$231.39
Monthly Customer Bill @ 6 CCF						
Base Case	\$78.15	\$82.73	\$87.67	\$97.89	\$103.49	\$109.44
Admin Building Funding	\$78.15	\$84.35	\$90.23	\$101.55	\$108.36	\$115.69
Ending Balance (\$000s)						
Base Case	\$2,737	\$2,483	\$2,509	\$2,325	\$2,227	\$2,057
Admin Building Funding	\$2,737	\$2,550	\$2,721	\$2,772	\$3,016	\$3,307

Admin Building Funding yields \$3.0 million over 10 years

Water Cost of Service Average Unit Costs

	Base Case	Admin Funding
Variable	<i>\$ / CCF</i>	
Tier 1 (0 – 6 CCF)	\$4.61	\$4.61
Tier 2 (6+ CCF)	\$9.35	\$9.35
Fixed	<i>\$ / Bi-Mo</i>	
Single Family	\$81.67	\$84.90
Multi-Family	\$65.33	\$67.92
Non-Residential	\$81.67	\$84.90

Water Rate Design

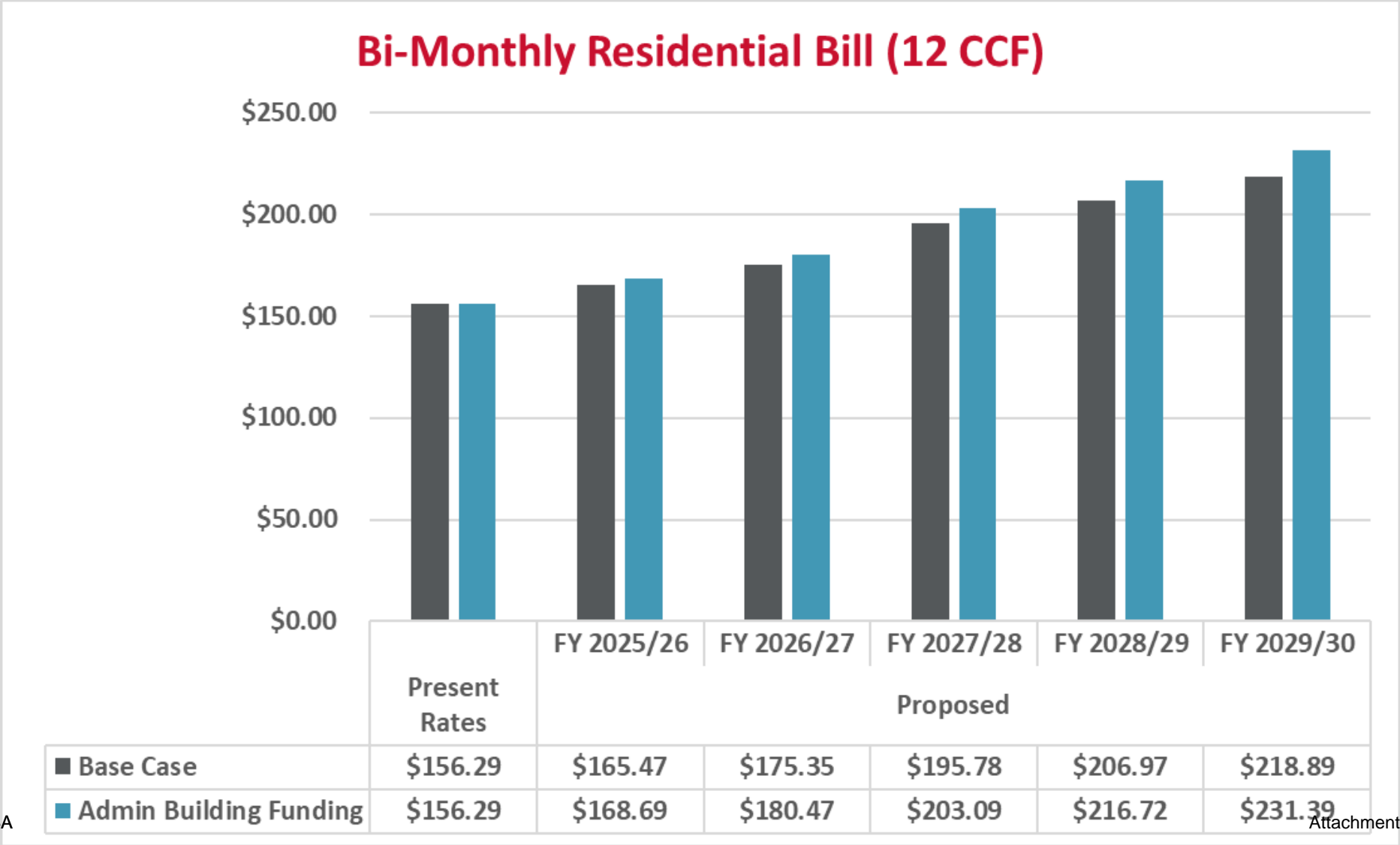
Base Case

	<i>Present</i>	<i>Proposed</i>				
