



**2022 Financial Planning,
Revenue Requirements, and
Rate Setting Analysis for
Groundwater Management
and Wastewater Systems**

Presented by:



In Collaboration with



Robert D. Niehaus, Inc.

**MENDOCINO CITY COMMUNITY SERVICES DISTRICT
FINANCIAL PLANNING, REVENUE REQUIREMENTS,
AND RATE SETTING ANALYSIS**

FINAL REPORT

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EXECUTIVE SUMMARY

Background

The Mendocino City Community Services District (District/MCCSD) is an independent Special District responsible for the protection and management of the water resources, wastewater treatment, and streetlighting within the District. According to current Census data, the District's service area encompasses a population of approximately 855 residents and up to an estimated 2,500 daily visitors and covers a 1 square mile area which is predominantly characterized by residential development. The Mendocino City Community Services District is governed by a 5-member Board of Directors elected at large. Directors are elected to serve four year terms.

Groundwater is pumped from privately-owned wells at each individual residence and business in Mendocino resulting in several hundred water supply wells located within the District. Typical flow rates range from 1 to 10 gallons per minute and well depths typically range between 20 to 200 feet. Each year, some wells run dry in the late summer months and this occurrence is more prevalent during drier than normal years. The District's Sewer System is comprised of collection, treatment and disposal facilities. The District manages and maintains over 47,000 feet of collection system sewer lines and three lift stations. Wastewater collected from the Mendocino sewage system is treated at the District's wastewater treatment plant. The plant provides full tertiary treatment before discharge via an ocean outfall. The collection system includes the major portion of the system that was built in the mid 1970's, several pre-existing concrete collection lines from the old "Heeser System", and a private collection system constructed three years after the District system was completed in the Hills Ranch Subdivision. Several of the old sewer lines were incorporated into the District collection system that was completed in 1975. **Figure 1** shows the District's current service area outlined in red.

Figure 1. Mendocino City Community Services District Service Area



Purpose of Study

The purpose of this analysis is to conduct a rate study which evaluates the District's current rates and financial data, and propose new rates, if necessary, that meet the District's financial and strategic goals. In August 2021, the California Rural Water Association (CRWA) retained Robert D. Niehaus, Incorporated (RDN) to develop a comprehensive wastewater and groundwater management rate study (Study) for the District.

The primary objectives of this Study include:

- Projecting revenues and expenses for a five year study period
- Proposing revenue adjustments to fund the District's projected financial needs
- Proposing rates that are equitable and affordable, and that comply with Proposition 218
- Producing an administrative record which effectively summarizes all findings
- Supporting the District through the Proposition 218 process as necessary

Recommendation and Proposed Rates

Recommendations:

- RDN recommends that the District increase Wastewater revenue by 33.0 percent Fiscal Year (FY) 2022-23, 15.0 percent FY 2023-24, 12.0 percent FY 2024-25, and 6.0 percent annually FY 2025-26 and FY 2026-27 to fund increased operational costs, infrastructure replacement, and build up reserves
- RDN recommends that the District increase Groundwater Management revenue by 42.0 percent Fiscal Year (FY) 2022-23, 15.0 percent FY 2023-24, 12.0 percent FY 2024-25, and 6.0 percent annually FY 2025-26 and FY 2026-27
- RDN recommends the District optimally contribute \$440,000 year to reserves; however, if District allocates \$265,334 that should be sufficient to allow the District to apply for loans or issue bonds
- RDN recommends that the District contribute \$13,078 per year for Groundwater Management reserves in order to reach a target of 3 months of operation expenses (\$65,390) by the end of the study period

Current Rates

Currently, the District's wastewater customers pay \$50.60 a month per Equivalent Single Family Dwelling (ESD/EDU). The ESD/EDU calculation per customer is based on an engineer's estimate of a customer's total sewer output. One ESD is equal to a 1-2 bedroom single-family residence in the District with a theoretical water demand of 200 gallons per day. Residential customers have an annual bill of \$607.20. Groundwater Management (GWM) rates are also based on a standard ESD, with the assumption that greater sewer flows are directly related to greater water use. The current rate for one ESD for GWM customers is \$10.63, or \$127.56 annually.

Table 1. Current Wastewater Rates

Unit	Current
Per ESD	\$50.60

Table 2. Current Groundwater Management Rates

Unit	Current
Per ESD	\$10.63

Proposed Wastewater Rates

Using guidance from the AWWA’s reserve manual¹ and in order to mitigate the effects of revenue increases on District customers, the proposed rates include annual reserve contributions based on the sum of Operating and Maintenance (O&M) expenses, which are reported in the District’s budget, and a portion of total depreciable fixed assets. The annual contributions equal \$350,000, which includes the goal of maintaining 6 months of operations expense in reserve and an annual Capital Improvement reserve contribution of \$265,334 to fund future replacements of the \$41 million in fixed assets currently managed by the District. Annual revenue increases under this option are 33.0 percent per for FY 2022-23, 15.0 percent for FY 2023-24, 12 percent of FY 2024-25, and 6.0 percent for FY 2025-26 and FY 2026-27.

Table 3. Proposed Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
33.0%	15.0%	12.0%	6.0%	6.0%

Table 4 presents the proposed monthly rates for FY 2022-23 through FY 2026-27. The proposed rates reflect necessary revenue adjustments of annual increases shown in Table 3.

