

DRAFT REPORT



Oceano Community Services District Sewer Rate Study April 2025





April 7, 2025

Mr. Peter Brown
General Manager
Oceano Community Services District
1655 Front St., PO Box 599
Oceano, CA 93475

Subject: 2025 Sewer Rate Study Draft Report

Dear Mr. Brown:

HDR Engineering, Inc. (HDR) is pleased to present to the Oceano Community Services District (District) the draft report for the 2025 Sewer Rate Study (Study). The Study objectives were to provide an independent review and development of cost-based and proportional sewer rates for the District's Board of Directors consideration and implementation. The Study results in a five-year maximum rate schedule that will provide sufficient revenue to fund the operating and capital needs of the sewer utility based on the costs and assumptions provided by the District for the development of the Study. This report outlines the approach, methodology, findings, and conclusions of the sewer rate study completed for the District.

The costs associated with providing sewer services to the District's customers was developed based on the District's specific information and is included within the development of the proposed sewer rates. The Study was developed utilizing industry recognized generally accepted rate setting principles and methodologies as outlined in the Water Environment Federation's Manual of Practice No. 27, Financing and Charges for Wastewater Systems to develop proposed sewer rates that meet the requirements of Proposition 218. The report provides the basis for developing and implementing sewer rates which are cost-based, proportional, and defensible for the District's customers.

We appreciate the assistance provided by the District's project team in the development of the Study. More importantly, HDR appreciates the opportunity to provide these technical and professional services to the District.

Sincerely yours,
HDR Engineering, Inc.

A handwritten signature in black ink, appearing to read 'Shawn Koorn', enclosed in a rectangular box.

Shawn Koorn
Associate Vice President

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Table of Contents

1	Executive Summary	1
	Introduction.....	1
	Overview of the Rate Study Process.....	1
	Key Sewer Rate Study Results	2
	Summary of the Sewer Revenue Requirement Analysis.....	3
	Summary of the Sewer Cost of Service Analysis	5
	Summary of the Sewer Rate Designs.....	6
1	Introduction and Overview	7
1.1	Introduction	7
1.2	Goals and Objectives	7
1.3	Overview of the Rate Study Process.....	7
1.4	Organization of the Study	8
1.5	Summary	8
2	Overview of the Rate Setting Process	9
2.1	Introduction	9
2.2	Generally Accepted Rate Setting Principles	9
2.3	Determining the Revenue Requirement.....	9
2.4	Analyzing Cost of Service	10
2.5	Designing Utility Rates.....	11
2.6	Economic Theory and Rate Setting	11
2.7	Summary	11
3	Revenue Requirement Analysis	12
3.1	Sewer Revenue Requirement	12
3.2	Determining the Revenue Requirement.....	12
3.3	Establishing a Time Frame and Approach.....	12
3.4	Projecting Rate and Other Miscellaneous Revenues	13
3.5	Projecting Operation and Maintenance Expenses	14
3.6	Projecting Capital Funding Needs.....	14
3.7	Transfers.....	16
3.8	Projection of Debt Service	16
3.9	Reserve Funding	17
3.10	Summary of the Sewer Revenue Requirement.....	17



3.11	Reserve Fund Levels.....	18
3.12	Consultant’s Conclusions.....	19
4	Cost of Service Analysis	20
4.1	Objectives of a Cost of Service Study	20
4.2	Determining the Customer Classes of Service.....	20
4.3	General Cost of Service Procedures	21
	4.3.1 Functionalization of Costs	21
	4.3.2 Allocation of Costs.....	21
	4.3.3 Development of Distribution Factors.....	22
4.4	Summary of the Sewer Cost of Service Analysis.....	23
4.5	Consultant’s Conclusions and Recommendations.....	25
5	Rate Design Analysis	26
5.1	Rate Design Criteria and Considerations.....	26
5.2	Development of Cost-Based Sewer Rates.....	26
5.3	Overview of the Current Sewer Rate Structure.....	27
5.4	Overview of the Proposed Sewer Rate Structure	27
5.5	Summary of the Sewer Rate Design.....	28
	Technical Appendix – Sewer Analysis	29

1 Executive Summary

Introduction

HDR Engineering, Inc. (HDR) was retained by Oceano Community Services District (District) to conduct a sewer rate study (Study). The main objectives of the Study are to:

- Develop a projection of sewer revenues to support the District’s operating and capital expenses
- Proportionally distribute the costs of providing sewer services to those customers receiving service
- Propose cost-based and proportional sewer rates for a multi-year time period

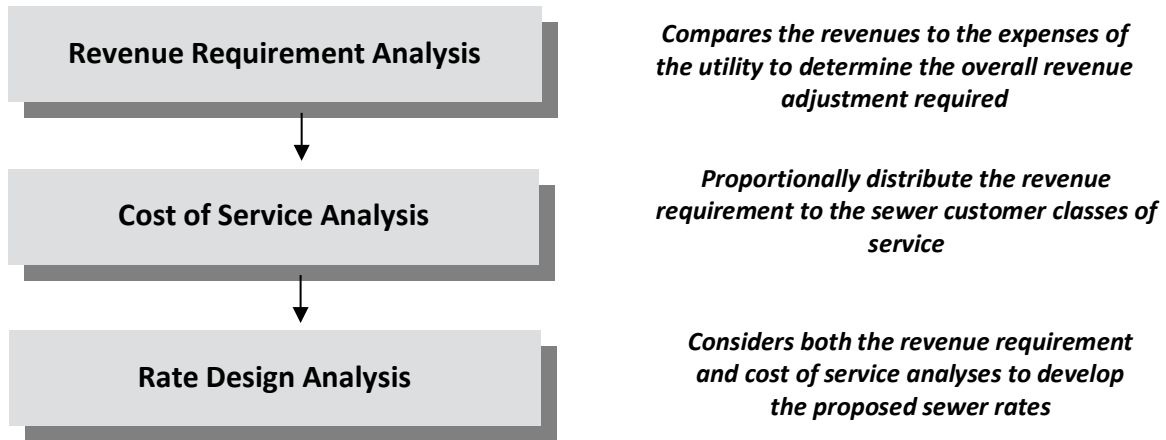
It is important to note that the results shown in this report are based on information available at ‘a point in time’. That is to say that, if the information available at a later date has changed, then the results of the analyses would likely also change or differ from those presented in this report.

The District owns, operates, and maintains the sewer collection system, which provides services to the District’s customers. The costs associated with providing sewer services to the District customers have been developed based on the information provided by the District and is included within the development of the maximum proposed sewer rates. It is important to note that the wastewater is conveyed to the South San Luis Obispo County Sanitation District for treatment services and those costs are not included in the Study and are charged to the District customers separately.

Overview of the Rate Study Process

A comprehensive rate study uses three interrelated analyses to address the cost-basis and proportionality of the District’s sewer rates. These three analyses are a revenue requirement analysis, a cost of service analysis, and a rate design analysis. These three analyses are illustrated below in Figure ES - 1.

Figure ES – 1 Overview of the Comprehensive Rate Analyses



The basic framework outlined above was utilized in the development of the Study for reviewing and evaluating the District’s sewer rates. A key aspect of the approach is utilizing generally accepted approaches and tailoring it to the District’s specific customer and system characteristics. The results of each task of the sewer rate study were used as the basis for establishing cost-based and proportional rates for the District’s sewer customers.

Key Sewer Rate Study Results

The sewer rate study’s technical analyses were developed based on the operating and capital expenses necessary to provide service to the District’s customers. The analyses performed resulted in the following findings, conclusions, and recommendations.

- A revenue requirement analysis was developed for the sewer utility for the projected time period of FY 2025/26 through FY 2033/34
- The District’s adopted FY 2024/25 budget for the sewer utility was used as the starting point of the revenue requirement analysis
- Operation and maintenance (O&M) expenses are projected to increase at inflationary levels to reflect changes in costs during the Study time period
- The District’s capital improvement plan for the sewer utility was used to develop a capital funding plan
- A five-year rate transition plan was developed to adequately fund the operating and capital needs the sewer utility
- Annual revenue adjustments are necessary to fund the operating and capital needs of the sewer utility

- A cost of service analysis was developed to determine the proportional level of revenue to collect from each customer class of service
- Proposed sewer rates were developed for FY 2025/26 through FY 2029/30 that reflect the proportionality as developed in the cost of service analysis while collecting the target level of revenues from the revenue requirement analysis

Summary of the Sewer Revenue Requirement Analysis

The District’s sewer utility revenue requirement analysis is the first analytical step in the comprehensive rate study process. The revenue requirement analysis determines the adequacy of the current sewer rates, and resulting revenues, to fund current and future O&M and capital expenses. From this analysis, a determination can be made as to the overall level of sewer revenue (rate) adjustments needed to provide adequate funding for the sewer utility.

For the Study, the revenue requirement was developed for the budgeted year FY 2024/25 and a multi-year projected time period (FY 2025/26 – FY 2033/34). As a practical matter, a multi-year time frame is recommended to identify major expenses that may be on the horizon. By anticipating future financial requirements, the District may begin planning for these changes sooner, thereby minimizing short-term rate impacts and overall long-term rate levels. An example of this is the funding of reserves for the future administration building included as part of this study. As a point of reference, the focus of the Study for rate setting purposes is on the next five-year period of FY 2025/26 through FY 2029/30.

For the sewer revenue requirement analysis, a “cash basis” approach was utilized. The cash basis approach is the commonly used methodology by municipal utilities to set their revenue requirement. The primary financial inputs in the development of the revenue requirement were the District’s adopted FY 2024/25 budget, historical billed customer and usage data, and the District’s sewer capital improvement plan. Budgeted O&M expenses were projected using inflationary factors for the District’s expenses to provide sewer collection and conveyance services over the review period. These inflationary factors were based on historical District increases in costs and projected changes in costs as provided by the District.

The next step of the revenue requirement is the development of the sewer capital funding plan. The District provided the capital improvement plan (CIP) for the development of the capital funding plan. To prudently fund the District’s sewer CIP, a mix of rate funding, reserves, and borrowing were utilized to fund the CIP. In developing this financial plan, HDR and the District have attempted to minimize rate impacts while funding the necessary capital improvement projects as outlined in the District’s CIP. In developing the sewer capital funding plan, HDR is not acting in a municipal advisory role to the District.

Given a projection of O&M and capital expenses, a summary of the sewer revenue requirement analysis was developed. Provided below in Table ES – 1 is a summary of the revenue requirement analysis for the District’s sewer utility.

