

The rate for Alternative 1A - No Loan Payback, No Phase-In would be \$62.30 for the first year, with subsequent rates of \$63.51, \$64.74, \$66.03 and \$67.35 in each of the following four (4) years.

The rate for Alternative 1B - No Loan Payback, Three (3)-Year Phase-In would be \$23.40 for the first year, with subsequent rates of \$38.97, \$64.74, \$66.03 and \$67.35 in each of the following four (4) years.

The rate for Alternative 2A - Loan Payback, No Phase-In would be \$93.66 for the first year, with subsequent rates of \$94.87, \$101.09, \$102.38 and \$103.70 in each of the following four (4) years.

The rate for Alternative 2B - Loan Payback, Three (3)-Year Phase-In would be \$26.51 for the first year, with subsequent rates of \$50.47, \$96.10, \$114.25 and \$115.55 in each of the following four (4) years.

The phase-in option allows for a gradual increase, applied annually, to the proposed rate structure to impact the financial impact on the rate payers.

This information is detailed in Table 1 (attached).

Staff reasoning for the “Alternative 2A - Loan Payback, No Phase-In” recommendation is based on the objective to eliminate potential subsidies that would likely require additional funding by the General Fund.

DISCUSSION:

Two (2) alternatives presented in the CSA 75 Rate Study address the need to generate adequate revenues that meet forecasted requirements. Alternatives 1A and 1B provide rate increase options with no payback of loans from the General Fund. Alternatives 2A and 2B provide rate increase options with payback of loans from the General Fund. Each alternative provides two (2) options: One (1) with No Phase-In (the new rate will be implemented in the first year of the rate increase) and an option with a Three (3) -Year Phase-In (the rates for the first two [2] years will not match anticipated expenses, however, in the third year the revenues will match expenses). Both the “No Phase-In” and “Three-Year Phase-In” options have the potential to require a subsidy.

Alternative 1A - No Loan Payback, No Phase-In adjusts monthly service charges to customers that results in revenues exactly meeting expenses over the next five (5) years. If the rate increase begins in the middle of the fiscal year it could result in a negative cash flow up to \$104,957, requiring a subsidy.

Alternative 1B - No Loan Payback, Three (3)-Year Phase-In would be phased in over the first three (3) years of the rate increase, resulting in a potential negative cash flow in the first two (2) years. Revenues would match expenses in the third year. A subsidy up to \$257,431 could be needed.

Alternative 2A - Loan Payback, No Phase-In adjusts monthly service charges to customers that results in revenues exactly meeting expenses over the next five (5) years. As with Alternative 1A, if the rate increase begins in the middle of the fiscal year it could result in a negative cash flow up to \$173,002, requiring a subsidy.

Alternative 2B - Loan Payback, Three (3)-Year Phase-In would be phased over the first three (3) years, resulting in revenues matching expenses in the third year. This could result in a potential negative cash flow in the first two (2) years. A subsidy up to \$442,198 could be required.

Two (2) community outreach events were held to inform the residents in CSA 75 - Chualar of the planned increase and obtain feedback related to the proposed increase. The first community event was held in December 2014 and provided background information about the wastewater system, the need to increase rates

to support existing operations, meet capital improvements requirements and establish reserves. Additionally, members of the community were provided with details of previous County loans, comparative wastewater rates throughout the County (Table 2 attached), as well as potential rates charges to residents of CSA 75. Approximately fifteen members of the Community of Chualar attended. The residents expressed concern about any potential rate increase, regardless of the amount and phase-in options.

The second community event was held in November 2015. Approximately twenty-five members of the community attended. Information about the wastewater system as well as the need to increase rates was reiterated to the audience. Details about the alternatives were provided and a number of the attendees participated in a discussion about the wastewater system as well as other issues in the community. The general consensus by members of the audience that participated in the discussion was that all rate increase options were too high and could not be supported by the residents of the community. No specific rate alternative was recommended by the community.

Any increase in the wastewater rates must be approved through the Proposition 218 Majority Protest process. A majority protest exists if, upon the conclusion of the required public hearing, a majority of written protests are received. Only one (1) written protest per parcel will be counted for purposes of determining if there is a majority protest. If there is a majority protest, the sewer fees cannot be increased, revenue will not increase, and the CSA will continue to experience deficits.

FINANCING:

All options have the potential to require General Fund subsidy. Alternative 1A - No Loan Payback, No Phase-In results in the lowest possible General Fund subsidy of up to \$104,957. Alternative 1B - No Loan Payback, Three (3)-Year Phase-In could require a General Fund subsidy of up to \$257,431. Alternative 2A - Loan Payback, No Phase-In could result in a General Fund subsidy up to \$173,002 and Alternative 2B Loan Payback, Three (3)-Year Phase-In would have the highest potential General Fund subsidy of up to \$442,198. At the end of the five (5) year period following the initial rate increase, the County will be in a position to go back for another rate adjustment and which could include reimbursement of any subsidies provided during the five (5) year period of the current proposed rate structure.

The current rate structure provides insufficient revenue to meet the expenditure requirements of CSA 75. As a result, no reserves have been established to fund annual equipment maintenance and replacements costs as well as a capital improvement program. Since June 2012, the Board of Supervisors has authorized four (4) loans from the General Fund totaling \$1,166,483. If the rate alternative selected does not include provisions for payback of the loans, the CSA will be unable to repay the loans made by the General Fund.

It is anticipated that future general fund contributions will be required to continue the operation of CSA 75 if there is no rate increase. These General Funds are typically identified as a loan. However, if the Proposition 218 process fails to pass to recover these loans, the county may need to consider additional loans to the CSA. Because of the health and safety requirements related to sewer operations, it is unlikely that the existing level of service can be reduced. The CSA also receives approximately \$4,000 per year in assessments specifically for street lighting. Current street lighting costs are about \$9,500 per year. Additionally, approximately \$24,500 in Assembly Bill 8 (AB 8) property tax revenue is received annually. These funds can be used for any CSA service and are currently used to fund street lighting costs that are not covered by the current street lighting assessment. The remainder is used to supplement the inadequate sewer fees. If the rate increase is not approved, it may be necessary to divert all of the AB 8 revenue to fund sewer operations. Without a rate increase or General Fund supplement, revenue would still be inadequate to meet maintenance costs, even if half of the street lights in the CSA were to be turned off. Additionally, there would be insufficient funding for any emergency repairs.

The county is currently in the Request for Proposal (RFP) process to sell the sewer and water operations currently owned and managed by the County. The Chualar sewer system is included in this RFP. A more sustainable rate structure for CSA 75 would likely make it more attractive to potential bidders.

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Attachments: Table 1 Summary of Proposed Revenue Adjustments; Table 2: Comparative Wastewater Rates throughout Monterey County; CSA 75 Rate Study; Location Map