Table 4. Proposed Wastewater Rates

Unit	Monthly Bill				
	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per ESD	\$67.30	\$77.39	\$86.68	\$91.88	\$97.39

Proposed Groundwater Management Rates

Current Groundwater Management rates do not support the costs associated with the utility. There are no capital assets attributed to GWM so it is not necessary to build a CIP reserve; however, the proposed rates include an annual contribution of \$13,078 to the emergency operations reserve. To cover operating costs and maintain reserve contributions, a revenue adjustment of 42.0 percent is recommended for the test year (FY 2022-23), followed by 15.0% in FY 2024-25, 12.0% increase in FY 2025-26 and 6.0% annual increases in FY 2025-26 and FY 2026-27.

¹ Cash Reserve Policy Guidelines, 2018, AWWA Rates & Charges Committee White Paper, American Water Works Association

Table 5. Proposed Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
42.0%	15.0%	12.0%	6.0%	6.0%

Table 6 presents revenue proposed monthly rates for FY 2022-23 through FY 2026-27. The proposed rates reflect necessary revenue adjustments of annual increases shown in Table 5.

Table 6. Proposed Groundwater Management Rates

Monthly Bill					
Unit	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per ESD	\$15.09	\$17.35	\$19.43	\$20.60	\$21.84

Key Assumptions

Escalation Factors

Escalation Factors were calculated for eight independent variables using historical Consumer Price Index (CPI) data from West Class B/C cities between 2000 and the most current calendar year, and projections by the California Department of Transportation (CADOT), and the California Department of Finance (CADOFF). Recent inflation has outpaced projected long-term averages based on historical data. The rates used in this study reflect higher short-term inflation, which balances out over the study period. The analysis assumes that Operating Revenues will continue to be stable for the next five years. The escalation factors capture the effects of price inflation for this period. Table 7 displays the projected escalation factors for the study period. Due to local contingencies, the Utility/Chemical inflation rate is expected to rise at a rate of 8.4 percent in FY 2022-23. The Employee Expenses Inflation Rate, which includes salaries, insurance, and payroll taxes, is expected to rise 4.0 percent per year during the study period, except for the test year, where employee expenses were escalated by 9.0 percent to reflect necessary payroll increases for local cost of living adjustments. Some expenses are not expected to increase during the study period; thus, those costs were kept fixed for the study period.

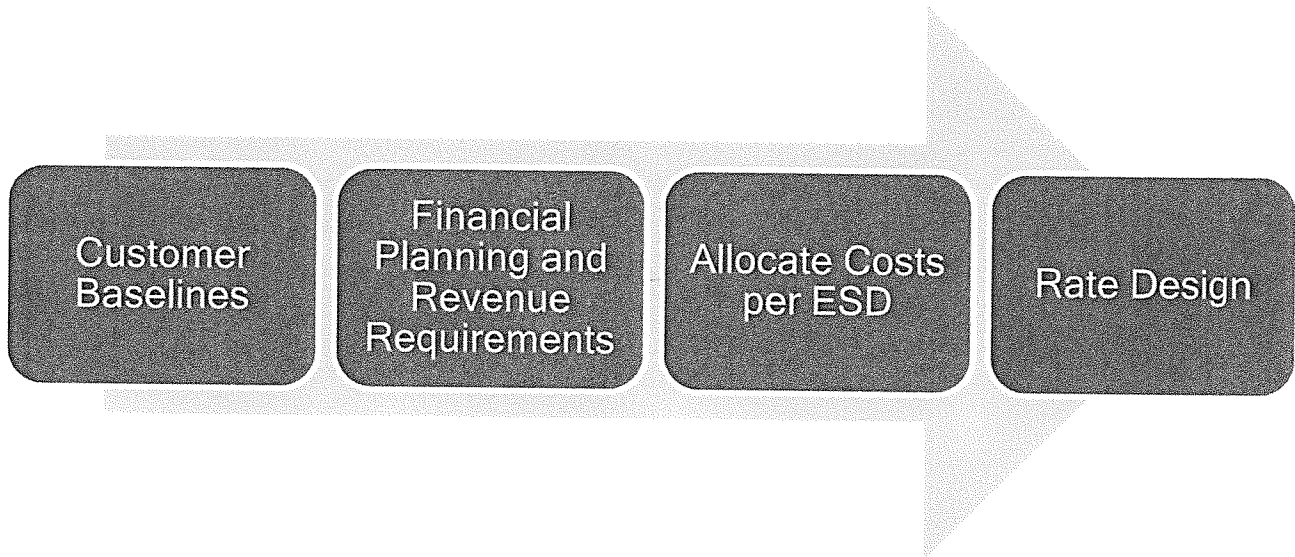
Table 7. Escalation Factors

Escalation Factor	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Overall Inflation Rate:	4.3%	3.8%	3.8%	2.8%	2.8%
Utility/Chemical Inflation Rate:	8.4%	6.4%	6.4%	2.8%	2.8%
Treatment Inflation Rate:	6.0%	6.0%	6.0%	6.0%	6.0%
Employee Expenses Inflation Rate:	9.0%	4.0%	4.0%	4.0%	4.0%
Equipment Inflation Rate:	7.8%	5.1%	5.1%	2.2%	2.2%
Fuels and Automobile Inflation Rate:	8.7%	7.3%	7.3%	2.7%	2.7%
Construction Inflation Rate:	8.4%	5.9%	5.9%	4.2%	4.2%
Insurance Inflation Rate	9.0%	2.9%	2.9%	2.9%	2.9%
No Escalation:	0.0%	0.0%	0.0%	0.0%	0.0%

GENERAL METHODOLOGY

The wastewater rates formulated in this study were developed using principles set forth by the Water Environment Federation (WEF). RDN rate-making practices incorporate methods described in the WEF *Financing and Charges for Wastewater Systems*². Figure 2 presents the steps taken to develop the District's proposed rates.

