

Management Consulting

Report on  
Water and Wastewater Rate Study

*for*

Oceano Community Services District

September 2010

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FINANCIAL CONSULTING  
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## EXECUTIVE SUMMARY

This report has been prepared for the Oceano Community Services District (OCSD) by Tuckfield & Associates to document the findings and results of the 2010 Water and Wastewater Rate Study. The objectives of the study include the following.

- Analyze the Water Fund and Sewer Fund of the OCSD and evaluate the adequacy of the revenue under the existing rates to meet existing and future fund obligations of each fund.
- Develop reliable five-year financial plans for the Water Fund and the Sewer Fund that includes adjustments to revenue to meet future changes in fund obligations.
- Create schedules of water and wastewater service rates that are fair and equitable, that provide predictable sources of revenue as described in the financial plans, and that meet Proposition 218 requirements for rates and charges.

### Water System Summary of Findings

- A capital improvement program (CIP) has been prepared from the OCSD draft water master plan that identifies improvements to the water system for the next five years. The majority of these improvements are waterline replacement projects. The estimated cost of all the improvements over the next five years total \$1,326,400 including inflation.
- CIP water project expenditures in the first year (FY 2010-11) will be financed with Capital Improvement Fund reserves. All waterline replacement projects are proposed to be funded from a \$1,350,000 loan from the United States Department of Agriculture (USDA) that includes an interest rate of 4.0 percent and a 40 year term.
- Analysis of the Water Fund's future revenue and revenue requirements indicate that the level of revenue currently received by the Water Fund will need to be increased. The water revenue increase is necessary due to inflation in operation and maintenance (O&M) expenses, restoration of an adequate operating reserve, the need for annual capital replacement, and repayment of funds borrowed from restricted reserves. Water sales revenue, derived from water service rates, will need to increase by 8.0 percent on January 1, 2011 and on July 1 of each successive year for FY 2011-12 through FY 2014-15 to meet future revenue requirements.
- Table ES-1 presents the proposed water rates for implementation by the OCSD. The proposed rates differ from the existing rate structure in that the bi-monthly fixed charges are lower and that

consumption is charged in the first block. The price in the second block is 150 percent of the price in the third block while the third block price is 200 percent of the first block price to encourage water conservation. The rate adjustments for FY 2010-11 would go into effect on or before January 1, 2011 while subsequent rate increases would adjust on July 1 of each fiscal year.

**Table ES-1**  
**Water Utility**  
**Oceano CSD**  
**Schedule of Proposed Water Service Rates**

Bi-monthly Fixed Charges							
Classification	Existing Rates \$/bi-month	Date of Increase					
		Jan 1, 2010-11 \$/bi-month	July 1, 2011-12 \$/bi-month	July 1, 2012-13 \$/bi-month	July 1, 2013-14 \$/bi-month	July 1, 2014-15 \$/bi-month	
Residential <sup>[1]</sup>	\$23.94	\$15.60	\$16.85	\$18.20	\$19.65	\$21.20	
Non-Residential							
	<u>Meter Size</u>						
	5/8	\$29.15	\$14.65	\$15.80	\$17.05	\$18.40	\$19.85
	3/4	36.55	29.30	31.65	34.20	36.95	39.90
	1	58.40	58.65	63.35	68.40	73.85	79.75
	1 1/2	109.20	102.60	110.80	119.65	129.20	139.55
	2	172.30	161.25	174.15	188.10	203.15	219.40
	3	276.95	337.15	364.10	393.25	424.70	458.70
	4	473.80	527.70	569.90	615.50	664.75	717.95
	6	\$741.30	\$1,040.70	\$1,123.95	\$1,213.85	\$1,310.95	\$1,415.85
Outside District Charge <sup>[2]</sup>	\$7.10	\$7.65	\$7.90	\$8.15	\$8.40	\$8.65	
Consumption Charge <sup>[3]</sup>							
Classification	Rate Block	Existing Rates \$/Ccf	Date of Increase				
			Jan 1, 2010-11 \$/Ccf	July 1, 2011-12 \$/Ccf	July 1, 2012-13 \$/Ccf	July 1, 2013-14 \$/Ccf	July 1, 2014-15 \$/Ccf
All Customers							
	First 6 Ccf	\$0.00	\$1.72	\$1.86	\$2.01	\$2.17	\$2.34
	Next 19 Ccf	2.25	2.56	2.76	2.98	3.22	3.48
	Over 25 Ccf	\$2.95	\$3.44	\$3.72	\$4.02	\$4.34	\$4.69
Lopez Charge		\$1.14	\$1.14	\$1.23	\$1.33	\$1.44	\$1.56
Arroyo Grande Temp		\$2.98	\$2.98	\$3.22	\$3.48	\$3.76	\$4.06

<sup>[1]</sup> Charge applies to each residential dwelling unit.

<sup>[2]</sup> As defined in Ordinance No. 2006-1, page 11.

<sup>[3]</sup> Charge per unit of water consumed. One unit equals one hundred cubic feet (Ccf).

Table ES-2 presents typical single family bi-monthly water bills at various levels of consumption that includes the Lopez consumption charge. The table shows that the bi-monthly water bill for a single-family residential customer consuming 20 Ccf bi-monthly (the average consumption for a single family residential customer) will increase from \$78.24 to \$84.48, an increase of \$6.24, or 8.0 percent.

**Table ES-2**  
 Oceano CSD  
 Water Utility  
**Comparison of Typical Bi-monthly Bills Under Existing Rates With Proposed FY 2010-11 Water Service Rates**

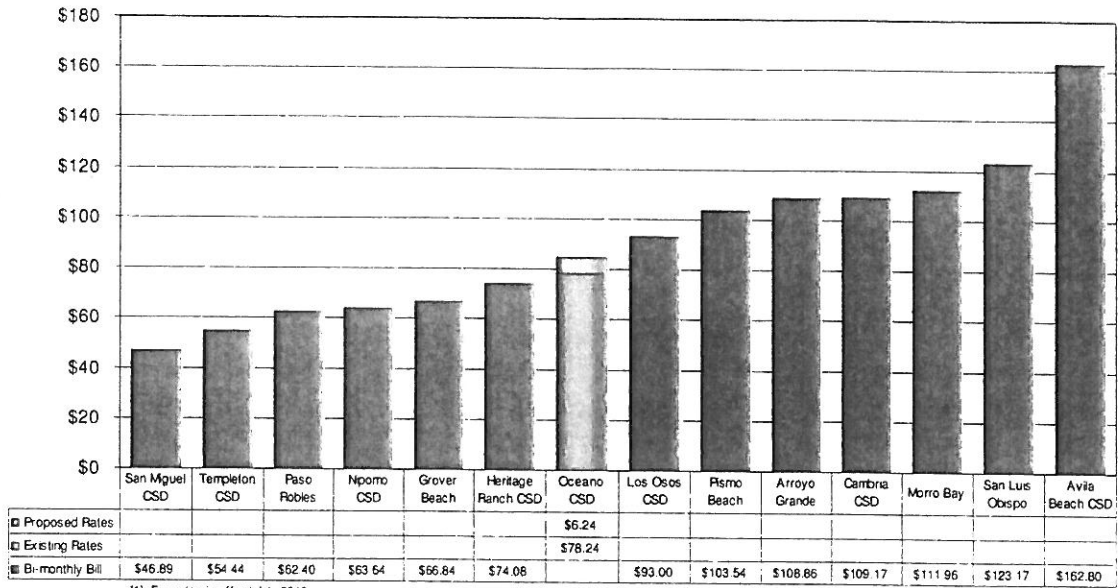
Classification	Fixed Charge			Bi-monthly Consumption Ccf	Consumption Charge			Total Bi-monthly Bill			
	Existing Rates [1]	Proposed Rates			Existing Rates [1]	Proposed Rates		Existing Rates [1]	Proposed Rates		Percent Difference
		FY 2011 [2]	Difference			FY 2011 [2]	Difference		FY 2011 [2]	Difference	
Single Family Res	\$23.94	\$15.60	(\$8.34)	0	\$0.00	\$0.00	\$0.00	\$23.94	\$15.60	(\$8.34)	-34.8%
	\$23.94	\$15.60	(\$8.34)	1	\$1.14	\$2.86	\$1.72	\$25.08	\$18.46	(\$6.62)	-26.4%
	\$23.94	\$15.60	(\$8.34)	2	\$2.28	\$5.71	\$3.43	\$26.22	\$21.31	(\$4.91)	-18.7%
	\$23.94	\$15.60	(\$8.34)	3	\$3.42	\$8.57	\$5.15	\$27.36	\$24.17	(\$3.19)	-11.7%
	\$23.94	\$15.60	(\$8.34)	4	\$4.56	\$11.42	\$6.86	\$28.50	\$27.02	(\$1.48)	-5.2%
	\$23.94	\$15.60	(\$8.34)	5	\$5.70	\$14.28	\$8.58	\$29.64	\$29.88	\$0.24	0.8%
	\$23.94	\$15.60	(\$8.34)	6	\$6.84	\$17.14	\$10.30	\$30.78	\$32.74	\$1.96	6.4%
	\$23.94	\$15.60	(\$8.34)	7	\$10.23	\$20.83	\$10.60	\$34.17	\$36.43	\$2.26	6.6%
	\$23.94	\$15.60	(\$8.34)	8	\$13.62	\$24.53	\$10.91	\$37.56	\$40.13	\$2.57	6.8%
	\$23.94	\$15.60	(\$8.34)	9	\$17.01	\$28.22	\$11.21	\$40.95	\$43.82	\$2.87	7.0%
	\$23.94	\$15.60	(\$8.34)	10	\$20.40	\$31.92	\$11.52	\$44.34	\$47.52	\$3.18	7.2%
	\$23.94	\$15.60	(\$8.34)	15	\$37.35	\$50.40	\$13.05	\$61.29	\$66.00	\$4.71	7.7%
	\$23.94	\$15.60	(\$8.34)	20	\$54.30	\$68.88	\$14.58	\$78.24	\$84.48	\$6.24	8.0%
	\$23.94	\$15.60	(\$8.34)	30	\$91.70	\$110.24	\$18.54	\$115.64	\$125.84	\$10.20	8.8%
	\$23.94	\$15.60	(\$8.34)	40	\$132.60	\$156.00	\$23.40	\$156.54	\$171.60	\$15.06	9.6%
	\$23.94	\$15.60	(\$8.34)	50	\$173.50	\$201.76	\$28.26	\$197.44	\$217.36	\$19.92	10.1%
	\$23.94	\$15.60	(\$8.34)	100	\$378.00	\$430.57	\$52.57	\$401.94	\$446.17	\$44.23	11.0%
	\$23.94	\$15.60	(\$8.34)	150	\$582.50	\$659.37	\$76.87	\$606.44	\$674.97	\$68.53	11.3%
	\$23.94	\$15.60	(\$8.34)	200	\$787.00	\$888.17	\$101.17	\$810.94	\$903.77	\$92.83	11.4%
	\$23.94	\$15.60	(\$8.34)	250	\$991.50	\$1,116.97	\$125.47	\$1,015.44	\$1,132.57	\$117.13	11.5%

<sup>[1]</sup> Existing rates became effective April 12, 1997. Includes Lopez consumption charge.  
<sup>[2]</sup> Proposed rates are effective January 1, 2011. Includes Lopez consumption charge.