	<i>Rates</i>	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
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Water Use	\$ / CCF					
Tier 1 (0 - 6 CCF)	\$4.19	\$4.61	\$5.04	\$5.51	\$6.02	\$6.58
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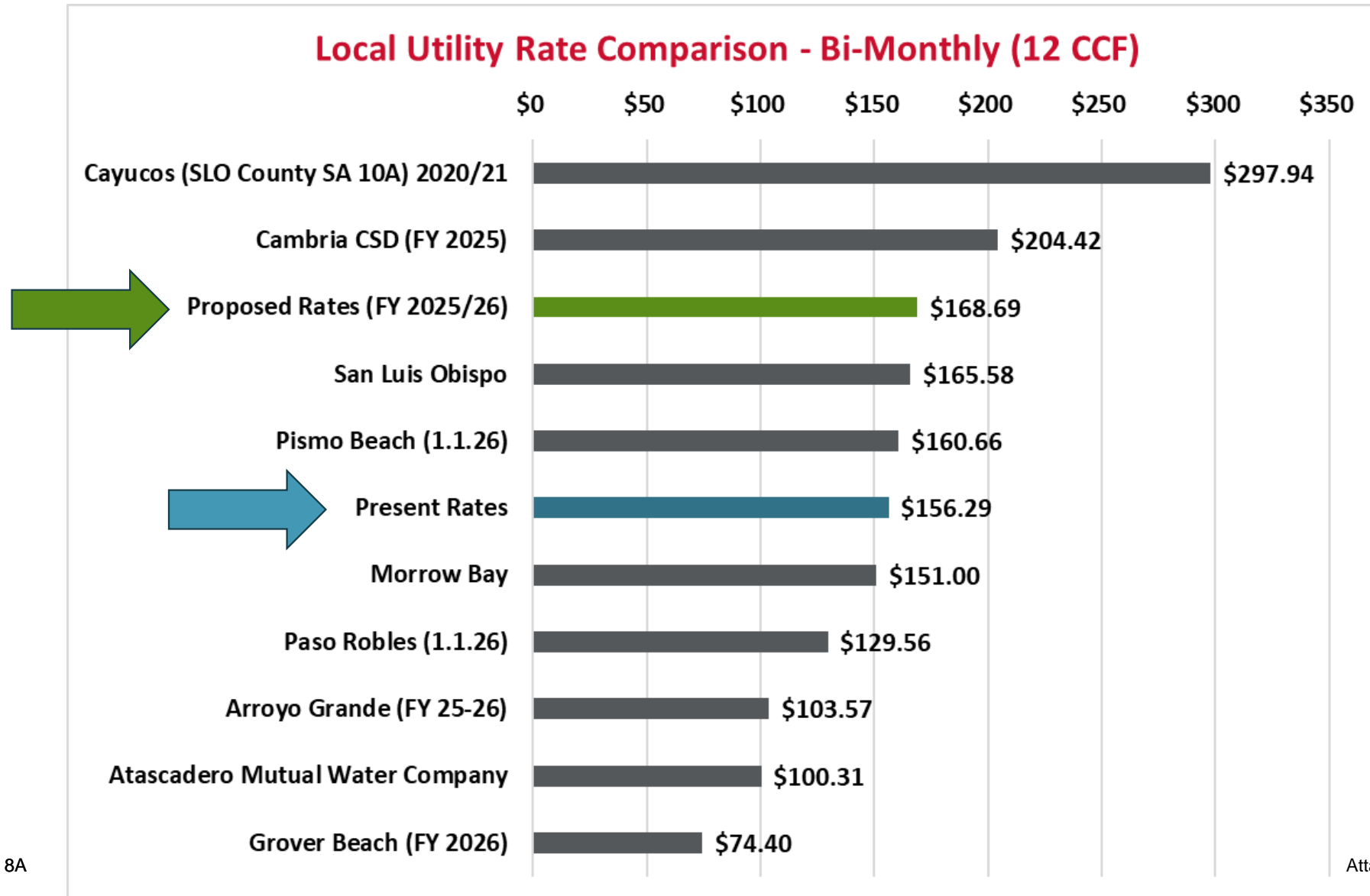
Admin Building Funding

	<i>Present</i>	<i>Proposed</i>				
	<i>Rates</i>	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
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3"	721.37	706.03	762.52	831.15	897.64	969.45
4"	1,225.44	1,199.39	1,295.34	1,411.92	1,524.87	1,646.86
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Water Use	\$ / CCF					
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Tier 2 (6 + CCF)	8.91	9.35	9.75	11.68	12.11	12.56