Figure 2. Wastewater Rate Study Process



- **Customer Baselines:** determine if there will be customer growth during the five-year study period, FY 2022-23 through FY 2026-27, using the District's historical growth data. Forecast revenues for the study period based on the current ESD count and projected customer growth.
- **Financial Planning and Revenue Requirements:** develop a five-year financial plan based on the projected revenues and annual costs which include both operating and capital expenses. The District's target reserve level should also be considered as part of the financial planning. Based on the financial planning, revenue requirements are determined for each year of the study period.
- **Allocate Costs per ESD:** divide the total revenue requirements by the projected number of ESDs to determine individual cost allocation.
- **Rate Design:** design rates to recover the rate revenue requirements from each customer.

² Financing and Charges for Wastewater Systems, WEF Manual of Practice Number 27, Water Environment Federation

Legal Considerations

California Constitution - Article XIII C (Proposition 26)

The voters in the State approved Proposition 26 on November 2, 2010. Proposition 26 amended Article XIII C of the State Constitution to expand the definition of “tax” to include “any levy, charge, or exaction of any kind imposed by a local government” with listed exceptions. By means of these exceptions, Article XIII C classifies several types of charges, in addition to property-related charges, that are not taxes, such as charges for specific services or benefits, regulatory charges and penalties.

Article XIII C’s definition of “tax” lists the following exceptions: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIII D.

Proposition 26 also provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payer bear a fair or reasonable relationship to the payer’s burdens on, or benefits received from, the governmental activity. Like the proportionality requirements of Article XIII D, assessment of rates under these requirements, if applicable, would be supported by the cost of service approach.

California Constitution - Article XIII D, Section 6 (Proposition 218)

In November 1996, California voters passed Proposition 218, the “Right to Vote on Taxes Act.” This constitutional amendment protects taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent.

Between 2002 and 2017, California courts have ruled that fees associated with providing sewer services are “property-related” and thus under the jurisdiction of Prop 218. The principal requirements for fairness of the fees, as they relate to public sewer service, are as follows: Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service. Revenues derived by the fee or charge shall not be used for any other purpose other than that for which the charge was imposed. The amount of the fee or charge imposed upon any parcel shall not exceed the proportional cost of service attributable to the parcel. Reliance by an agency on any parcel map, including, but not limited to, an assessor’s parcel map, may be considered a significant factor in determining whether a fee or charge is imposed as an incident of property ownership for purposes of this article.

The rates developed in this Report use a methodology to establish an equitable system of charges that recover the cost of providing service and fairly apportion costs to each customer as required by Proposition 218.

FINANCIAL PLANNING

While developing this report's recommended financial plans and ultimately producing the recommendation of revenue adjustments needed to achieve the stated financial goals, RDN explored multiple financial plan options for each utility, primarily differentiated by the total reserve contributions accomplished under each plan.

Plan 1: No Change in Contributions

The District has a goal of contributing approximately \$100,000 per year to the Wastewater CIP reserve. Due to increases in operating expenses, the District has not been able to contribute to reserves for the last three years. In order to return to this level of reserve funding as well as cover escalating operating costs, annual revenue adjustments between 8.0 percent and 9.0 percent are necessary for the wastewater utility through the study period. **Table 8** and **Table 9** show the necessary wastewater revenue adjustments and resulting monthly rates under this financial plan, respectively. Plan 1 does not allow the District to borrow money, replace equipment, or provide continued maintenance of existing equipment.

Table 8. Plan 1 Wastewater Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
9.0%	9.0%	9.0%	8.0%	8.0%

Table 9. Plan 1 Resulting Monthly Wastewater Rates

Unit	Current	Monthly Bill				
		FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per EDU	\$50.60	\$55.15	\$60.12	\$65.53	\$70.77	\$76.43

Table 10 and **Table 11** show the necessary Groundwater Management revenue adjustments and resulting monthly rates under this financial plan, respectively. No contributions to GWM reserves are made under this plan.

Table 10. Plan 1 GWM Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
73.0%	0.0%	0.0%	0.0%	0.0%

Table 11. Plan 1 Resulting Monthly GWM Rates

Unit	Current	Monthly Bill				
		FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per EDU	\$10.63	\$18.38	\$18.38	\$18.38	\$18.38	\$18.38

While this plan does maintain the current level of contributions and covers operating expenses through the study period, it was determined that upcoming capital replacement needs would

not be met. Plan 1 should be abandoned because it would not provide sufficient funding to ensure that the District can maintain a high level of service for its customers in the long-term.