Chart ES-1 has been prepared to compare the OCSD's average water bill with bills of other communities at the same consumption. The chart indicates that under the proposed January 1, 2011 water rates including the Lopez consumption charge, an OCSD single family residential customer with a consumption of 20 Ccf bi-monthly will experience a bill that in the mid range of the communities listed.



Chart ES-1  
 San Luis Obispo County Water Agencies  
 Comparison of Single Family Residential Bi-monthly Water Bills <sup>[1]</sup>  
 at 20 Ccf Bi-monthly



[1] For rates in effect July 2010

### Wastewater System Summary of Findings

- E. The OCSD has developed a list of capital improvements that address the needs of the wastewater system for the next five years. These include minor system repairs and sewer main cleaning. The cost of the improvements total \$157,200 over the next five years in inflated dollars.
  
- E. There is no impact to the wastewater rates from the proposed capital improvements. All of the improvements are funded from the Sewer Capital Improvement Fund which is outside of the Sewer Fund.
  
- E. Analysis of the Sewer Fund's future revenue and revenue requirements indicate that the level of revenue currently received from wastewater service charges will need to be increased. The wastewater revenue increase is necessary due to inflation in operation and maintenance expenses, restoration of an adequate operating reserve, the need for annual capital replacement, and repayment of borrowed funds from restricted reserves. Wastewater service revenue, derived from wastewater service charges, will need to increase by 15.0 percent on January 1, 2011 and on July 1 of each successive year for FY 2011-12 through FY 2014-15 to meet future revenue requirements.

Tables ES-3 presents the proposed wastewater charges for implementation by the OCSD. The charges shown are for wastewater collection service only and were designed using estimated wastewater flow to establish charges on an “Equivalent Dwelling Unit” (EDU) basis. The rate adjustment for FY 2010-11 would go into effect on or before January 1, 2011 while subsequent rate increases would adjust on July 1 of the fiscal year. Wastewater treatment service is provided by the South San Luis Obispo County Sanitation District (SSLOCSO) and is charged separately on each customer’s bill.

**Table ES-3**  
**Oceano CSD**  
**Sewer Utility**  
**Schedule of Proposed Wastewater Service Charges**

Classification	Bi-monthly Fixed Charges <sup>(1) (2)</sup>					
	Existing Rates	Date of Increase				
		Jan 1, 2010-11	July 1, 2011-12	July 1, 2012-13	July 1, 2013-14	July 1, 2014-15
	\$/bi-month	\$/bi-month	\$/bi-month	\$/bi-month	\$/bi-month	\$/bi-month
Single Family Residential	\$9.25	\$10.65	\$12.25	\$14.10	\$16.20	\$18.65
Multiple Unit Residential	9.25	10.65	12.25	14.10	16.20	18.65
School	0.65	0.65	0.75	0.85	1.00	1.15
RV Trailer Park	5.20	6.00	6.90	7.95	9.15	10.50
Special Case	1.50	1.75	2.00	2.30	2.65	3.05
Non-Residential	\$9.25	\$10.65	\$12.25	\$14.10	\$16.20	\$18.65

Classification	Consumption Charges <sup>(1) (3)</sup>						
	Rate Block	Existing Rates	Date of Increase				
			Jan 1, 2010-11	July 1, 2011-12	July 1, 2012-13	July 1, 2013-14	July 1, 2014-15
	Ccf	\$/Ccf	\$/Ccf	\$/Ccf	\$/Ccf	\$/Ccf	\$/Ccf
Non-Residential							
	0 to 10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	Over 10	\$0.75	\$0.90	\$1.05	\$1.20	\$1.40	\$1.60

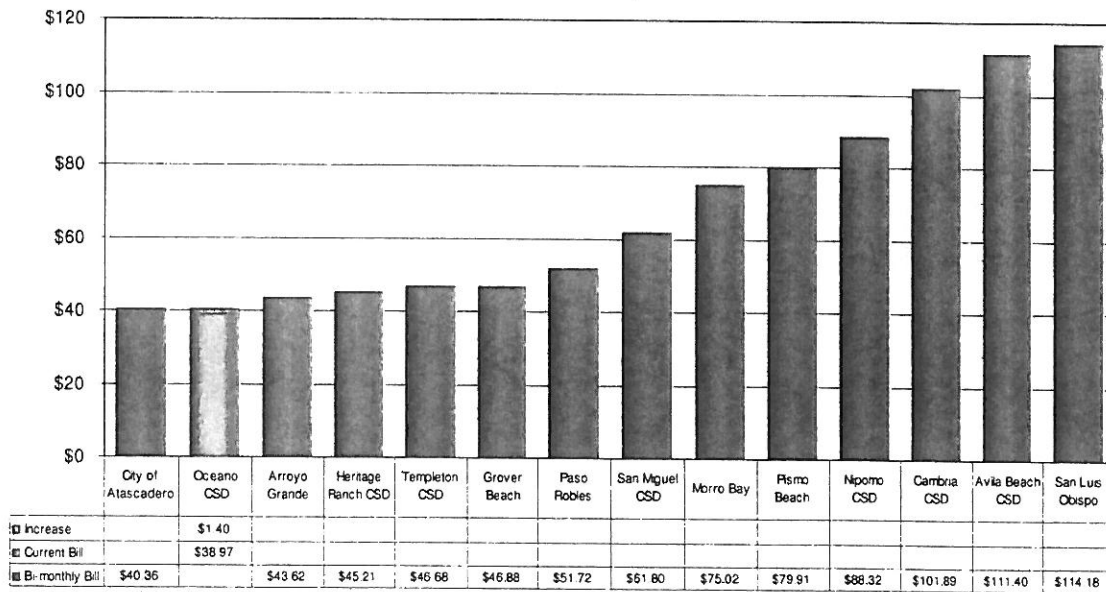
<sup>(1)</sup> For collection only. Does not include charges from South San Luis Obispo County Sanitation District for wastewater treatment.

<sup>(2)</sup> Single family, multiple unit, and RV Trailer Parks are charged by the dwelling unit. Schools are charged by the Average Daily Attendance (ADA).

<sup>(3)</sup> Charged based on water consumed. One unit equals one hundred cubic feet (Ccf).

- Typical bi-monthly wastewater bills can be determined from inspection of Table ES-3. The bi-monthly wastewater bill for a typical single-family residential customer will increase from \$9.25 to \$10.65, an increase of \$1.40, or 15.1 percent.
- Chart ES-2 has been prepared to compare the OCSD's average wastewater bill with bills of other communities at the same consumption. The chart indicates that under the proposed January 1, 2011 wastewater rates including the South San Luis Obispo County Sanitation District treatment charge, an OCSD single family residential customer with a consumption of 20 Ccf bi-monthly will experience a bill that is next to the lowest of the communities listed.

**Chart ES-2**  
**San Luis Obispo County Wastewater Agencies**  
**Comparison of Single Family Residential Bi-monthly Wastewater Bills<sup>[1]</sup>**  
 at 20 Ccf Bi-monthly



[1] For rates in effect July 2010

## 1.0 INTRODUCTION

This report has been prepared for the Oceano Community Services District (OCSD) by Tuckfield & Associates and presents the findings and results of the 2010 Water and Wastewater Rate Study. The report includes development of pro forma statements of revenues and expenses of the OCSD's water and wastewater enterprise funds and proposes adjustments to water and wastewater rates charged by the OCSD to users of the systems.

### 1.1 BACKGROUND

The OCSD is located in San Luis Obispo County, directly south of, and adjacent to, the City of Grover Beach. The OCSD provides water and wastewater service to a population of over 8,200 covering an area of approximately 1,150 acres. OCSD's customer base consists primarily of residential customers, with a smaller number of non-residential users that together total about 2,200 water connections and 2,100 sewer connections. Water rates were last adjusted on April 12, 1997 while wastewater rates were last adjusted on June 22, 1996.

OCSD's water system consists of water supply, water treatment, distribution, storage, and general utility facilities. Water is currently supplied to OCSD from three sources including groundwater (wells), Lake Lopez, and the State Water Project. Water is distributed through a distribution system that includes 22 miles of pipe ranging in size from 2 inch to 16 inch in diameter and two storage tanks of 0.3 MG and 1.0 MG capacity respectively. Water is treated (chlorinated) prior to introduction to the distribution system.

The wastewater system consists of collection lines ranging in size from 6 inch to 12 inch diameter, one lift station, and a force main to collect wastewater in the OCSD's service area. Wastewater is delivered to a trunk line owned and operated by the South San Luis Obispo County Sanitation District (SSLOCSD) which also provides wastewater treatment for the OCSD as well as for the Cities of Arroyo Grande and Grover Beach.

