



County of Monterey

Board of Supervisors
Chambers
168 W. Alisal St., 1st Floor
Salinas, CA 93901

Board Report

File #: 23-654, Version: 1

- a. Receive a report on proposed new customer service rates for the Pajaro County Sanitation District wastewater collection system; and
- b. Consider implementing new customer service rates in the beginning of Fiscal Year 2024-2025.

RECOMMENDATION:

It is recommended that the Board of Supervisors:

- a. Receive a report on proposed new customer service rates for the Pajaro County Sanitation District sewer system which are necessary to offset increasing costs to operate and maintain the collection system; and
- b. Consider implementing new customer service rates in the beginning of Fiscal Year 2024-2025.

Last Fall, Public Works, Facilities and Parks Department (PWFP) staff projected an approximate \$2.5 million budget shortfall at the end of FY 2023-24 for the Pajaro County Sanitation District (PCSD). The projected shortfall was primarily attributable to increased costs to operate and maintain the PCSD sewer system. In November 2022, staff presented alternative customer service rates and an implementation schedule for the Budget Committee's consideration to minimize or eliminate future budget shortfalls. The alternative rates were based on four scenarios that range from including all expenses to operate and maintain the PCSD system to considering varying degrees of relief that result in progressively lower service rates. These 'degrees of relief' include amortizing or forgiving existing loans, supplemental funding of capital projects, and/or amortizing or partially subsidizing wastewater treatment costs. During the meeting, the Budget Committee recommended staff proceed with Scenario 4, which provides the lowest customer service rates of the four scenarios presented.

On March 29, 2023, staff presented proposed new customer service rates to the Budget Committee along with conditions to consider regarding the timing of rate implementation, including the recent flooding of and evacuation of the community of Pajaro. The Budget Committee recommended that this information be presented to the Board of Supervisors for consideration by the full Board.

DISCUSSION:

Background

The County-Owned PCSD is in northern Monterey County. It includes a wastewater collection system of approximately 16.5 miles of gravity sewer pipe, six pump stations, and approximately 2.4 miles of force sewer main. There are approximately 1,047 sewer connections and 1,768 billing units.

PCSD is a collection system only and does not provide wastewater treatment. Instead, collected sewage is pumped to the City of Watsonville (City) wastewater treatment plant (plant). Under an agreement with the City, the plant accepts and treats PCSD sewage. The PCSD is charged for its share of the plant's costs based on its fraction of (1) the plant's capital improvement costs, and (2) the plant's operations and maintenance costs based on the total wastewater received by the plant and the strength of the wastewater received. (Wastewater strength refers to the levels of Total Suspended Solids (TSS) and Biological Oxygen Demand (BOD) in the wastewater. High/Low strength wastewater refers to TSS and BOD levels above/below typical domestic wastewater.)

During FY 2022-2023, PWWP implemented several water and sewer infrastructure repair and improvement projects funded with American Rescue Plan Act (ARPA) funds. The projects include approximately \$2 million of capital improvements to the PCSD system, including cleaning and repairing sewer lines, manholes, and pump stations. These improvements were completed in June 2023.

During the November 30, 2022, Budget Committee meeting, staff presented alternative customer service rates for the Committee's consideration. During the meeting it was noted that service rates for the PCSD have not changed since 2007, and costs to operate and maintain the system have increased significantly since then. Items that have the greatest effect on the magnitude of planned rate increases include the following:

- Repayment of existing loans, totaling \$1,941,661;
- PCSD capital improvement costs not covered by the current remaining ARPA funds (approximately \$2.1 million); and
- The County's fraction of plant capital improvement and operations costs, the largest single PCSD cost liability.

During the November 30, 2022, Budget Committee meeting, staff presented four (4) scenarios to show how the factors above impact proposed new services rates for the PCSD. These include the following:

- Scenario 1 - Assumes all costs to operate and maintain the PCSD sewer system, including capital improvement costs not currently covered by ARPA funds, the County's fraction of the plant's capital improvement and operating costs, and paying off all current outstanding loans per the prescribed repayment terms. Under this scenario, the average rate for one (1) billing unit for the first year following implementation would increase to \$165 per month.
- Scenario 2 - Same as Scenario 1, except outstanding loans are forgiven. Under this scenario, the rate for one (1) billing unit would increase to \$149 per month.
- Scenario 3 - Same as Scenario 2, except the Board of Supervisors approves an additional \$2.1 million in ARPA funding for the PCSD. Under this scenario, the rate for one (1) billing unit would increase to \$129 per month.
- Scenario 4 - Same as Scenario 3, except the County provides \$700,000 annually for the next five (5) years to cover projected budget shortfalls. Under this scenario, the rate for one (1) billing unit would increase to \$100 per month.