Plan 2: Optimal Contributions

The District manages approximately \$41 million (replacement cost) worth of depreciable infrastructure, with much of that already beyond its serviceable lifespan. In order to provide sufficient reserves to cover future (and current) CIP needs a target contribution of \$416,822 annually was determined as the optimal CIP Reserve level (one percent of annual replacement costs). Additionally, it was determined that the District should maintain emergency operating reserve funds for each of the utilities. Under Plan 2, the District will develop an Operating Reserve of 6 months' worth of O&M expenses by the end of the study period through annual contributions of \$79,585. In order to meet target reserve contributions and cover escalating operating costs, annual revenue adjustments between 4.0 percent and 45.0 percent are necessary for the wastewater utility through the study period. Table 12 and Table 13 show the necessary wastewater revenue adjustments and resulting monthly rates under this financial plan, respectively.

Table 12. Plan 2 Wastewater Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
45.0%	20.0%	13.0%	6.0%	4.0%

Table 13. Plan 2 Resulting Monthly Wastewater Rates

Unit	Monthly Bill					
	Current	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per EDU	\$50.60	\$73.37	\$88.04	\$99.49	\$105.46	\$109.68

Table 14 and Table 15 show the necessary Groundwater Management revenue adjustments and resulting monthly rates under this financial plan, respectively. Under Plan 2 the Groundwater Management utility will contribute approximately \$13,078 each year to an operating reserve fund, reaching 3-months' worth of O&M expenses by the end of the study period.

Table 14. Plan 2 GWM Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
83.0%	0.0%	0.0%	0.0%	0.0%

Table 15. Plan 2 Resulting Monthly GWM Rates

Unit	Monthly Bill					
	Current	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per EDU	\$10.63	\$19.45	\$19.45	\$19.45	\$19.45	\$19.45

During the course of the study, it was determined that Plan 2 might have too great an impact on the District's customers to be faithfully implemented by the board. Rates must ultimately be balanced with both affordability and sufficiency in mind and while the rates in Plan 2 should sufficiently provide for the District's capital needs, they may not be affordable for the District's customers.

Plan 3: Balanced Contributions (Recommended)

In order to balance the needs of the District and its customers, a compromise plan was developed which makes significant contributions to the District's reserve funds, albeit at a lower level than needed, and minimizes the impacts on customer rates. Under Plan 3, the District will contribute approximately \$265,334 per year to the CIP fund. Under Plan 3, the District will develop an Operating Reserve of 6-months-worth of O&M expenses by the end of the study period through annual contributions of \$79,585, same as the optimal plan. In order meet target reserve contributions as well as cover escalating operating costs, annual revenue adjustments between 6.0 percent and 33.0 percent are necessary for the wastewater utility through the study period. Table 16 and Table 17 show the necessary wastewater revenue adjustments and resulting monthly rates under this financial plan, respectively.

Table 16. Plan 3 Wastewater Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
33.0%	15.0%	12.0%	6.0%	6.0%

Table 17. Plan 3 Resulting Monthly Wastewater Rates

Unit	Monthly Bill					
	Current	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per EDU	\$50.60	\$67.30	\$77.39	\$86.68	\$91.88	\$97.39

Table 18 and Table 19 show the necessary Groundwater Management revenue adjustments and resulting monthly rates under this financial plan, respectively. Under Plan 3 the Groundwater Management utility will contribute approximately \$13,078 each year to an operating reserve fund, reaching 3-months-worth of O&M expenses by the end of the study period, which is the same as the optimal plan.

Table 18. Plan 3 GWM Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
42.0%	15.0%	12.0%	6.0%	6.0%

Table 19. Plan 3 Resulting Monthly GWM Rates

Unit	Monthly Bill					
	Current	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per ESD	\$10.63	\$15.09	\$17.35	\$19.43	\$20.60	\$21.84

This plan is recommended because it best accomplishes the District's goals while preserving the lowest possible rates for the District's customers.

Plan 4: No Contributions

Plan 4 includes the minimum revenue adjustments necessary for the District to continue to maintain its operations without a net loss. In order to cover escalating operating costs, annual revenue adjustments between 3.5 percent and 11.0 percent are necessary for the wastewater utility through the study period. Under this plan the current cash balance would remain unchanged and no contributions would be made to reserves. Table 20 and Table 21 show the necessary wastewater revenue adjustments and resulting monthly rates under this financial plan, respectively.

Table 20. Plan 4 Wastewater Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
11.0%	3.5%	3.5%	3.5%	3.5%

Table 21. Plan 4 Resulting Monthly Wastewater Rates

Unit	Monthly Bill					
	Current	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per EDU	\$50.60	\$56.17	\$58.13	\$60.17	\$62.27	\$64.45

Table 22 and Table 23 show the necessary Groundwater Management revenue adjustments and resulting monthly rates under this financial plan, respectively. No contributions to GWM reserves are made under this plan.

Table 22. Plan 4 GWM Revenue Adjustments

FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
73.0%	0.0%	0.0%	0.0%	0.0%

Table 23. Plan 4 Resulting Monthly GWM Rates

Unit	Monthly Bill					
	Current	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per EDU	\$10.63	\$18.38	\$18.38	\$18.38	\$18.38	\$18.38

While this plan covers operating expenses through the study period, it was determined that upcoming capital replacement needs would not be met. Plan 4 should be abandoned because it would not provide sufficient funding to maintain, repair, or replace existing equipment and service.