### 1.2 SCOPE OF WORK

This study includes the results of analyzing the Water Fund and Sewer Fund of the OCSD. Historical trends were analyzed from data supplied by the OCSD showing the number of customers, water consumption volumes, revenue, and revenue requirements. Annual growth projections are reflected in the revenue projections by customer classification.

Revenue requirements include operation and maintenance expense, routine capital outlays, replacement, existing and proposed debt requirements, transfers, and additions to operating reserves. Changing conditions such as additional facilities, recognition of growth, and non-recurring maintenance expenditures are recognized. Inflation for ongoing expenditures is included to reflect cost escalation.

It should be noted that the financial plan and rates developed herein are based on the funding of the capital improvement plan as stated as well as estimates of operation and maintenance expenses. Historical revenue, expense, billing and other information requested by Tuckfield & Associates for FY 2009-10 were not available for use in conducting this study. Annual audits for the OCSD beyond June 30, 2008 were also not available or not completed by the time of this study.

The financial plan and rates developed herein are based on the funding of the capital improvement plan as stated as well as estimates of operation and maintenance expenses developed from information provided by the OCSD. Any significant deviation from the financial plans, construction cost estimates and funding requirements, major operating changes, or other financial policy changes that were not foreseen, may result in the need for lower or higher revenue than anticipated. It is suggested that the OCSD conduct an update to the rate study at least every three years for prudent rate planning.

## 2.0 WATER UTILITY FINANCIAL PLANNING

Financial planning of the Water Fund includes identifying and projecting revenues and revenue requirements of the fund for a five-year planning period. Estimated revenue from various sources, including projected water sales revenue, are compared with the projected revenue requirements of the fund. This comparison allows the determination of impacts to the fund from financing decisions of the capital improvements, from future estimates of operation and maintenance expense, and from any new obligation of the fund. Preparing a pro forma financial plan allows the development of future water service rates to meet the projected revenue requirements in such a manner that they can be phased-in to avoid rate spikes in any one particular year.

The remainder of this section discusses the planned capital improvement expenditures, financing of those expenditures, and the existing and future revenue and revenue requirements that were identified for the Water Fund.

### 2.1 CAPITAL IMPROVEMENT PROGRAM

A five-year capital improvement program (CIP) expenditure plan has been prepared from the OCSD's draft water master plan that identifies needed improvements to the water system. Table W-1 presents the list of these projects and the planned expenditures in future years. The expenditures are shown in uninflated dollars, then total expenditures are inflated to the year of expenditure based on the Engineering News Record (ENR) historical index averaged over the last five years.

**Table W-1**  
**Oceano CSD**  
**Water Utility**  
**Proposed Capital Improvement Program**

Line No.	Project Description	Fiscal Year Ending June 30					Total
		2010-11	2011-12	2012-13	2013-14	2014-15	
1	Safety Eq Compressor	\$8,400	\$0	\$0	\$0	\$0	\$8,400
2	Water Master Plan	12,500	0	0	0	0	12,500
3	Water Buildout and Rate Study	15,000	0	0	0	0	15,000
4	SDW Shovel Ready Projects	5,000	0	0	0	0	5,000
5	14th Street Water Main	0	0	150,000	0	0	150,000
6	Beach Street Alley	0	0	350,000	0	0	350,000
7	Pier Avenue	0	0	300,000	0	0	300,000
8	Pacific Avenue Alley	0	0	250,000	0	0	250,000
9	Norswing Drive	0	0	150,000	0	0	150,000
10	<b>Total Capital Improvements (Uninflated)</b>	<b>\$40,900</b>	<b>\$0</b>	<b>\$1,200,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,240,900</b>
11	<b>Total Capital Improvements (Inflated)<sup>(1)</sup></b>	<b>\$40,900</b>	<b>\$0</b>	<b>\$1,285,500</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,326,400</b>

<sup>(1)</sup> Projects inflated at 3.5% per year based on average annual increase in historical ENR Index.

**2.2 CAPITAL IMPROVEMENT PROGRAM FINANCING PLAN**

Financing for the water system CIP includes transfers from the Water Capital Improvement Fund and loan proceeds from the United States Department of Agriculture (USDA). All expenditures in FY 2010-11 will be funded from reserves in the Water Capital Improvement Fund. Expenditures in future years, related entirely to water main replacements, will be financed from USDA loan proceeds. Table W-2 presents the projected CIP financing plan showing the sources and uses of funds.

**Table W-2**  
**Oceano CSD**  
**Water Utility**  
**Capital Improvement Program Financing Plan**

Line No.	Description	Fiscal Year Ending June 30				
		2010-11	2011-12	2012-13	2013-14	2014-15
<b>Source of Funds</b>						
1	Funds on Hand at Beginning of Year	\$0	\$0	\$0	\$0	\$0
2	Transfer from Capital Improvement Fund	40,900	0	0	0	0
3	Proposed USDA Loan Proceeds	0	0	1,350,000	0	0
4	<b>Total Sources of Funds</b>	<b>40,900</b>	<b>0</b>	<b>1,350,000</b>	<b>0</b>	<b>0</b>
<b>Use of Funds</b>						
5	Major Capital Improvements <sup>(1)</sup>	40,900	0	1,285,500	0	0
7	Capital Financing Issuance Expense <sup>(2)</sup>	0	0	64,500	0	0
8	<b>Total Use of Funds</b>	<b>40,900</b>	<b>0</b>	<b>1,350,000</b>	<b>0</b>	<b>0</b>
9	<b>Funds on Hand at End of Year</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

<sup>(1)</sup> From Table W-1.  
<sup>(2)</sup> Estimated at 5.0% of bond issue amount.

**2.3 REVENUE**

The Water Fund currently receives revenue from several sources. These include water sales revenue, interest income, and other revenue consisting of lease revenue, meter installations, connection fee revenue, and miscellaneous. Revenue from water sales was projected through application of the current water rates that became effective April 12, 1997, to projections of customer growth and water sales volume. Future customer growth was estimated assuming 8 new single family residential units annually beginning in FY 2013-14.

Future water sales volume was projected assuming a one-percent annual reduction in the average water consumption per account from current consumption levels. The State of California adopted the 20x2020 Water Conservation Plan in February 2010, calling for a state-wide 20 percent reduction in per capita



water consumption by the year 2020. This plan is the basis for the reduction in water consumption that is included in the water sales volume projections. Table W-3 presents the projections of customer growth, metered water sales volume, and projected revenues using the existing rate schedule.

**Table W-3**  
**Oceano CSD**  
**Water Utility**  
**Projection of Number of Customers, Water Sales Volume, and Water Sales Revenue**

Line No.	Description	Fiscal Year Ending June 30				
		2010-11	2011-12	2012-13	2013-14	2014-15
<b>Number of Customers <sup>[1]</sup></b>						
1	Residential	1,985	1,985	1,985	1,993	2,001
2	Commercial	81	81	81	81	81
3	Industrial	7	7	7	7	7
4	Public Agency	14	14	14	14	14
5	Irrigation Service	30	30	30	30	30
6	Other <sup>[2]</sup>	4	4	4	4	4
7	<b>Total Number of Customers</b>	<b>2,121</b>	<b>2,121</b>	<b>2,121</b>	<b>2,129</b>	<b>2,137</b>
<b>Water Sales Volume (Ccf)</b>						
8	Residential	327,644	324,870	322,098	320,270	318,428
9	Commercial	24,745	24,502	24,259	24,016	23,773
10	Industrial	8,393	8,309	8,225	8,141	8,057
11	Public Agency	12,803	12,671	12,539	12,408	12,278
12	Irrigation Service	14,490	14,340	14,190	14,040	13,890
13	Other <sup>[2]</sup>	33,454	33,454	33,454	33,454	33,454
14	<b>Total Water Sales Volume</b>	<b>421,529</b>	<b>418,146</b>	<b>414,765</b>	<b>412,329</b>	<b>409,880</b>
<b>Water Sales Revenue <sup>[3]</sup></b>						
15	Residential	\$1,245,400	\$1,237,500	\$1,229,800	\$1,225,900	\$1,222,000
16	Commercial	115,200	114,300	113,400	112,600	111,700
17	Industrial	33,600	33,300	33,000	32,700	32,400
18	Public Agency	60,800	60,300	59,800	59,200	58,700
19	Irrigation Service	62,500	61,900	61,400	60,800	60,300
20	Other <sup>[2]</sup>	109,100	109,100	109,100	109,100	109,100
21	<b>Total Water Sales Revenue</b>	<b>\$1,626,600</b>	<b>\$1,616,400</b>	<b>\$1,606,500</b>	<b>\$1,600,300</b>	<b>\$1,594,200</b>

<sup>[1]</sup> Assumes 8 new single family residential customers are added annually after FY 2013-14  
<sup>[2]</sup> Other classification includes City of Arroyo Grande and hydrant meter.  
<sup>[3]</sup> Revenue projected using the existing rate schedule.

**2.4 REVENUE REQUIREMENTS**

Revenue requirements were identified for the Water Fund that include operation and maintenance (O&M) expense, debt service, State Water Project payments, minor capital expenditures, Transfer to

Water Capital Reserves, and repayment of borrowed funds from restricted reserves. Future annual costs of each of these items are estimated in different ways as discussed below.

Historical and projected operation and maintenance expenses are presented in Table W-4. O&M expense includes the cost of personnel, utilities, chemicals, and miscellaneous materials and supplies needed to operate the water system on an annual basis. Projections are based upon an analysis of historical expenses and take into account anticipated future system growth and cost increases in labor, contractual services, electric power, chemicals, materials, and supplies.

Salary costs are projected to increase at an annual rate of 3 percent while benefit costs are projected to increase by 6 percent annually. Unit power costs and unit chemical costs (\$ per Ccf) are inflated at the rate of 3 percent annually while also increasing/decreasing in proportion to production volume. All other costs are projected to increase at 3 percent per year.