Table ES – 1
Summary of the Sewer Revenue Requirement Analysis (\$000)

	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Revenues						
Rate Revenues	\$404	\$406	\$409	\$412	\$415	\$417
Other Revenues	<u>52</u>	<u>13</u>	<u>14</u>	<u>18</u>	<u>22</u>	<u>23</u>
Total Revenues	\$456	\$419	\$423	\$430	\$436	\$440
Expenses						
Total O & M	\$590	\$665	\$694	\$724	\$755	\$787
Transfers	37	38	40	42	43	45
Net Debt Service	27	103	103	103	103	103
Rate Funded Capital	0	0	330	375	400	425
Reserve Funding	<u>(198)</u>	<u>17</u>	<u>193</u>	<u>190</u>	<u>210</u>	<u>230</u>
Total Expenses	\$456	\$823	\$1,360	\$1,434	\$1,512	\$1,590
Bal./ (Def.) of Funds	(\$0)	(\$404)	(\$937)	(\$1,005)	(\$1,076)	(\$1,150)

As can be seen, the revenue requirement has summed the annual O&M expense, transfers, rate funded capital, net debt service, and reserve funding. Note reserve funding reflects meeting financial policies related to minimum target reserves and annually funding reserves to fund a portion of the future administrative building. The total revenue requirement is then compared to the total sources of funds which include the rate revenues, at present rate levels, and other miscellaneous revenues. From this comparison, a balance or deficiency of funds in each year can be determined. The “Bal. / (Def.) of Funds” row is cumulative. That is, any adjustment to rate revenues in the initial years will reduce the deficiency in the later years, assuming expenses remain at projected levels. As can be seen, current annual revenues are not sufficient to fund annual O&M expenses, and over the Study time period, revenues are deficient prior to proposed rate revenue adjustments.

Based on the revenue requirement analysis developed, HDR has concluded that the District will need to adjust the level of sewer revenues received over the next five years (FY 2025/26 –FY 2029/30). HDR has reached this conclusion for the following reasons:

- Adjustments are necessary to fund the District’s annual sewer O&M expenses
- Adjustments are necessary to fund annual capital improvements
- The proposed adjustments provide a basis to increase financial health of the District’s sewer utility (e.g., debt service coverage ratios, reserves) and provide long-term, sustainable funding levels for the sewer utility

In reaching this conclusion, HDR recommends that the District adopt revenue adjustments for FY 2025/26 through FY 2029/30 to provide sufficient funding for annual O&M and capital improvement needs over the Study time period. A detailed discussion of the development of the revenue requirement is provided in Section 3 of this report.

Summary of the Sewer Cost of Service Analysis

A cost of service analysis determines the proportional distribution of the revenue requirement to the sewer customer classes of service. Whereas the revenue requirement analysis determines the utility’s overall revenue needs, the cost of service analysis determines the proportional manner in which to collect the required revenue over the proposed time period. In this case, the sewer revenue requirement for FY 2025/26 was used for establishing the cost of service analysis for the District.

The cost of service analysis is based on the approaches as outlined in the Water Environment Federation Manual of Practice Number 27, Financing and Charges for Wastewater Systems and the District’s sewer customer and system characteristics. Table ES – 2 provides the summary of the District’s distributed costs by customer class of service.

Table ES – 2 Summary of the FY 2025/26 Distributed Costs by Customer Class (\$000)	
Class of Service	Distributed Costs
Residential	\$685
Non-Residential	64
School	23
RV Park	<u>38</u>
Total	\$810

The results of the cost of service analysis, provide the basis for the proposed sewer rates. Specifically, the cost of service provides average unit costs, which become the proposed sewer rates for the first year of the rate setting period. Given the requirement of California Constitution Article XIII D, Section 6 (commonly referred to as Proposition 218) the results of the sewer cost of service analysis are used to establish the proposed rates. As noted in the cost of service section of this report, the implementation of cost of service adjustments will impact the overall customer bill and revenue generation for the sewer utility. A detailed discussion of the development of the cost of service analysis is provided in Section 4 of this report.

Summary of the Sewer Rate Designs

The final step of the comprehensive rate study process is the design of the sewer rates to collect the desired levels of revenue, based on the results of the revenue requirement and cost of service analyses. The rate design incorporates the revenue requirement analysis recommendations related to annual revenue adjustments and the cost of service analysis results provide the basis for the development of proportional rates for the District’s customers.

The District currently has a rate structure for each of the customer classes of service that is billed bi-monthly. For residential customers, a bi-monthly flat base rate is charged per account. For non-residential customers, a bi-monthly base rate is also charged per unit in addition to a volume charge per one hundred cubic feet (CCF) of volume over 10 CCF. The District also has a rate schedule for schools and RV parks, which are billed a bi-monthly fixed charge on average daily attendance and per parking spot, respectively.

Given the results of the revenue requirement and cost of service analyses, the proposed sewer rates have been developed that reflect the proportional distribution of the costs of providing service. The rate structures for all customer classes are recommended to be maintained. Provided in Table ES – 3 is a summary of the present and proposed sewer rates.

Table ES – 3 Summary of the Bi-Monthly Present and Proposed Sewer Rates						
	Present Rates	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Fee						
Residential	\$19.49	\$38.68	\$63.82	\$66.69	\$69.69	\$72.83
Non-Residential	19.49	21.98	36.27	37.90	39.61	41.39
School	1.37	2.98	4.91	5.13	5.36	5.60
RV Park	10.96	19.84	32.74	34.21	35.75	37.36
Volume Charge						
< 10 CCF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
> 10 CCF	0.75	2.20	3.63	3.79	3.96	4.14

The proposed sewer rates for FY 2025/26 are based on the unit costs as developed in the cost of service analysis. The rates thereafter are increased by the annual revenue requirement adjustment. The development of the rate designs is outlined in detail in Section 5 of this report.

1 Introduction and Overview

1.1 Introduction

HDR was retained by the Oceano Community Services District to conduct a sewer rate study. The objective of the Study was to review the District's operating and capital costs and develop a projection of revenue needs and cost-based and proportional rates for the sewer system customers.

The District owns and operates the sewer system, which includes the collection and conveyance of wastewater. Treatment services are handled by the South San Luis Obispo County Sanitation District and customers are billed separately for treatment services. Therefore, the Study does not include costs related to the treatment of wastewater in the development of the proposed sewer rates.

1.2 Goals and Objectives

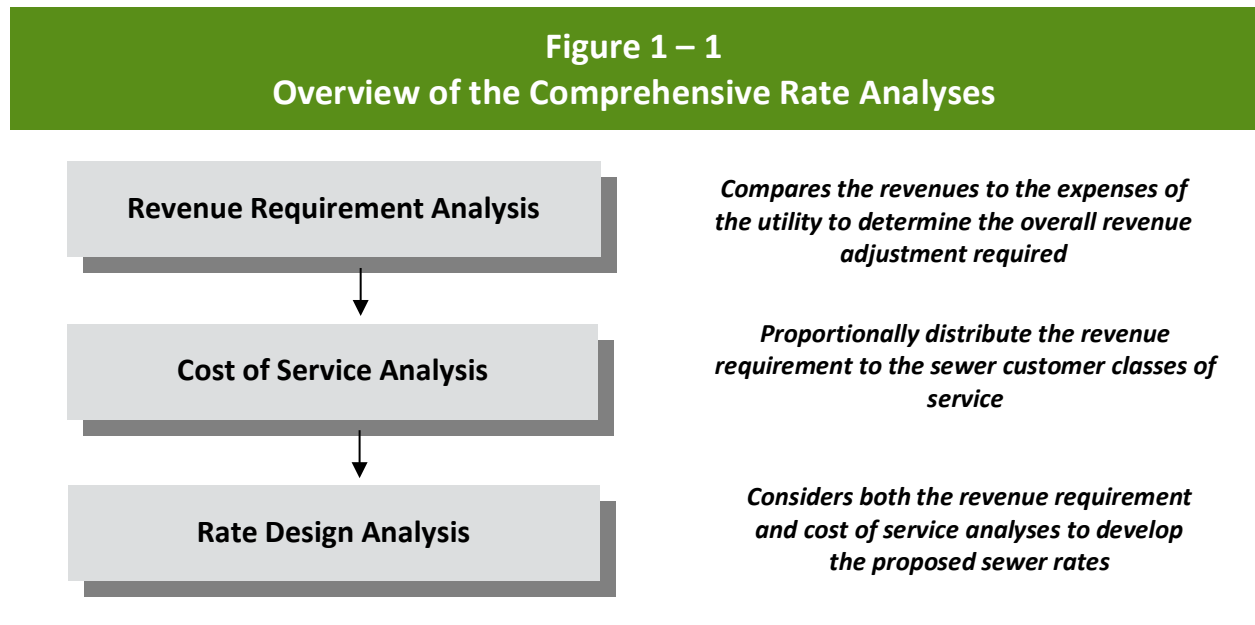
The District had a number of key objectives in developing sewer rate study. These key objectives provided a framework for policy decisions in the analysis that follows. These key objectives were as follows:

- Develop the sewer study in a manner that is consistent with the principles and methodologies established by the Water Environment Federation (WEF), Manual of Practice No. 27, Financing and Charges for Sewer Systems
- In financial planning and establishing the District's rates, review and utilize industry best practices, while recognizing and acknowledging the specific and unique characteristics of the District's sewer system
- Review the District's rates utilizing generally accepted rate making methodologies to determine adequacy and proportionality of the utility rates
- Meet the long-term financial planning criteria and policies of the District. For example, adequate funding of capital infrastructure, and maintenance of adequate and prudent reserve levels
- Develop a final proposed financial plan which adequately supports the utility's funding requirements, while attempting to minimize overall impacts to rates
- Develop a proportional distribution of costs to the District's sewer customers
- Provide proposed sewer rates designed to meet the requirements of the California Constitution Article XIII D, also known as Proposition 218

1.3 Overview of the Rate Study Process

User rates must be set at a level where a utility's operation and maintenance and capital expenses are met with the revenues received from customers. This is an important point, as failure to achieve this objective may lead to insufficient funds to maintain system integrity. To evaluate the adequacy of the sewer rates, a comprehensive rate study is often performed. A

comprehensive sewer rate study consists of three interrelated analyses. Figure 1 – 1 provides an overview of these analyses.



The above framework for reviewing and evaluating rates was utilized for the District’s sewer system.

1.4 Organization of the Study

This report is organized in a sequential manner that first provides an overview of utility rate setting principles, followed by a section that details the specific steps used to review the District’s sewer rates. The following sections comprise the District’s sewer rate study report:

- **Section 2** – Overview of Rate Setting Principles
- **Section 3** – Revenue Requirement Analysis
- **Section 4** – Cost of Service Analysis
- **Section 5** – Rate Design Analysis

Technical Appendices are attached at the end of this report, which detail the technical analyses that were undertaken in the preparation of this Study.