Plan 5: No Contributions (No Adjustments)

If the District ultimately chooses to make no changes to their rate structure, total revenues will continue to be below total expenses, further depleting reserves and ultimately leading to a

failure of its infrastructure. Under Plan 5 the rates would remain as they currently are and no significant contributions would be made to reserves, in fact reserves would quickly be depleted (FY 2024-25).

Revenues

Wastewater

Based on rising costs of operation, the need for infrastructure repair and replacement, and the minimal customer growth through the study period, revenues from rates were calculated for each year of the study. Additionally, non-rate revenues such as interest income were estimated based on historical values and District input. With no rate increases, the District is expected to collect between \$678,850 and \$686,138 per year from the current wastewater rates, and an additional \$116,060 per year from non-rate revenues. Total projected revenue under the current rates is estimated at \$794,910 for the test year, FY 2022-23, and could increase to \$802,196 if there is any customer growth by the final year of the study period, FY 2026-27.

GWM

Revenues from rates were calculated for each year of the study. Additionally, non-rate revenues such as interest income were estimated based on historical values and District input. With no rate increases, the Groundwater Management utility is expected to collect between \$132,634 and \$134,247 per year from customers' rates, and an additional \$11,882 per year from non-rate revenues. Total projected revenue under the current rates is estimated at \$144,516 for the test year, FY 2022-23, and will increase to \$146,129 in the final year of the study period, FY 2026-27.

Operating and Maintenance Expense

Wastewater

This District's FY 2021-22 wastewater Budget anticipated approximately \$634,149 in expenses which were classified as Operating and Maintenance Expense (O&M). Due to the volatility of projected inflation because of the COVID-19 pandemic and resulting supply chain issues, annual inflation is expected to increase by 8.0 percent in FY 2022-23. We project that inflation will eventually balance out, and future year inflation will vary between 3.3 percent and 4.3 percent. By the end of the study period, FY 2026-27, annual O&M expenses are projected to reach around \$795,857.

GWM

This District's FY 2021-22 Budget anticipated approximately \$195,912 in expenses which were classified as Operating and Maintenance Expense (O&M). Based on the corresponding escalation factors for each O&M line item, an average inflation rate of approximately 4.7 percent was calculated for the study period. In the first year of the study period, expenses are expected to rise by 8.0 percent because of the current inflationary pressures. By the end of the study period, FY 2026-27, annual O&M expenses are projected to reach around \$245,870.

Debt Service

The District's wastewater utility currently has annual debt service payments of approximately \$115,000 which will remain consistent through the study period. The GWM utility does not have any current or new debt service payments planned.

Target Reserves

In the past, the District contributed \$100,000 a year to the wastewater CIP reserve, when revenues allowed. The District has not been able to make contributions during the last three fiscal years. The District's current cash balance is approximately \$165,000 separated among various bank accounts. The District needs to develop reserve balances in line with future capital needs and to mitigate possible revenue deficiencies during emergencies. The proposed financial plan will contribute \$265,334 annually to the wastewater CIP Fund, \$79,585 annually to the wastewater O&M Fund, and \$13,078 annually to the GWM O&M Fund. The target balance of the wastewater O&M reserve fund is six months of operating expenses in FY 2026-27, \$397,925. The target balance of the GWM O&M reserve is three months of operating expenses in FY 2026-27, \$65,390.

Revenue Requirements

Wastewater

Revenue requirements were developed based on the revenue adjustments outlined in the Executive Summary. The recommendation includes current debt service payments and reserve contributions of approximately \$350,000 per year, categorized as Other Obligations. The total revenue requirements are offset by the sum of Other Operating Revenues and Non-operating Revenues. Under the proposed financial plan, the test year Revenue Requirements equal \$790,860, which takes into account the mid-year revenue adjustment.

Table 24. Proposed Revenue Requirements

Description	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
	Test Year				
Other Operating Revenues	(\$6,873)	(\$6,873)	(\$6,873)	(\$6,873)	(\$6,873)
O&M Expenses	\$684,841	\$714,407	\$745,357	\$770,176	\$795,857
Non-Operating Revenues	(\$109,187)	(\$109,187)	(\$109,187)	(\$109,187)	(\$109,187)
Other Obligations	\$459,919	\$459,919	\$459,919	\$459,919	\$459,919
Net Balance	(\$237,840)	(\$17,179)	\$79,921	\$128,559	\$180,939
Revenue Requirements	\$790,860	\$1,041,087	\$1,169,137	\$1,242,593	\$1,320,655

GWM

Revenue requirements were developed based on the revenue adjustments outlined in the Executive Summary. The recommendation includes reserve contributions of between \$13,078 per year, categorized as Other Obligations. The total revenue requirements are offset by the sum of Other Operating Revenues and Non-operating Revenues. Under the proposed financial plan, the test year Revenue Requirements for Groundwater Management equal \$160,487.