The OCSD has debt outstanding from a 1979 Revenue Bond and a 1976 State of California Safe Drinking Water (SDW) Loan. The annual debt service on the revenue bonds ranges between \$16,000 and \$21,000. The bonds will be retired in FY 2019-20. The SDW loan has annual debt service payments of \$62,578 with loan retirement in FY 2012-13.

The CIP related to waterline replacement stated in section 2.1 are proposed to be financed from a USDA loan in FY 2012-13. The loan is anticipated to have terms consisting of an interest rate of 4.0 percent and length of 40 years. Debt service payments on the loan are expected to be \$68,200 annually. The USDA also requires that a loan reserve be maintained and may be built over a ten year period. Loan reserve payments have been estimated at \$6,800 annually.

Minor capital expenditures that recur on a more or less annual basis are considered routine, and are properly met from water sales revenue rather than from debt financing or other major capital improvement sources of funds. Total minor capital expenditures are estimated at \$5,000 annually and are projected to increase by 3 percent in each future year.

Proper rate planning includes making an annual contribution for capital replacement and unforeseen capital needs. A Transfer to the Water Capital Improvement Fund is included as an annual revenue requirement of the Water Fund beginning in FY 2013-14 that is approximately equal to annual depreciation expense of water facility assets. The balance in the Water Capital Improvement Fund is used to make repairs and replacements to water system facilities as required.

In recent years, the Water Fund has borrowed from restricted reserve funds of the OCSD to meet annual operating deficits. As of June 30, 2010, the Water Fund owed approximately \$585,000 to other restricted reserve funds. It is proposed that the Water Fund begin to repay the restricted reserve funds with an annual amount of \$100,000 beginning in FY 2012-13 until such borrowed amounts are repaid in full.

Table W-4

Oceano CSD

Water Utility

Historical and Projected Operation and Maintenance Expense and Minor Capital

Line No.	Description	Fiscal Year Ending June 30									
		Historical (Actual)					Budget				
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
	Operation and Maintenance Expense <sup>(1)</sup>										
1	Wages and Salaries	\$135,290	\$139,560	\$170,600	\$175,980	n/a	\$108,000	\$111,200	\$114,500	\$118,000	\$121,600
2	Benefits	54,140	49,040	55,105	74,360	n/a	62,530	66,400	70,400	74,500	79,000
3	Maintenance: Water Structures	4,750	6,410	7,725	25,090	n/a	7,900	8,100	8,300	8,500	8,700
4	Maintenance: Radios, Equip, Vehicles	8,225	6,465	3,300	4,440	n/a	3,300	3,400	3,500	3,600	3,700
5	Fuel	5,135	6,815	6,500	6,785	n/a	6,500	6,700	6,900	7,100	7,300
6	Water Meters	8,785	8,845	10,000	9,085	n/a	45,000	46,400	47,800	49,200	50,700
7	Professional Services/Contract Eng	132,460	46,460	49,600	84,013	n/a	61,445	63,300	65,200	67,100	69,200
8	Lopez Zone 3	209,990	265,545	327,580	324,760	n/a	440,874	533,700	451,500	469,600	488,400
9	Drought Buffer Water	0	0	0	0	n/a	0	7,500	7,500	7,500	7,500
10	Utilities	11,420	18,980	15,000	35,895	n/a	28,000	28,600	29,200	29,900	30,600
11	Allocation/Admin Expense	114,011	228,844	225,418	212,165	n/a	217,967	224,500	231,200	238,100	245,200
12	Insurance	2,825	6,325	6,800	15,030	n/a	6,800	7,000	7,200	7,400	7,600
13	Other	127	56,277	23,875	57,540	n/a	72,832	75,000	77,100	79,200	81,300
14	Total Operation and Maintenance Expt	\$687,158	\$839,516	\$901,503	\$1,025,143	n/a	\$1,061,148	\$1,181,800	\$1,120,300	\$1,159,700	\$1,200,800
	Minor Capital <sup>(1)</sup>										
15	Minor Capital	\$290	\$0	\$3,700	\$4,055	n/a	\$100	\$5,100	\$5,300	\$5,500	\$5,700
16	Total Minor Capital	\$290	\$0	\$3,700	\$4,055	n/a	\$100	\$5,100	\$5,300	\$5,500	\$5,700
17	Total O&M and Minor Capital	\$687,448	\$839,516	\$905,203	\$1,029,198	n/a	\$1,061,248	\$1,186,900	\$1,125,600	\$1,165,200	\$1,206,500

<sup>(1)</sup> Salaries expense is inflated at 3% annually; Benefits expense is inflated at 6% annually; Electricity expense (per Ccf) is inflated at 3%, all other expenses are inflated at 3% annually

## 2.5 WATER FUND ANALYSIS

Table W-5 presents a pro forma flow of funds statement for the Water Fund. The pro forma statement includes all revenues received and all revenue requirements and financial obligations of the fund. Analysis of the Water Fund, without any revenue adjustments, indicated that the fund is deficient in meeting its future obligations. The deficiency is due to inflation in operation and maintenance expenses, restoration of an adequate operating reserve, the need for annual transfers for capital replacement, and repayment of borrowed funds from restricted reserves.

The statement indicates that revenue from water service rates will need to increase by 8.0 percent on January 1, 2010 and on each successive July 1 of FY 2011-12 through FY 2014-15. The increases in revenue required are shown on lines 2 through 6 of Table W-5, and are additional to the revenue generated from water sales revenue shown on line 1. Revenue was increased in this manner to phase-in the increases over several years.

The increases in the water sales revenue were determined by recognizing specific financial planning criteria for the Water Fund. The criteria included increasing the Water Fund balance (operating reserve) as necessary such that a fund balance of 90 days (of 360 days) of O&M expense is generated by the last year of the study without experiencing a negative fund balance in any year. The criteria also included maintaining a debt coverage ratio of at least 125 percent as defined in Note 7 of the OCSD June 30, 2008 audit.

**Table W-5**  
**Oceano CSD**  
**Water Utility**  
**Water Fund Flow of Funds Statement**

Line No	Description	Fiscal Year Ending June 30				
		2010-11	2011-12	2012-13	2013-14	2014-15
<b>Revenue</b>						
1	Water Sales Revenue Under Existing Rates <sup>[1]</sup>	\$1,626,600	\$1,616,400	\$1,606,500	\$1,600,300	\$1,594,200
	Additional Water Sales Revenue Required:					
	Annualized					
	Revenue Increase					
	Date of Increase					
	Fiscal Year					
	Actual Revenue Increase					
2	8.0% Jan 1, 2010-11	54,200	129,300	128,500	128,000	127,500
3	8.0% July 1, 2011-12		128,000	138,800	138,300	137,700
4	8.0% July 1, 2012-13			137,400	149,300	148,800
5	8.0% July 1, 2013-14				147,800	160,700
6	8.0% July 1, 2014-15					159,100
7	Total Additional Water Sales Revenue	54,200	257,300	404,700	563,400	733,800
8	Total Water Sales Revenue	1,680,800	1,873,700	2,011,200	2,163,700	2,328,000
9	Other Revenue <sup>[2]</sup>	225,300	103,300	104,300	179,700	180,700
10	Interest Income <sup>[3]</sup>	3,400	3,400	3,700	4,500	5,900
11	<b>Total Revenue</b>	<b>\$1,909,500</b>	<b>\$1,980,400</b>	<b>\$2,119,200</b>	<b>\$2,347,900</b>	<b>\$2,514,600</b>
<b>Revenue Requirements</b>						
12	Operation and Maintenance Expense <sup>[4]</sup>	\$1,061,100	\$1,181,800	\$1,120,300	\$1,159,700	\$1,200,800
13	1979 Revenue Bonds	16,800	16,300	20,600	18,400	18,400
14	CSDCA SDW Loan	62,600	62,600	62,600	0	0
15	Proposed USDA Loan <sup>[5]</sup>	0	0	68,200	68,200	68,200
16	Proposed USDA Loan Reserve <sup>[5]</sup>	0	0	6,800	6,800	6,800
17	State Water Project Payment	635,000	635,000	635,000	635,000	635,000
18	State Water Project Rate Covenant Prepayment	100,000	100,000	100,000	100,000	100,000
19	Minor Capital Expenditures	100	5,100	5,300	5,500	5,700
20	Transfer to Capital Reserve <sup>[6]</sup>	0	0	0	130,000	130,000
21	Repayment to Restricted Reserves <sup>[7]</sup>	0	0	100,000	100,000	100,000
22	<b>Total Revenue Requirements</b>	<b>1,875,600</b>	<b>2,000,800</b>	<b>2,118,800</b>	<b>2,223,600</b>	<b>2,264,900</b>
23	Net Funds Available	533,900	(\$20,400)	\$400	\$124,300	\$249,700
24	Beginning Water Fund Balance	0	33,900	13,500	13,900	138,200
25	<b>Cumulative Water Fund Balance</b>	<b>\$33,900</b>	<b>\$13,500</b>	<b>\$13,900</b>	<b>\$138,200</b>	<b>\$387,900</b>
26	Target Reserve Balance <sup>[8]</sup>	\$265,300	\$295,500	\$280,100	\$289,900	\$300,200
<b>CCWA Water Supply Agreement Annual Debt Service Coverage</b>						
27	Revenue <sup>[9]</sup>	\$1,913,800	\$1,984,600	\$2,123,700	\$2,353,300	\$2,521,100
28	Water Fund O&M	1,061,100	1,181,800	1,120,300	1,159,700	1,200,800
29	SWP Payments <sup>[10]</sup>	635,000	635,000	635,000	635,000	635,000
30	Additional Debt	79,400	78,900	158,200	93,400	93,400
31	<b>Debt Service Coverage (must be at least 125%) <sup>[11]</sup></b>	<b>119%</b>	<b>112%</b>	<b>127%</b>	<b>164%</b>	<b>181%</b>

<sup>[1]</sup> From Table W-3.