1.5 Summary

This report will review the sewer cost of service study prepared for the District. This report has been prepared utilizing generally accepted and industry standard sewer rate setting techniques as outlined in the WEF MOP #27.



2 Overview of the Rate Setting Process

2.1 Introduction

This section of the report provides background information about the rate setting process, including descriptions of generally accepted principles, types of utilities, methods of determining a revenue requirement, the cost of service analysis, and rate design. This information is useful for gaining a better understanding of the details presented in further sections of this report.

2.2 Generally Accepted Rate Setting Principles

As a practical matter, utilities should consider setting their rates around generally accepted or global principles and guidelines. Given these industry approaches, utility rates should be:

- Cost-based, proportional, and set at a level that meets the utility’s full revenue requirement
- Easy to understand and administer
- Designed to conform to generally accepted rate setting techniques
- Stable in their ability to provide adequate revenues for meeting the utility’s financial, operating, and regulatory requirements
- Established at a level that is stable from year-to-year from a customer’s perspective

2.3 Determining the Revenue Requirement

Most public utilities use the “cash basis”¹ approach for establishing the revenue requirement and setting rates. This approach conforms to most public utility budgetary requirements and the calculation is easy to develop. A public utility totals its cash expenditures for a period of time to determine required revenues. The revenue requirement for a public utility is usually comprised of the following costs or expenses:

- **Total Operating Expenses:** This includes a utility’s operation and maintenance (O&M) expenses, plus any applicable taxes or transfer payments. Operation and maintenance expenses include the materials, electricity, labor, supplies, etc., needed to keep the utility functioning.
- **Total Capital Expenses:** Capital expenses are calculated by adding debt service payments (principal and interest) to capital improvements financed with rate revenues. In lieu of including capital improvements financed with rate revenues, a utility sometimes includes depreciation expense to stabilize the annual revenue requirement.

¹ “Cash basis” as used in the context of rate setting is not the same as the terminology used for accounting purposes and recognition of revenues and expenses. As used for rate setting, “cash basis” simply refers to the specific cost components to be included within the revenue requirement analysis.

Using the cash basis approach, the sum of the total O&M expenses plus the total capital expenses equals the utility’s revenue requirement during any selected period of time (historical or projected).

Note that the two portions of the capital expense component (debt service and rate funded capital) are necessary under the cash basis approach as utilities generally cannot finance all capital improvements with long-term debt. At the same time, it is often difficult to pay for capital expenditures on a “pay-as-you-go” basis given that some major capital projects may have significant rate impacts upon a utility and its customers, even when financed with long-term debt. Many utilities have found that some combination of pay-as-you-go funding and long-term financing will often lead to minimization of rate increases over time.

As noted, public utilities typically use the cash basis approach to establish the revenue requirement. An exception occurs if a public utility provides service to a large wholesale or contract customer. In this situation, a public utility could use the “utility basis” approach (see Table 2 – 1) regarding earning a fair return on its investment. As a point of reference, the District’s Study utilized the cash basis approach, which is the typical approach for municipal utilities like the District.

Table 2 – 1 Cash versus Utility Basis Comparison			
Cash Basis		Utility Basis (Accrual)	
+	O&M Expenses	+	O&M Expenses
+	Taxes/Transfer Payments	+	Taxes/Transfer Payments
+	Capital Improv. Funded From Rates (≥ Depreciation Expense)	+	Depreciation Expense
+	Debt Service (Principal + Interest)	+	Return on Investment
=	Total Revenue Requirement	=	Total Revenue Requirement

2.4 Analyzing Cost of Service

After the total revenue requirement is determined, it is proportionally distributed to the users (i.e., customer classes) of the service. The distribution of the revenue requirement, analyzed through a cost of service analysis, reflects the cost relationships for providing sewer services. A cost of service analysis requires three analytical steps:

1. Costs are **functionalized** or grouped into the various cost categories related to providing service. For a sewer utility, this generally includes collection, pumping, and treatment. This step is largely accomplished by the utility’s accounting system.
2. The functionalized costs are then **allocated** to specific cost components. Allocation refers to the arrangement of the functionalized data to the appropriate cost component(s). For

sewer, the manuals discuss the allocation of costs, which may include volume, strength, and customer related.

3. Once the costs are allocated to the appropriate cost component(s), they are proportionally ***distributed*** to the customer classes of service (e.g., Residential, Non-Residential). The distribution is based on each customer class’s relative contribution to the cost component (i.e., benefits received from and burdens placed on the system and its resources). For example, customer-related costs are distributed to each class of service based on the total number of customers in that class of service. Once costs are distributed, the revenues from each customer class of service required to achieve cost-based rates can be determined.

2.5 Designing Utility Rates

Rates that meet the utility’s objectives are designed based on both the revenue requirement and the cost of service analysis. This approach results in rates that are strictly cost-based and does not consider other non-cost based goals and objectives. In designing the final proposed rates, factors such as ability to pay, continuity of past rate philosophy, economic development, ease of administration, and customer understanding may be taken into consideration. However, the proposed rates must take into consideration each customer class’s proportional share of costs allocated through the cost of service analysis to meet the legal requirements of California Constitution Article XIII D, commonly referred to as Proposition 218.

2.6 Economic Theory and Rate Setting

One of the major justifications for a comprehensive rate study is founded in economic theory. Economic theory suggests that the price of a commodity must roughly equal its cost if equity among customers is to be maintained. This statement’s implications on utility rate designs are significant. For example, for a sewer utility, costs are incurred to meet total volume related costs. Given this, it follows that the customers who create wastewater volumes should pay for those costs associated with providing service in a proportional manner. When costing and pricing techniques are refined, consumers have a more accurate understanding of what the commodity costs to produce and deliver.

“Economic theory suggests that the price of a commodity must roughly equal its cost if equity among customers is to be maintained.”

2.7 Summary

This section of the report has provided a brief introduction to the general principles, techniques, and economic theory used to set cost-based and proportional sewer rates. These principles and techniques provide the basis to evaluate the District’s sewer rates as developed in the Study.



3 Revenue Requirement Analysis

3.1 Sewer Revenue Requirement

This section describes the development of the revenue requirement analysis for the District’s sewer rate study. The revenue requirement analysis is the first analytical step in the rate study process. From this analysis, a determination can be made as to the overall level of sewer rate revenue adjustments needed to provide adequate and prudent funding for both operating and capital needs. A main objective of a rate study is to develop proportional rates over the selected time period. For purposes of this section, the term “sewer” refers to the District’s sewer utility, and the term “wastewater” refers to the contribution of wastewater volumes to the District’s sewer utility for conveyance to the South San Luis Obispo County Sanitation District treatment facility.

3.2 Determining the Revenue Requirement

In developing the District’s sewer revenue requirement, the sewer utility must financially “stand on its own” and be properly funded. As a result, the revenue requirement analysis, as developed herein, assumes the funding needed to operate and maintain the District’s sewer system on a financially sound and prudent basis. The following sections will provide a more detailed discussion of the development of the sewer revenue requirement analysis for the District.

3.3 Establishing a Time Frame and Approach

The first step in calculating the revenue requirement for the District’s sewer system was to establish a time frame for the revenue requirement analysis. A ten-year period was developed to review the sewer revenue requirement over a long-term period. While the analysis was developed for a 10-year period, the focus of the Study for establishing proposed sewer rates is on the next five-year period (FY 2025/26 – FY 2029/30). Reviewing a multi-year time period is recommended since it attempts to identify any major expenses that may be on the horizon. By anticipating future financial requirements, the District can begin planning for these changes sooner, thereby minimizing short-term rate impacts and overall long-term rates. The revenue requirement was composed of the District’s FY 2024/25 budget, which was then projected for future years by escalation (inflation) factors.

The second step in determining the revenue requirement was to decide on the basis of accumulating costs. In this particular case, for the revenue requirement analysis, a cash basis approach was utilized. The cash basis approach is the commonly methodology used by municipal utilities to set their revenue requirement. Table 3 – 1 provides a summary of the cash basis approach and cost components used to develop the District’s sewer revenue requirement.

Table 3 – 1 Overview of the District’s Cash Basis Sewer Revenue Requirement

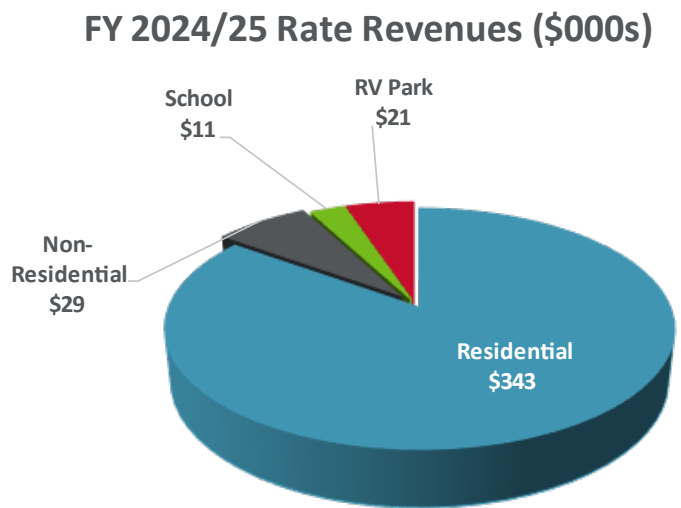
+	Sewer Operation and Maintenance Expenses
+	Rate Funded Capital
+	Net Debt Service (Principal + Interest) Existing and Future
<u>±</u>	<u>Reserves Funding</u>
=	Total Sewer Revenue Requirement
<u>-</u>	<u>Miscellaneous Revenues</u>
=	Net Sewer Revenue Requirement (Bal. Req’d from Rates)

Given a time period around which to develop the revenue requirement and a method to accumulate the costs; the focus shifts to the development and projection of the revenues and expenses of the District’s sewer system.

The primary financial inputs in the development of the revenue requirement were the District’s adopted sewer budget, recent customer billing characteristics (number of accounts, number of billed units), and the sewer capital improvement plan. Presented below is a detailed discussion of the steps and key assumptions contained in the development of the sewer revenue requirement analysis.

3.4 Projecting Rate and Other Miscellaneous Revenues

The first step in the revenue requirement is to develop a projection of the revenues currently received for the District’s sewer utility. This includes developing a projection of sewer rate revenues at present rate levels based on the current billing units (accounts, billed volume, etc.) for each customer group based on recent customer billing statistics. These billing units were then multiplied by the current adopted sewer rates. This method of independently calculating revenues links the projected revenues used within the analysis to the projected billing units. It also helps to confirm that the billing units used within the Study are reasonable for purposes of projecting future revenues and establishing the proposed rates to collect the target level of revenues. The rate revenues are shown in Exhibit 3 under “Rate Revenues” for FY 2024/25.