Table 25. Proposed Revenue Requirements

Description	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
	Test Year				
Other Operating Revenues	(\$11,794)	(\$11,794)	(\$11,794)	(\$11,794)	(\$11,794)
O&M Expenses	\$211,573	\$220,707	\$230,268	\$237,936	\$245,870
Non-Operating Revenues	(\$88)	(\$88)	(\$88)	(\$88)	(\$88)
Other Obligations	\$13,078	\$13,078	\$13,078	\$13,078	\$13,078
Net Balance	(\$52,282)	(\$4,656)	\$12,588	\$20,348	\$28,815
Revenue Requirements	\$160,487	\$217,247	\$244,053	\$259,479	\$275,881

Recommended Financial Plan

Wastewater

Based on the revenue requirements, the proposed financial plan includes an initial revenue adjustment of 33.0 percent in FY 2022-23, a 15.0 percent in FY 2023-24, a 12.0 percent revenue adjustment in FY 2024-25, 6.0 percent adjustments in FY 2025-26 and FY 2026-27. Under this plan a total of \$1.6 million will be contributed to the CIP Reserve; additionally, \$397,925 will be contributed to the O&M reserve by the end of the study period.

Table 26. Recommended Wastewater Financial Plan, FY 2022-23 – FY 2026-27

Description	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
	Test Year				
Operating Revenues	\$797,733	\$1,047,960	\$1,176,011	\$1,249,467	\$1,327,529
Sewer Charges - Existing	\$678,850	\$680,671	\$682,493	\$684,314	\$686,136
Year 1 - 33 %	\$112,010	\$224,621	\$225,223	\$225,824	\$226,425
Year 2 - 15 %		\$135,794	\$136,157	\$136,521	\$136,884
Year 3 - 12 %			\$125,265	\$125,599	\$125,933
Year 4 - 6 %				\$70,335	\$70,523
Year 5 - 6 %					\$74,754
Sewer Charges	\$790,860	\$1,041,087	\$1,169,137	\$1,242,593	\$1,320,655
Other Operating Revenues	\$6,873	\$6,873	\$6,873	\$6,873	\$6,873
O&M Expenses	(\$684,841)	(\$714,407)	(\$745,357)	(\$770,176)	(\$795,857)
Net Operating Revenues	\$112,892	\$333,553	\$430,653	\$479,291	\$531,672
Non-operating Revenues	\$109,187	\$109,187	\$109,187	\$109,187	\$109,187
Other Obligations	(\$459,919)	(\$459,919)	(\$459,919)	(\$459,919)	(\$459,919)
Contribution to Reserves	(\$344,919)	(\$344,919)	(\$344,919)	(\$344,919)	(\$344,919)
Debt Service Principal	(\$115,000)	(\$115,000)	(\$115,000)	(\$115,000)	(\$115,000)
Net Balance	(\$237,840)	(\$17,179)	\$79,921	\$128,559	\$180,939
Beginning of the Year Balance	\$437,000	\$199,160	\$181,981	\$261,902	\$390,460
Ending Balance	\$199,160	\$181,981	\$261,902	\$390,460	\$134,399
Total Cash Balance	\$471,742	\$799,482	\$1,224,322	\$1,697,799	\$2,223,657

GWM

Based on the revenue requirements, the proposed financial plan includes an initial revenue adjustment of 42.0 percent in FY 2022-23, a 15.0 percent in FY 2023-24, a 12.0 percent revenue adjustment in FY 2024-25, 6.0 percent adjustments in FY 2025-26 and FY 2026-27. Under this plan a total of \$65,390 will be contributed to the O&M reserve and the GWM Utility will become self-sustaining, no longer needing to borrow money from the wastewater utility.