Water Alternative Comparison

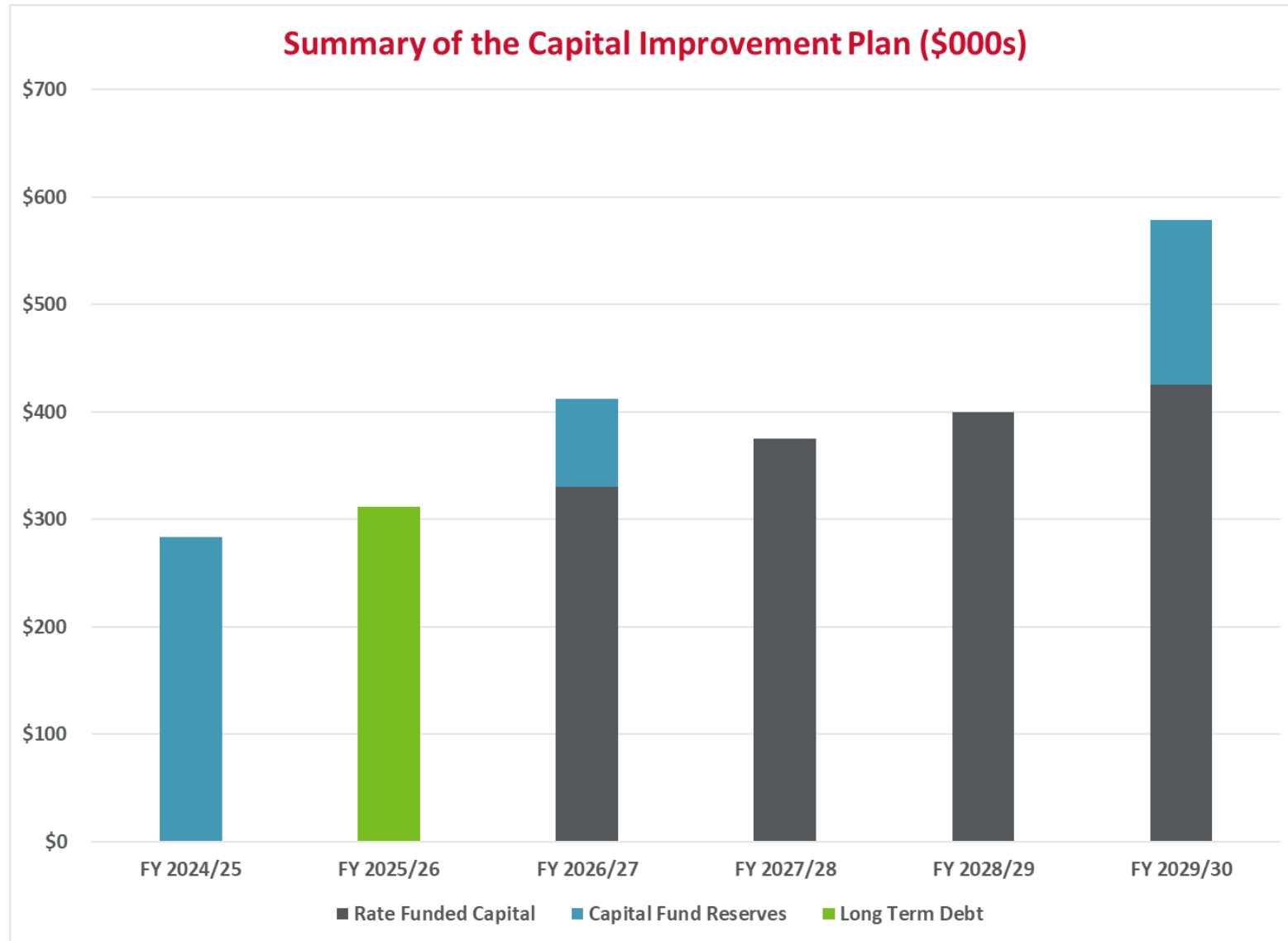


Local Water Rate Comparison – Admin Funding

