



Cambria Community Services District



Water, WRF & Sewer Financial Plan & Rate Study

March 2022



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

FINAL DRAFT



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March 14, 2022

Cambria Community Services District
1316 Tamsen Street, Suite 201
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Re: Water, WRF & Sewer Financial Plan & Rate Study

Bartle Wells Associates is pleased to submit the attached *Water, WRF & Sewer Financial Plan & Rate Study*. The study develops 10-year financial projections for CCSD's water enterprise, water reclamation facility, and sewer enterprise, and recommends a series of gradual annual water and sewer rate increases over the next three fiscal years. No increases to water reclamation facility rates are proposed over the next three years. After the three years of proposed water and sewer rates are fully phased in, CCSD can authorize two additional years of inflation pass-through rate adjustments with the goal of keeping future rates aligned with the cost of providing service. All future rate adjustments can be subject to annual review and approval by the Board of Directors prior to implementation.

The recommended rates are designed to support the projected operating, maintenance, debt service, and capital funding needs of CCSD's utilities. With the proposed rate increases, combined water, water reclamation facility, and sewer utility bills for a typical single family home are projected to remain in the lower to middle range compared to other regional agencies.

I enjoyed working with CCSD's project team on this assignment and appreciate the ongoing input and assistance received from CCSD throughout the project. Please contact me if you have any questions about the findings and recommendations in this report or other related issues.

Sincerely,

BARTLE WELLS ASSOCIATES

Alex Handlers
Principal/Vice-President

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1 Background, Objectives & Summary of Recommendations

1.1 Background & Objectives

The Cambria Community Services District (CCSD) provides water, wastewater, fire protection, parks, recreation, and open space services to a population of roughly 6,000 in and around the unincorporated community of Cambria in San Luis Obispo County, California. CCSD was formed in 1976 and is located on California's Central Coast, roughly halfway between the cities of San Francisco and Los Angeles. The District is governed by a five-member board of directors elected at large to four-year overlapping terms.

CCSD's water and sewer utilities are financially self-supporting enterprises. CCSD also separately accounts for water reclamation facility finances as a subcomponent of the water enterprise. Service charges are the main source of revenues for each utility. As such, CCSD's utility rates need to be set at adequate levels to support each utility's operating and maintenance expenses, debt service funding requirements (when applicable), and ongoing capital improvement needs.

Historically, CCSD implemented minimal to no water or sewer rate increases for over 20 years, from 1993 to 2015, ultimately resulting in budget deficits and inadequate funding for facility maintenance and capital improvements to infrastructure. Rate increases adopted since 2015 have substantially improved utility finances and put CCSD's water and sewer enterprises on a more stable financial footing. At the same time, CCSD is currently facing the need to fund significant capital improvements to its aging infrastructure in order to address existing deficiencies and support safe and reliable service.

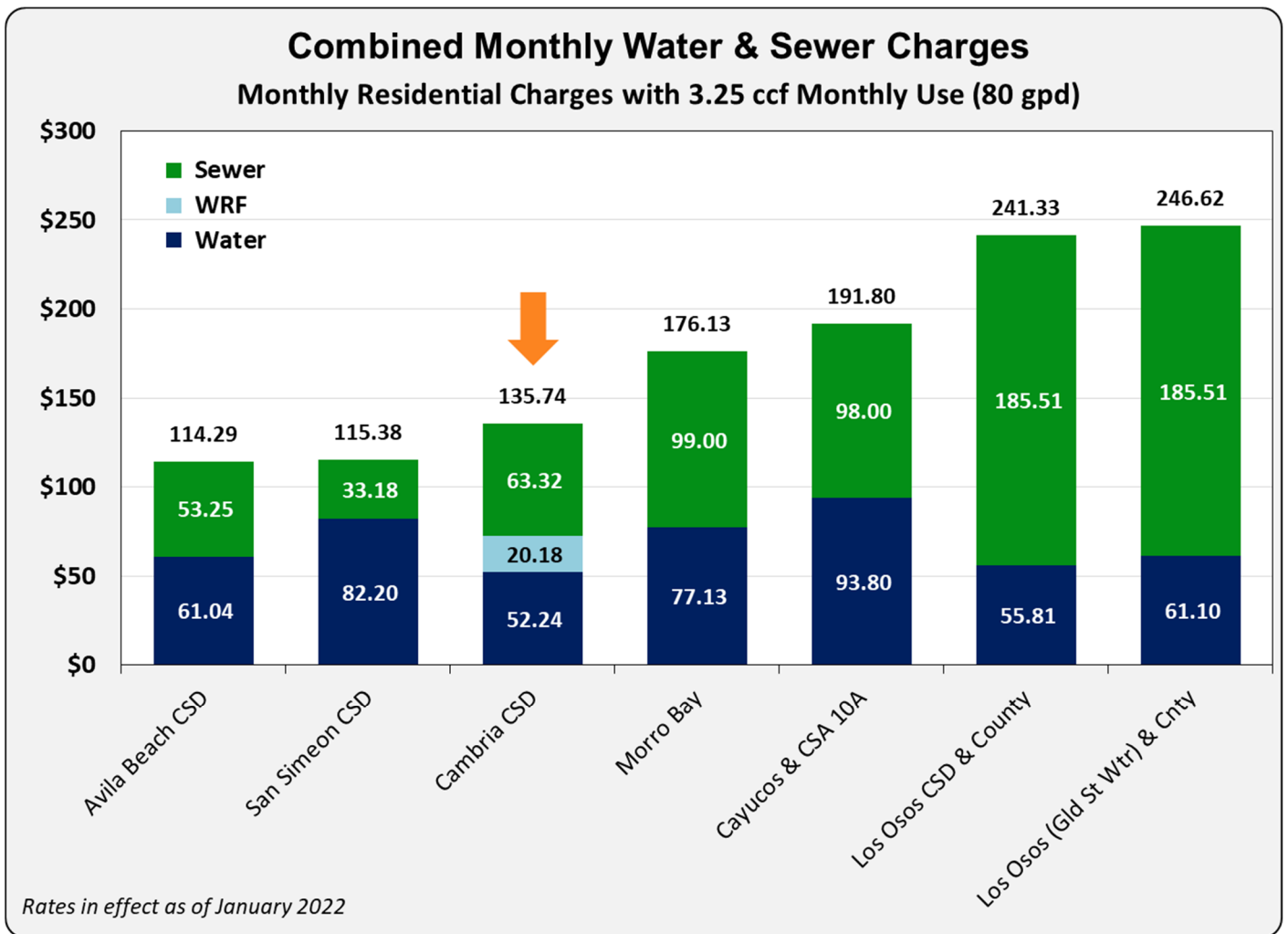
In 2021, Bartle Wells Associates (BWA) was retained by CCSD to develop updated financial projections and rate recommendations for the water, WRF and sewer utilities. General goals and objectives of the study include:

- Develop updated 10-year financial projections for CCSD's water, WRF and sewer utilities;
- Evaluate financial scenarios and rate increases needed to support the projected operating, capital and debt service funding needs of each utility;
- Develop rate projections designed to recover each utility's projected costs of providing service and support the long-term operational and financial stability of each utility.

This report summarizes key findings and recommendations. Recommendations were developed with substantial input from CCSD staff.

1.2 Regional Rate Survey

The following chart shows a survey of regional water and sewer charges for a typical single family home. Charges are shown on a monthly basis. CCSD’s combined water and sewer utility charges for a typical single family home with average use of 6.5 hundred cubic feet (ccf) per bi-monthly billing period (3.25 ccf per month or approximately 80 gallons per day) are currently in the lower-middle range compared to other local coastal agencies.



1.3 Proposed Water & Sewer Rates

Based on updated financial projections developed for the water, WRF and sewer utilities, a series of gradual annual water and sewer rate increases are recommended over the next three years. The following tables show schedules of proposed water and sewer rates for the next three fiscal years. *No increases to WRF rates are proposed over the next three years.*

Table 1. Proposed Water Rates

	Current Rates	Proposed Rates Effective on or After		
		July 1 2022	July 1 2023	July 1 2024
Rate Increase %		6%	6%	6%
FIXED WATER SERVICE CHARGES				
Residential				
Monthly Charge	\$18.32	\$19.42	\$20.59	\$21.83
Bi-Monthly Charge	36.64	38.84	41.18	43.66
Commercial				
<u>Monthly Charge per Meter Size</u>				
5/8" or 3/4"	\$18.32	\$19.42	\$20.59	\$21.83
1"	45.80	48.55	51.48	54.58
1-1/2"	91.60	97.10	102.95	109.15
2" & Larger	183.20	194.20	205.90	218.30
WATER QUANTITY CHARGES				
<i>Billed based on metered water use (\$/ccf)</i>				
Residential Charges				
<u>Tier</u>	<u>Bi-Monthly</u>	<u>Monthly</u>		
Tier 1	First 4 ccf	First 2 ccf	\$9.33	\$9.89
Tier 2	4.01 - 16 ccf	2.01 - 8 ccf	12.21	12.94
Tier 3	> 16 ccf	> 8 ccf	13.61	14.43
Commercial Charges				
Rate for All Water Use	\$12.21	\$12.94	\$13.72	\$14.54

1 ccf = 100 cubic feet, or approximately 748 gallons

Pursuant to California Government Code 53756, after the three years of proposed rates are fully phased in, CCSD can authorize two additional years of inflation pass-through rate adjustments with the goal of keeping future rates aligned with the cost of providing service.

Table 2. Proposed Sewer Rates

	Current Rates	Proposed Rates Effective on or After		
		July 1 2022	July 1 2023	July 1 2024
Rate Increase %		7.5%	7.5%	7.5%
FIXED SEWER SERVICE CHARGES				
Residential				
Monthly Charge	\$46.03	\$49.48	\$53.19	\$57.18
<i>Bi-Monthly Charge</i>	<i>92.06</i>	<i>98.96</i>	<i>106.38</i>	<i>114.36</i>
Commercial				
Monthly Charge	\$46.03	\$49.48	\$53.19	\$57.18
<i>Bi-Monthly Charge</i>	<i>92.06</i>	<i>98.96</i>	<i>106.38</i>	<i>114.36</i>
SEWER QUANTITY CHARGES				
<i>Billed based on metered water use (\$/ccf)</i>				
Residential	\$5.32	\$5.72	\$6.15	\$6.61
Commercial				
<u>Wastewater Class</u>				
Class 1 (Low Strength)	\$4.66	\$5.01	\$5.39	\$5.79
Class 2 (Standard Strength)	5.32	5.72	6.15	6.61
Class 3 (Higher Strength)	8.19	8.80	9.46	10.17

Note: 1 ccf = 100 cubic feet, or approximately 748 gallons.

Class 1 includes lower strength accounts including professional offices, retail stores, laundromats, & schools.

Class 2 includes all other commercial accounts (with standard/domestic strength wastewater) that are not classified Class 1 or Class 3.

Class 3 includes accounts with moderate to high wastewater strength including restaurants, hotels with restaurants, bakeries, mortuaries, markets with meat/seafood/food prep/garbage grinder, and mixed use accounts with an estimated 30% or more sewer discharge from higher strength wastewater flow.

The District reserves the right to assign customers to the class that best matches their wastewater strength.