<sup>[2]</sup> Includes notice fees, account setup fees, meter installations, connection fees, SWP Capacity Charges, Canyon Crest/Christie pass-through, lease revenue, and miscellaneous. Assumes SWP Capacity Charge revenue used toward SWP debt service.

<sup>[3]</sup> Assumes an interest rate of 0.5% on the average fund balance.

<sup>[4]</sup> From Table W-4.

<sup>[5]</sup> Annual debt service payment on USDA loan amount of \$1,350,000 assuming an interest rate of 4.0% and a 40 year term.

<sup>[6]</sup> Transfer for annual capital replacement approximately equal to annual depreciation expense.

<sup>[7]</sup> Repayment to restricted reserves for funds previously borrowed.

<sup>[8]</sup> Target reserve amount to be maintained, estimated at 90 days of operation and maintenance expense.

<sup>[9]</sup> Includes water sales revenue, interest income, and all other revenue from rates, fees, and charges.

<sup>[10]</sup> Sum of State Water Project payments from lines 17 and 18.

<sup>[11]</sup> Financial requirement as stated in Note 7, page 23, of June 30, 2008 Audit.

### 3.0 WATER UTILITY RATE DESIGN

#### 3.1 EXISTING WATER SERVICE RATES

The existing water rate structure and pricing is presented in Table W-6. The existing water rates have not been increased since April 12, 1997. The structure consists of a bi-monthly fixed charge by meter size, a three-block consumption charge applicable to all customers, and an additional consumption charge for Lopez water. Additionally, the OCSD sells water to the City of Arroyo Grande on a temporary basis.

Fixed charges for residential customers are the same regardless of meter size and apply to each dwelling unit. Fixed charges for non-residential customers have been determined such that charges for larger meter sizes are escalated from the 5/8 inch meter charge.

Table W-6								
Oceano CSD								
Water Utility								
Existing Bi-monthly Water Service Rates								
Classification	Bi-monthly Fixed Charges <sup>[1]</sup>							
	Meter Size							
	5/8"	3/4"	1"	1 1/2"	2"	3"	4"	6"
Residential	\$23.94	\$23.94	\$23.94	\$23.94	\$23.94	\$23.94	\$23.94	\$23.94
Non-Residential	\$29.15	\$36.55	\$58.40	\$109.20	\$172.30	\$276.95	\$473.80	\$741.30
Classification	Consumption Charge <sup>[1][2]</sup>							
	Block Rate		Uniform					
	Block	Rate	Rate					
			\$/Ccf	\$/Ccf				
All Customers								
		First 6 Ccf	\$0.00					
		Next 19 Ccf	\$2.25					
		Over 25 Ccf	\$2.95					
Lopez Charge			\$1.14					
Arroyo Grande Temporary			\$2.98					

<sup>[1]</sup> Existing rates became effective April 12, 1997.

<sup>[2]</sup> Charge per unit of water consumed. One unit equals one hundred cubic feet (Ccf).

### 3.2 PROPOSED WATER RATE STRUCTURE AND RATES

Water service rates are typically composed of a fixed charge and a consumption charge (volume charge). The proposed rate structure for OCSD includes fixed charges and a three-block consumption charge by meter size.

#### 3.2.1 Fixed Charge Component

The proposed fixed charge component reflects the existing methodology, however the cost allocation process has resulted in less revenue to be recovered from the fixed charges. Revenue from the proposed fixed charges recovers 15 percent of the total revenue generated from water fixed and consumption charges.

Fixed charges for residential customers are proposed to be the same regardless of meter size and apply to each dwelling unit. Fixed charges for non-residential customers reflect higher charges for larger meter sizes, and are escalated from the 5/8 inch meter charge based on the OCSD's SFR Equivalency ratios as stated in Ordinance No. 2006-1, page 11. Setting fixed charges in this manner recovers the cost apportioned to residential customers recognizing equal capacity utilization for each residence while non-residential costs are recovered reflecting the capacity supplied by each meter.

#### 3.2.2 Consumption Charge Component

Costs that are not recovered in the fixed charges are recovered in the consumption (volume) charge. The volume charge may be a uniform charge per unit of consumption, or established as a series of block rates, where a block of water is defined as a defined amount of water consumption, such as zero to 500 cubic feet (0 to 5 HCF).

Rate blocks are designed based on an analysis of the bills rendered by customer classification for various levels of consumption. The analysis includes tabulating the number of bills, consumption, and cumulative consumption of the bills rendered at each consumption level. The result of this tabulation is the determination of the percentage of the total water volume that is consumed in each block.

This analysis was performed for the OCSD using information from billing system records. Several findings can be concluded from this analysis as listed below.

- Residential accounts consist of more than 93 percent of the total accounts.
- Over 77 percent of the water consumed is related to residential customers (single-family, multifamily, and RV Trailer Parks).
- The average bi-monthly water consumption of the single family residential classification is 20 Ccf.



- The average bi-monthly water consumption of the multiple unit residential classification is 14 Ccf.
- The average bi-monthly water consumption of the Commercial classification is about 50 Ccf.

Because OCSD's customer base is primarily residential, it is reasonable to have one rate structure that applies to all customers. It is also appropriate that several blocks be established for the volume charge to promote water conservation.

It is proposed that the existing rate structure be maintained as a three-block rate structure by meter size. The proposed block rate structure recognizes low water consumers in the initial block while providing a water conservation incentive in the third block. The block break points are set such that they are consistent with the existing break points, recognizing that most dwelling units consume up to 6 units of water with the second block break point set in such a manner that 20 percent of the consumption of residential customers is captured in this block. The top 10 to 20 percent of the consumption is generally considered to include, or partially include, excess use or wasteful water consumption.

Water pricing for each rate block has been established recognizing a reasonable escalation in pricing that reflects water conservation practice with all consumption being charged. The second block price is set at 150 percent of the first block price while the third block price is set at 200 percent of the first block price.

Table W-7 presents the proposed future water rates for the next five years with a comparison to existing rate levels. The proposed rates for FY 2010-11 are planned for implementation on January 1, 2011 while future rates are proposed for implementation on July 1 of each successive fiscal year.

### **3.3 TYPICAL BI-MONTHLY WATER BILLS UNDER PROPOSED RATES**

Table W-8 shows bi-monthly single family residential water bills at various consumption levels for the existing and proposed rates, including the Lopez consumption charge. The table indicates that at a bi-monthly water consumption of 20 Ccf, the average consumption for a single family residential customer, the bi-monthly water bill will increase from \$78.24 to \$84.48, an increase of \$6.24, or 8.0 percent.

**Table W-7**  
 Water Utility  
 Oceano CSD  
 Schedule of Proposed Water Service Rates

Bi-monthly Fixed Charges							
Classification	Existing Rates \$/bi-month	Date of Increase					
		Jan 1, 2010-11 \$/bi-month	July 1, 2011-12 \$/bi-month	July 1, 2012-13 \$/bi-month	July 1, 2013-14 \$/bi-month	July 1, 2014-15 \$/bi-month	
Residential <sup>(1)</sup>	\$23.94	\$15.60	\$16.85	\$18.20	\$19.65	\$21.20	
Non-Residential							
	Meter Size						
	5/8	\$29.15	\$14.65	\$15.80	\$17.05	\$18.40	\$19.85
	3/4	36.55	29.30	31.65	34.20	36.95	39.90
	1	58.40	58.65	63.35	68.40	73.85	79.75
	1 1/2	109.20	102.60	110.80	119.65	129.20	139.55
	2	172.30	161.25	174.15	188.10	203.15	219.40
	3	276.95	337.15	364.10	393.25	424.70	458.70
	4	473.80	527.70	569.90	615.50	664.75	717.95
	6	\$741.30	\$1,040.70	\$1,123.95	\$1,213.85	\$1,310.95	\$1,415.85
Outside District Charge <sup>(2)</sup>	\$7.10	\$7.65	\$7.90	\$8.15	\$8.40	\$8.65	

Consumption Charge <sup>(3)</sup>							
Classification	Rate Block	Existing Rates \$/Ccf	Date of Increase				
			Jan 1, 2010-11 \$/Ccf	July 1, 2011-12 \$/Ccf	July 1, 2012-13 \$/Ccf	July 1, 2013-14 \$/Ccf	July 1, 2014-15 \$/Ccf
All Customers							
	First 6 Ccf	\$0.00	\$1.72	\$1.86	\$2.01	\$2.17	\$2.34
	Next 19 Ccf	2.25	2.56	2.76	2.98	3.22	3.48
	Over 25 Ccf	\$2.95	\$3.44	\$3.72	\$4.02	\$4.34	\$4.69
Lopez Charge		\$1.14	\$1.14	\$1.23	\$1.33	\$1.44	\$1.56
Arroyo Grande Temp		\$2.98	\$2.98	\$3.22	\$3.48	\$3.76	\$4.06

<sup>(1)</sup> Charge applies to each residential dwelling unit.

<sup>(2)</sup> As defined in Ordinance No. 2006-1, page 11.

<sup>(3)</sup> Charge per unit of water consumed. One unit equals one hundred cubic feet (Ccf).