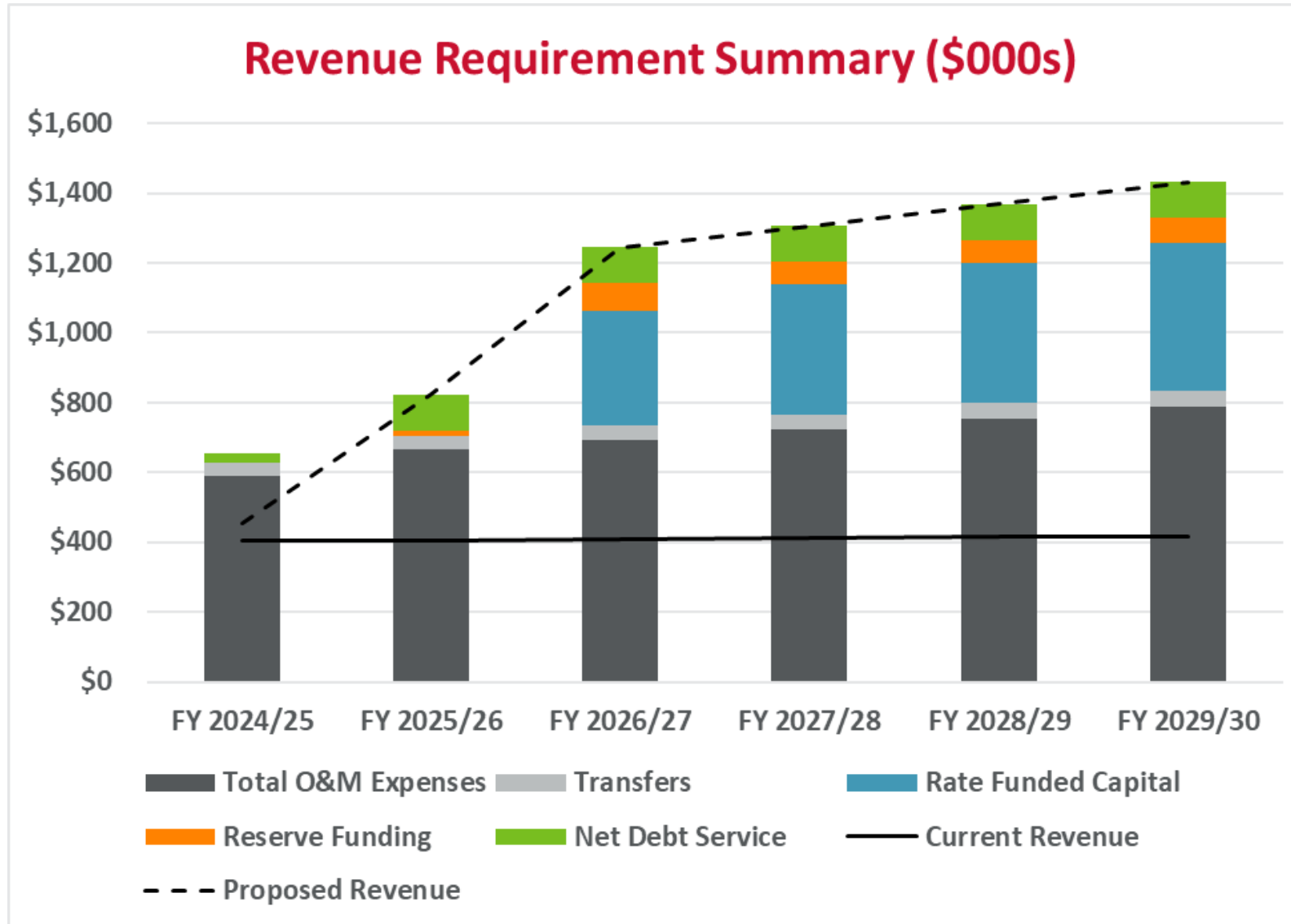


Wastewater Rate Study

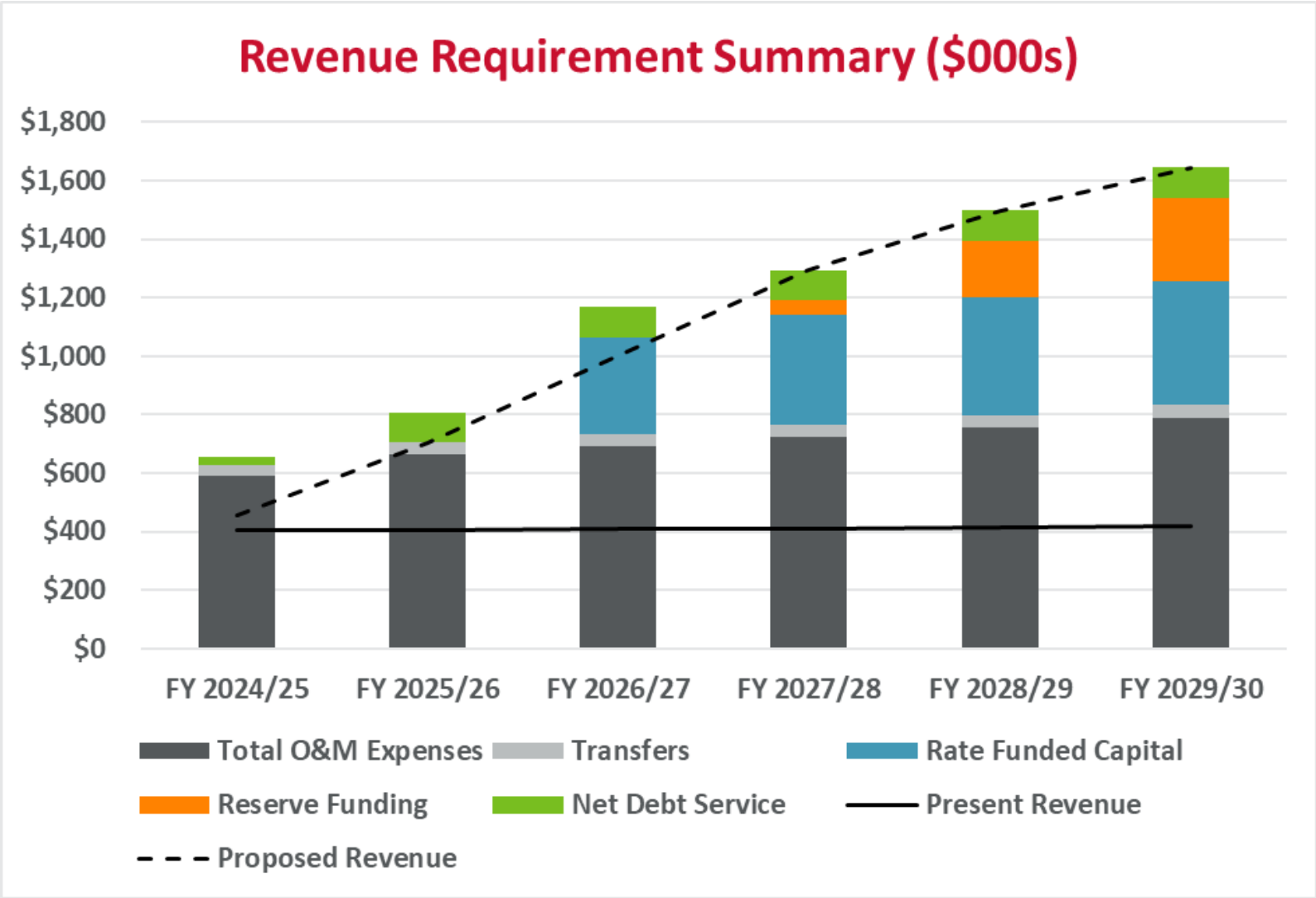
