

CAMBRIA COMMUNITY SERVICES DISTRICT

TO: Board of Directors

AGENDA NO. **8.B.**

FROM: John F. Weigold, IV, General Manager

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Meeting Date: March 17, 2022

Subject:

Receive and Discuss Water, Water Reclamation Facility and Sewer Rate Recommendations from Bartle Wells Associates, and Consider Scheduling a Proposition 218 Hearing Date and Directing Staff to Commence the Proposition 218 Noticing Process

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**RECOMMENDATIONS:**

Staff recommends that the Board of Directors receive and discuss the water, water reclamation facility and sewer rate recommendations from Bartle Wells Associates, consider scheduling a Proposition 218 protest hearing date and direct staff to commence the Proposition 218 Noticing Process.

The CCSD Finance Committee met in a special meeting on March 15, 2022 and passed a motion by a vote of 3-0 recommending that the Board accept the proposed financial plan, rate study, three-year rate increases for Water and Sewer Funds, and subsequent inflationary rate adjustments for Water, WRF and Sewer. The Finance Committee also passed a second motion by a vote of 3-0 recommending that the Board discuss and consider reviewing the rates to frontload the Sewer Fund increases to 9% in the first year, 7.5% in the second year, and 6% in the third year.

**FISCAL IMPACT:**

The proposed water, and sewer rate increases are phased in over the next three years to provide revenue necessary to fund the projected annual costs of water and sewer operations, as well as to provide funding needed for capital improvements to repair and replace aging facilities and comply with regulatory requirements. There is no rate increase proposed for the water reclamation facility (WRF).

Attached is the Bartle Wells Associates Financial Plan and Rate Study, and a draft Proposition 218 public hearing notice incorporating the proposed rate increases. The following tables detail the proposed rate increase of 6% in water and 7.5% in sewer:

Proposed Water Rate Increase:

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%
<b>FIXED WATER SERVICE CHARGES</b>				
<b>Residential</b>				
Monthly Charge	\$18.32	\$19.42	\$20.59	\$21.83
Bi-Monthly Charge	36.64	38.84	41.18	43.66
<b>Commercial</b>				
<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	48.55	48.55
1-1/2"	91.60	97.10	97.10	97.10
2" & Larger	183.20	194.20	194.20	194.20
<b>WATER QUANTITY CHARGES</b>				
<i>Billed based on metered water use (\$/ccf)</i>				
<b>Residential Charges</b>				
<u>Tier</u>	<u>Bi-Monthly</u>	<u>Monthly</u>		
Tier 1	First 4 ccf	First 2 ccf		
	\$9.33	\$9.89	\$10.48	\$11.11
Tier 2	4.01 - 16 ccf	2.01 - 8 ccf		
	12.21	12.94	13.72	14.54
Tier 3	> 16 ccf	> 8 ccf		
	13.61	14.43	15.30	16.22
<b>Commercial Charges</b>				
Rate for All Water Use	\$12.21	\$12.94	\$13.72	\$14.54

1 ccf = 100 cubic feet, or approximately 748 gallons

Proposed Sewer Rate Increase:

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%
<b>FIXED SEWER SERVICE CHARGES</b>				
<b>Residential</b>				
Monthly Charge	\$46.03	\$49.48	\$53.19	\$57.18
Bi-Monthly Charge	92.06	98.96	106.38	114.36
<b>Commercial</b>				
Monthly Charge	\$46.03	\$49.48	\$53.19	\$57.18
Bi-Monthly Charge	92.06	98.96	106.38	114.36
<b>SEWER QUANTITY CHARGES</b>				
<i>Billed based on metered water use (\$/ccf)</i>				
<b>Residential</b>	\$5.32	\$5.72	\$6.15	\$6.61
<b>Commercial</b>				
<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 Board of Directors also has the option of adding an annual inflationary rate adjustment for the subsequent two years, which would be implemented on or after July, 1, 2024 and July 1, 2025. Staff recommends adding an inflation rate index adjustment per Bartle Wells recommendation.

**DISCUSSION:**

The Board of Directors previously directed that staff move forward with a rate study to evaluate rate increases needed to support financial stability of the Water and Sewer Funds and to provide adequate funding for capital improvements to the District’s aging water and sewer system infrastructure. At that time, the Board approved retaining Bartle Wells Associates to prepare the rate study and assist in the Proposition 218 process.

Proposition 218, which was adopted by the voters in November 1996, added Article XIID to the State Constitution and governs the process for property-related fee increases. Under Section 6 of Article XIID, a notice must be sent to all property owners and customers at least 45 days before the public hearing. A draft notice with proposed water and sewer rates has been prepared. Staff recommends that the Board of Directors approve the mailing of the notice to property owners and ratepayers, subject to additional changes that are deemed necessary by the General Manager and District Counsel and set the date and time of a public hearing at which protests will be tabulated. If no majority protest exists, the proposed rates would be considered for adoption. The Board would have the authority to adopt rates at or below the levels included in the Proposition 218 Notice.