Table W-8

Oceano CSD

Water Utility

Comparison of Typical Bi-monthly Bills Under Existing Rates With Proposed FY 2010-11 Water Service Rates

Classification	Fixed Charge			Bi-monthly Consumption Ccf	Consumption Charge			Total Bi-monthly Bill			
	Existing Rates [1]	Proposed Rates			Existing Rates [1]	Proposed Rates		Existing Rates [1]	Proposed Rates		
		FY 2011 [2]	Difference			FY 2011 [2]	Difference		FY 2011 [2]	Difference	Percent Difference
Single Family Res	\$23.94	\$15.60	(\$8.34)	0	\$0.00	\$0.00	\$0.00	\$23.94	\$15.60	(\$8.34)	-34.8%
	\$23.94	\$15.60	(\$8.34)	1	\$1.14	\$2.86	\$1.72	\$25.08	\$18.46	(\$6.62)	-26.4%
	\$23.94	\$15.60	(\$8.34)	2	\$2.28	\$5.71	\$3.43	\$26.22	\$21.31	(\$4.91)	-18.7%
	\$23.94	\$15.60	(\$8.34)	3	\$3.42	\$8.57	\$5.15	\$27.36	\$24.17	(\$3.19)	-11.7%
	\$23.94	\$15.60	(\$8.34)	4	\$4.56	\$11.42	\$6.86	\$28.50	\$27.02	(\$1.48)	-5.2%
	\$23.94	\$15.60	(\$8.34)	5	\$5.70	\$14.28	\$8.58	\$29.64	\$29.88	\$0.24	0.8%
	\$23.94	\$15.60	(\$8.34)	6	\$6.84	\$17.14	\$10.30	\$30.78	\$32.74	\$1.96	6.4%
	\$23.94	\$15.60	(\$8.34)	7	\$7.98	\$20.00	\$12.02	\$31.92	\$36.43	\$4.51	14.1%
	\$23.94	\$15.60	(\$8.34)	8	\$9.12	\$22.86	\$13.74	\$33.06	\$42.94	\$9.88	29.9%
	\$23.94	\$15.60	(\$8.34)	9	\$10.26	\$25.71	\$15.45	\$34.20	\$50.41	\$16.21	47.4%
	\$23.94	\$15.60	(\$8.34)	10	\$11.40	\$28.57	\$17.17	\$35.34	\$59.92	\$24.58	70.0%
	\$23.94	\$15.60	(\$8.34)	15	\$17.10	\$42.86	\$25.76	\$52.10	\$87.71	\$35.61	68.3%
	\$23.94	\$15.60	(\$8.34)	20	\$22.80	\$57.14	\$34.34	\$69.28	\$126.52	\$57.24	82.7%
	\$23.94	\$15.60	(\$8.34)	30	\$34.20	\$85.71	\$51.51	\$104.19	\$188.84	\$84.65	81.2%
	\$23.94	\$15.60	(\$8.34)	40	\$45.60	\$114.28	\$68.68	\$139.88	\$271.16	\$131.28	94.1%
	\$23.94	\$15.60	(\$8.34)	50	\$57.00	\$142.86	\$85.86	\$181.80	\$353.47	\$171.67	95.0%
	\$23.94	\$15.60	(\$8.34)	100	\$114.00	\$285.71	\$171.71	\$363.60	\$706.94	\$343.34	94.5%
	\$23.94	\$15.60	(\$8.34)	150	\$171.00	\$428.57	\$257.57	\$545.10	\$1,060.41	\$515.31	94.3%
	\$23.94	\$15.60	(\$8.34)	200	\$228.00	\$571.43	\$343.43	\$737.34	\$1,575.52	\$838.18	94.3%
	\$23.94	\$15.60	(\$8.34)	250	\$285.00	\$714.29	\$428.29	\$922.53	\$2,100.71	\$1,178.18	94.3%

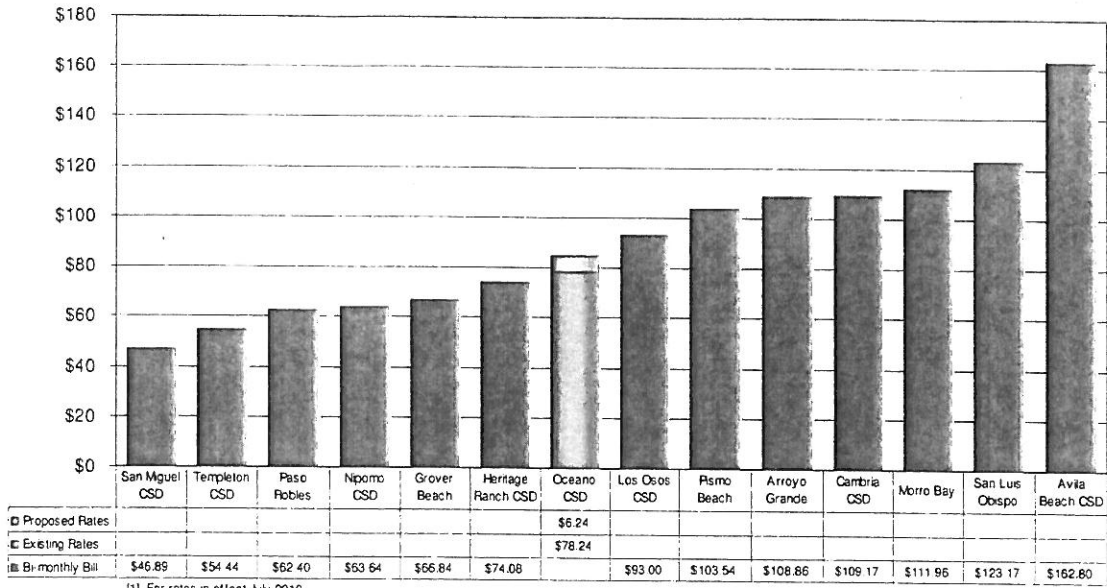
[1] Existing rates became effective April 12, 1997. Includes Lopez consumption charge.

[2] Proposed rates are effective January 1, 2011. Includes Lopez consumption charge.

3.4 COMPARISON OF AVERAGE WATER BILL WITH OTHER LOCAL AGENCIES

Chart 1 presents a comparison of the proposed single family residential bi-monthly water bill at 20 Ccf with other local communities. The chart indicates that under the proposed January 1, 2011 water rates including the Lopez water consumption charge, an OCSD single family residential customer with a consumption of 20 Ccf bi-monthly will experience a bill that in the mid range of the communities listed.

Chart 1  
 San Luis Obispo County Water Agencies  
 Comparison of Single Family Residential Bi-monthly Water Bills <sup>[1]</sup>  
 at 20 Ccf Bi-monthly



### 4.0 WASTEWATER UTILITY FINANCIAL PLANNING

Financial planning for the Sewer Fund includes analysis and projection of revenue and revenue requirements of the wastewater collection system only, which is the service that is provided by the OCSD. Wastewater treatment service is provided separately by the South San Luis Obispo County Sanitation District.

Revenue and revenue requirements are projected to analyze impacts to the Sewer Fund from financing decisions of capital improvements, from future estimates of operation and maintenance expense, and from any new obligation of the fund. A pro forma statement of revenues and expenses is prepared that may allow rates to be phased-in to avoid rate spikes in any one particular year.

The remainder of this section discusses the planned capital improvement expenditures, financing of those expenditures, and the existing and future revenue and revenue requirements identified in the study for the Sewer Fund.

#### 4.1 CAPITAL IMPROVEMENT PROGRAM

A wastewater capital improvement program (CIP) expenditure plan has been prepared that addresses future capital improvement needs of the wastewater system. Table S-1 presents the list of improvements and the expenditures in future years. The expenditures are shown in uninflated dollars, then total expenditures are inflated to the year of the planned expenditure based on the Engineering News Record (ENR) historical index averaged over the last five years.

**Table S-1**  
 Oceano CSD  
 Sewer Utility  
 Proposed Capital Improvement Program

Line No.	Project Description	Fiscal Year Ending June 30					Total
		2010-11	2011-12	2012-13	2013-14	2014-15	
1	Various System Repairs / Replacements	\$25,000	\$0	\$0	\$0	\$0	\$25,000
2	Sewer Master Plan	6,690	0	0	0	0	6,690
3	Buildout and Rate Study	7,500	0	0	0	0	7,500
4	Replace Gas Sensor and Compressor	12,600	0	0	0	0	12,600
5	Sewer Main Cleaning	50,000	0	0	50,000	0	100,000
6	<b>Total Capital Improvements (Uninflated)</b>	<b>\$101,790</b>	<b>\$0</b>	<b>\$0</b>	<b>\$50,000</b>	<b>\$0</b>	<b>\$151,790</b>
7	<b>Total Capital Improvements (Inflated)<sup>1)</sup></b>	<b>\$101,800</b>	<b>\$0</b>	<b>\$0</b>	<b>\$55,400</b>	<b>\$0</b>	<b>\$157,200</b>

<sup>1)</sup> Projects inflated at 3.5% per year based on the average annual increase in the historical ENR Index.

**4.2 CAPITAL IMPROVEMENT PROGRAM FINANCING PLAN**

The wastewater system CIP is financed solely from the Sewer Capital Improvement Fund (reserves). Transfers from the Sewer Capital Improvement Fund are planned to pay for all projects over the next five years. A projection of the sources and uses of funds to finance the sewer system CIP is presented in Table S-2.

**Table S-2**  
**Oceano CSD**  
**Sewer Utility**  
**Capital Improvement Financing Plan**

Line No.	Description	Fiscal Year Ending June 30				
		2010-11	2011-12	2012-13	2013-14	2014-15
<b>Source of Funds</b>						
1	Funds on Hand at Beginning of Year	\$0	\$0	\$0	\$0	\$0
2	Transfer from Capital Improvement Fund	101,800	0	0	55,400	0
3	<b>Total Sources of Funds</b>	<b>101,800</b>	<b>0</b>	<b>0</b>	<b>55,400</b>	<b>0</b>
<b>Use of Funds</b>						
4	Major Capital Improvements <sup>(1)</sup>	101,800	0	0	55,400	0
5	<b>Total Use of Funds</b>	<b>101,800</b>	<b>0</b>	<b>0</b>	<b>55,400</b>	<b>0</b>
6	Funds on Hand at End of Year	\$0	\$0	\$0	\$0	\$0

<sup>(1)</sup> From Table S-1.

**4.3 REVENUE**

The Sewer Fund receives revenue from several sources. These include wastewater service revenue, interest income, and other revenue consisting of connection fee revenue, lateral construction, inspection fees, fats oil and grease program revenue, lease revenue, and miscellaneous.

Revenue from wastewater service was projected through application of the June 22, 1996 wastewater charges to projections of customer growth. Future customer growth was estimated assuming 8 new single family residential units annually beginning in FY 2013-14. Table S-3 shows projections of customer growth and wastewater service revenue.