Wastewater Capital Plan



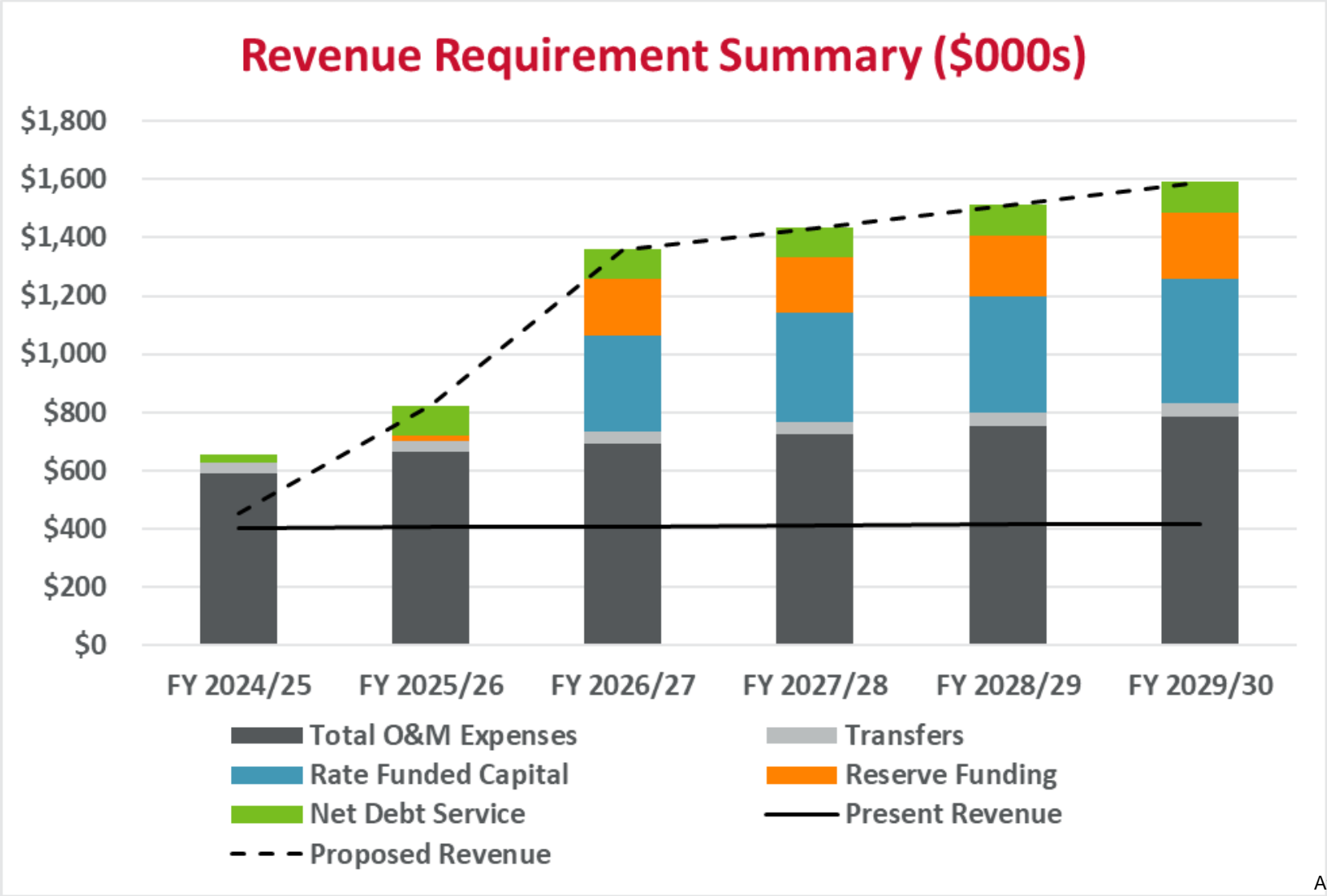
Wastewater Summary (Base Case)