Pursuant to California Government Code 53756, after the three years of proposed rates are fully phased in, CCSD can authorize two additional years of inflation pass-through rate adjustments with the goal of keeping future rates aligned with the cost of providing service.

1.4 Future Inflationary Rate Adjustments After Three Years

Pursuant to California Government Code 53756, CCSD can also authorize future annual inflation pass-through rate adjustments for an additional two years after the three years of proposed rates are implemented. These future inflationary rate adjustments could be implemented on July 1, 2024 and July 1, 2025 and could apply to water, water reclamation facility, and sewer rates, with the goal of keeping CCSD's future utility rates aligned with the cost of providing service.

The future inflationary adjustments could be subject to a maximum annual increase, such as based on the percentage change in the Consumer Price Index (CPI) for California from the most recent December-to-December period at the time of implementation. For example, if the CPI increases by 3% from December 2023 to December 2024, CCSD would be authorized to adjust its water, water reclamation facility and sewer rates by a corresponding 3% starting July 1, 2025, with the same approach used the following year.

Language authorizing the future inflation pass-through rate adjustments would need to be included in a required Proposition 218 Notice with description of how such adjustments would be calculated. BWA recommends that any authorization for future inflationary rate adjustments allow for any deferral of an inflation adjustment to be made up in the subsequent year. For example, if an adjustment for July 1, 2025 was deferred, it could be added to the adjustment for July 1, 2026 to catch up. Any future inflationary rate adjustments could be subject to future review and approval by the Board of Directors. Pursuant to Government Code 53756, a notice indicating the future inflationary rate adjustment must be sent at least 30 days prior to the effective date of the adjustment.

1.5 Rate Impacts on a Typical Single Family Home

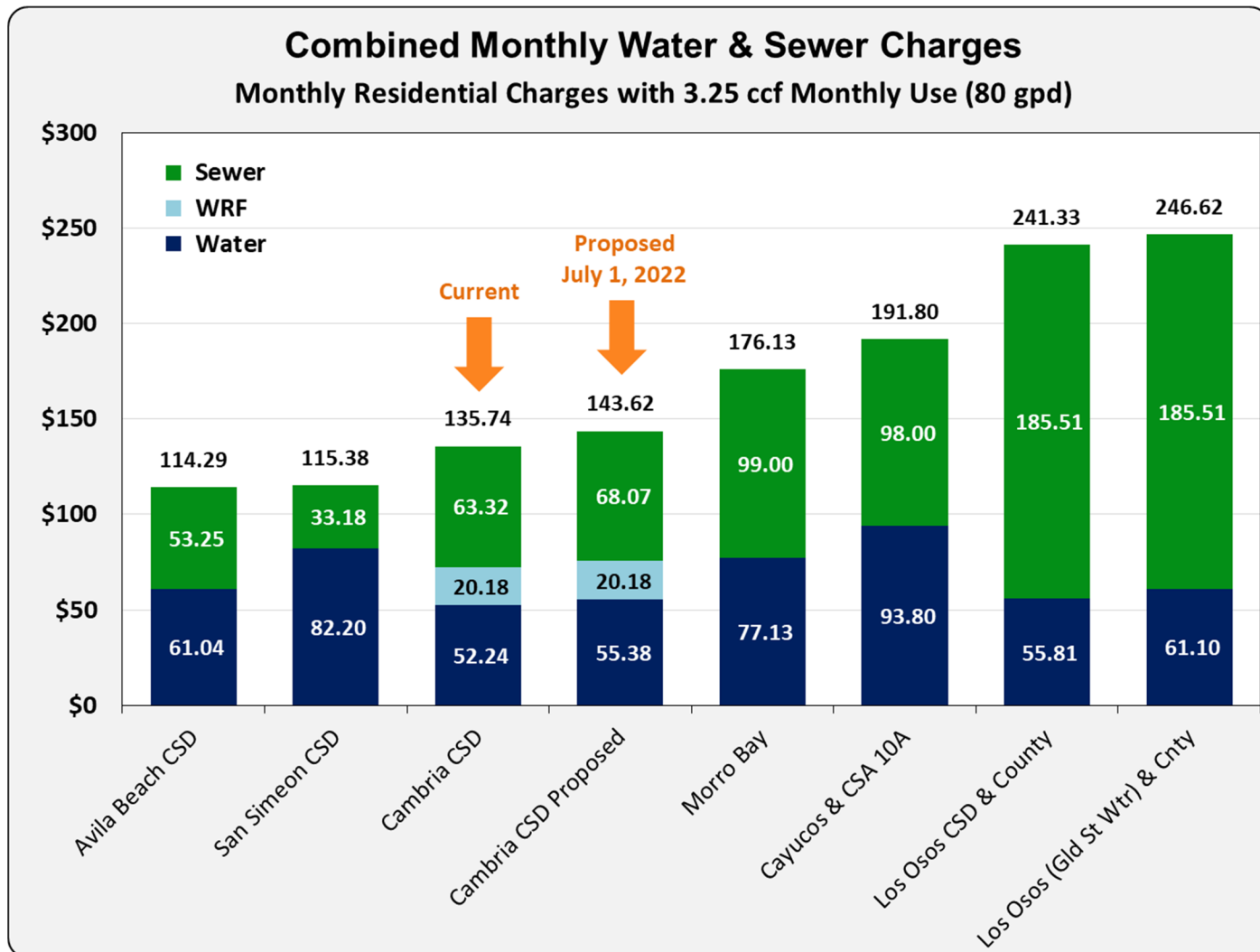
Table 3 shows water, WRF and sewer charges with the rates proposed for the next three years for a typical single family home with average use of 6.5 ccf per bi-monthly billing period (3.25 ccf per month or approximately 80 gallons per day). Accounting for the proposed water and sewer rate increases, and no increases to WRF rates, the combined charges for a typical single family home are projected to increase by 5.8% to 5.9% per year for each of the next three years.

Table 3. Projected Typical Residential Bills & Impacts

	Current Charges	Charges with Proposed Rates		
		July 1, 2022	July 1, 2023	July 1, 2024
WATER				
Proposed Rate Increases		6%	6%	6%
Fixed Water Service Charge	\$36.64	\$38.84	\$41.18	\$43.66
Water Quantity Charge	<u>67.85</u>	<u>71.91</u>	<u>76.22</u>	<u>80.79</u>
Bi-Monthly Total	104.49	110.75	117.40	124.45
<i>Monthly Equivalent</i>	<i>52.24</i>	<i>55.38</i>	<i>58.70</i>	<i>62.23</i>
WATER RECLAMATION FACILITY				
Proposed Rate Increases		0%	0%	0%
Fixed WRF Service Charge	20.26	20.26	20.26	20.26
WRF Quantity Charge	<u>20.10</u>	<u>20.10</u>	<u>20.10</u>	<u>20.10</u>
Bi-Monthly Total	40.36	40.36	40.36	40.36
<i>Monthly Equivalent</i>	<i>20.18</i>	<i>20.18</i>	<i>20.18</i>	<i>20.18</i>
SEWER				
Proposed Rate Increases		7.5%	7.5%	7.5%
Fixed Sewer Service Charge	92.06	98.96	106.38	114.36
Sewer Quantity Charge	<u>34.58</u>	<u>37.18</u>	<u>39.98</u>	<u>42.97</u>
Bi-Monthly Total	126.64	136.14	146.36	157.33
<i>Monthly Equivalent</i>	<i>63.32</i>	<i>68.07</i>	<i>73.18</i>	<i>78.66</i>
TOTAL BI-MONTHLY CHARGES				
	271.48	287.25	304.11	322.13
<i>Monthly Equivalent</i>	<i>135.74</i>	<i>143.62</i>	<i>152.06</i>	<i>161.07</i>
<i>% Increase</i>		<i>5.8%</i>	<i>5.9%</i>	<i>5.9%</i>

Two additional years of inflation pass-through rate adjustments would result in subsequent inflationary rate adjustments effective July 1, 2025 and July 1, 2026. The specific rate adjustment for each of these additional years would be based on actual inflation that occurs in future years, subject to annual review and approval by CCSD's Board of Directors.

The following chart shows the regional rate survey for the current year with addition of CCSD’s proposed charges that would go into effect in the upcoming fiscal year.



1.6 CCSD Low-Income Discount Programs

CCSD currently offers a 40% wastewater rate reduction program to customers enrolled in PG&E’s CARE Program based on income eligibility. The 40% sewer rate discount applies up to 12 ccf of use per bi-monthly bill. CCSD does not have a corresponding water rate reduction program, but the wastewater rate reduction program is a substantial discount that is significantly higher than what other agencies provide and applies to the same customers. The cost of the wastewater rate discounts are funded by contributions from CCSD’s general fund.

CCSD also has a Fire Suppression Assessment Fee Waiver Program based on income eligibility under which homeowners can save roughly \$50 per year for a typical home. Customers who may be eligible for these programs but have not signed up are encouraged to apply for the discounts.

2 Water Financial Plan & Rates

2.1 Water Rates

Table 4 shows a recent history of water rates. Rates include both a) Fixed Water Service Charges billed regardless of water use and b) Water Quantity Charges billed based on metered water consumption. Water Quantity Charges for residential customers are billed according to 3 inclining tiers while all other customers pay a uniform rate for all water use. Water Quantity Charges are billed in units of one hundred cubic feet (ccf), which equals roughly 748 gallons. As such, CCSD's current residential quantity charges range from an equivalent of \$1.25 to \$1.82 per hundred gallons, with commercial charges equivalent to \$1.63 per hundred gallons. CCSD bills customers once every two months via a combined utility bill.