The majority of the District’s rate revenues are derived from residential customers. The District also serves a variety of other customers which

include non-residential customers, schools, and RV parks. In total, and at currently adopted rate levels, the District’s sewer system is projected to receive approximately \$404,000 in rate revenue in FY 2024/25. Based on discussion with the District, the Study has assumed customer growth of 0.67% per year. By FY 2029/30, the rate revenues are projected to be approximately \$417,000 based on the estimated growth on the system. The detailed calculation of the revenues at present rates is included in Exhibit 6 of the Technical Appendix.

In addition to rate revenues, the District also receives other non-operating revenues. These are revenues related to inspection fees, FOG program revenue, interest income. In total, the District is projected to receive approximately \$52,000 in FY 2024/25. Non-operating revenues were estimated to decrease over the Study time period to approximately 23,000 in FY 2029/30 as a result of decreased annual interest income as reserves are being used to fund capital projects over the Study time period.

On a combined basis, taking into account the rate revenues and the other revenues, the District’s sewer utility has total projected revenues of approximately \$456,000 in FY 2024/25, which are projected to decrease slightly to approximately \$440,000 in FY 2029/30. The assumptions used for projecting growth and increases in other revenues can be found in Exhibit 2 of the Technical Appendix and the projection of rate and miscellaneous revenues can be found in Exhibit 3 of the Technical Appendix.

3.5 Projecting Operation and Maintenance Expenses

Operation and maintenance expenses are incurred by the District to maintain the sewer collection and conveyance system at a reliable level of service. The starting point of the projection of O&M expenses was the District’s adopted FY 2024/25 budget. Budgeted O&M expenses were projected over the Study time period based on historical inflationary factors. These factors took into consideration the District’s historical cost increases and projected increases in future costs. The factors ranged from 3.0% to 9.5% annually for the different types of expenses (e.g., salaries, benefits, materials & supplies, insurance) as developed in discussion with District staff. In total, O&M expenses for the District’s sewer utility were projected to increase at an annual inflation rate of approximately 4.4% over the Study time period. The only addition to O&M costs from the FY 2024/25 budget is the addition of one FTE being added in FY 2025/26 that will be split between the water and sewer utilities.

The total operation and maintenance expenses for the sewer utility are budgeted to be approximately \$590,000 in FY 2024/25. Over the five-year projected time period, the total O&M expenses are projected to increase to approximately \$787,000 by FY 2029/30 based on inflationary increases and additional staffing as noted. A summary of the O&M expenses is shown as a line item in Table 3 – 3 in Section 3.9 and the detailed analysis is provided in Exhibit 3 of the Technical Appendix.

3.6 Projecting Capital Funding Needs



A key component in the development of the sewer revenue requirement was to adequately fund capital improvement needs in the near and long term. One of the major issues facing many utilities across the U.S. is the amount of deferred capital projects and funding pressure from regulatory-related improvements. The proper and adequate funding of capital projects is an important issue for all sewer utilities and not just a local issue or concern of the District. To accomplish this, the District has a sewer CIP from recent planning studies to address both the short and long-term needs of the sewer utility. The District's CIP will help guide and prioritize capital projects over time and capital investments to expand the capacity of facilities to accommodate future customers.

There are three types of capital projects that the District may need to fund. These include the following types:

- Renewal and replacement projects
- Growth/capacity expansion projects
- Regulatory-related projects

A renewal and replacement project is a project to maintain the existing system that is in place today. As existing facilities age, they become worn out, obsolete, etc. The District should continuously be making investments to maintain the integrity of its facilities with renewal and replacement projects. In contrast to a renewal and replacement project, growth / capacity expansion projects are related to providing service (i.e., available capacity) to new customers. This may be through expansion of the existing system or construction of new facilities to provide service to customers within the District's service area. Finally, certain projects may be a function of a regulatory requirement in which the Federal or State government mandates the need for an improvement to the system to meet regulatory standards (e.g., limitations on discharges). Understanding these different types of capital projects is important because it may help to explain why costs are increasing and the cost drivers for any needed rate adjustment.

This is important as the way in which projects may be funded also generally varies by the type of capital project. For example, renewal and replacement projects should be funded through annual rates on a "pay-as-you-go" basis. In contrast to this, growth or capacity expansion projects may be funded through the collection of capacity charges (i.e., growth-related charges) in which new development pays a proportional share of the cost of improvements required as a result of their connection. Finally, regulatory projects may be funded by a variety of different means, which may include one or more sources such as rate revenues, long-term debt, grants, etc.

While the above discussion appears to neatly divide capital projects into three clearly defined categories, the reality of working with specific capital projects may be more complex. For example, a pump may be replaced, but while being replaced, it is up sized to accommodate the need for greater capacity. There are many projects that share these "joint" characteristics. At the same time, projects may not be "replacement" related, but rather "improvement" related to provide efficiencies or provide for increased system operations and management. Provided below in Table 3 – 2 is a summary of the sewer capital funding analysis, based on the District's CIP.

Table 3 – 2
Summary of the Sewer Capital Funding Analysis (\$000s)

	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Total Capital Projects	\$284	\$312	\$412	\$375	\$400	\$578
Other Funding Sources						
Capital Fund Reserves	\$284	\$0	\$82	\$0	\$0	\$153
Assumed Vehicle Loan	<u>0</u>	<u>312</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Funding Sources	\$284	\$312	\$82	\$0	\$0	\$153
Rate Funded Capital	\$0	\$0	\$330	\$375	\$400	\$425

While the total amount of a project may vary from year to year, the sewer capital funding plan has attempted to provide a consistent funding source for the replacement of deteriorating system assets. In this case, the sewer utility’s rates will fund an amount of \$330,000 starting in FY 2026/27. Note that no rate funding is assumed in FY 2024/25 or FY 2025/26 as rates are transitioned to fund annual O&M expenses. A desirable minimum funding target for rate funded CIP is an amount equal to or greater than annual depreciation expense in order to approximately keep up with the rate of deterioration of the system assets. While annual depreciation expense is not the same as replacement cost, funding an amount which exceeds the depreciation expense is both prudent and appropriate. As noted, to help establish a prudent level of annual replacement funding through rates, HDR worked with District staff to develop a funding plan for the sewer CIP. In developing this financial plan, HDR and the District have attempted to minimize rate impacts while funding the planned capital projects of the District’s sewer utility. This level of funding appears appropriate as it exceeds the current level of annual depreciation expense for the sewer system. As part of the focus of developing the CIP, the District is committed to making an effort to maintaining this level of rate funded capital.

3.7 Transfers

The District’s sewer budget includes an equipment fund transfer of approximately \$36,000 in FY 2024/25. This transfer is escalated over the projected Study period and totals approximately \$45,000 in FY 2029/30.

3.8 Projection of Debt Service

The District’s sewer utility currently has one outstanding long-term debt issue with an average annual payment of approximately \$27,000. This issuance is retired in FY 2035/36, and it is assumed that the District will not issue any long-term debt to fund sewer capital improvements until FY 2030/31. However, in discussion with District staff, in FY 2025/26 to fund the vehicle purchase a short-term loan is anticipated which as been estimated at \$76,000 per year for five-years.

HDR is not advising the District on the terms of any debt issuances but rather identifying the overall funding needs, should they exist. As such, HDR is not acting in a municipal advisor role to the District for the issuance of any long-term borrowing.

3.9 Reserve Funding

The final component of the revenue requirement analysis is reserve funding. This can be described as transfers of revenue to reserve funds to maintain prudent ending fund balances or for future funding of specific or unanticipated projects. Important to note is that approximately \$1.5 million is being set aside from FY 2026/27 through FY 2033/34 as part of the reserve transfers in order to fund a portion of the future administrative building.

3.10 Summary of the Sewer Revenue Requirement

Given the above projections of revenues and expenses, a summary of the sewer revenue requirement analysis can be developed. In developing the revenue requirement analysis, consideration was given to the financial planning considerations of the District. In particular, emphasis was placed on attempting to minimize rates, yet still have adequate revenues to support the operational activities and capital projects throughout the Study time period. Presented in Table 3 – 3 is a summary of the District’s projected sewer revenue requirement. Detailed exhibits of this analysis can be found in the Technical Appendix (Exhibits 1 – 6).

Table 3 – 3 Summary of the Sewer Revenue Requirement Analysis (\$000)						
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Revenues						
Rate Revenues	\$404	\$406	\$409	\$412	\$415	\$417
Other Revenues	<u>52</u>	<u>13</u>	<u>14</u>	<u>18</u>	<u>22</u>	<u>23</u>
Total Revenues	\$456	\$419	\$423	\$430	\$436	\$440
Expenses						
Total O & M	\$590	\$665	\$694	\$724	\$755	\$787
Transfers	37	38	40	42	43	45
Net Debt Service	27	103	103	103	103	103
Rate Funded Capital	0	0	330	375	400	425
Reserve Funding	<u>(198)</u>	<u>17</u>	<u>193</u>	<u>190</u>	<u>210</u>	<u>230</u>
Total Expenses	\$456	\$823	\$1,360	\$1,434	\$1,512	\$1,590
Bal./ (Def.) of Funds	(\$0)	(\$404)	(\$937)	(\$1,005)	(\$1,076)	(\$1,150)

As can be seen, the revenue requirement has summed the O&M, transfers, rate funded capital, net debt service, and reserve funding components. The total revenue requirement is then compared to the total revenues which include both rate revenues – at current rate levels – and other revenues.

From this comparison, a balance or deficiency of funds in each year can be determined. This balance or deficiency of funds is then compared to the projected revenues from current rates to determine the level of rate adjustment needed to meet the revenue requirement. The “Bal. / (Def.) of Funds” row is cumulative. That is, any adjustments in rate revenues in the initial years will reduce the deficiency in later years, assuming no changes in projected expenses.