Wastewater Summary Alternative 1 (Smoothed)



Wastewater Summary (w/Admin Building Funding)



Wastewater Alternative Comparison

	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Bi-Monthly Customer Bill						
Base Case	\$19.49	\$38.68	\$58.41	\$60.74	\$63.17	\$65.70
Alternative 1 (Smoothed)	\$19.49	\$32.60	\$46.45	\$59.46	\$68.38	\$74.53
Admin Building Funding	\$19.49	\$38.68	\$63.82	\$66.69	\$69.69	\$72.83
Monthly Customer Bill						
Base Case	\$9.75	\$19.34	\$29.20	\$30.37	\$31.59	\$32.85
Alternative 1 (Smoothed)	\$9.75	\$16.30	\$23.23	\$29.73	\$34.19	\$37.27
Admin Building Funding	\$9.75	\$19.34	\$31.91	\$33.35	\$34.85	\$36.42
Ending Balance (\$000s)						
Base Case	\$844	\$863	\$861	\$1,126	\$1,372	\$1,292
Alternative 1 (Smoothed)	\$844	\$744	\$500	\$752	\$1,127	\$1,259
Admin Building Funding	\$844	\$863	\$976	\$1,371	\$1,760	\$1,838

Wastewater Cost of Service Average Unit Costs

	Base Case	Alternative 1 (Smoothed)	Admin Funding
Variable	<i>\$ / CCF</i>		
Non-Res	\$2.20	\$2.07	\$2.20
Fixed	<i>\$ / Bi-Mo</i>		
Residential	\$38.68	\$32.60	\$38.68
School	\$2.98	\$2.33	\$2.98
RV Park	\$19.84	\$19.18	\$19.84
Non-Res	\$21.98	\$20.70	\$21.98

Wastewater Alternative Comparison

Base Case

		<i>Proposed Rates</i>				
<i>Present Rates</i>		FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Fee	<i>\$/Acct.</i>					
Residential	\$19.49	\$38.68	\$58.41	\$60.74	\$63.17	\$65.70
Non-Residential	19.49	21.98	33.19	34.52	35.90	37.34
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RV Park	10.96	19.84	29.96	31.16	32.40	33.70
Volume Charge	<i>\$/ CCF</i>					
<i>Non-Residential</i>						
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> 10 CCF	0.75	2.20	3.32	3.45	3.59	3.73