Table 4. Historical Water Rates

	Jan 1 2016	Jan 1 2017	Jan 1 2018	Nov 1 2018	July 1 2019	Sept 1 2020		
Rate Increase %		5%	5%	15%	6%	6%		
FIXED WATER SERVICE CHARGES								
Residential								
Monthly Charge	\$12.75	\$13.26	\$13.79	\$15.86	\$17.45	\$18.32		
Bi-Monthly Charge	25.50	26.52	27.58	31.72	34.90	36.64		
Commercial								
<u>Monthly Charge per Meter Size</u>								
5/8" or 3/4"	\$12.75	\$13.26	\$13.79	\$15.86	\$17.45	\$18.32		
1"	31.88	33.15	34.48	39.65	43.63	45.80		
1-1/2"	63.75	66.30	68.95	79.30	87.25	91.60		
2" & Larger	127.50	132.60	137.90	158.60	174.50	183.20		
WATER QUANTITY CHARGES								
<i>Billed based on metered water use (\$/ccf)</i>								
Residential Charges								
<u>Tier</u>	<u>Bi-Monthly</u>	<u>Monthly</u>						
Tier 1	First 4 ccf	First 2 ccf	\$6.50	\$6.76	\$7.03	\$8.08	\$8.89	\$9.33
Tier 2	4.01 - 16 ccf	2.01 - 8 ccf	8.50	8.84	9.19	10.57	11.63	12.21
Tier 3	> 16 ccf	> 8 ccf	9.50	9.87	10.25	11.79	12.97	13.61
Commercial Charges								
Rate for All Water Use			\$8.50	\$8.84	\$9.19	\$10.57	\$11.63	\$12.21

1 ccf = 100 cubic feet, or approximately 748 gallons

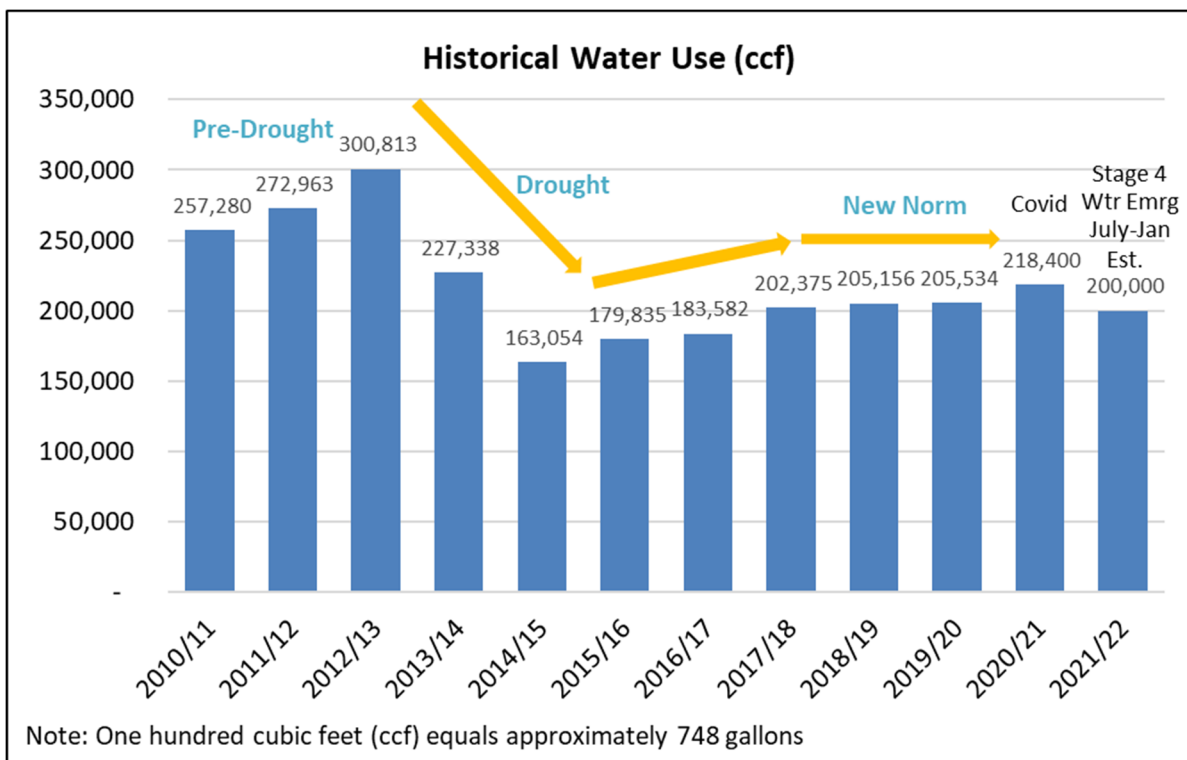
2.2 Historical Water Use

As part of our analysis, Bartle Wells Associates reviewed CCSD’s historical water use which is summarized on the following table and chart. Water use decreased substantially during the prior drought – thanks to successful conservation efforts by District customers – and partially rebounded in subsequent years to a fairly stable “new normal” in recent years. Water consumption in the current fiscal year (from July through February) has been about 11% lower than the same period in the prior fiscal year, potentially due to the Stage 4 Water Shortage Emergency that was effective from the middle of July 2021 through January 2022.

Table 5. Historical Water Use

	Jul/Aug	Sep/Oct	Nov/Dec	Jan/Feb	Mar/Apr	May/Jun	Total
Water Use (ccf)							
2021/22	39,337	31,876	29,819	27,977			
2020/21	41,021	37,773	34,758	31,428	33,993	39,427	218,400
2019/20	39,016	38,101	35,008	29,341	27,522	36,546	205,534
2018/19	42,569	35,973	30,957	28,657	27,939	39,061	205,156
2017/18	40,464	36,639	30,705	31,673	27,086	35,808	202,375
2016/17	37,484	31,242	28,230	26,611	26,292	33,723	183,582
2015/16	33,441	32,633	27,147	24,968	27,603	34,043	179,835
2014/15	31,592	28,764	23,723	23,967	28,899	26,109	163,054
2013/14	54,173	47,345	38,827	36,576	24,917	25,500	227,338
2012/13	61,407	51,098	40,051	40,943	44,201	63,113	300,813
2011/12	50,745	46,663	39,340	40,985	40,515	51,100	272,963
2010/11	53,475	44,508	35,563	35,799	36,766	51,169	257,280

Source: Utility Billing Summary Pages

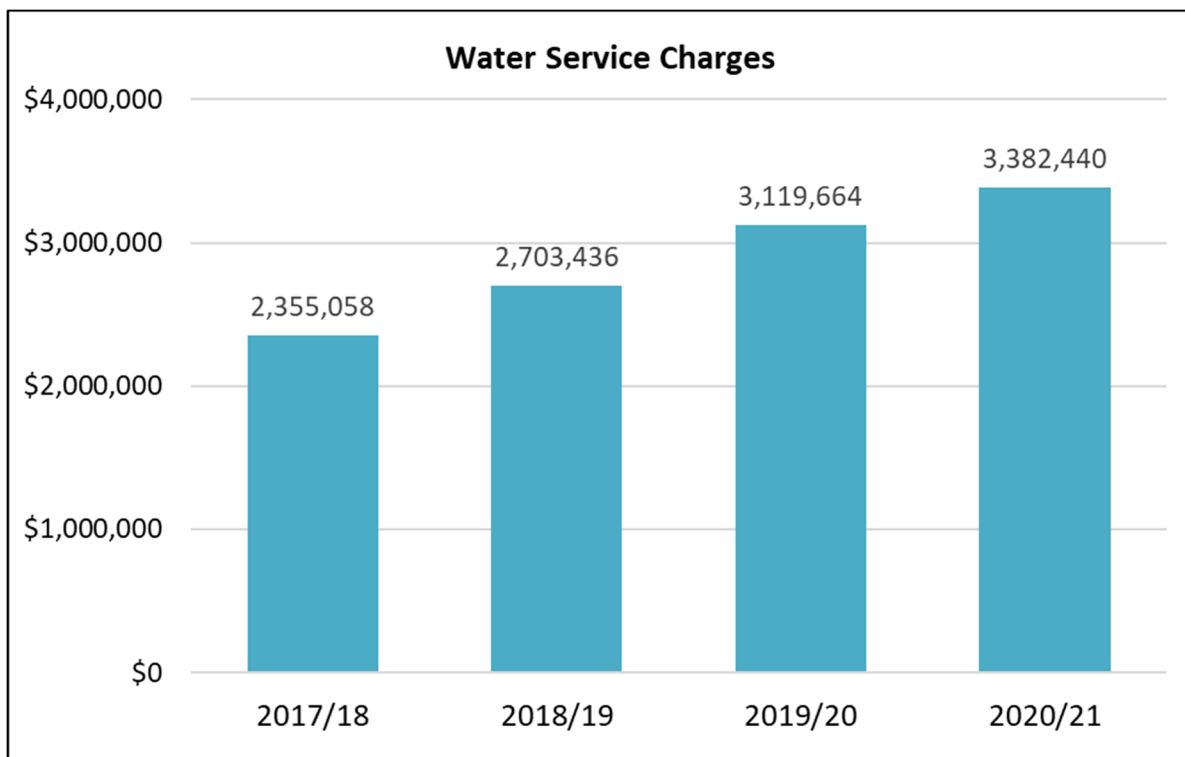


2.3 Water Service Charges

The following table and chart show water service charge billings by bi-monthly billing period for recent years, including both fixed service charges and water quantity charges. As noted, water rate increases implemented over the past 5 years have resulted in a significant increase in revenues and put the water enterprise on a more stable financial footing. The decrease in water use in the current fiscal year (from July through February) has resulted in a 6.3% decrease in water service charge billings compared to same period in the prior fiscal year.

Table 6. Water Service Charges

	Jul/Aug	Sep/Oct	Nov/Dec	Jan/Feb	Mar/Apr	May/Jun	Total
Water Service Charges (\$)							
2021/22	610,107	520,479	484,706	475,297			
2020/21	596,271	584,303	546,720	504,492	540,221	610,433	3,382,440
2019/20	569,591	555,474	527,873	471,491	447,635	547,600	3,119,664
2018/19	484,595	425,834	440,613	417,247	409,278	525,869	2,703,436
2017/18	439,386	402,636	364,811	373,220	349,323	425,682	2,355,058



2.4 Water System Financial Challenges

While prior rate increases have put CCSD’s utilities on a more stable financial footing, the water enterprise is facing a number of financial challenges in upcoming years that will require future rate increases. Key challenges include:

Capital Improvement Needs of Aging Water Infrastructure

Many of CCSD’s water system facilities are aging and will need to be rehabilitated and/or replaced in future years. These facilities include aging water transmission and distribution pipelines, water storage tanks, water pump stations, and other equipment and infrastructure. Future water rates will need to support an adequate funding stream to enable CCSD to address existing deficiencies, meet regulatory requirements, and support safe and reliable service. In addition, CCSD may need to periodically fund unanticipated emergency repairs, such as recent emergency repair of the San Simeon water transmission main in December 2021 that cost roughly \$400,000.

The following table shows CCSD’s water capital improvement budget for the current fiscal year. The total budget includes both new projects budgeted for the current year as well as projects budgeted but not completed in prior years that have been carried forward. Future capital needs are projected at \$500,000 per year on average based on input from CCSD staff.

Table 7. Water Capital Improvement Budget 2021/22

Water Department - Fund 11	2021/22 Budget	Carryforward (from prior year)	Total Budget
Cover for Sheltering of Equipment	15,000		15,000
Modular Office Building	10,000		10,000
SCADA System Ph II	9,649	140,989	150,638
SS2 Electrical Panel Upgrade	15,000		15,000
Stuart Tank Rehabilitation	458,000		458,000
Water Meter Replacement/Upgrade	97,000	332,500	429,500
Zone 2 to 7 Trans Main SR Creek Ped Bridge	5,245	195,374	200,619
Rodeo Grounds Pump Station	-	62,000	62,000
Replacement F150 Truck	-	35,000	35,000
Total	609,894	765,863	1,375,757

Water Meter Replacement Program

CCSD also needs to replace its aging water meters, many of which have been in operation for longer than their recommended service lives. While some funding is included in the current capital budget, substantial additional funding will be needed. Although the exact cost and method of funding the meter replacement program are not yet known, the financial projections assume the meter replacement program would be funded via a \$1.7 million 10-year equipment lease for financial planning purposes.

Ongoing Cost Inflation

Like all agencies, CCSD faces ongoing cost inflation for a wide range of expenses such as staffing, insurance, utilities, supplies, etc. Cost inflation for utility enterprises has historically been higher than that for typical consumers. Small annual rate adjustments are typically needed every year to keep revenues in line with cost inflation and keep rates from falling behind the cost of service.