Table 27. Recommended GWM Financial Plan, FY 2022-23 – FY 2026-27

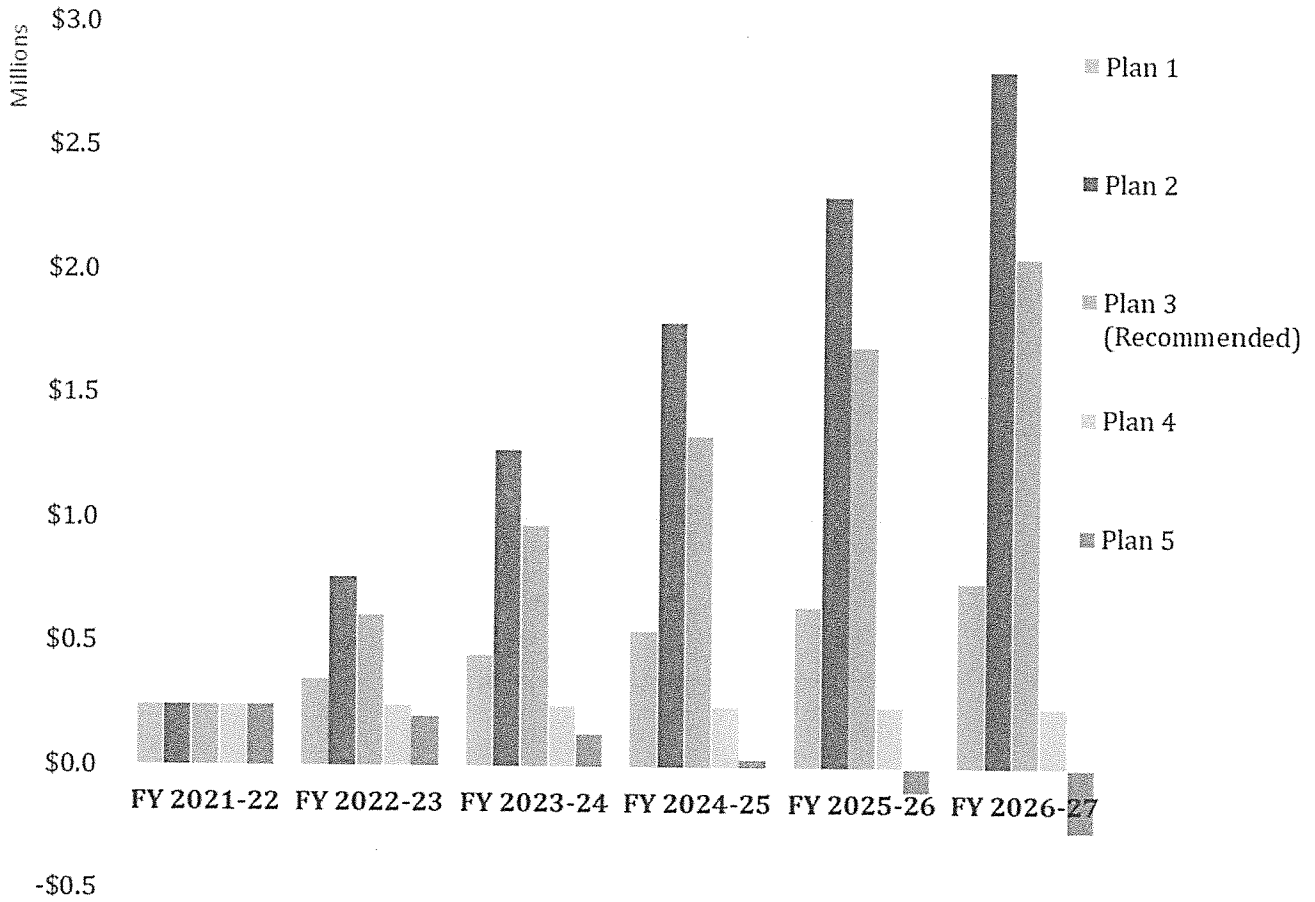
Description	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
	Test Year				
Operating Revenues	\$172,281	\$229,041	\$255,847	\$271,273	\$287,675
GWM Charges - Existing	\$132,634	\$133,035	\$133,438	\$133,842	\$134,247
Year 1 - 42 %	\$27,853	\$55,875	\$56,044	\$56,214	\$56,384
GWM Charges	\$160,487	\$217,247	\$244,053	\$259,479	\$275,881
Other Operating Revenues	\$11,794	\$11,794	\$11,794	\$11,794	\$11,794
O&M Expenses	(\$211,573)	(\$220,707)	(\$230,268)	(\$237,936)	(\$245,870)
Net Operating Revenues	(\$39,292)	\$8,334	\$25,579	\$33,338	\$41,805
Non-operating Revenues	\$88	\$88	\$88	\$88	\$88
Other Obligations	(\$13,078)	(\$13,078)	(\$13,078)	(\$13,078)	(\$13,078)
Debt Service Principal	\$0	\$0	\$0	\$0	\$0
Debt Service Interest	\$0	\$0	\$0	\$0	\$0
Contribution to Reserves	(\$13,078)	(\$13,078)	(\$13,078)	(\$13,078)	(\$13,078)
PAYGO	\$0	\$0	\$0	\$0	\$0
Ending Balance	(\$52,282)	(\$56,938)	(\$44,350)	(\$24,002)	\$4,813
Total Cash Balance	(\$39,204)	(\$30,782)	(\$5,116)	\$28,310	\$70,203

Proposed Reserve Balances

Figure 3 shows the resulting total fund balances of each of the plans outlined in the beginning of the Financial Plan section for the wastewater system. The primary difference between the five plans outlined is the total reserve contributions. Plan 3 was determined to be the most reasonable, balancing the District's financial needs with customer impact. If the District chooses not to implement new rates at this time, the impacts on cash balances are shown in the Plan 5 bar. Fund balances for the wastewater system will steadily decrease until the District has no cash on hand.

For the GWM utility, there are only two options, either contribute annually to an O&M reserve fund or continue to maintain a cash balance of zero dollars. It is recommended that the District contribute to an operating reserve fund for the study period. If the District does not contribute to this reserve fund, future cash deficiencies (due to emergency or other unforeseen event) will need to be funded directly from rates, or from outside cash, either a loan or a grant. While the GWM system doesn't currently have any capital costs, O&M expenses require that a balance should be maintained.

Figure 3. Resulting Wastewater Fund Balances under the Described Plans



RATE SETTING

Assumptions

Generally, rate setting includes an analysis of the relative financial responsibility by customer or customer class based on the demands they place on the respective system. This analysis is typically called a Cost of Service Analysis. Because District engineers assign the relative proportionate cost allocation to each of the District’s customers at the time they join the system, RDN deemed it prudent to maintain the system of Equivalent Single Family Dwellings. The total Wastewater ESDs amount to 1,118 and the total GWM ESDs are 1,040, split among approximately 431 accounts. Residences with 2 or less bedrooms are assigned 1 ESD, and each additional bedroom is assigned 0.3 ESD. Commercial enterprises are assigned ESD’s based on water use standards, square footage, and type of establishment. The rates recommended in this study were developed by dividing the total revenue requirements, determined in the financial planning section, by the total projected ESDs for each year in the study period. The unit cost per ESD will then be allocated to each individual customer based on their total ESD count.