Key decisions for Board input and direction include:

- Proposed rates to include in the Proposition 218 Notice;
- Effective date for proposed rate increases (the draft recommendations assume the first rate increase would become effective July 1, 2022 with future increases becoming effective on July 1 (the beginning of the fiscal year);
- Setting a date and time for a Public Hearing on the proposed rates;
- Direction for staff to move forward with the finalization and mailing of the Proposition 218 Notice to affected property owners and ratepayers. The notice must be mailed at least 45 days prior to the date of the Public Hearing.

CCSD Efforts in Capital Improvement Planning Leading to this Rate Study

**SUSTAINABLE SOLUTIONS TURNKEY (SST)**

The SST program is a PG&E-sponsored program to assist customers such as the CCSD in completing comprehensive energy and infrastructure projects which enhance facility performance while reducing the associated operating cost and environmental footprint--delivered through a single end-to-end turnkey process. An initial energy review, called a Preliminary Energy Assessment (PEA), was done at no cost to the CCSD in 2019 and focused exclusively on the CCSD’s Wastewater Treatment Plant (WWTP). The original recommendation provided to the CCSD during the PEA process included 22 wastewater projects referred to as ECMs, or Energy Conservation Measures. Sixteen of these ECMs were selected for inclusion in the final PEA report and Investment Grade Audit (IGA) proposal. Water and General Fund projects were also incorporated into the IGA proposal.

On January 9, 2020, the Board approved the IGA proposal and executed a Master Service Agreement (MSA) with PG&E. The IGA included up to 30% design for designated ECMs, firm-fixed pricing, and the ability to proceed to construction with integrated development, engineering, and installation services, project management, contractor and equipment procurement, start-up testing and operator training—all via execution of work orders under the MSA. When the IGA design phase began, the project list was evaluated and updated with estimated costs. At a staff meeting with PG&E on June 2, 2020, the total costs for all ECMs was estimated at \$18.8M. Some cost line items for the General Fund facilities were

summarized in the IGA report, but for the purposes of this rate study, only the water and sewer infrastructure are being considered.

As the water and wastewater projects were finalized to 30% completion, the estimated engineering costs indicated that there was a funding shortfall preventing completion of all ECMs, particularly in the Sewer Fund. In order to get firm-fixed prices from contractor bids, the project team separated the ECMs by priority, while also considering how related ECMs were dependent on one another, such as certain upgrades in the wastewater treatment process. The team determined that WWTP infrastructure projects had the highest priority. This suite of projects went out to bid; however, bids received were still beyond the financial capability of the CCSD. The projects were further value engineered to cut costs. Even this effort showed that the necessary projects were still beyond the CCSD's long term financial sustainability. At this point, it was determined that revenues needed to be raised to fund these critical infrastructure projects. The CCSD contracted with Bartle Wells in 2021 to conduct a financial analysis and rate study to determine appropriate levels of revenue in order to operate and complete these SST ECM projects. Today's meeting is the culmination of that study and report.

The Sewer Fund base projects summarized in the IGA Final Report (see link below) and listed below are the highest priority projects and are the focus of this rate study. The below referenced page numbers can be found within the Final IGA Report at the following link: <https://www.cambriacsd.org/sustainable-solutions-turnkey>.

#### *Sewer Fund*

- Sewer Fund Base Project from IGA Report
  - Flow Equalization, including tank refurbishment (See section 3.1, p. 13)
  - Influent Lift Station Improvements, Baffle plate only (See section 3.2, p. 18)
  - Modified Ludzak-Ettinger upgrade (See section 3.3, p. 18)
  - Blower Improvements (See section 3.4, p. 24)
  - RAS/WAS improvements (See section 3.5, p. 27)
  - Electrical Upgrades (See section 3.7, p. 29)
  - SCADA (See section 3.9, p. 31)
  - Secondary Water (3W) improvements (See section 3.6, p. 29)

Including pads for electrical projects, final design, project duration/general condition costs, and the sewer portion of the IGA costs, the total for the above projects is estimated to be **\$7,527,063** (see p. 34)

The Sewer Fund Base Project was scaled down to attempt to fit within anticipated financing parameters; however, current Sewer Fund revenues are inadequate to fund anything beyond the cost of the IGA. Additional sewer projects not included in the base project but still ranked with a high priority include the below.

- Additional Sewer Fund Measures from IGA Report
  - Additional lift station improvements (See section 5.1, p. 38)
  - Sludge storage improvements (See section 5.2, p. 39)
  - Tertiary treatment
  - Lift station improvements, Lift Stations A, B4, 4, 8 only (See section 5.3, p. 40)
  - Storm drain

The estimated costs of the additional sewer fund measures is **\$4,541,862** (see p. 43).

#### *Water Fund*

- Water Fund Measures from IGA Report
  - Well sites (See section 6.1, p. 44)
  - Booster stations (See section 6.2, p. 47)

- Domestic Water Tanks (See section 6.3, p. 52)

The estimated total for the above Water Fund Measures is **\$4,893,836** (see p. 54).

In addition, the Water Department is continuing to research vendors and financing for its Advanced Metering Infrastructure project, which is anticipated to cost upwards of **\$1,750,000** when installation services are included. Please refer to the agenda and minutes of the August 12, 2021 regular Board meeting, item 7.B., for more information. <https://www.cambriacsd.org/2021-08-12-board-meeting>

Attachment: Bartle Wells Associates Financial Plan & Rate Study, dated March 2022