2.5 Water Financial Projections

Bartle Wells Associates developed 10-year water enterprise cash flow projections to evaluate future rate increases needed to support the operating and capital funding needs of the water system. The projections are shown on the table on the following page. The projections incorporate the latest information available as well as a number of reasonable and slightly conservative assumptions. Key assumptions include:

Revenue Assumptions

- Water service charge revenues are based on estimates for the current year, which in turn are based on evaluation of water sales in recent years and current year-to-date utility billing information. Water service charges increase in future years accounting for projected rate increases as shown on the table. Water sales are projected to remain constant in future years.
- Interest earnings, which are minimal, are estimated based on projected fund reserves at the beginning of each fiscal year multiplied by the projected interest rate shown on the table. Interest earning rates are currently estimated a 0.25% and are projected to gradually escalate to 1% over the next 3 years.
- Other minor revenues are projected to remain constant in future years as shown on the table.

Expense Assumptions

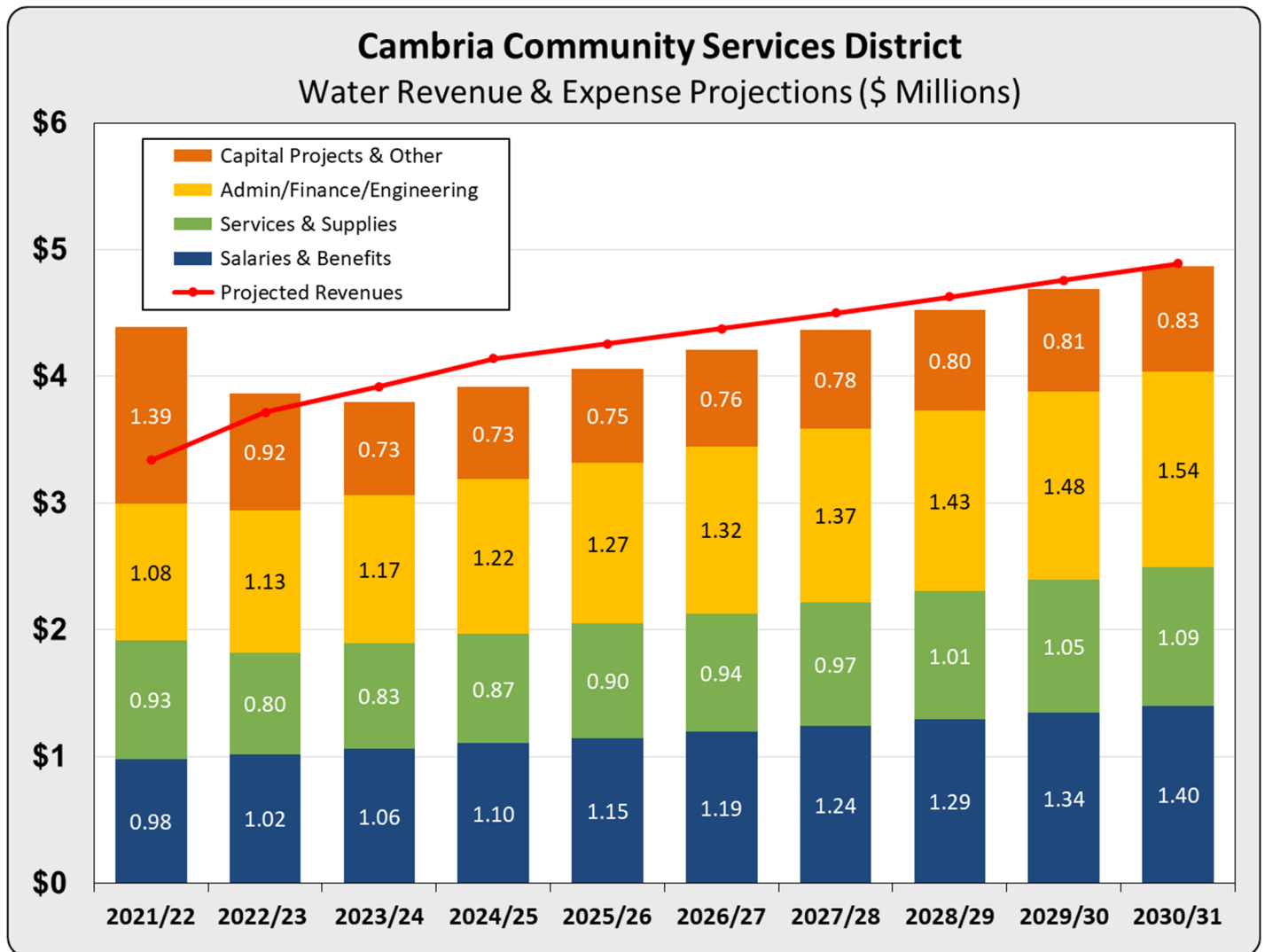
- Water system operating and maintenance costs are based on the 2021/22 budget and escalate at the annual rate of 4% for financial planning purposes, to account for future cost inflation.
- Capital improvement expenses incorporate the project funding levels included in the current fiscal year 2021/22 budget and assume future ongoing average annual capital funding of \$500,000 per year plus 3% annual cost escalation based on input from CCSD staff.
- The projections assume CCSD finances most of the costs of a water meter replacement program via a lease with annual payments estimated based on a \$1.7 million 10-year lease with a 3% interest rate.
- The projections assume the water enterprise repays a long-outstanding loan to the General Fund accounting for the original amount borrowed of \$158,000 adjusted to account for a 2% annual interest accrual resulting in roughly a \$200,000 total reimbursement.
- For financial planning purposes, the projections include a minimum fund reserve target equal to 25% of annual operating and maintenance plus \$500,000 for emergency capital reserves. Maintaining a prudent minimal level of fund reserves provides a financial cushion for dealing with unanticipated expenses, revenue shortfalls, and emergency capital repairs. Based on the projections, the water enterprise should be on track to meet the target starting in a few future years.

Table 8. Water Cash Flow Projections

Cambria Community Services District - Water Cash Flow Projections										
Esc	1	2	3	4	5	6	7	8	9	10
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	July-1	July-1	July-1	July-1	July-1	July-1	July-1	July-1	July-1	July-1
Effective Date of Rate Increases	0.0%	6.0%	6.0%	6.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Rate Increases	0.25%	0.50%	0.75%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Interest Earnings Rate										
Beginning Water Fund Reserves	\$2,265,000 Preliminary	\$1,216,000	\$1,068,000	\$1,192,000	\$1,416,000	\$1,613,000	\$1,781,000	\$1,918,000	\$2,020,000	\$2,085,000
REVENUES										
Fixed Water Service Charges	996,000	1,056,000	1,119,000	1,186,000	1,222,000	1,259,000	1,297,000	1,336,000	1,376,000	1,417,000
Water Quantity Charges	2,204,000	2,336,000	2,476,000	2,625,000	2,704,000	2,785,000	2,869,000	2,955,000	3,044,000	3,135,000
Revenue Loss due to Stage 4 Cutbacks	(170,000)	0	0	0	0	0	0	0	0	0
<i>Subtotal</i>	<u>3,030,000</u>	<u>3,392,000</u>	<u>3,595,000</u>	<u>3,811,000</u>	<u>3,926,000</u>	<u>4,044,000</u>	<u>4,166,000</u>	<u>4,291,000</u>	<u>4,420,000</u>	<u>4,552,000</u>
Standby Availability	178,000	178,000	178,000	178,000	178,000	178,000	178,000	178,000	178,000	178,000
Interest Income	6,000	6,000	8,000	12,000	14,000	16,000	18,000	19,000	20,000	21,000
Wait List Fees	62,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000	60,000
Capacity Charges from Growth	(52,000)	0	0	0	0	0	0	0	0	0
Remodel Impact Fees	80,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000	30,000
Other/Penalties/Miscellaneous	35,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Total Revenues	3,339,000	3,716,000	3,921,000	4,141,000	4,258,000	4,378,000	4,502,000	4,628,000	4,758,000	4,891,000
EXPENSES										
Water System Operations										
Salaries & Benefits	982,000	1,021,000	1,062,000	1,104,000	1,148,000	1,194,000	1,242,000	1,292,000	1,344,000	1,398,000
Services & Supplies	931,000	800,000	832,000	865,000	900,000	936,000	973,000	1,012,000	1,052,000	1,094,000
Admin Overhead Allocation	1,083,000	1,126,000	1,171,000	1,218,000	1,267,000	1,318,000	1,371,000	1,426,000	1,483,000	1,542,000
Subtotal	<u>2,996,000</u>	<u>2,947,000</u>	<u>3,065,000</u>	<u>3,187,000</u>	<u>3,315,000</u>	<u>3,448,000</u>	<u>3,586,000</u>	<u>3,730,000</u>	<u>3,879,000</u>	<u>4,034,000</u>
Capital & Non-Operating										
Capital Improvement Projects	1,375,000	500,000	515,000	530,000	546,000	562,000	579,000	596,000	614,000	632,000
Repay Loan from General Fund	0	200,000	0	0	0	0	0	0	0	0
Water Meter Lease (\$1.7M/10-Yr/3%)	0	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Vehicle Loans	17,000	17,000	17,000	0	0	0	0	0	0	0
Subtotal	<u>1,392,000</u>	<u>917,000</u>	<u>732,000</u>	<u>730,000</u>	<u>746,000</u>	<u>762,000</u>	<u>779,000</u>	<u>796,000</u>	<u>814,000</u>	<u>832,000</u>
Total Expenses	4,388,000	3,864,000	3,797,000	3,917,000	4,061,000	4,210,000	4,365,000	4,526,000	4,693,000	4,866,000
Revenues Less Expenses	(1,049,000)	(148,000)	124,000	224,000	197,000	168,000	137,000	102,000	65,000	25,000
Ending Fund Reserves	1,216,000	1,068,000	1,192,000	1,416,000	1,613,000	1,781,000	1,918,000	2,020,000	2,085,000	2,110,000
Fund Rsrv Target: 25% O&M + \$500K CIP	1,250,000	1,240,000	1,270,000	1,300,000	1,330,000	1,360,000	1,400,000	1,430,000	1,470,000	1,510,000



The following chart shows a projection of water revenues and expenses. As shown, with the projected water rate increases, revenues are projected to be adequate to fund projected expenses and maintain balanced budgets in future years.



2.6 Projected Water Rates

Table 9 shows a schedule of projected water rates for the next 3 years. The proposed rates are designed to fund projected operating and maintenance expenses and phase in funding to support an adequate funding stream to enable CCSD to address its future water system infrastructure funding needs. The projected rates assume across-the-board increases to CCSD's current rates with the same percentage increases to all rate components. As such, all customers will face the same percentage rate impacts. The current rate structure was implemented in 2016 based on a cost-of-service analysis designed to equitably recover costs from CCSD's customer base. No modifications to the water rate structure are recommended at this time.