Recommendations

RDN recommends the District implement the rates outlined in this report as “Plan 3”. The proposed rates include funding for both reserve balances and continuing operations. It is important to note that under this plan, the approved rate increases function as an upper bound through the 5-year period encompassed within a Proposition 218 Hearing. If the District is able to secure additional funding sources for future CIP projects, or if customer growth is higher than expected, resulting in increased revenues, the District Board can choose to not implement increases in any given year.

Proposed Rates

To create rates outlined in this study, the essential calculation is the revenue requirements, developed in the financial planning analysis, divided by the number of ESDs, which were determined by the District’s engineering staff. The rates provided fund appropriate levels of spending and reserve contributions.

Table 28. Recommended Study Period Wastewater Rate Schedule

Monthly Bill					
Unit	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per ESD	\$67.30	\$77.39	\$86.68	\$91.88	\$97.39

Table 29. Recommended Study Period Groundwater Management Rate Schedule

Monthly Bill					
Unit	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27
Per ESD	\$15.09	\$17.35	\$19.43	\$20.60	\$21.84

CONCLUSION

Recommendations

- The District should increase Wastewater revenue by 33.0 percent Fiscal Year (FY) 2022-23, 15.0 percent FY 2023-24, 12.0 percent FY 2024-25, and 6.0 percent annually FY 2025-26 through FY 2026-27 to fund the desired employment costs and build up reserves
- The District should increase Groundwater Management revenue by 83.0 percent in FY 2022-23
- The District should contribute \$265,334 annually to the wastewater CIP reserve and build O&M reserves to equal 6 months of operation expenses (\$397,925) by the end of the study period
- The District should contribute \$13,078 per year for Groundwater Management reserves in order to reach a target of 3 months of operation expenses (\$65,390) by the end of the study period

If No Action is Taken

If the District chooses to not implement any rate increases at this time, they will begin to see a decrease in fund balances during the study period which will continue to expand in future years. **Figure 4** shows the declining wastewater fund balances projected through 10 years if no action is taken. In the first year, the wastewater must begin pulling from their savings. If any emergency or capital funding becomes necessary, it will cut significantly into the District’s cash pool.

Figure 4. Long-Term Wastewater Financial Plan with no Rate Adjustments

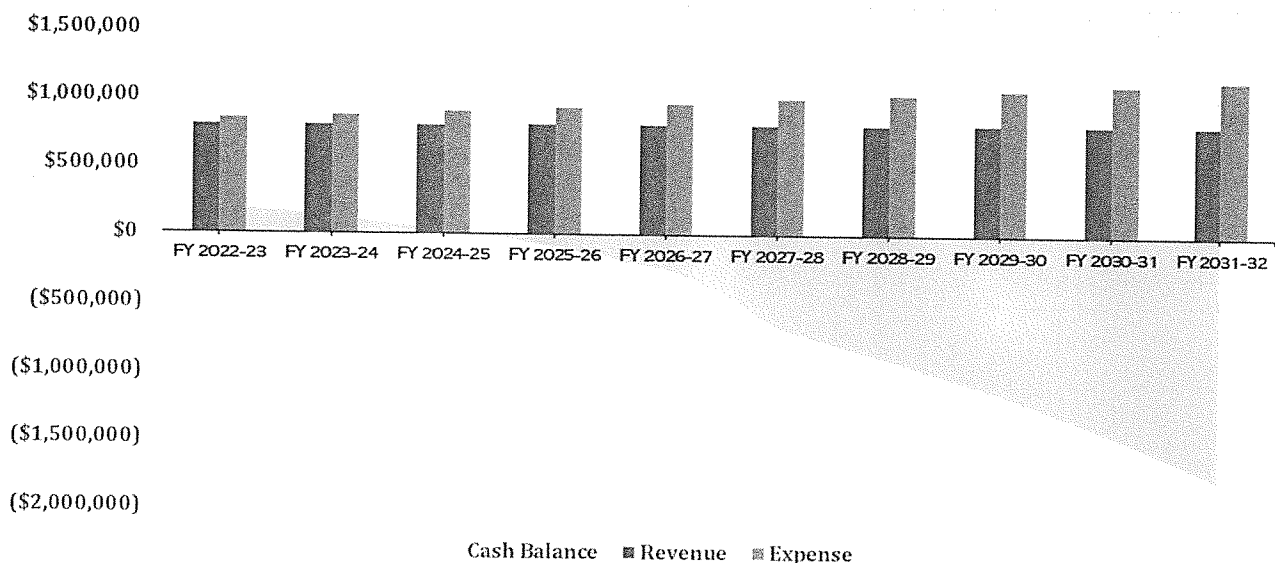


Figure 5 shows the declining groundwater management fund balances projected through 10 years if no action is taken. The GWM utility has no current reserves. If no action is taken, the GWM will continue to need funding from outside sources. If any emergency or capital funding becomes necessary, it will cut significantly into the District's cash pool.

Figure 5. Long-Term GWM Financial Plan with no Rate Adjustments