**Table S-3**  
**Oceano CSD**  
**Sewer Utility**  
**Projection of Number of Customers and Wastewater Service Revenue**

Line No.	Description	Fiscal Year Ending June 30				
		2010-11	2011-12	2012-13	2013-14	2014-15
<b>Number of Customers <sup>(1)</sup></b>						
1	Single Family Residential	1,667	1,667	1,667	1,675	1,683
2	Multiple Unit Residential	217	217	217	217	217
3	School	4	4	4	4	4
4	RV Trailer Park	2	2	2	2	2
5	Special Case	13	13	13	13	13
6	Non-Residential	183	183	183	183	183
7	<b>Total Number of Customers</b>	<b>2,086</b>	<b>2,086</b>	<b>2,086</b>	<b>2,094</b>	<b>2,102</b>
<b>Wastewater Service Revenue <sup>(2)</sup></b>						
8	Single Family Residential	\$92,500	\$92,500	\$92,500	\$93,000	\$93,400
9	Multiple Unit Residential	61,200	61,200	61,200	61,200	61,200
10	School	4,800	4,800	4,800	4,800	4,800
11	RV Trailer Park	9,900	9,900	9,900	9,900	9,900
12	Special Case	100	100	100	100	100
13	Non-Residential	23,000	22,900	22,700	22,500	22,400
17	<b>Total Wastewater Service Revenue</b>	<b>\$191,500</b>	<b>\$191,400</b>	<b>\$191,200</b>	<b>\$191,500</b>	<b>\$191,800</b>
<sup>(1)</sup> Assumes 8 new single family residential customers are added annually after FY 2012-13 <sup>(2)</sup> Estimated revenue projected using the existing rate schedule.						

#### 4.4 REVENUE REQUIREMENTS

Revenue requirements were identified for the Sewer Fund that includes operation and maintenance (O&M) expense, minor capital expenditures, Transfer to the Sewer Capital Improvement Fund, and repayment of borrowed funds from restricted reserves. Future annual costs of each of these items are projected as discussed below.

Historical and projected operation and maintenance expenses are presented in Table S-4. O&M expense includes the cost of personnel, utilities, chemicals, and miscellaneous materials and supplies needed to operate the water system on an annual basis. Projections are based upon an analysis of historical expenses and take into account anticipated future system growth and cost increases in labor, contractual services, electric power, chemicals, materials, and supplies.

Salary costs are projected to increase at an annual rate of 3 percent while benefit costs are projected to increase by 6 percent annually. Unit power costs and unit chemical costs (both in \$ per Ccf) are inflated at the annual rates of 3 percent while also increasing/decreasing in proportion to water sales volume. All other costs are projected to increase at 3 percent per year.



Table S-4

Oceano CSD  
Sewer Utility

**Historical and Projected Operation and Maintenance Expense and Minor Capital**

Line No.	Description	Fiscal Year Ending June 30									
		Historical (Actual)					Budget				
		2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
<b>Operation and Maintenance Expense <sup>(1)</sup></b>											
1	Wages and Salaries	\$21,790	\$22,490	\$24,000	\$28,595	n/a	\$28,040	\$28,800	\$29,600	\$30,400	\$31,300
2	Benefits	8,825	7,985	9,010	12,085	n/a	10,690	11,300	12,000	12,800	13,600
3	Maintenance: Sewer Structures	4,060	2,975	4,500	670	n/a	1,000	1,000	1,000	1,000	1,000
4	Maintenance: Radios, Equipment, Vehicles	2,250	2,100	3,700	880	n/a	1,100	1,100	1,100	1,100	1,100
5	Utilities (Lift Station)	500	975	450	570	n/a	900	900	900	900	900
6	Insurance	815	2,595	2,895	11,075	n/a	11,075	11,400	11,700	12,100	12,500
7	Professional Services	28,495	12,265	22,000	27,450	n/a	25,500	26,300	27,100	27,900	28,700
8	Contract Engineering	12,830	30,990	59,100	0	n/a	10,000	10,300	10,600	10,900	11,200
9	Allocation/Admin Expense	177,856	198,733	201,049	189,228	n/a	194,405	200,200	206,200	212,400	218,800
10	Other	10,545	11,420	10,330	17,520	n/a	17,960	18,500	18,900	19,300	19,700
11	<b>Total Operation and Maintenance Expense</b>	<b>\$267,966</b>	<b>\$292,528</b>	<b>\$337,034</b>	<b>\$288,073</b>	n/a	<b>\$300,670</b>	<b>\$309,800</b>	<b>\$319,100</b>	<b>\$328,800</b>	<b>\$338,800</b>
<b>Minor Capital</b>											
12	Minor Capital	\$0	\$0	\$0	\$0	n/a	\$0	\$5,500	\$5,700	\$5,900	\$6,100
13	<b>Total Minor Capital</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	n/a	<b>\$0</b>	<b>\$5,500</b>	<b>\$5,700</b>	<b>\$5,900</b>	<b>\$6,100</b>
14	<b>Total O&amp;M and Minor Capital</b>	<b>\$267,966</b>	<b>\$292,528</b>	<b>\$337,034</b>	<b>\$288,073</b>	n/a	<b>\$300,670</b>	<b>\$315,300</b>	<b>\$324,800</b>	<b>\$334,700</b>	<b>\$344,900</b>

<sup>(1)</sup> Operation and Maintenance expenses are inflated at the following rates: Salaries - 3%, Benefits - 6%, Electricity - 3%. All other expenses are inflated at 3% per year.

Minor capital expenditures that recur on a more or less annual basis are considered routine, and are properly met from wastewater service revenue rather than from debt financing or other major capital improvement sources of funds. Total minor capital expenditures are projected at \$5,000 annually and are projected to increase by 3 percent in each future year.

Similar to financial planning for the water utility, proper rate planning includes making an annual contribution for capital replacement and unforeseen capital needs. A Transfer to the Sewer Capital Improvement Fund is included as an annual revenue requirement of the Sewer Fund beginning in FY 2013-14 that is approximately equal to annual depreciation expense of sewer facility assets. The balance in the Sewer Capital Improvement Fund is used to make repairs and replacements to sewer system facilities as required.

The Sewer Fund has borrowed from restricted reserve funds of the OCSD to meet past annual operating deficits. As of June 30, 2010, the Sewer Fund owed approximately \$570,000 to other restricted reserve funds. It is proposed that the Sewer Fund begin to repay the restricted reserve funds with an annual amount of \$50,000 beginning in FY 2012-13 until such borrowed amounts are repaid in full.

#### 4.5 SEWER FUND ANALYSIS

Table S-5 presents a pro forma flow of funds statement for the Sewer Fund. The pro forma statement includes all revenue and revenue requirements of the fund. Analysis of the Sewer Fund, without any revenue adjustments, indicated that the fund will be deficient in meeting its future obligations. The deficiency is due to inflation in operation and maintenance expenses, restoration of an adequate operating reserve, the need for annual capital replacement, and repayment of borrowed funds from restricted reserves.

The statement indicates that revenue from wastewater service rates will need to increase by 15.0 percent on January 1, 2011, and on each successive July 1 of FY 2011-12 through FY 2014-15. The increases in revenue are shown on lines 2 through 6 of Table S-5, and are additional to revenue generated from wastewater service revenue shown on line 1. Revenue was increased in this manner to phase-in the increases over several years.

Increases in the wastewater service revenue were determined recognizing specific financial planning criteria for the Sewer Fund. The criteria included increasing the Sewer Fund balance as necessary such that a fund balance of 60 days (of 360 days) of O&M expense is generated by the last year of the study without experiencing a negative fund balance in any year. The Sewer Fund does not have any outstanding debt obligations and consequently there is no debt service coverage requirement.

**Table S-5**  
 Oceano CSD  
 Sewer Utility  
 Sewer Fund Flow of Funds Statement

Line No.	Description	Fiscal Year Ending June 30				
		2010-11	2011-12	2012-13	2013-14	2014-15
<b>Revenue</b>						
1	Wastewater Revenue Under Existing Rates <sup>[1]</sup>	\$191,500	\$191,400	\$191,200	\$191,500	\$191,800
	Additional Wastewater Revenue Required:					
	Annualized					
	Revenue					
	Date of					
	Increase					
	Fiscal Year					
	Actual					
	Revenue					
	Increase					
2	15.0% Jan 1, 2010-11	12,000	28,700	28,700	28,700	28,800
3	15.0% July 1, 2011-12		30,300	33,000	33,000	33,100
4	15.0% July 1, 2012-13			34,800	38,000	38,100
5	15.0% July 1, 2013-14				40,000	43,800
6	15.0% July 1, 2014-15					46,100
7	Total Additional Wastewater Service Revenue	12,000	59,000	96,500	139,700	189,900
8	Total Wastewater Service Revenue	203,500	250,400	287,700	331,200	381,700
9	Other Revenue <sup>[2]</sup>	135,300	76,300	76,300	84,300	84,300
10	Interest Income <sup>[3]</sup>	300	400	400	400	400
11	<b>Total Revenue</b>	<b>\$339,100</b>	<b>\$327,100</b>	<b>\$364,400</b>	<b>\$415,900</b>	<b>\$466,400</b>
<b>Revenue Requirements</b>						
12	Operation and Maintenance Expense <sup>[4]</sup>	\$300,700	\$309,800	\$319,100	\$328,800	\$338,800
13	Minor Capital Expenditures <sup>[4]</sup>	0	5,500	5,700	5,900	6,100
14	Transfer to Capital Reserve (Depreciation) <sup>[5]</sup>	0	0	0	40,000	40,000
15	Repayment to Restricted Reserve <sup>[6]</sup>	0	0	50,000	50,000	50,000
16	<b>Total Revenue Requirements</b>	<b>300,700</b>	<b>315,300</b>	<b>374,800</b>	<b>424,700</b>	<b>434,900</b>
17	Net Funds Available	\$38,400	\$11,800	(\$10,400)	(\$8,800)	\$31,500
18	Beginning Operating Fund Balance	0	38,400	50,200	39,800	31,000
19	<b>Cumulative Operating Fund Balance</b>	<b>\$38,400</b>	<b>\$50,200</b>	<b>\$39,800</b>	<b>\$31,000</b>	<b>\$62,500</b>
20	Target Reserve Balance <sup>[6]</sup>	\$50,100	\$51,600	\$53,200	\$54,800	\$56,500
<b>Annual Debt Service Coverage</b>						
21	Net Revenue	\$38,400	\$17,300	\$45,300	\$87,100	\$127,600
22	Total Annual Debt Service Requirements	\$0	\$0	\$0	\$0	\$0
23	<b>Coverage<sup>[7]</sup></b>	na	na	na	na	na

[1] From Table S-3.