Table 9. Proposed Water Rates

	Current Rates	Proposed Rates Effective on or After		
		July 1 2022	July 1 2023	July 1 2024
Rate Increase %		6%	6%	6%
FIXED WATER SERVICE CHARGES				
Residential				
Monthly Charge	\$18.32	\$19.42	\$20.59	\$21.83
Bi-Monthly Charge	36.64	38.84	41.18	43.66
Commercial				
<u>Monthly Charge per Meter Size</u>				
5/8" or 3/4"	\$18.32	\$19.42	\$20.59	\$21.83
1"	45.80	48.55	51.48	54.58
1-1/2"	91.60	97.10	102.95	109.15
2" & Larger	183.20	194.20	205.90	218.30
WATER QUANTITY CHARGES				
<i>Billed based on metered water use (\$/ccf)</i>				
Residential Charges				
<u>Tier</u>	<u>Bi-Monthly</u>	<u>Monthly</u>		
Tier 1	First 4 ccf	First 2 ccf	\$9.33	\$9.89
Tier 2	4.01 - 16 ccf	2.01 - 8 ccf	12.21	12.94
Tier 3	> 16 ccf	> 8 ccf	13.61	14.43
Commercial Charges				
Rate for All Water Use	\$12.21	\$12.94	\$13.72	\$14.54

1 ccf = 100 cubic feet, or approximately 748 gallons

Pursuant to California Government Code 53756, after the three years of proposed rates are fully phased in, CCSD can authorize two additional years of inflation pass-through rate adjustments with the goal of keeping future rates aligned with the cost of providing service.

3 Water Reclamation Facility Financial Plan & Rates

3.1 WRF Rates

The water reclamation facility is accounted for as a subcomponent of the water enterprise, not a separate stand-alone utility. Table 4 shows a recent history of water reclamation facility rates. WRF Rates include both a) Fixed WRF Service Charges billed regardless of water use and b) WRF Quantity Charges billed based on metered water consumption. WRF Quantity Charges for all customers are billed according to 3 inclining tiers. WRF Quantity Charges are billed in units of one hundred cubic feet (ccf), which equals roughly 748 gallons. As such CCSD's current WRF Quantity Charges range from an equivalent of \$0.30 per hundred gallon in Tier 1 to \$0.90 per hundred gallons in Tier 3.

Table 10. Historical WRF Rates

	Nov 1 2018	July 1 2019	Sept 1 2020
Rate Increase %	16%	14%	12%
FIXED WRF SERVICE CHARGES			
Single Family Residences			
Monthly charge	\$7.93	\$9.04	\$10.13
Bi-monthly charge	15.86	18.08	20.26
All Other Accounts			
<i>Monthly charge based on water meter size</i>			
<u>Meter Size</u>	<u>Water Demand Ratio</u>		
5/8 or 3/4-inch	1.00	\$7.93	\$9.04
1-inch	2.50	19.83	22.60
1-1/2-inch	5.00	39.65	45.20
2-inch or larger	10.00	79.30	90.40
WRF QUANTITY CHARGES			
<i>Charge per unit (ccf) of metered water use</i>			
WRF Quantity Charge			
<i>For WRF facility cost recovery</i>			
<u>Rate Tier</u>	<u>Bi-Monthly Use</u>		
Tier 1	1 - 4 ccf	\$1.75	\$1.99
Tier 2	5 - 16 ccf	3.50	3.99
Tier 3	>16 ccf	5.25	5.98

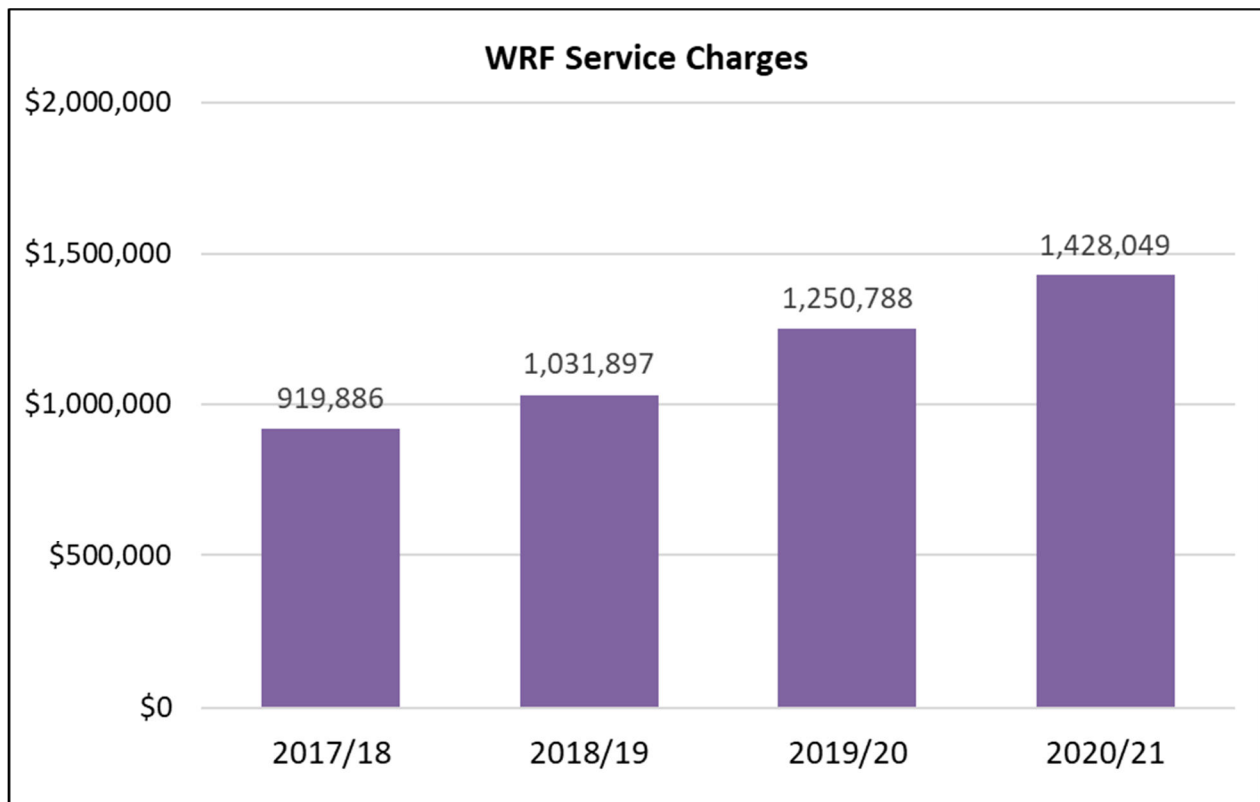
Note: 1 ccf = 100 cubic feet, or approximately 748 gallons.

3.2 WRF Service Charges

The following table and chart show WRF service charge billings by bi-monthly billing period for recent years, including both fixed service charges and quantity charges. As noted, WRF rate increases implemented in recent years have resulted in a significant increase in revenues and put WRF funding on a more stable footing. The decrease in water use in the current fiscal year (from July through February) has resulted in a 3.3% decrease in WRF service charge billings compared to the same period from the prior fiscal year.

Table 11. WRF Service Charges

	Jul/Aug	Sep/Oct	Nov/Dec	Jan/Feb	Mar/Apr	May/Jun	Total
WRF Service Charges (\$)							
2021/22	263,661	224,787	208,945	204,119			901,512
2020/21	236,989	249,148	231,353	215,165	232,417	262,977	1,428,049
2019/20	229,117	222,984	215,484	190,810	176,580	215,813	1,250,788
2018/19	186,133	163,441	154,548	161,988	160,344	205,443	1,031,897
2017/18	173,656	158,358	144,383	147,515	133,995	161,979	919,886



3.3 WRF Financial Challenges

While prior rate increases have put CCSD's utilities on a more stable financial footing, the water reclamation facility is facing some financial challenges in upcoming years. Key challenges include:

Major Improvements Needed to WRF Storage Pond & Facilities

Major improvements are needed to the WRF storage pond due to design failure for which CCSD was awarded a \$1.75 million settlement. Other potential capital needs include improvements to surface water treatment, brine handling, and other WRF modifications that may be needed to meet future permit requirements. While the specific WRF capital improvement projects and costs are still in the process of being evaluated, CCSD staff anticipate near-term funding needs could be roughly in the \$1 million to \$2 million range, hopefully lower but possibly higher, based on very preliminary estimates. It is anticipated that CCSD would use its settlement funds to help fund the capital needs of the WRF. However, additional funding from WRF service charge revenues and reserves may be needed in upcoming years.

WRF Operating Expenses

Prior cost estimates of WRF operations during water shortage emergencies underestimated the costs of brine hauling and disposal, which are a substantial component of the costs of operation. CCSD estimates that costs for brine hauling and disposal will be substantially higher during periods of operation. The WRF is currently only permitted for emergency use, so the higher costs of operation will only impact WRF finances during periods of actual operation. CCSD maintains a minimum of 2 months funds of reserves to account for some additional operating costs of the WRF during a water shortage emergency. CCSD also faces ongoing cost inflation for WRF operations and maintenance expenses.

3.4 WRF Financial Projections

Bartle Wells Associates developed 10-year WRF cash flow projections to evaluate future WRF rates and finances. The projections are shown on the table on the following page and incorporate the latest information available as well as a number of reasonable and slightly conservative assumptions. Key assumptions include:

Revenue Assumptions

- WRF service charge revenues are based on estimates for the current year, which in turn are based on evaluation of water sales in recent years and current year-to-date utility billing information. Water use is projected to remain constant in future years.
- Interest earnings, which are minimal, are estimated based on projected fund reserves at the beginning of each fiscal year multiplied by the projected interest rate shown on the table. Interest earning rates are currently estimated a 0.25% and are projected to gradually escalate to 1% over the next 3 years.