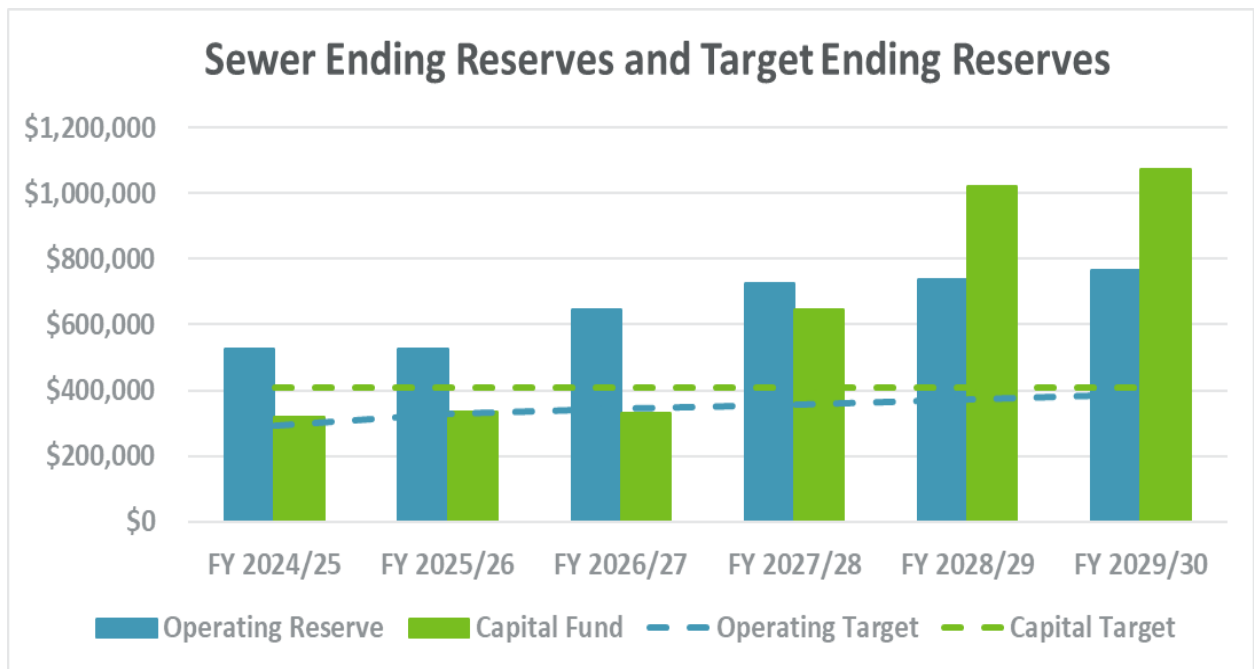
As can be seen, the sewer utility is operating at a deficiency, prior to rate revenue adjustments, in each of the five projected years based on the necessary operating and capital costs to continue to provide sewer service to customers. The need to increase annual rate revenues is driven by the fact that current revenues do not fund annual O&M expenses, transfers, and existing debt, prior to even attempting to fund annual capital improvements. Given this, the District will need to adjust rate revenues to sufficiently fund annual O&M and debt payments, followed by adjustments to adequately fund the identified CIP. A more detailed revenue requirement is included in Exhibit 3 of the Technical Appendix.

3.11 Reserve Fund Levels

One of the methods of determining the financial health and sustainability of the District’s sewer utility is to review the level of available reserve levels after the proposed revenue adjustments. Utilities can have several different reserves, each with a different purpose. The typical types of reserves utilities maintain are generally referenced as an operating reserve, a capital reserve, an emergency reserve, etc. Each of these funds can have a minimum ending balance that, if reached or falls below, is a signal that the District should review the revenue sources associated with each reserve fund. The minimum ending balances will vary depending on the purpose of the fund and the expected revenue sources. For the District’s Study, the focus was on maintaining sufficient reserves in the operating and capital reserves and the following approach:

- Operating Reserve – The reserve is to be used in extraordinary circumstances to mitigate unforeseen significant fluctuations in operational expense. The target minimum ending balance is set to 180 days of O& M expenses.
- Capital Reserve – The reserve may be used to fund capital expenditures that exceed the anticipated annual rate revenue available for capital. The minimum target ending balance is set at the annual average of the District’s capital improvement plan for the Study.

Shown in the chart below is the District’s sewer utility projected ending fund balance over the rate setting period. As can be seen, given the proposed rate revenue adjustments, the operating reserve meets the minimum target level. Note, for the capital reserve ending balance, this includes the annual transfer for the administrative building funding during the Study time period.



3.12 Consultant’s Conclusions

Based on the revenue requirement analysis developed herein, HDR recommends that the District adjust sewer revenues annually over the next five-year period (FY 2025/26 –FY 2029/30). HDR has reached this conclusion for the following reasons:

- Revenue adjustments are necessary for the District to fund current annual O&M and debt service expenses
- Revenue adjustments are necessary to reflect annual inflationary level increases related to the O&M of the sewer utility
- Revenue adjustments are necessary to fund the District’s identified capital improvement needs
- The proposed revenue adjustments provide the District with an approach to meet minimum financial criteria and enhance the sewer utility’s financial health and provide long-term sustainable funding levels

In reaching this conclusion, HDR would recommend that the District adopt revenue adjustments in order to provide sufficient funding for annual O&M and capital improvement projects over the next five-year period.

4 Cost of Service Analysis

In the previous section, the revenue requirement analysis focused on cost basis to adequately fund the District’s sewer collection and conveyance system. This section will provide an overview of the cost of service analysis developed for the District.

A cost of service analysis focuses on the proportional distribution of the total revenue requirement between the identified customer classes of service (e.g., Residential, Non-residential, School, RV Park). The previously developed revenue requirement for FY 2025/26 was utilized in the development of the cost of service analysis.

4.1 Objectives of a Cost of Service Study

There are two primary objectives in conducting a sewer cost of service study:

- Distribute the District’s revenue requirement proportionally among the customer classes of service
- Derive average unit costs for subsequent rate designs

The objectives of the cost of service analysis are different from determining a revenue requirement. As noted in the previous section, a revenue requirement analysis determines the cost basis of the level of revenue, while the cost of service analysis determines the proportional manner in which to collect that level of revenue (i.e., total revenue requirement) from the District’s customer classes of service (i.e., rate schedules).

The second rationale for conducting a cost of service analysis is so that the proposed sewer rates are designed such that it reflects the costs incurred by the District. For example, a sewer utility typically incurs costs related to flow (wastewater volumes), strength, and customer cost components. Each of these types of costs may be collected in a slightly different manner as to allow for the development of rates that collect costs in the same manner as they are incurred. It is important to note that the District is a collection and conveyance only system as wastewater treatment is provided by the South San Luis Obispo County Sanitation District. Therefore, the cost of service analysis is simplified given flow (volume) related costs are the primary driver of the costs of collecting and conveying wastewater to the South San Luis Obispo County Sanitation District.

4.2 Determining the Customer Classes of Service

The first step in a cost of service analysis is to determine the customer classes of service. HDR started with the customer classes of service based on the District’s current rate schedules. The customer classes used in the cost of service analysis are:

- Residential
- Non-Residential

- School
- RV Park

In determining classes of service for cost of service purposes, the objective is to group customers together into similar or homogeneous groups based on facility requirements and/or flow characteristics, to establish proportional rates for each customer class identified.

4.3 General Cost of Service Procedures

The development of the cost of service was based on generally accepted principles and methodologies and was tailored to the District’s system and customer characteristics. The District’s cost of service analysis was based on the Water Environment Federation Manual of Practice No. 27. This manual outlines the approach to establish cost-based and proportional rates in a three-step approach. These steps take the form of functionalization, allocation, and distribution. Provided below is a detailed discussion of the sewer cost of service study conducted for the District and the specific steps taken within the analysis.

4.3.1 Functionalization of Costs

The first analytical step in the cost of service process is called functionalization. Functionalization is the arrangement of expenses and sewer asset (plant) data by major operating functions (e.g., collection, pumping, treatment). Within the Study, there was a limited amount of functionalization of the cost data as the District’s records functionalized a majority of the costs.

4.3.2 Allocation of Costs

The second analytical task performed in a sewer cost of service study is the allocation of the costs (i.e., revenue requirement). Allocation determines why the expenses were incurred or what type of need is being met. The following cost allocations are generally used to develop a cost of service analysis:

- **Volume Related Costs:** Volume related costs are those costs which tend to vary with the total quantity of wastewater collected and treated.
- **Strength Related Costs:** Strength related costs are those costs associated with the additional handling and treatment of high “strength” wastewater. Strength of wastewater is typically measured in biochemical oxygen demand² (BOD) and total suspended solids³ (TSS). Increased levels of BOD or TSS generally equate to increased treatment costs. Given the District does not treat the wastewater, this allocation component was not used.

² BOD is the amount of [dissolved oxygen](#) that must be present in water [in order](#) for [microorganisms](#) to [decompose](#) the [organic](#) matter in the wastewater

³ TSS is the entire amount of organic and inorganic particles dispersed in wastewater

- **Customer Related Costs:** Customer-related costs vary with the addition or deletion of a customer or a cost which is a function of the number of customers served. Customer related costs typically include the costs of billing, collecting, and accounting.
- **Revenue Related Costs:** Some costs associated with the utility may vary with the amount of revenue received by the utility. An example of a revenue related cost would be a utility tax, which is based on gross utility revenue.

The allocation of costs is provided in Exhibit 11 for the infrastructure (sewer assets), and Exhibit 12 for the test period revenue requirement, of the Technical Appendix. As mentioned, the basis, or methodology, for the allocation process is the WEF MOP #27. The methodology provided in the manual was then applied to the District’s specific system and operations and customer characteristics to develop the appropriate allocation.

4.3.3 Development of Distribution Factors

Once the allocation process is complete, and the customer classes of service have been defined, the allocated costs are distributed proportionally to each customer class of service. For each cost allocation component, a distribution factor is developed to distribute the costs proportionally between the District’s customers. As part of the Study, the following distribution factors were developed.

- **Volume Distribution Factor:** Volume-related costs are generally allocated on the basis of contribution to wastewater flows. Wastewater flows were calculated based on average monthly water flow estimates for non-volume billed customers and volumetric billing information of the non-residential customers. Because the District does not directly meter wastewater discharges, metered water data is used to estimate contributed average wastewater volume units of service.
- **Strength Distribution Factor:** Strength-related costs are generally allocated between BOD and TSS and based on industry average strength levels if specific data is not available. Note, a strength factor was not developed due to the District’s costs not being impacted

Terminology of a Sewer Cost of Service Analysis

Functionalization – The arrangement of the cost data by functional category (e.g. collection, pumping, treatment).

Allocation – The assignment of functionalized costs to cost components (e.g. volume, strength, and customer related).

Distribution – Distributing the allocated costs to each class of service based on each class’s proportional contribution to that specific cost component.

Volume Costs – Costs that are allocated as volume related vary with the total flow of wastewater (e.g., power for pumping).

Strength Costs – Costs allocated as strength related refer to the wastewater treatment function. Typically, strength-related costs are further defined as biochemical oxygen demand (BOD) and total suspended solids (TSS). Different types of customers may have high wastewater strength characteristics and high strength wastewater costs more to treat. Treatment facilities are often designed and sized around meeting these costs.