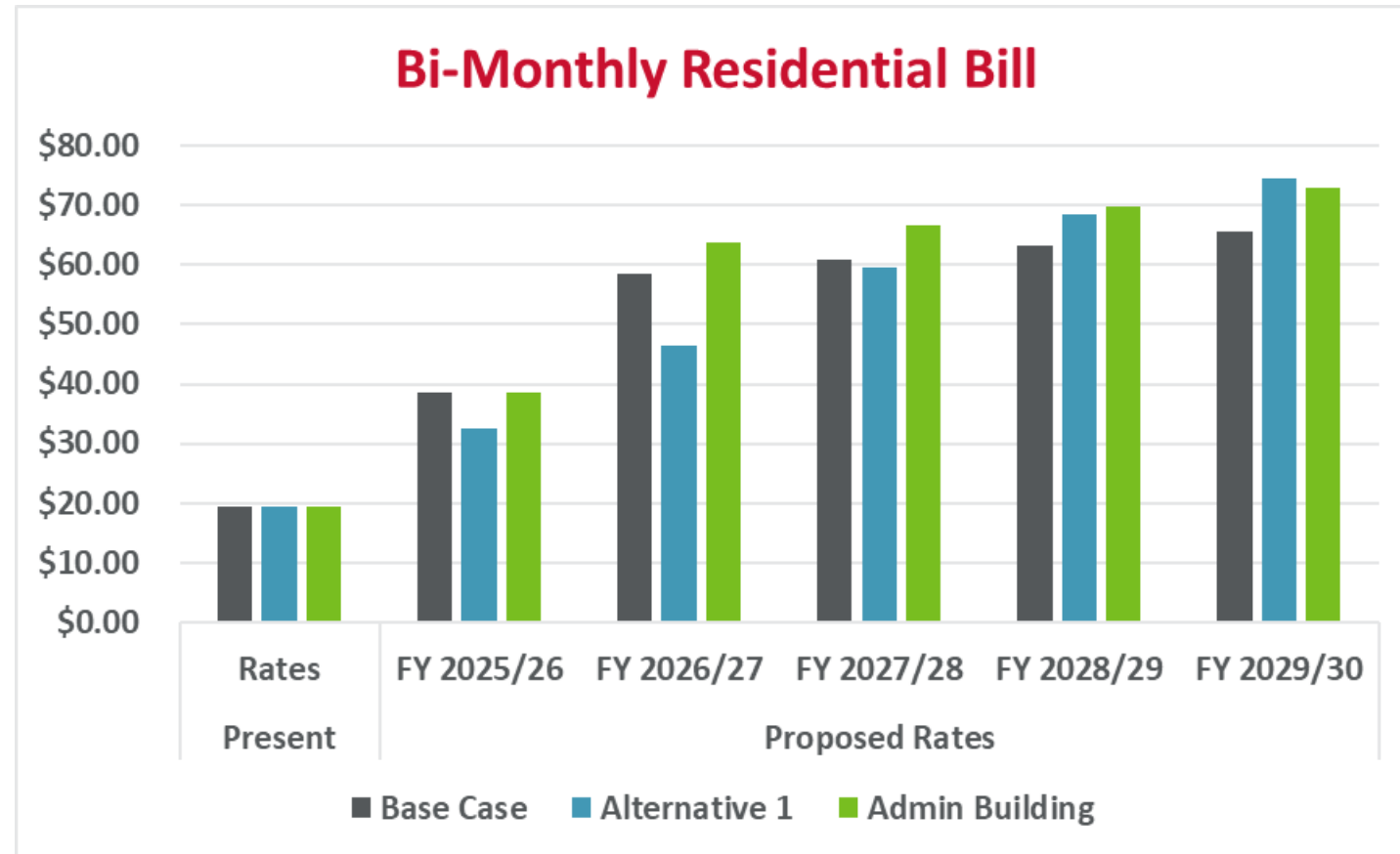
Alternative 1 (Smoothed)

		<i>Proposed Rates</i>				
<i>Present Rates</i>		FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Fee	<i>\$/Acct.</i>					
Residential	\$19.49	\$32.60	\$46.45	\$59.46	\$68.38	\$74.53
Non-Residential	19.49	20.70	29.50	37.76	43.42	47.33
School	1.37	2.33	3.31	4.24	4.88	5.32
RV Park	10.96	19.18	27.33	34.98	40.22	43.84
Volume Charge	<i>\$/ CCF</i>					
<i>Non-Residential</i>						
< 10 CCF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
> 10 CCF	0.75	2.07	2.95	3.78	4.34	4.73