Expense Assumptions

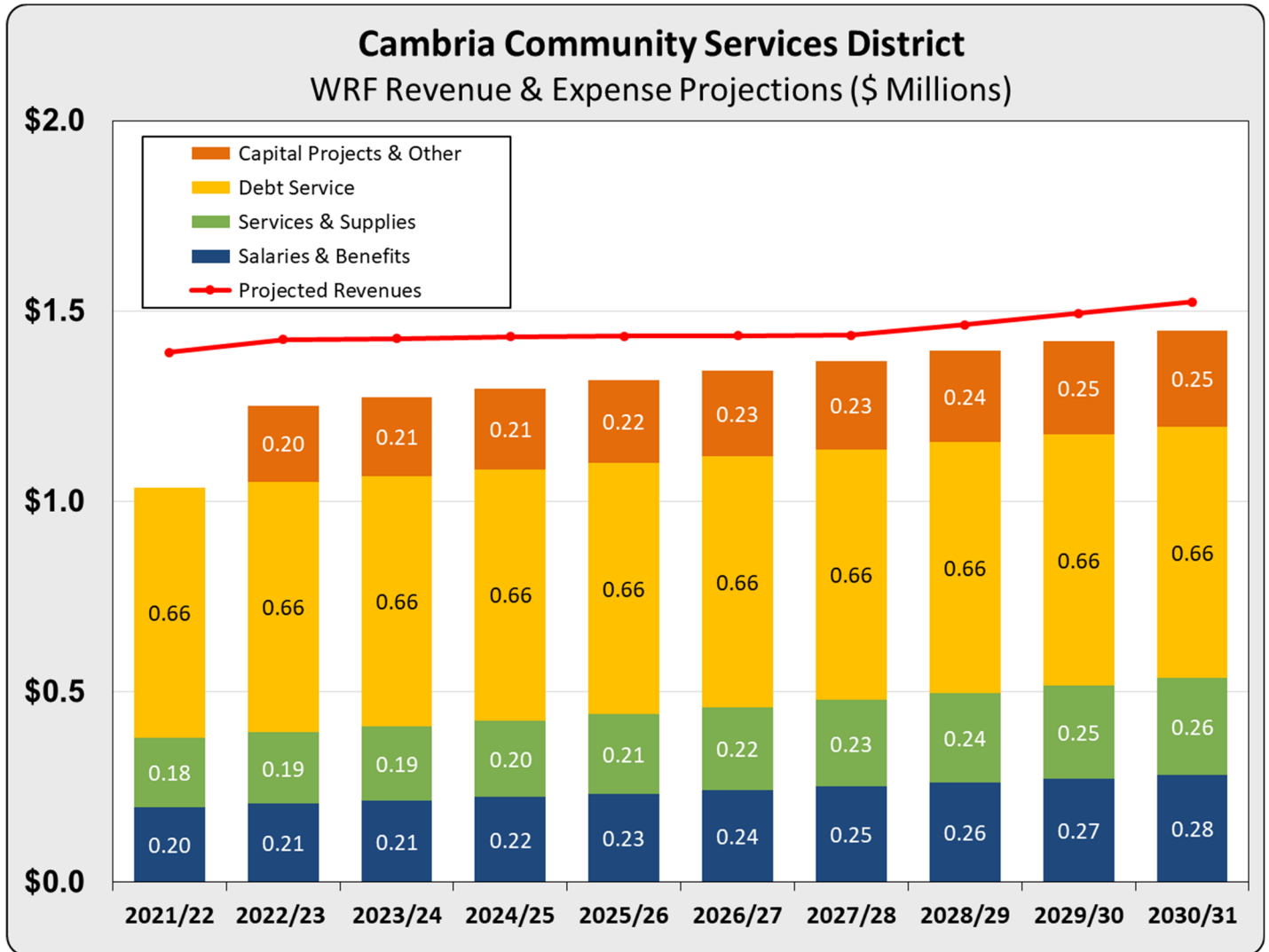
- WRF ongoing operating and maintenance expenses are based on the 2021/22 budget and escalate at the annual rate of 4% for financial planning purposes, to account for future cost inflation.
- The projections include future annual capital funding of \$200,000 per year plus 3% annual cost escalation. CCSD's current year budget included \$200,000 of funding for a Trailer Fill Station, but that project has been deferred to the next fiscal year. Actual capital expenses may vary from year to year, but over time funding will be needed to address the capital needs of the WRF.
- For financial planning purposes, the projections include a) a minimum fund reserve target equal to 25% of annual recurring expenses -- including operating and maintenance expenses and debt service -- plus \$200,000 for emergency capital reserves, and b) emergency WRF operating reserves equal to 2 months of additional expenses needed during a period of emergency operations. Maintaining a prudent minimal level of fund reserves provides a financial cushion for dealing with unanticipated expenses, revenue shortfalls, and emergency capital repairs.
- The projections also assume an anticipated drawdown of settlement funds over the next few years, primarily to address the capital improvement needs of the WRF storage pond.

Based on the financial projections, no WRF rate increases are proposed over the next three years. BWA recommends that CCSD continue charging its existing WRF rates and re-evaluate WRF rates and finances after the capital funding needs of the WRF are better identified.

Table 12. WRF Cash Flow Projections

Cambria Community Services District - Water Reclamation Facility Cash Flow Projections										
Esc	1	2	3	4	5	6	7	8	9	10
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Effective Date of Rate Increases	July-1	July-1	July-1	July-1	July-1	July-1	July-1	July-1	July-1	July-1
Rate Increases	0%	0%	0%	0%	0%	0%	0%	2%	2%	2%
Cost Escalation	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%
Interest Earnings Rate	0.25%	0.50%	0.75%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Beginning WRF Fund Reserves	\$556,098	\$910,098	\$1,083,098	\$1,238,098	\$1,374,098	\$1,489,098	\$1,581,098	\$1,648,098	\$1,717,098	\$1,790,098
REVENUES										
Fixed WRF Service Charges	552,000	552,000	552,000	552,000	552,000	552,000	552,000	563,000	574,000	585,000
WRF Quantity Charges	868,000	868,000	868,000	868,000	868,000	868,000	868,000	885,000	903,000	921,000
Revenue Loss due to Stage 4 Cutbacks	(30,000)	0	0	0	0	0	0	0	0	0
<i>Subtotal</i>	<u>1,390,000</u>	<u>1,420,000</u>	<u>1,420,000</u>	<u>1,420,000</u>	<u>1,420,000</u>	<u>1,420,000</u>	<u>1,420,000</u>	<u>1,448,000</u>	<u>1,477,000</u>	<u>1,506,000</u>
Interest Income	1,000	5,000	8,000	12,000	14,000	15,000	16,000	16,000	17,000	18,000
Total Revenues	<u>1,391,000</u>	<u>1,425,000</u>	<u>1,428,000</u>	<u>1,432,000</u>	<u>1,434,000</u>	<u>1,435,000</u>	<u>1,436,000</u>	<u>1,464,000</u>	<u>1,494,000</u>	<u>1,524,000</u>
EXPENSES										
Water System Operations										
Salaries & Benefits	198,000	206,000	214,000	223,000	232,000	241,000	251,000	261,000	271,000	282,000
Services & Supplies	180,000	187,000	194,000	202,000	210,000	218,000	227,000	236,000	245,000	255,000
Subtotal	<u>378,000</u>	<u>393,000</u>	<u>408,000</u>	<u>425,000</u>	<u>442,000</u>	<u>459,000</u>	<u>478,000</u>	<u>497,000</u>	<u>516,000</u>	<u>537,000</u>
Debt Service 2014 WRF Loan	659,000	659,000	659,000	659,000	659,000	659,000	659,000	659,000	659,000	659,000
Capital & Non-Operating										
Capital Improvement Projects	0	200,000	206,000	212,000	218,000	225,000	232,000	239,000	246,000	253,000
Subtotal	<u>0</u>	<u>200,000</u>	<u>206,000</u>	<u>212,000</u>	<u>218,000</u>	<u>225,000</u>	<u>232,000</u>	<u>239,000</u>	<u>246,000</u>	<u>253,000</u>
Total Expenses	<u>1,037,000</u>	<u>1,252,000</u>	<u>1,273,000</u>	<u>1,296,000</u>	<u>1,319,000</u>	<u>1,343,000</u>	<u>1,369,000</u>	<u>1,395,000</u>	<u>1,421,000</u>	<u>1,449,000</u>
Revenues Less Expenses	354,000	173,000	155,000	136,000	115,000	92,000	67,000	69,000	73,000	75,000
Ending WRF Fund Reserves	910,098	1,083,098	1,238,098	1,374,098	1,489,098	1,581,098	1,648,098	1,717,098	1,790,098	1,865,098
Fund Rsrv Target: 25% O&M&D + \$200K CIP	460,000	460,000	470,000	470,000	480,000	480,000	480,000	490,000	490,000	500,000
+ 2 Months Emergency Operations (est)	250,000	260,000	270,000	281,000	292,000	304,000	316,000	329,000	342,000	356,000
Total Reserve Target	<u>710,000</u>	<u>720,000</u>	<u>740,000</u>	<u>751,000</u>	<u>772,000</u>	<u>784,000</u>	<u>796,000</u>	<u>819,000</u>	<u>832,000</u>	<u>856,000</u>
Debt Service Coverage (WRF Only)	1.54	1.57	1.55	1.53	1.51	1.48	1.45	1.47	1.48	1.50
WRF SETTLEMENT FUNDS										
Beginning Fund Balances	1,302,000	1,305,000	662,000	0	0	0	0	0	0	0
Revenues: Interest Earnings	3,000	7,000	5,000	0	0	0	0	0	0	0
Expenses: Capital Projects	0	650,000	667,000	0	0	0	0	0	0	0
Ending Settlement Fund Balances	<u>1,305,000</u>	<u>662,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

The following chart shows a projection of WRF revenues and expenses assuming the WRF is not operated for emergency water supply for the foreseeable future. As shown, current WRF rates are projected to be adequate to fund projected expenses and support a modest level of capital funding and gradual accrual of fund reserves that could be tapped to fund additional capital needs or help fund emergency operations.



4 Sewer Financial Plan & Rates

4.1 Sewer Rates

Table 13 shows a 5-year history of sewer rates. Rates include both a) Fixed Sewer Service Charges billed regardless of usage and b) Sewer Quantity Charges billed based on metered water consumption. Sewer Quantity Charges includes rates for 3 commercial customer classes, with higher charges for customers with higher-strength wastewater that costs more to treat to comply with CCSD's waste discharge permit requirements. Sewer Quantity Charges are billed in units of one hundred cubic feet (ccf), which equals roughly 748 gallons. As such CCSD's current residential Sewer Quantity Charge equates to \$0.71 per hundred gallons, while commercial charges range from an equivalent of \$0.62 per hundred gallons in Class 1 to \$1.09 per hundred gallons in Class 3.

Table 13. Historical Sewer Rates

	Jan 1 2016	Jan 1 2017	Jan 1 2018	Nov 1 2018	July 1 2019	Sept 1 2020
Rate Increase %		4%	4%	18%	15%	12%
FIXED SEWER SERVICE CHARGES						
Residential						
Monthly Charge	\$28.00	\$29.12	\$30.29	\$35.74	\$41.10	\$46.03
Bi-Monthly Charge	56.00	58.24	60.57	71.48	82.20	92.06
Commercial						
Monthly Charge	28.00	29.12	\$30.29	\$35.74	\$41.10	\$46.03
Bi-Monthly Charge	56.00	58.24	60.57	71.48	82.20	92.06
SEWER QUANTITY CHARGES						
<i>Billed based on metered water use (\$/ccf)</i>						
Residential	\$3.24	\$3.37	\$3.50	\$4.13	\$4.75	\$5.32
Commercial						
<u>Wastewater Class</u>						
Class 1	\$2.84	\$2.95	\$3.07	\$3.62	\$4.16	\$4.66
Class 2	3.24	3.37	3.50	4.13	4.75	5.32
Class 3	4.98	5.18	5.39	6.36	7.31	8.19

Class 1 includes lower strength accounts including professional offices, retail stores, laundromats, & schools.

Class 2 includes all other commercial accounts (with standard/domestic strength wastewater) that are not classified Class 1 or Class 3.