Customer Costs – Costs allocated as customer related vary with the number of customers on the system (e.g., billing costs).

Direct Assignment – Costs that can be clearly identified as belonging to a specific customer group or group of customers.

by strength related costs as those are typically more commonly related to treatment related costs, which is not a service provided by the District.

- **Customer Distribution Factor:** Customer costs within the cost of service analysis are distributed to the customer classes of service based on their respective customer counts. Two types of customer distribution factors were developed: actual and weighted. The actual customer distribution factor assumes that there is no disproportionate cost associated with serving a customer. In contrast, a weighted customer distribution factor assumes that there is some disproportionality associated with serving different types of customers and attempts to estimate the level of difference in serving the customers. These factors were based on the billing units used to develop the revenue projections for the revenue requirement analysis.
- **Direct Assignment Distribution Factor:** The costs that are related to a specific customer class are directly assigned in order to avoid any subsidies that might occur from other customers paying for costs they do not incur.
- **Revenue Related Distribution Factor:** The revenue related distribution factor was developed from the projected rate revenues for FY 2025/26 as developed in the revenue requirement analysis.

The development of distribution factors is based on generally accepted principles as developed in the WEF MOP #27 and the District’s specific system and customer characteristics. The summary of the allocation of the test period revenue requirement is provided in Exhibit 12 of the Technical Appendix.

4.4 Summary of the Sewer Cost of Service Analysis

In summary form, the cost of service analysis began by functionalizing the District’s facility asset records and O&M expenses. The functionalized asset and O&M expense accounts were then allocated to the appropriate cost component(s). Provided below is a summary of the allocation of the District’s FY 2025/26 test period revenue requirement using the methodology outlined in the WEF MOP #27 and the District’s specific facility requirements and operations. Provided in Exhibits 11 and 12 of the Technical Appendix is a detailed summary of the allocation of the District infrastructure and revenue requirement. The allocation of the individual line items of the revenue requirement are summed to develop the results in Table 4 – 1.

Table 4 – 1 Summary of the Allocation of the FY 2025/26 Revenue Requirement (\$000’s)						
Total	Volume	BOD	TSS	Actual Customer	Weighted Customer	Direct Assignment
\$811	\$401	\$0	\$0	\$348	\$61	\$0

As shown in Table 4 – 1, the total revenue requirement for FY 2025/26 has been allocated to the volume (flow) and customer cost components. Next, the individual allocation totals were distributed proportionally to the customer classes of service based on the distribution factor(s).

The distributed expenses for each customer class were then aggregated to determine each customer class’s overall revenue responsibility. Provided in Table 4 – 2 is a summary of the cost of service analysis distribution of costs.

Table 4 – 2 Summary of the FY 2025/26 Distributed Costs by Customer Class (\$000)	
Class of Service	Distributed Costs
Residential	\$685
Non-Residential	64
School	23
RV Park	<u>38</u>
Total	\$810

Table 4-1 provides the distributed costs by customer class of service. As shown above, the residential customer class was distributed approximately \$685,000 of the total revenue requirement of approximately \$810,000. This results in the proposed rates recovering the approximately \$685,000 for the residential customers. This same approach applies to each of the customer classes of service. When reviewing the results of the cost of service analysis over time, the results will not be the same each time the District updates its cost of service analysis. This is due to changing sewer customer characteristics, demographics, and other changes in how the District incurs costs.

The distributed costs for each customer class of service are used to develop the average unit costs for the test period, which in this case is FY 2025/26. The total costs are divided by the billing units to develop average unit costs. These average unit costs become the proposed rates for FY 2025/26. Provided in Table 4 – 3 is a summary of the unit costs, which are based on the proposed rate structure for each customer class of service.

Table 4 – 3
Summary of the FY 2025/26 Sewer Average Unit Costs

	Residential	Non-Residential	Schools	RV Park
Volume Related Cost	N/A	\$51,315	N/A	N/A
Total Volume (CCF) ¹	N/A	29,273	N/A	N/A
Volume (\$/CCF)	N/A	\$2.20	N/A	N/A
Customer Related Costs	\$685,240	\$13,542	\$23,333	\$37,631
Billing Units	2,953	103	1,307	316
Bi-Month Fixed (\$/Account or \$/Unit)	\$38.68	\$21.98	\$2.98	\$19.84

[1] Non-residential is divided through by the total volumes, but is only billed on the volumes >10 CCF each billing period. Fixed charge is equal to 10 CCF at the volume rate.

The development of the cost of service and unit costs are provided in Exhibits 13 through 15 of the Technical Appendix. As noted, to meet the requirements of Proposition 218, HDR proposes that cost of service average unit costs in Table 4 – 3 become the proposed rates for FY 2025/26.

4.5 Consultant’s Conclusions and Recommendations

HDR is recommending that the District implement the cost of service results and specifically use the average unit costs to develop the proposed sewer rates. This analysis was prepared using generally accepted cost of service techniques and principles and the District’s specific sewer utility system and customer characteristics.

5 Rate Design Analysis

The final step of the District's Study is the design of proposed sewer rates to collect the desired levels of revenue, based on the results of the revenue requirement and cost of service analyses. In reviewing the District's sewer rates, consideration is given to the level of the rates and the structure of the rates.

5.1 Rate Design Criteria and Considerations

Prudent rate administration dictates that several criteria must be considered when setting utility rates. An example of some of these rate design criteria are listed below:

- Rates which are easy to understand from the customer's perspective
- Rates which are easy for the District to administer
- Consideration of the customer's ability to pay
- Continuity, over time, of the rate making philosophy
- Policy considerations (encourage efficient use, economic development, etc.)
- Provide revenue stability from month to month and year to year
- Promote efficient allocation of the resource
- Proportional and non-discriminatory (cost-based)
- Compliance with State law (Prop. 218)

When developing the proposed rate designs, all the above-listed criteria were taken into consideration. However, it is difficult, if not impossible, to design a rate that meets all the goals and objectives listed above. For example, it may be difficult to design a rate that takes into consideration customers' ability to pay, and one which is cost-based. In designing rates, there are always trade-offs between these various goals and objectives. However, the development of the proposed rates must meet the requirements of Proposition 218.

5.2 Development of Cost-Based Sewer Rates

The District's proposed sewer rates have been developed to meet the requirements of California Constitution Article XIII D, Section 6 (Article XIII D), also known as Proposition 218. A key component of Article XIII D is the development of rates which reflect the cost of providing service and are proportionately allocated among the various customer classes of service and the customers within each class. There is no single methodology for proportionally assigning costs to the customer classes of service. The Water Environment Federation Manual of Practice #27 (WEF MOP #27) provides various methodologies which may be used to establish cost-based rates. However, Article XIII D is not prescriptive and does not provide a specific methodology for establishing rates. Given that, HDR developed the proposed sewer rates based on generally accepted rate setting methodologies and the District's specific sewer system and customers characteristics to meet the requirements of Article XIII D.

HDR is of the opinion that the District’s proposed rates meet the legal requirements of Article XIII D. HDR reaches this conclusion based upon the following:

- **The revenue derived from sewer rates does not exceed the funds required to provide the property related service (i.e., sewer service).** The proposed rates are designed to collect the overall revenue requirement of the District’s sewer system.
- **The revenues derived from sewer rates shall not be used for any purpose other than that for which the fee or charge is imposed.** The revenues derived from the District’s sewer rates are used exclusively to operate, maintain and fund the capital improvements of the District’s sewer system.
- **The amount of a fee or charge imposed upon a parcel or person as an incident of property ownership shall not exceed the proportional costs of the service attributable to the parcel.** The cost of service analysis focused exclusively on the issue of proportional assignment of costs to customer classes of service. The proposed rates have appropriately grouped customers into customer classes of service that reflect the customer characteristics and system requirements (i.e., the benefits they receive from and burdens they place on the system) of each customer class of service. The grouping of customers and rates into these classes of service creates the proportionality expected under Proposition 218 by having differing rates by customer classes of service which reflect both the level of revenue to be collected by the utility, and the manner in which these costs are incurred and proportionally assigned to customer classes of service and customers within each class of service based on their proportional impacts.

5.3 Overview of the Current Sewer Rate Structure

The District currently has a rate structure for each of the customer classes of service. For residential customers, a bi-monthly flat base rate is charged per account. For non-residential customers, a bi-monthly base rate is also charged per unit in addition to a volume charge per one hundred cubic feet of volume over 10 CCF. Also within the non-residential customer class is the school and RV park customers, which are billed a bi-monthly fixed charge on average daily attendance and per parking spot, respectively.

5.4 Overview of the Proposed Sewer Rate Structure

Given the results of the prior analyses - the revenue requirement and cost of service analyses - proposed sewer rates can be developed that reflect the cost-based and proportional distribution of the costs of providing sewer service. HDR recommends that no rate structure changes be implemented at this time. Provided in Table 5 – 1 is a summary of the present and proposed sewer rates. Note in FY 2025/26 the proposed rates are based on the average unit costs as calculated in Table 4-3. The remaining years are increased by the revenue need as outlined in the revenue requirement analysis.

Table 5 – 1
Summary of the Bi-Monthly Present and Proposed Sewer Rates

	Present Rates	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30
Base Fee						
Residential	\$19.49	\$38.68	\$63.82	\$66.69	\$69.69	\$72.83
Non-Residential	19.49	21.98	36.27	37.90	39.61	41.39
School	1.37	2.98	4.91	5.13	5.36	5.60
RV Park	10.96	19.84	32.74	34.21	35.75	37.36
Volume Charge						
< 10 CCF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
> 10 CCF	0.75	2.20	3.63	3.79	3.96	4.14

The revenue requirement analysis indicated the need for annual revenue adjustments for FY 2025/26 – FY 2029/30. In addition, the cost of service resulted in adjustments between the customer classes of service based on current customer characteristics and system costs. The proposed sewer rates will reflect the proposed revenue adjustments for each of the fiscal years, along with the adjustments as provided in the cost of service analysis.

5.5 Summary of the Sewer Rate Design

The District’s present sewer rate structures are contemporary in design and reflect the rate structures used by other similar utilities in California, both locally and statewide. Based on the District’s system and customer characteristics, the proposed sewer rates appropriately reflect the cost to provide service and are proportional between the customer classes of service. Full and complete technical appendices of the development of the sewer rate study can be found in the appendices of this report.