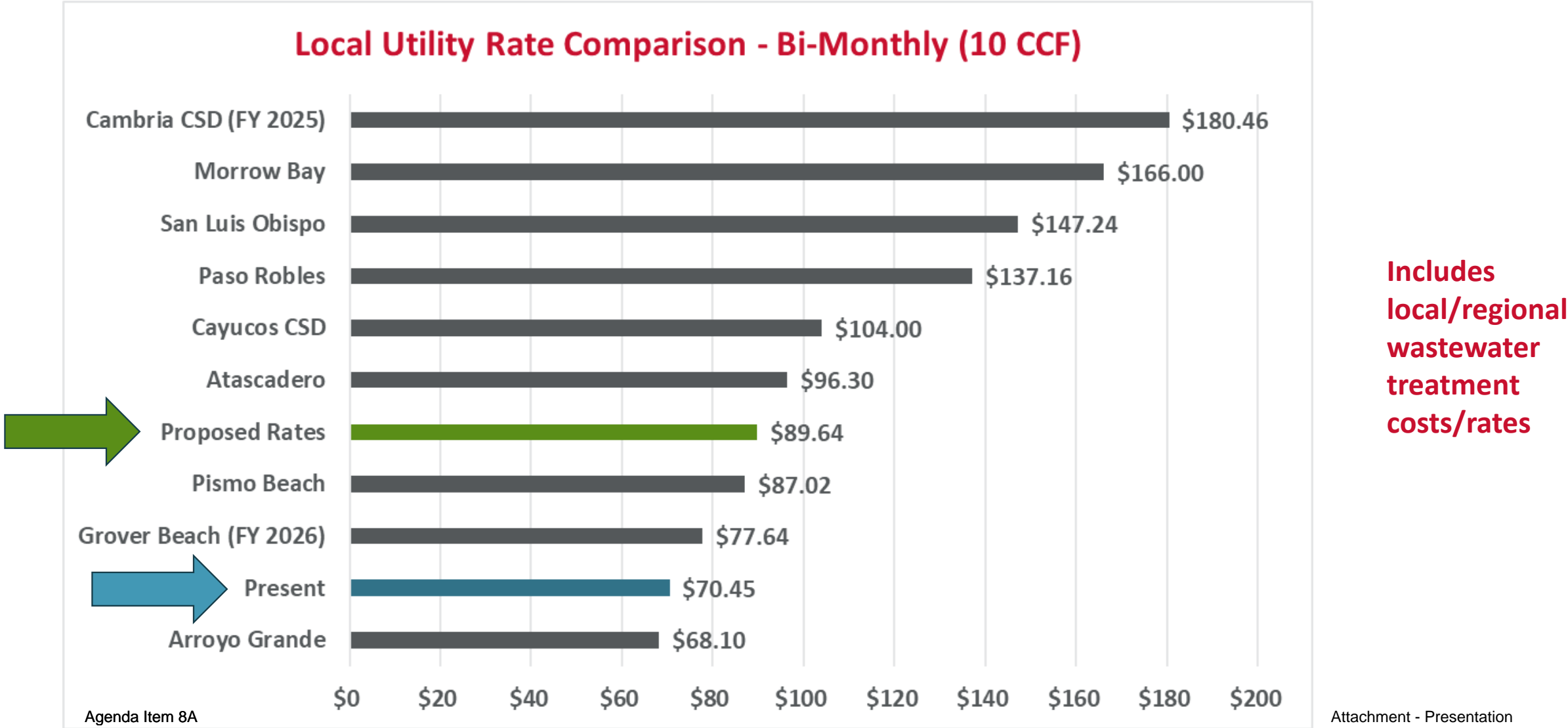
		<i>Proposed Rates</i>				
<i>Present Rates</i>		FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Fee	<i>\$/Acct.</i>					
Residential	\$19.49	\$38.68	\$63.82	\$66.69	\$69.69	\$72.83
Non-Residential	19.49	21.98	36.27	37.90	39.61	41.39
School	1.37	2.98	4.91	5.13	5.36	5.60
RV Park	10.96	19.84	32.74	34.21	35.75	37.36
Volume Charge	<i>\$/ CCF</i>					
<i>Non-Residential</i>						
< 10 CCF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
> 10 CCF	0.75	2.20	3.63	3.79	3.96	4.14

Admin Building Funding

Wastewater Rate Design



Local Wastewater Rate Comparison – Admin Funding



Summary of the Rate Studies

- Water
 - Annual rate adjustments are necessary to prudently fund O&M expenses and identified capital improvement needs
 - Two tiered rate structure is maintained and based on cost of service average unit costs, including increases in both Lopez and State Water costs
- Wastewater
 - Current rate levels are not funding annual O&M expenses and debt service payments
 - Reserves are used to “balance” the budget
 - Base Case and Admin Building FY 25/26 rate adjustment funds annual O&M expenses and debt service
 - Future year rate adjustments maintain O&M funding, fund capital improvements, and meet target minimum reserve levels
 - Current rate structure has been maintained and based on cost of service results
 - Wastewater rates have not been adjusted since FY 2014-15
 - Current rate of \$19.49 adjusted annually at 3.5% for 10 years = \$27.49
 - Industry average historical utility rate increase 5% or more annually

Study Conclusions and Recommendations

- Water

- Recommend annual rate adjustments to prudently fund annual O&M expenses and identified capital improvements
 - Include annual admin building funding

- Wastewater

- Recommend annual rate adjustments to prudently fund annual O&M expenses and identified capital improvements
 - Include annual admin building funding and smoothed alternative

Next Steps

- Receive Board feedback and input
- Select preferred alternatives for each utility and direct staff to send out the Proposition 218 notices
- Hold the public hearing (no sooner than 45 days from when notices are received)
- If no majority protest (50% + 1) Board may adopt and implement proposed water and wastewater rates



Questions?