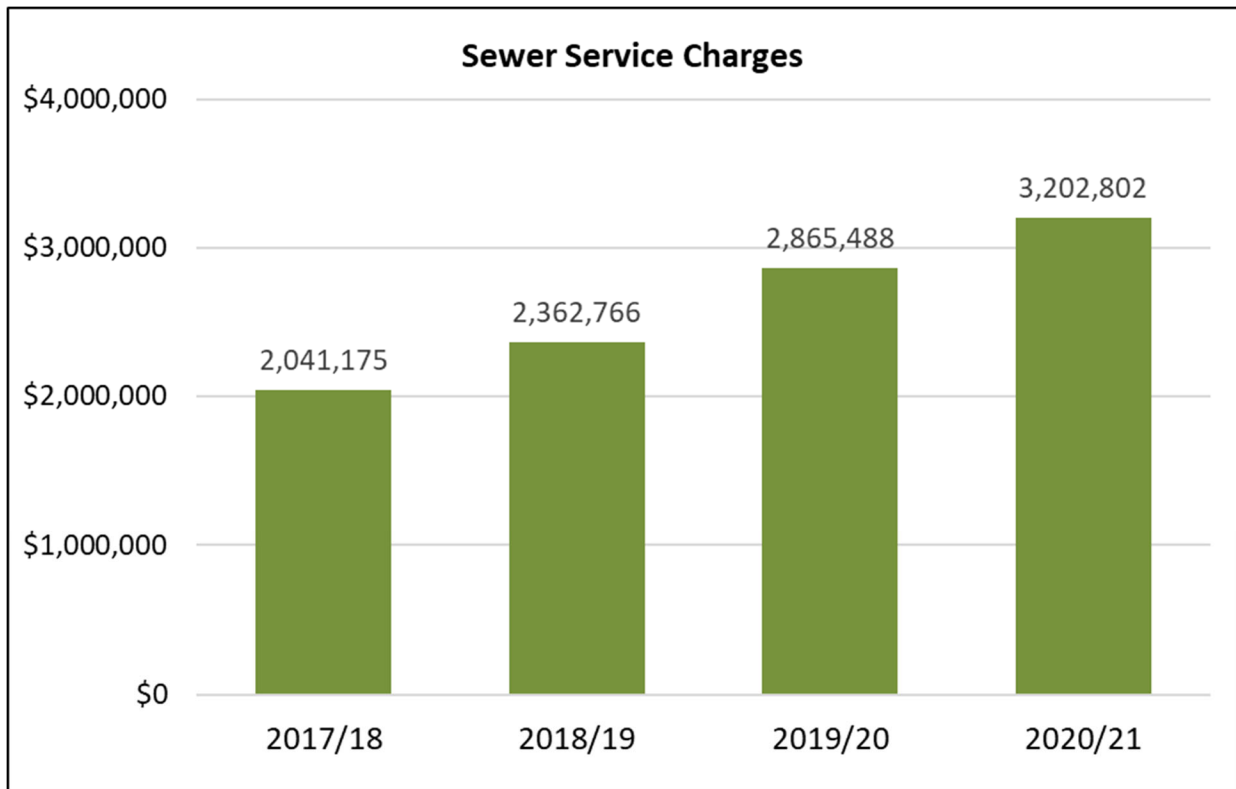
Class 3 includes accounts with moderate to high wastewater strength including restaurants, hotels with restaurants, bakeries, mortuaries, markets with meat/seafood/food prep/garbage grinder, and mixed use accounts with an estimated 30% or more sewer discharge from higher strength wastewater flow.

4.2 Sewer Service Charges

The following table and chart show sewer service charge billings by bi-monthly billing period for recent years, including both fixed service charges and quantity charges. As noted, sewer rate increases implemented over the past 5 years have resulted in a significant increase in revenues and put the sewer enterprise on a more stable financial footing.

Table 14. Sewer Service Charges

	Jul/Aug	Sep/Oct	Nov/Dec	Jan/Feb	Mar/Apr	May/Jun	Total
Sewer Service Charges (\$)							
2021/22	563,470	522,900	506,651	502,829			2,095,850
2020/21	508,347	550,385	533,086	515,371	532,729	562,884	3,202,802
2019/20	500,194	491,735	483,088	458,696	445,259	486,516	2,865,488
2018/19	381,641	358,176	399,575	394,662	391,729	436,983	2,362,766
2017/18	356,886	340,518	326,900	330,216	329,086	357,569	2,041,175



4.3 Sewer System Financial Challenges

While prior rate increases have put CCSD’s utilities on a more stable financial footing, the sewer enterprise is facing a number of financial challenges that will require future rate increases. Key challenges include:

High-Priority Wastewater Treatment Plant & Lift Station Capital Improvements

CCSD’s wastewater treatment plant and sewer lift stations are in need of major improvements to address existing deficiencies. CCSD has been working with PG&E and its subconsultants, Southland Energy and MKN & Associates, in recent years as part of Sustainable Solutions Turnkey (SST) Program to evaluate and prioritize wastewater system capital needs. The process resulted in an *Investment Grade Audit Report* dated November 8, 2021 that identifies approximately \$7.5 million of critical upgrades to CCSD’s wastewater treatment plant and \$4.5 million of additional high-priority improvements to various sewer lift stations, sludge storage improvements and other facilities, resulting in a total of approximately \$12 million of near-term capital funding needs. These cost estimates are based on bids received by PG&E in 2021. Actual costs may end up being higher when the projects are rebid.

Due to the magnitude of the costs, CCSD will need to issue debt to finance these projects. The following table shows debt service estimates under various financing approaches. Due to the amount of funding needed, the financial projections assume the use of 30-year bond financing (or similar Certificates of Participation aka COPs). The debt projections include refunding of the last 2 years of the outstanding 2010 Loan from City National Bank, essentially replacing the final 2 years of outstanding debt payments with corresponding payments via the new debt issue. The table shows debt service with a 10% contingency resulting in a projected 30-year bond or COP payment of approximately \$750,000 per year. Actual interest rates and debt service will vary based on market conditions at the time of pricing. Interest rates have risen in recent months but remain very low by historical standards.

Table 15. Debt Service Estimates for \$12M of Highest-Priority Projects

	15-Year Bank Loan	20-Year Bank Loan	20-Year Bonds/COPs	25-Year Bonds/COPs	30-Year Bonds/COPs
Funding Amount					
Project Funding	\$12,000,000	\$12,000,000	\$12,000,000	\$12,000,000	\$12,000,000
Pay Off 2010 Loan	312,000	312,000	312,000	312,000	312,000
Issuance Costs	90,000	90,000	170,000	170,000	170,000
Bond Insurance (tbd)	0	0	65,000	75,000	85,000
Other Costs/Contingency	10,000	10,000	10,000	10,000	10,000
Total Uses	12,412,000	12,412,000	12,557,000	12,567,000	12,577,000
Financing Terms					
Repayment Term (Years)	15	20	20	25	30
Interest Rate	2.75%	3.25%	2.75%	3.10%	3.50%
Annual Debt Service					
With 10% Contingency	1,021,000 <i>1,123,000</i>	854,000 <i>939,000</i>	825,000 <i>908,000</i>	730,000 <i>803,000</i>	684,000 <i>752,000</i>
Debt Reserve Requirement					
	tbd	tbd	tbd	tbd	tbd

Estimates shown for financial planning purposes, actual costs and rates may vary.

Capital Improvement Needs of Aging Sewer System Infrastructure

In addition to the high-priority needs listed above, other CCSD’s sewer system facilities are aging and will need to be rehabilitated and/or replaced in future years. These facilities include aging sewer collection system pipelines, other sewer lift stations, and other equipment and infrastructure. Future sewer rates will need to support an adequate funding stream to enable CCSD to address its future capital needs, meet regulatory requirements, and support safe and reliable service. In addition, CCSD may need to periodically fund unanticipated emergency repairs.

The following table shows CCSD’s wastewater capital improvement budget for the current fiscal year. The total budget includes both new projects budgeted for the current year as well as projects budgeted but not completed in prior years that have been carried forward. The improvements identified as Wastewater Sustainable Solutions Turnkey (SST) projects are components of the \$12 million of high-priority projects and are expected to be funded via debt. After the high-priority projects are completed, future sewer system capital needs are projected at \$400,000 per year on average based on input from CCSD staff.

Table 16. Sewer Capital Improvement Budget 2021/22

Wastewater Department - Fund 12	2021/22 Budget	Carryforward (from prior year)	Total Budget
Eastern Clarifier - Replace Drive Chain	40,000		40,000
Lift Station Improvements	65,125	89,875	155,000
Replace Tractor	70,000		70,000
Replace Truck	30,000		30,000
Replace Van - Transport of Video Camera	55,000		55,000
Security Improvements	-	15,000	15,000
Subtotal	260,125	104,875	365,000
<u>Wastewater SST Projects</u>			
Secondary Water System (ECM 10)	80,000		80,000
Wastewater SST - PG&E Turnkey (ECM 7)	204,947		204,947
Wastewater SST - PG&E Turnkey (ECM 8 Switch)	204,947		204,947
Subtotal	489,894	-	489,894
Total	750,019	104,875	854,894

Repayment of Outstanding Loan from CCSD's General Fund

Due to inadequate sewer rate revenues and budget deficits in prior years while sewer rate increases were being phased in, the sewer enterprise had to borrow funds from CCSD's general fund to cover annual expenses. Through fiscal year 2017/18, the sewer fund had borrowed a net total of roughly \$584,000. These funds were scheduled to be paid back over 5 years, however the sewer enterprise has not generated adequate funds in recent years to meet the anticipated loan repayment schedule. Instead, the sewer fund has been applying all of its annual net revenues available at the end of the fiscal year toward repayment of the General Fund Loan in order to pay it off as quickly as possible. This has resulted in sewer fund reserves being fully drawn down each year. BWA recommends that instead of drawing down sewer fund reserves to zero, that CCSD instead implement a revised loan repayment schedule that repays the General Fund over the next 5 fiscal years.

Ongoing Cost Inflation

Like all agencies, CCSD faces ongoing cost inflation for a wide range of expenses such as staffing, insurance, utilities, supplies, etc. Cost inflation for utility enterprises has historically been higher than that for typical consumers. Small annual rate adjustments are typically needed every year to keep revenues in line with cost inflation and keep rates from falling behind the cost of service.

4.4 Sewer Financial Projections

Bartle Wells Associates developed 10-year sewer enterprise cash flow projections to evaluate future rate increases needed to support the operating and capital funding needs of the sewer system. The projections are shown on the table on the following page. The projections incorporate the latest information available as well as a number of reasonable and slightly conservative assumptions. Key assumptions include:

Revenue Assumptions

- Sewer service charge revenues are based on estimates for the current year, which in turn are based on evaluation of sewer sales in recent years and current year-to-date utility billing information. Sewer service charges increase in future years accounting for projected rate increases as shown on the table. The volume of billed sewer use is projected to remain constant in future years.
- Interest earnings, which are minimal, are estimated based on projected fund reserves at the beginning of each fiscal year multiplied by the projected interest rate shown on the table. Interest earning rates are currently estimated a 0.25% and are projected to gradually escalate to 1% over the next 3 years.
- Other minor revenues are projected to remain constant in future years as shown on the table.