Technical Appendix – Sewer Analysis



**Oceano CSD
Wastewater Rate Study
Revenue Requirement Summary
Exhibit 1**

	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31	FY 2031/32	FY 2032/33	FY 2033/34
Revenues										
Rate Revenues	\$403,586	\$406,290	\$409,012	\$411,752	\$414,511	\$417,288	\$420,084	\$422,899	\$425,732	\$428,585
Miscellaneous Revenues	52,057	12,860	14,020	17,990	21,909	22,724	30,692	26,193	28,664	31,207
Add'l Revenue with Rate Adj.	0	404,258	937,353	1,004,626	1,075,521	1,150,228	1,221,055	1,295,322	1,373,190	1,454,829
Total Revenues	\$455,643	\$823,408	\$1,360,386	\$1,434,369	\$1,511,941	\$1,590,241	\$1,671,831	\$1,744,414	\$1,827,586	\$1,914,620
Expenses										
Total Salaries & Wages	\$96,500	\$101,325	\$106,391	\$111,711	\$117,296	\$123,161	\$129,319	\$135,785	\$142,574	\$149,703
Total Benefits	62,026	64,817	67,734	70,782	73,613	76,558	79,620	82,805	86,117	89,562
Total Service & Supplies	101,065	105,492	110,116	114,944	119,617	124,485	129,558	134,843	140,351	146,090
Total Administrative Cost Allocation	330,461	343,679	357,427	371,724	386,593	402,056	418,139	434,864	452,259	470,349
Total Additional O&M	0	50,000	52,500	55,125	57,881	60,775	63,814	67,005	70,355	73,873
Total O&M Expenses	\$590,052	\$665,314	\$694,167	\$724,285	\$755,000	\$787,036	\$820,450	\$855,302	\$891,656	\$929,577
Transfers	\$36,522	\$38,165	\$39,883	\$41,678	\$43,345	\$45,079	\$46,882	\$48,757	\$50,707	\$52,736
Rate Funded Capital	0	0	330,000	375,000	400,000	425,000	450,000	475,000	540,000	580,000
Net Debt Service	26,997	103,067	103,087	103,083	103,120	103,131	107,297	103,159	103,167	103,185
Reserve Funding	(197,928)	16,862	193,248	190,322	210,476	229,995	247,203	262,196	242,056	249,123
Total Revenue Requirement	\$455,643	\$823,408	\$1,360,386	\$1,434,369	\$1,511,941	\$1,590,241	\$1,671,831	\$1,744,414	\$1,827,586	\$1,914,620
Bal. / (Def.) After Rate Adj.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Average Residential Bi-Monthly Bill	\$19.49	\$38.68	\$63.82	\$66.69	\$69.69	\$72.83	\$75.74	\$78.77	\$81.92	\$85.20
Ending Reserve Balance	\$844,315	\$863,190	\$976,375	\$1,370,509	\$1,759,506	\$1,838,178	\$2,632,027	\$2,179,236	\$2,423,402	\$2,674,649

Oceano CSD
Wastewater Rate Study
Escalation Factors
Exhibit 2

	<i>Budgeted</i>	<i>Projected</i>									<i>Notes</i>
	<i>FY 2024/25</i>	<i>FY 2025/26</i>	<i>FY 2026/27</i>	<i>FY 2027/28</i>	<i>FY 2028/29</i>	<i>FY 2029/30</i>	<i>FY 2030/31</i>	<i>FY 2031/32</i>	<i>FY 2032/33</i>	<i>FY 2033/34</i>	
Revenues											
Customer Growth		0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%
Volume Growth		0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%
Misc. Revenues		0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%
Expenses											
Salaries	Budget	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Benefits	Budget	4.5%	4.5%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Benefits - Medical	Budget	5.0%	5.0%	5.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Benefits - Retirement	Budget	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Materials & Supplies	Budget	4.0%	4.0%	4.0%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
Equipment	Budget	4.5%	4.5%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Miscellaneous	Budget	3.5%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Utilities	Budget	4.5%	4.5%	4.5%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Professional Service	Budget	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Flat	Budget	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
CIP	Budget	4.0%	4.0%	4.0%	3.5%	3.5%	3.5%	3.0%	3.0%	3.0%	3.0%
Insurance	Budget	9.5%	9.5%	9.5%	7.5%	7.5%	7.5%	4.5%	4.5%	4.5%	4.5%
General Expenses	Budget	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Interest		2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
New Debt Service											
Vehicle Loan											
Term in Years		5	5	5	5	5	5	5	5	5	5
Rate		7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Low Interest Loans											
Term in Years		20	20	20	20	20	20	20	20	20	20
Rate		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Revenue Bond											
Term in Years		20	20	20	20	20	20	20	20	20	20
Rate		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%

Account #	Budgeted			Projected							Notes	
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31	FY 2031/32	FY 2032/33	FY 2033/34		
Revenues												
<i>Rate Revenues</i>												
Residential	\$342,985	\$345,283	\$347,596	\$349,925	\$352,270	\$354,630	\$357,006	\$359,398	\$361,806	\$364,230	As Customer Growth	
Non-Residential	29,293	29,489	29,686	29,885	30,086	30,287	30,490	30,694	30,900	31,107	As Customer Growth	
School	10,666	10,738	10,810	10,882	10,955	11,028	11,102	11,177	11,251	11,327	As Customer Growth	
RV Park	20,642	20,780	20,920	21,060	21,201	21,343	21,486	21,630	21,775	21,921	As Customer Growth	
Total Rate Revenues	\$403,586	\$406,290	\$409,012	\$411,752	\$414,511	\$417,288	\$420,084	\$422,899	\$425,732	\$428,585		
<i>Other Revenues</i>												
Inspection Fees	\$100	\$101	\$101	\$102	\$103	\$103	\$104	\$105	\$105	\$106	As Misc. Revenues	
FOG Program	4,100	4,127	4,155	4,183	4,211	4,239	4,268	4,296	4,325	4,354	As Misc. Revenues	
Interest	47,857	8,632	9,764	13,705	17,595	18,382	26,320	21,792	24,234	26,746	Calculated	
Total Other Revenues	\$52,057	\$12,860	\$14,020	\$17,990	\$21,909	\$22,724	\$30,692	\$26,193	\$28,664	\$31,207		
Total Revenues	\$455,643	\$419,150	\$423,032	\$429,743	\$436,420	\$440,013	\$450,776	\$449,092	\$454,397	\$459,791		
Salaries & Wages												
Salaries and wages	03-5-4500-010	\$84,000	\$88,200	\$92,610	\$97,241	\$102,103	\$107,208	\$112,568	\$118,196	\$124,106	\$130,312	As Salaries
Overtime	03-5-4500-020	12,500	13,125	13,781	14,470	15,194	15,954	16,751	17,589	18,468	19,392	As Salaries
Total Salaries & Wages		\$96,500	\$101,325	\$106,391	\$111,711	\$117,296	\$123,161	\$129,319	\$135,785	\$142,574	\$149,703	
Benefits												
Workers Compensation Insurance	03-5-4500-075	\$4,400	\$4,598	\$4,805	\$5,021	\$5,222	\$5,431	\$5,648	\$5,874	\$6,109	\$6,353	As Benefits
Operating Crew Benefits Allocation		57,626	60,219	62,929	65,761	68,391	71,127	73,972	76,931	80,008	83,208	As Benefits
Total Benefits		\$62,026	\$64,817	\$67,734	\$70,782	\$73,613	\$76,558	\$79,620	\$82,805	\$86,117	\$89,562	
Service & Supplies												
Communication	03-5-4500-110	\$515	\$536	\$557	\$579	\$600	\$621	\$642	\$665	\$688	\$712	As Materials & Supplies
Maint: Sewer Structures / Improvements	03-5-4500-163	10,000	10,400	10,816	11,249	11,642	12,050	12,472	12,908	13,360	13,827	As Materials & Supplies
Maintenance: Equipment	03-5-4500-170	4,800	4,992	5,192	5,399	5,588	5,784	5,986	6,196	6,413	6,637	As Materials & Supplies
Maintenance: Vehicles	03-5-4500-171	3,600	3,744	3,894	4,050	4,191	4,338	4,490	4,647	4,810	4,978	As Materials & Supplies
Gas and Oil	03-5-4500-172	3,500	3,658	3,822	3,994	4,154	4,320	4,493	4,673	4,859	5,054	As Utilities
Maint: Structures / Improvements	03-5-4500-173	5,135	5,340	5,554	5,776	5,978	6,188	6,404	6,628	6,860	7,100	As Materials & Supplies
System Parts / Operating Supplies	03-5-4500-175	8,240	8,570	8,912	9,269	9,593	9,929	10,277	10,636	11,009	11,394	As Materials & Supplies
Safety Expense	03-5-4500-177	2,850	2,964	3,083	3,206	3,318	3,434	3,554	3,679	3,808	3,941	As Materials & Supplies
Memberships	03-5-4500-180	1,050	1,092	1,136	1,181	1,222	1,265	1,310	1,355	1,403	1,452	As Materials & Supplies
Office Expense	03-5-4500-200	515	536	557	579	600	621	642	665	688	712	As Materials & Supplies
Outside UB Mailing Expense	03-5-4500-205	9,600	9,984	10,383	10,799	11,177	11,568	11,973	12,392	12,825	13,274	As Materials & Supplies
Professional Services	03-5-4500-220	32,575	34,204	35,914	37,710	39,595	41,575	43,654	45,836	48,128	50,535	As Professional Service
Contracted Engineering	03-5-4500-222	2,835	2,977	3,126	3,282	3,446	3,618	3,799	3,989	4,189	4,398	As Professional Service
Rents & Leases / Equipment	03-5-4500-241	3,000	3,120	3,245	3,375	3,493	3,615	3,741	3,872	4,008	4,148	As Materials & Supplies
Regulatory Permits & Fees	03-5-4500-248	5,200	5,408	5,624	5,849	6,054	6,266	6,485	6,712	6,947	7,190	As Materials & Supplies
Classes / Seminars / Training Fees	03-5-4500-285	2,800	2,912	3,028	3,150	3,260	3,374	3,492	3,614	3,741	3,872	As Materials & Supplies
Utilities	03-5-4500-290	2,600	2,717	2,839	2,967	3,086	3,209	3,338	3,471	3,610	3,754	As Utilities
Bad Debt Expense	03-5-4500-390	350	364	379	394	407	422	437	452	468	484	As Materials & Supplies
Claims & Settlements	03-5-4500-499	1,900	1,976	2,055	2,137	2,212	2,289	2,370	2,453	2,538	2,627	As Materials & Supplies
Total Service & Supplies		\$101,065	\$105,492	\$110,116	\$114,944	\$119,617	\$124,485	\$129,558	\$134,843	\$140,351	\$146,090	