Currently, the average rate for one (1) billing unit in the PCSD is approximately \$30 per month.

For comparison, current average rates for the Chualar CSA-75 sanitary system and the Boronda County Sanitation System (Zone 1) are approximately \$66 per month. In the vicinity of the PCSD, monthly customer service rates within the Salsipuedes Sanitary District and the Freedom County Sanitation District (both in Santa Cruz County) are \$60.83 and \$62.25, respectively. Like the PCSD, sewage collected by both of these sanitation districts is conveyed to and treated by the plant. Customer services rates for the City of Watsonville are currently \$49.51.

At the November 30, 2022, Budget Committee meeting, the Committee recommended that the rate study move

forward with Scenario 4. An update regarding Scenario 4 was provided to the Budget Committee on March 29, 2023. Under Scenario 4, outstanding General Fund loans totaling \$1,941,661 would be forgiven and \$3.5 million would be provided over five (5) years to supplement operating costs. Scenario 4 details are discussed below in the Financing Section of this report. Proposed monthly service rates (Table 1), associated financial statement (Table 2), and units of services (Table 3) presented to the Budget Committee during the March 29th meeting are presented in Attachment A.

Recommended Path Forward

Staff recommends implementation of new rates be postponed until the start of FY 2024-25 for the following reasons:

- Allows more time for residents and businesses within the Community to recover from last winter's devastating storms. A failure on the south side of the Pajaro River which occurred on March 10, 2023, inundated the community of Pajaro and a large portion of the PCSD collection system, as well as compromising the sewer force main that extends beneath the State Highway 1 bridge and ultimately to the plant.
- Allows more time for engaging with the community to present new rates and implementation schedule get its feedback. Staff believes it is important to convene a community meeting and obtain feedback from residents prior to a scheduling a Proposition 218 protest hearing on the proposed new rates. Attempts were made to hold a community meeting. However, flooding events in January and March, the March 10, 2023, levee failure, and corresponding disaster response and cleanup efforts have necessarily postponed efforts to hold a community meeting regarding the proposed new rates.
- The approved FY 2023-2024 budget includes \$1,160,163 to fund the PCSD if rate increases are postponed until the beginning of FY 2024-25.
- Reevaluated rates may be lower than presented herein. Proposed rates presented above were compiled at a time when significant capital improvements were being implemented by the City of Watsonville and when the PCSD system experienced unprecedented (and as yet unexplained) increases in TTS and BOD levels. Since then, the City of Watsonville has received a grant for significant capital improvements at the plant and BOD and TSS levels have dropped to historical levels.

A proposed revised schedule showing a timeline for establishing and implementing final customer rates is presented in Attachment B. If approved by the Board of Supervisors, the Proposition 218 Engineer's Report will be finalized as shown and, during a future Board of Supervisors meeting, staff will recommend approval of the Engineer's Report with proposed rate increase and set a Proposition 218 protest hearing date during which the proposed new rates and implementation schedule will be formally approved unless there is a minimum of fifty one percent (51%) protest vote against the proposed new rates. At this time, the Board may adopt a rate that balances paying down the loan and/or budget deficit with the customer's ability to pay the new service rates without undue economic hardship.

OTHER AGENCY INVOLVEMENT:

This matter was presented to the Budget Committee on November 30, 2022, and most recently on March 29, 2023. On November 30, 2022, the Budget Committee recommended proceeding with Scenario 4. An update regarding Scenario 4 was presented to the Budget Committee on March 29, 2023. During the March 29, 2023, Budget Committee Meeting, the Committee discussed postponing implementation of new customer service

rates to provide time for the Pajaro community to recover from the March 10, 2023, flood and to allow staff to conduct community meetings at a later date after the community has had time to recover.

FINANCING:

The recommended FY 2023-24 budget includes \$1,160,163 costs funded by ARPA to fund the PCSD if rate increases are postponed until the beginning of FY 2024-25. PWFP staff will return to the Budget Committee with the request to move forward with Scenario 4 and seek funding commitment for the annual General Fund contribution if necessary.

The recommendations presented above support the following Board of Supervisors Strategic Initiatives by providing the funds necessary to maintain the PCSD infrastructure and thereby enhancing public safety by minimizing sewer overflows.

- Economic Development
- Administration
- Health & Human Services
- Infrastructure
- Public Safety

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The following attachments are on file with the Clerk of the Board:
Attachment A - Table 1 - Proposed Monthly Wastewater Rates
Table 2 - Historical and Projected Financial Statement
Table 3 - FY 2021-22 Units of Service

Attachment B - Rate Study Schedule 2023