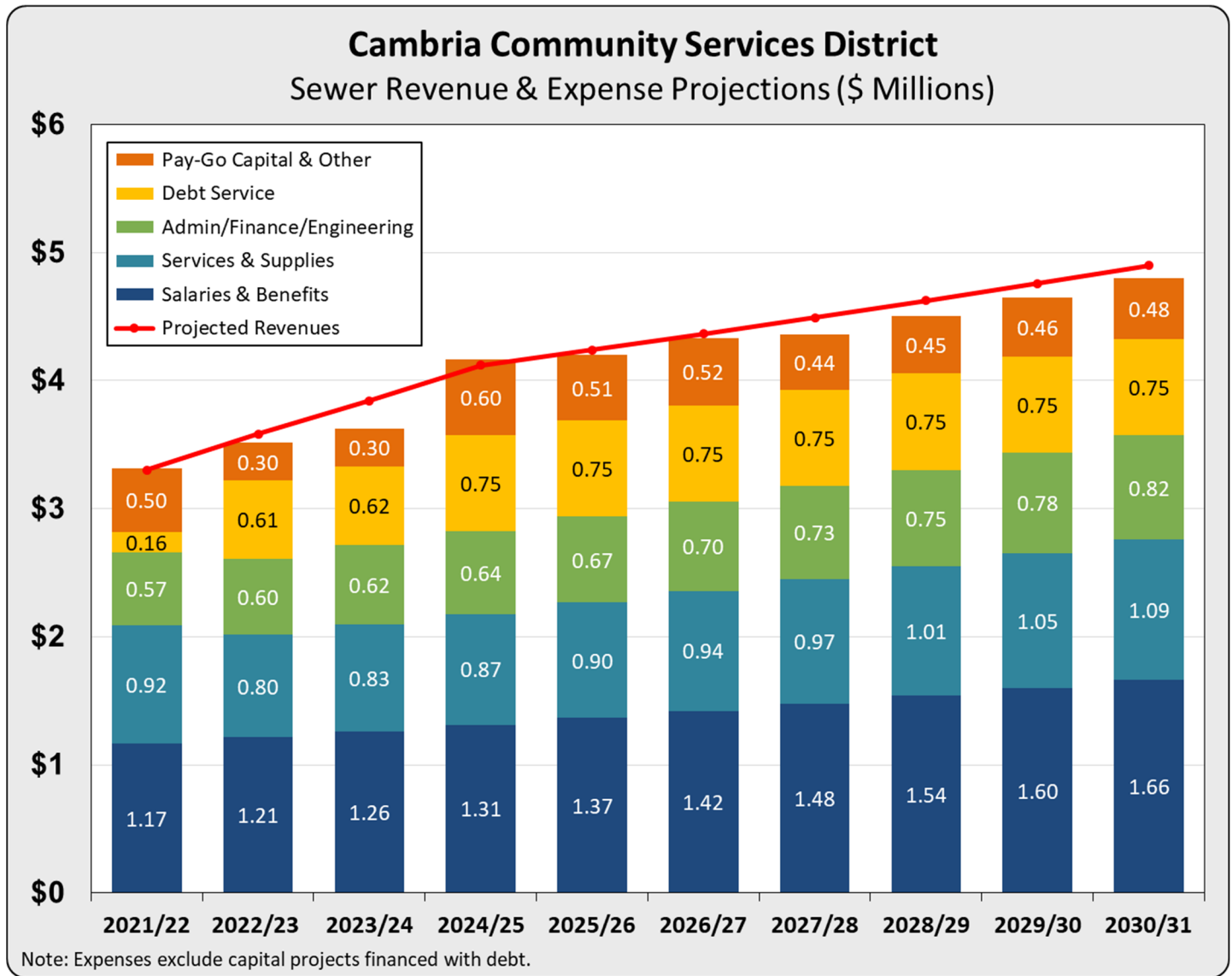
Expense Assumptions

- Sewer system operating and maintenance costs are based on the 2021/22 budget and escalate at the annual rate of 4% for financial planning purposes, to account for future cost inflation. Operating expense projections also account for conservative estimates of utility savings due to completion of the critical wastewater treatment plant improvements as identified in PG&E's *Investment Grade Audit Report*.
- The projections assume a phase in of new debt service for \$12 million of high-priority capital needs. Debt service is estimated at \$750,000 per year starting in 3 years, with partially reduced payments for the first 2 years while rate increases are being phased in. The projections show the final 2 years of payments on the 2010 City National Bank Loan for presentation purposes although these payments may instead be added to the debt service shown for the new bonds.
- The projections include future sewer system capital improvement funding of \$400,000 per year starting 2024/25 based on input from CCSD staff, adjusted to account for 3% cost escalation.
- The projections assume the sewer enterprise repays the outstanding loan from CCSD's General Fund over the next 5 years with interest, resulting in payments of roughly \$100,000.
- For financial planning purposes, the projections include a minimum fund reserve target equal to 25% of annual recurring expenses – including operating, maintenance and debt service expenses – plus \$500,000 for emergency capital reserves. Maintaining a prudent minimal level of fund reserves provides a financial cushion for dealing with unanticipated expenses, revenue shortfalls, and emergency capital repairs. The sewer enterprise's fund reserves are currently significantly below the target, but are projected to gradually accrue toward achieving the target over the next decade.

Table 17. Sewer Cash Flow Projections

Cambria Community Services District - Sewer Cash Flow Projections										
Esc	1	2	3	4	5	6	7	8	9	10
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Effective Date of Rate Increases	July-1	July-1	July-1	July-1	July-1	July-1	July-1	July-1	July-1	July-1
Rate Increases	0.0%	7.5%	7.5%	7.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Interest Earnings Rate	0.25%	0.50%	0.75%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Beginning Sewer Fund Reserves	\$465,000	\$450,000	\$518,000	\$734,000	\$728,000	\$812,000	\$892,000	\$1,067,000	\$1,236,000	\$1,396,000
	Preliminary									
REVENUES										
Sewer Service Charges	3,200,000	3,440,000	3,698,000	3,975,000	4,094,000	4,217,000	4,344,000	4,474,000	4,608,000	4,746,000
Revenue Loss due to Stage 4 Cutbacks	(40,000)	0	0	0	0	0	0	0	0	0
Standby Availability	115,000	115,000	115,000	115,000	115,000	115,000	115,000	115,000	115,000	115,000
Interest Income	1,000	2,000	4,000	7,000	7,000	8,000	9,000	11,000	12,000	14,000
Property Taxes (Low Income Discount)	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
Total Revenues	3,301,000	3,582,000	3,842,000	4,122,000	4,241,000	4,365,000	4,493,000	4,625,000	4,760,000	4,900,000
Debt Proceeds		6,000,000	6,000,000							
EXPENSES										
Sewer System Operations										
Salaries & Benefits	1,167,000	1,214,000	1,263,000	1,314,000	1,367,000	1,422,000	1,479,000	1,538,000	1,600,000	1,664,000
Services & Supplies	920,000	800,000	832,000	865,000	900,000	936,000	973,000	1,012,000	1,052,000	1,094,000
Electricity & O&M Savings	0	0	0	(40,000)	(42,000)	(44,000)	(46,000)	(48,000)	(50,000)	(52,000)
Admin/Finance/Engin Allocation	572,000	595,000	619,000	644,000	670,000	697,000	725,000	754,000	784,000	815,000
Subtotal	2,659,000	2,609,000	2,714,000	2,783,000	2,895,000	3,011,000	3,131,000	3,256,000	3,386,000	3,521,000
Debt Service										
2010 City Nat'l Bank Loan (1999 Refi)	162,000	160,000	167,000	0	0	0	0	0	0	0
New Debt Service (\$12M, 30-Yr, 3.50%)	0	450,000	450,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Subtotal	162,000	610,000	617,000	750,000	750,000	750,000	750,000	750,000	750,000	750,000
Capital & Non-Operating										
High-Priority SST Projects (Debt Financed)		6,000,000	6,000,000							
Ongoing Capital Projects (Cash Funded)	400,000	100,000	100,000	400,000	412,000	424,000	437,000	450,000	464,000	478,000
Repay General Fund Loan	0	100,000	100,000	100,000	100,000	100,000	0	0	0	0
Vehicle Loans	95,000	95,000	95,000	95,000	0	0	0	0	0	0
Subtotal	495,000	6,295,000	6,295,000	595,000	512,000	524,000	437,000	450,000	464,000	478,000
Total Expenses	3,316,000	9,514,000	9,626,000	4,128,000	4,157,000	4,285,000	4,318,000	4,456,000	4,600,000	4,749,000
Revenues Less Expenses	(15,000)	68,000	216,000	(6,000)	84,000	80,000	175,000	169,000	160,000	151,000
Ending Fund Reserves	450,000	518,000	734,000	728,000	812,000	892,000	1,067,000	1,236,000	1,396,000	1,547,000
Fund Rstrv Target: 25% O&M&D +\$500K CIP	1,210,000	1,300,000	1,330,000	1,380,000	1,410,000	1,440,000	1,470,000	1,500,000	1,530,000	1,570,000
Debt Service Coverage	3.96	1.60	1.83	1.79	1.79	1.81	1.82	1.83	1.83	1.84

The following chart shows a projection of sewer revenues and expenses. As shown, with the projected sewer rate increases, revenues are projected to be adequate to fund projected expenses and maintain balanced budgets in future years.



4.5 Projected Sewer Rates

Table 18 shows a schedule of projected sewer rates for the next 3 years. The proposed rates are designed to fund projected operating and maintenance expenses and phase in funding to support an ongoing funding stream to enable CCSD to address its future sewer system infrastructure funding needs. The projected rates assume across-the-board increases to CCSD’s current sewer rates with the same percentage increases to all rate components. As such, all customers will face the same percentage rate impacts. The current rate structure was implemented in 2016 based on a cost-of-service analysis designed to equitably recover costs from CCSD’s customer base. No modifications to the sewer rate structure are recommended at this time.

Table 18. Proposed Sewer Rates

	Current Rates	Proposed Rates Effective on or After		
		July 1 2022	July 1 2023	July 1 2024
Rate Increase %		7.5%	7.5%	7.5%
FIXED SEWER SERVICE CHARGES				
Residential				
Monthly Charge	\$46.03	\$49.48	\$53.19	\$57.18
Bi-Monthly Charge	92.06	98.96	106.38	114.36
Commercial				
Monthly Charge	\$46.03	\$49.48	\$53.19	\$57.18
Bi-Monthly Charge	92.06	98.96	106.38	114.36
SEWER QUANTITY CHARGES				
<i>Billed based on metered water use (\$/ccf)</i>				
Residential	\$5.32	\$5.72	\$6.15	\$6.61
Commercial				
<u>Wastewater Class</u>				
Class 1 (Low Strength)	\$4.66	\$5.01	\$5.39	\$5.79
Class 2 (Standard Strength)	5.32	5.72	6.15	6.61
Class 3 (Higher Strength)	8.19	8.80	9.46	10.17

Note: 1 ccf = 100 cubic feet, or approximately 748 gallons.

Class 1 includes lower strength accounts including professional offices, retail stores, laundromats, & schools.

Class 2 includes all other commercial accounts (with standard/domestic strength wastewater) that are not classified Class 1 or Class 3.

Class 3 includes accounts with moderate to high wastewater strength including restaurants, hotels with restaurants, bakeries, mortuaries, markets with meat/seafood/food prep/garbage grinder, and mixed use accounts with an estimated 30% or more sewer discharge from higher strength wastewater flow.

Pursuant to California Government Code 53756, after the three years of proposed rates are fully phased in, CCSD can authorize two additional years of inflation pass-through rate adjustments with the goal of keeping future rates aligned with the cost of providing service.