




Costa Mesa Sanitary District

....an Independent Special District

Memorandum

To: Board of Directors

From: Scott Carroll, General Manager 

Date: December 20, 2012

Subject: **Sewer Rate Study**

Summary

The District engaged the services of HF&H Consultants, LLC to provide consulting services for a wastewater rate study. HF&H has developed a model that incorporates a wastewater utility cost of service study and produces a rate structure that complies with the substantive and procedural requirements of Proposition 218, particularly its property-related fee section.

Staff Recommendation

That the Board of Directors accepts and approves the study.

Analysis

The District is responsible for providing a sewer collection system to residents and businesses throughout Costa Mesa and a portion of Newport Beach and the County of Orange. Proper maintenance and capital improvements of the sewer collection system is necessary to ensure good operations and avoid sanitary sewer overflows (SSOs). With revenue requirements increasing to adequately fund the operations and capital needs of the wastewater system, staff found it in the best interest of the District to engage the services of a qualified consultant with experience performing sewer fee studies.

HF&H Consultants, LLC was hired to perform a sewer rate study. The study has several key objectives that are identified below:

- Determine how much revenue is required to meet the District's requirements, including O&M, capital improvements and reserve funds.
- Evaluate the District's existing customer classes.
- Determine the cost of service for each customer class.



- Evaluate alternative rate structure that will ensure that each customer class is paying its fair and proportionate share of the revenue requirements.
- Compare the District's rates with those of its neighboring wastewater agencies.

On April 16, 2012, the Board reviewed and commented on a draft report. The Board directed staff to proceed with further studying the sewer rates and then return to the Board with a five (5) year plan for adjusting sewer rates. The Board further directed staff to prepare a study that provides clear information, categorization, the possibility of establishing exemption categories and the need to be fair and justifiable. Attachment A is the final report that complies with Board directions.

Representatives from HF&H Consultants will be making a brief presentation to the Board regarding the final report. Some of the key highlights from the report are identified below:

- The separate Commercial classes with cold or hot food services were combined into one Commercial class (High Strength).
- The FOG fee for all the classes was removed.
- The total revenue in FY2013-14 will remain constant to the total revenue in FY2012-13.
- The rate adjustment for single family residential is still below the trend line.
- The rate adjustment assumes salaries and benefits will increase 4.8% - 6.4% per year
- The rate adjustment assumes on-going maintenance and operations expenses will increase 3.0% per year to approximate assumed inflationary increases.
- Capital improvements for the next five years are identified and the proposed adjustments from 2014-15 through 2017-18 anticipate unforeseen capital expenditures.

Below are the proposed annual rates for the five classes for the next five years.

Customer Classes	Current Charge	7-1-13 Proposed	% Change	7-1-14 Proposed	% Change	7-1-15 Proposed	% Change	7-1-16 Proposed	% Change	7-1-17 Proposed	% Change	Total % Change in 5 Years
Single Family	69.00	85.34	23.7	87.05	2.0	88.79	2.0	90.57	2.0	92.38	2.0	31.7
Multi-Family	53.77	50.09	-6.8	51.09	2.0	52.11	2.0	53.15	2.0	54.21	2.0	1.2
Commercial - Ave Strength	38.69	37.96	-1.9	38.72	2.0	39.49	2.0	40.28	2.0	41.09	2.0	6.1
Commercial - High Strength	43.66	41.40	-5.2	42.23	2.0	43.07	2.0	43.93	2.0	44.81	2.0	2.8
Industrial	113.72	97.44	-14.3	99.39	2.0	101.38	2.0	103.41	2.0	105.48	2.0	-6.3

Single family residents will see the most significant rate adjustment in the first year at 23.7% while all other classes will see a rate decrease. The dollar amount increase is **\$1.36** per month for single family accounts in the first year. The total increase by the fifth year will be **\$1.95** per month for single family accounts.

Even though single family rates are increasing the total revenues collected for the Liquid Waste Fund will remain constant in FY 2013-14 because of the rate decreases for the remaining classes. The proposed rates from FY2013-14 through 2017-18 are fair and proportionate share of the revenue requirements, which are explained in details in the report and by HF&H Consultants at tonight's meeting.

The last time the District performed a rate adjustment was in 2009 when all the customer classes experienced a 9% annual rate increase. The sewer rates have not been adjusted in the last four years.

If the Board accepts the report tonight, staff is proposing the following timeline in order to comply with Proposition 218.

- January 24, 2013 regular Board meeting – Set the public hearing date for sewer rate adjustments on April 25, 2013.
- Week of February 4, 2013 – Public hearing notices mailed to all sewer customers.
- Week of March 11, 2013 – Sewer rate adjustment workshop at the City's Neighborhood Community Center.
- April 25, 2013 regular Board meeting – Public hearing. If no majority protest than adopt the proposed rate schedule for the next five years.

Strategic Plan Element & Goal

This item complies with the objective and strategy of Strategic Element 7.0, *Finance*, which states:

Objective: *To ensure the short and long term fiscal health of the District.*

Strategy: *The District will forecast and plan revenue and expenditures and maintain appropriate reserves and investments to provide financial resources to fund current and planned operations and projects.*

Legal Review

Not applicable

Financial Review

The total liquid waste revenues in 2013-14 will remain constant from the year before at \$5,093,800 (FY 2012-13 Budget estimates) to \$5,110,130 (sewer study estimates). Revenues are projected to increase two percent a year for the next four consecutive years as indicated below.

FY 2014-15	\$5,212,332
FY 2015-16	\$5,316,579
FY 2016-17	\$5,422,910
FY 2017-18	\$5,531,369

To date, the cost to perform the sewer rate study is **\$40,128**.

Committee Recommendation

Not applicable

Public Notice Process

Copies of this report are on file and will be included with the entire agenda packet for the December 20, 2012 regular Board of Directors meeting at District Headquarters and on District's website.

Alternative Actions

1. Do not approve the final study and refer the matter back to staff.