[2] Includes connection fee revenue, lateral construction, inspection fees, fats, oil, and grease program fees, Sheriff's Office lease revenue, new U/B account set-up fees, CDBG Project Reimbursement, and miscellaneous.

[3] Assumes an interest rate of 0.5% on the average fund balance.

[4] From Table S-4

[5] Transfer for annual capital replacement approximately equal to depreciation expense

[6] Target reserve amount to be maintained, estimated at 60 days of operation and maintenance expense.

[7] Total Operating Revenues less Operating and Maintenance Expense divided by Total Annual Debt service.

## 5.0 WASTEWATER UTILITY RATE DESIGN

### 5.1 EXISTING WASTEWATER SERVICE RATES

The existing wastewater rate structure and pricing is presented in Table S-6. The existing wastewater rates have not been increased since June 22, 1996. The structure consists of bi-monthly fixed charges for all customer classifications and consumption charges for non-residential customers only. The non-residential consumption charge is a two-block rate structure that charges for consumption based on metered water consumption.

**Table S-6**  
**Oceano CSD**  
**Sewer Utility**  
**Schedule of Existing Wastewater Service Rates**

Bi-monthly Fixed Charges <sup>[1]</sup>			
Classification	Charge	Basis of Charge	
	\$/bi-month		
Single Family Residential	\$9.25	per dwelling unit	
Multiple Unit Residential	9.25	per dwelling unit	
School	0.65	per Average Daily Attendance (ADA)	
RV Trailer Park	5.20	per space	
Special Case	1.50	varies	
Non-Residential	\$9.25	minimum bill, plus consumption charge	

Consumption Charges <sup>[1][2]</sup>			
Classification	Rate		Basis of Charge
	Block	Rate	
	Ccf	\$/Ccf	
Non-Residential	0 to 10	\$0.00	per Ccf
	Over 10	\$0.75	per Ccf

<sup>[1]</sup> Existing rates became effective June 22, 1996.

<sup>[2]</sup> Charged based on water consumed. One unit equals one hundred cubic feet (Ccf).

## 5.2 PROPOSED WASTEWATER RATE STRUCTURE AND RATES

There are several wastewater rate structures that can be employed to recover wastewater system costs. The rate structure that is used depends on several factors that may include the information that is available, the nature of the customer base, the size of the population and employment served, the design of the treatment facility, and the dollar amount of the charge relative to other local communities.

Several findings were noted during the review of the existing wastewater rate structure.

- From section 3.2, over 77 percent of the water sales volume is from residential customers.
- Some accounts have separately metered irrigation water while others do not.
- Wastewater treatment is provided by the San Luis Obispo County Sanitation District. OCSD provides collection service only.

These findings indicate that a rate structure based on wastewater flow is appropriate for OCSD wastewater customers. A method to approximate wastewater flow is through utilizing existing information on metered water consumption. Return factors were applied to water consumption to estimate wastewater flow where appropriate, while also recognizing estimated irrigation use for each customer classification.

It is proposed that the wastewater charge for all customers be established as fixed bi-monthly charges, developed on an "Equivalent Dwelling Unit" (EDU) basis that uses estimated wastewater flow in Ccf from applying return factors to metered water consumption. One EDU is defined as the average wastewater flow contribution in Ccf to the collection system from a single family residential dwelling unit. The number of EDUs for other customer classifications is then defined as that classification's estimated wastewater flow contribution divided by one EDU, in terms of wastewater flow in hundred cubic feet.

Total wastewater costs are divided by the total number of wastewater EDUs to yield a charge per equivalent dwelling unit, which becomes the charge for residential customers. Charges for other customers are determined by multiplying the EDU charge by their number of EDUs, then dividing by the number of customers within that classification. This effectively charges each customer within the classification the same charge.

Table S-7 presents the proposed wastewater charges for the next five years with a comparison to existing charges. The proposed charges for FY 2010-11 are planned for implementation on January 1, 2011 while future charges are proposed for implementation on July 1 of each successive fiscal year.

**Table S-7**  
**Oceano CSD**  
**Sewer Utility**  
**Schedule of Proposed Wastewater Service Charges**

Bi-monthly Fixed Charges <sup>(1)(2)</sup>						
Classification	Existing Rates	Date of Increase				
		Jan 1, 2010-11	July 1, 2011-12	July 1, 2012-13	July 1, 2013-14	July 1, 2014-15
		\$/bi-month	\$/bi-month	\$/bi-month	\$/bi-month	\$/bi-month
Single Family Residential	\$9.25	\$10.65	\$12.25	\$14.10	\$16.20	\$18.65
Multiple Unit Residential	9.25	10.65	12.25	14.10	16.20	18.65
School	0.65	0.65	0.75	0.85	1.00	1.15
RV Trailer Park	5.20	6.00	6.90	7.95	9.15	10.50
Special Case	1.50	1.75	2.00	2.30	2.65	3.05
Non-Residential	\$9.25	\$10.65	\$12.25	\$14.10	\$16.20	\$18.65

Consumption Charges <sup>(1)(3)</sup>							
Classification	Rate Block	Existing Rates	Date of Increase				
			Jan 1, 2010-11	July 1, 2011-12	July 1, 2012-13	July 1, 2013-14	July 1, 2014-15
			\$/Ccf	\$/Ccf	\$/Ccf	\$/Ccf	\$/Ccf
Non-Residential	Ccf	\$/Ccf	\$/Ccf	\$/Ccf	\$/Ccf	\$/Ccf	\$/Ccf
	0 to 10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
	Over 10	\$0.75	\$0.90	\$1.05	\$1.20	\$1.40	\$1.60

<sup>(1)</sup> For collection only. Does not include charges from South San Luis Obispo County Sanitation District for wastewater treatment.

<sup>(2)</sup> Single family, multiple unit, and RV Trailer Parks are charged by the dwelling unit. Schools are charged by the Average Daily Attendance (ADA).

<sup>(3)</sup> Charged based on water consumed. One unit equals one hundred cubic feet (Ccf).

### 5.3 TYPICAL BI-MONTHLY WASTEWATER BILLS UNDER PROPOSED CHARGES

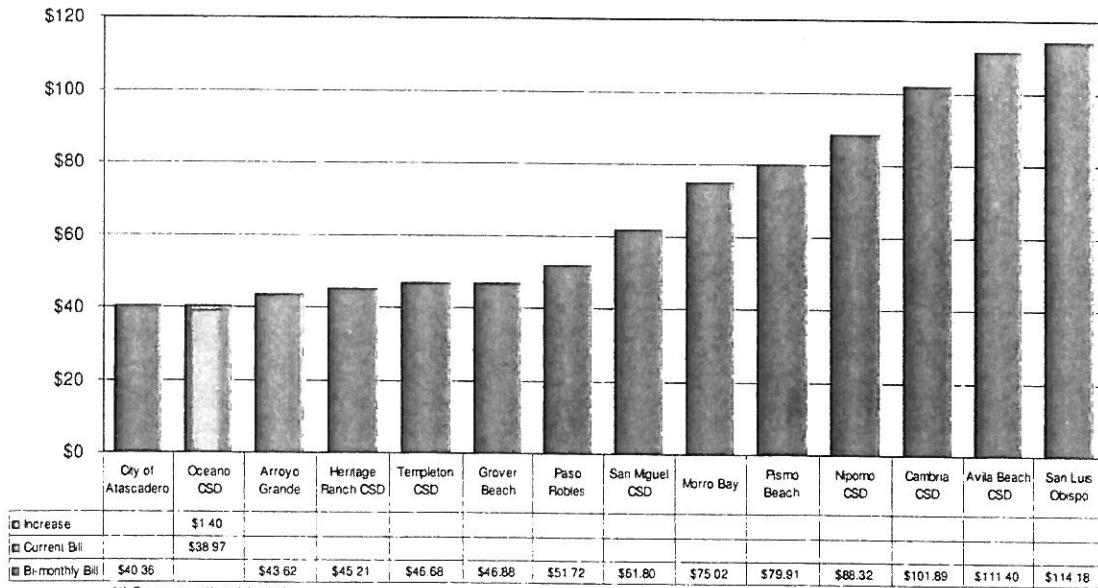
Because the wastewater charges are fixed bi-monthly charges, Table S-7 shows the typical, or average, single-family bi-monthly wastewater bill. From Table S-7, the table indicates that the bi-monthly wastewater bill for a typical single-family residential will increase from \$9.25 to \$10.65, an increase of \$1.40, or 15.1 percent.

### 5.4 COMPARISON OF AVERAGE WASTEWATER BILL WITH OTHER LOCAL AGENCIES

Chart 2 presents a comparison of the proposed single family residential bi-monthly wastewater bill at 20 Ccf with other local communities. The chart indicates that under the proposed January 1, 2011

wastewater rates including the South San Luis Obispo County Sanitation District treatment charge, an OCSD single family residential customer with a consumption of 20 Ccf bi-monthly will experience a bill that is next to the lowest of the communities listed.

Chart 2  
 San Luis Obispo County Wastewater Agencies  
 Comparison of Single Family Residential Bi-monthly Wastewater Bills <sup>[1]</sup>  
 at 20 Ccf Bi-monthly



[1] For rates in effect July 2010