Account #	Budgeted		Projected								Notes
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31	FY 2031/32	FY 2032/33	FY 2033/34	
Additional O&M											
Additional FTEs	\$0	\$50,000	\$52,500	\$55,125	\$57,881	\$60,775	\$63,814	\$67,005	\$70,355	\$73,873	As Salaries
Total Additional O&M	\$0	\$50,000	\$52,500	\$55,125	\$57,881	\$60,775	\$63,814	\$67,005	\$70,355	\$73,873	
Total O&M Expenses	\$590,052	\$665,314	\$694,167	\$724,285	\$755,000	\$787,036	\$820,450	\$855,302	\$891,656	\$929,577	
Transfers											
Equipment Fund	\$36,522	\$38,165	\$39,883	\$41,678	\$43,345	\$45,079	\$46,882	\$48,757	\$50,707	\$52,736	As Equipment
Total Transfers	\$36,522	\$38,165	\$39,883	\$41,678	\$43,345	\$45,079	\$46,882	\$48,757	\$50,707	\$52,736	
Rate Funded Capital	\$0	\$0	\$330,000	\$375,000	\$400,000	\$425,000	\$450,000	\$475,000	\$540,000	\$580,000	\$98,221 FY 2022/23 Dep. Exp.
Debt Service											
2021 CalPERS UAL Bond	\$26,997	\$26,973	\$26,993	\$26,989	\$27,026	\$27,037	\$27,054	\$22,916	\$22,925	\$22,942	Debt Schedule
Assumed Vehicle Loan	0	76,094	76,094	76,094	76,094	76,094	0	0	0	0	Calc'd @ 7% for 5 yrs
Assumed Low Interest Loan	0	0	0	0	0	0	0	0	0	0	Calc'd @ 3% for 20 yrs
Assumed Revenue Bond	0	0	0	0	0	0	80,243	80,243	80,243	80,243	Calc'd @ 5% for 20 yrs
Additional Long-Term Debt	0	0	0	0	0	0	0	0	0	0	Calc'd @ 5% for 20 yrs
Total Debt Service	\$26,997	\$103,067	\$103,087	\$103,083	\$103,120	\$103,131	\$107,297	\$103,159	\$103,167	\$103,185	
<i>LESS: Other Funding</i>											
Wastewater Connections	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Net Debt Service	\$26,997	\$103,067	\$103,087	\$103,083	\$103,120	\$103,131	\$107,297	\$103,159	\$103,167	\$103,185	
Reserve Funding											
To / (From) Operating Reserve	(\$197,928)	\$1,862	\$118,248	\$80,322	\$10,476	\$29,995	\$22,203	\$17,196	\$2,056	\$9,123	
To / (From) Capital Fund	0	15,000	75,000	110,000	200,000	200,000	225,000	245,000	240,000	240,000	
Total Reserve Funding	(\$197,928)	\$16,862	\$193,248	\$190,322	\$210,476	\$229,995	\$247,203	\$262,196	\$242,056	\$249,123	
Total Revenue Requirement	\$455,643	\$823,408	\$1,360,386	\$1,434,369	\$1,511,941	\$1,590,241	\$1,671,831	\$1,744,414	\$1,827,586	\$1,914,620	
Bal. / (Def.) of Funds	\$0	(\$404,258)	(\$937,353)	(\$1,004,626)	(\$1,075,521)	(\$1,150,228)	(\$1,221,055)	(\$1,295,322)	(\$1,373,190)	(\$1,454,829)	

Account #	Budgeted		Projected								Notes
	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31	FY 2031/32	FY 2032/33	FY 2033/34	
Average Residential Bi-Monthly Bill											
Customer Bill on Proposed Adjustment	\$19.49	\$38.68	\$63.82	\$66.69	\$69.69	\$72.83	\$75.74	\$78.77	\$81.92	\$85.20	
Bill Difference - Bi-Monthly		19.19	25.14	2.87	3.00	3.14	2.91	3.03	3.15	3.28	
Cumulative Bill Difference		19.19	44.33	47.20	50.20	53.34	56.25	59.28	62.43	65.71	
Debt Service Coverage Ratio (all debt)											
Before Rate Adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
After Proposed Rate Adjustment	0.00	1.53	6.46	6.89	7.34	7.79	7.93	8.62	9.07	9.55	
Reserve Funds											
Beginning Reserve Balance	\$1,323,795	\$844,315	\$863,190	\$976,375	\$1,370,509	\$1,759,506	\$1,838,178	\$2,632,027	\$2,179,236	\$2,423,402	
Operating Reserve											
Beginning Balance	\$723,795	\$525,867	\$527,729	\$645,977	\$726,300	\$736,775	\$766,771	\$788,974	\$806,170	\$808,226	
Plus: Additions	0	1,862	118,248	80,322	10,476	29,995	22,203	17,196	2,056	9,123	
Ending Fund Balance	0	0	0	0	0	0	0	0	0	0	
Less: Uses of Funds	(197,928)	0	0	0	0	0	0	0	0	0	
Ending Balance	\$525,867	\$527,729	\$645,977	\$726,300	\$736,775	\$766,771	\$788,974	\$806,170	\$808,226	\$817,349	
Target: 180 Days of O&M	\$290,985	\$328,100	\$342,329	\$357,182	\$372,329	\$388,127	\$404,605	\$421,793	\$439,721	\$458,421	
Capital Fund											
Beginning Balance	\$600,000	\$318,448	\$335,461	\$330,398	\$644,210	\$1,022,731	\$1,071,407	\$1,843,053	\$1,373,066	\$1,615,176	
Plus: Additions	0	15,000	75,000	311,771	376,467	200,000	769,564	245,000	240,000	240,000	
Wastewater Connections	2,000	2,013	2,027	2,040	2,054	2,068	2,082	2,096	2,110	2,124	As Misc. Revenues
Less: Uses of Funds	(283,552)	0	(82,090)	0	0	(153,392)	0	(717,082)	0	0	
Ending Balance	\$318,448	\$335,461	\$330,398	\$644,210	\$1,022,731	\$1,071,407	\$1,843,053	\$1,373,066	\$1,615,176	\$1,857,300	
Target: avg annual CIP	\$408,031	\$408,031	\$408,031	\$408,031	\$408,031	\$408,031	\$408,031	\$408,031	\$408,031	\$408,031	
Ending Reserve Balance	\$844,315	\$863,190	\$976,375	\$1,370,509	\$1,759,506	\$1,838,178	\$2,632,027	\$2,179,236	\$2,423,402	\$2,674,649	

Oceano CSD
Wastewater Rate Study
Capital Improvement Plan
Exhibit 4

	Project No.	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29	FY 2029/30	FY 2030/31	FY 2031/32	FY 2032/33	FY 2033/34	Total	Notes
Wastewater Capital													
Cleaning Truck	A-1	\$0	\$312,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$312,000	
Pier Avenue Lift Station Interim Improvements	A-2	0	0	0	0	0	578,392	0	0	0	0	578,392	
Belridge Street Sewer Rehabilitation	A-3	0	0	412,090	0	0	0	0	0	0	0	412,090	
Wilmar Avenue Sewer Rehabilitation	A-4	0	0	0	51,744	0	0	0	0	0	0	51,744	
North Highway 1 Crossing	A-5	0	0	0	121,485	0	0	0	0	0	0	121,485	
CCTV Inspection	A-6	0	0	0	0	66,361	0	0	0	0	0	66,361	
Lateral Replacement	A-7	0	0	0	0	157,172	0	0	0	0	0	157,172	
Ocean Avenue and Fountain Avenue Sewer Rehab	B-1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$1,192,082	\$0	\$0	\$1,192,082	
The Strand Sewer Rehabilitation	B-2	0	0	0	0	0	0	905,436	0	0	0	905,436	
Railroad Crossing South	B-3	0	0	0	0	0	0	0	0	0	0	0	
Cienaga and Ocean Avenue FOG Project	B-4	0	0	0	0	0	0	0	0	0	0	0	
MH Improvements	B-5	0	0	0	0	0	0	0	0	0	0	0	
CCTV Inspection	B-6	0	0	0	0	0	0	0	0	0	0	0	
20th Street Rehabilitation	C-1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Holden Avenue Rehabilitation	C-2	0	0	0	0	0	0	0	0	0	0	0	
Pier Avenue Lift Station Replacement	C-3	0	0	0	0	0	0	0	0	0	0	0	
CCTV Inspection	C-4	0	0	0	0	0	0	0	0	0	0	0	
MH Improvements Phase 2	C-5	0	0	0	0	0	0	0	0	0	0	0	
Standard Specifications & Drawings	C-6	0	0	0	0	0	0	0	0	0	0	0	
Sewer Capital Planning		283,552	0	0	0	0	0	0	0	0	0	283,552	
Admin Building		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Building Assumed in FY 2034/35
Total Wastewater Capital		\$283,552	\$312,000	\$412,090	\$173,229	\$223,533	\$578,392	\$905,436	\$1,192,082	\$0	\$0	\$4,080,313	
Future Capital Projects		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$540,000	\$580,000	\$1,120,000	
Transfer to Capital Reserve		\$0	\$0	\$0	\$201,771	\$176,467	\$0	\$544,564	\$0	\$0	\$0	\$922,802	
Total Capital Improvement Projects		\$283,552	\$312,000	\$412,090	\$375,000	\$400,000	\$578,392	\$1,450,000	\$1,192,082	\$540,000	\$580,000	\$6,123,115	
Less: Outside Funding Sources													
Operating Fund Reserves		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	
Capital Fund Reserves		283,552	0	82,090	0	0	153,392	0	717,082	0	0	1,236,116	
Carriers and Encumbrances		0	0	0	0	0	0	0	0	0	0	0	
Reimbursement		0	0	0	0	0	0	0	0	0	0	0	
Secured Debt (SRF)		0	0	0	0	0	0	0	0	0	0	0	
Assumed Vehicle Loan		0	312,000	0	0	0	0	0	0	0	0	312,000	
Assumed Low Interest Loan		0	0	0	0	0	0	0	0	0	0	0	
Assumed Revenue Bond		0	0	0	0	0	0	1,000,000	0	0	0	1,000,000	
Additional Revenue Bonds		0	0	0	0	0	0	0	0	0	0	0	
Total Funding Sources		\$283,552	\$312,000	\$82,090	\$0	\$0	\$153,392	\$1,000,000	\$717,082	\$0	\$0	\$2,548,116	
Rate Funded Capital		\$0	\$0	\$330,000	\$375,000	\$400,000	\$425,000	\$450,000	\$475,000	\$540,000	\$580,000	\$3,575,000	

Oceano CSD
Wastewater Rate Study
Debt Schedule
Exhibit 5

	2021 CalPERs UAL Bond	Total
FY 2021/22	\$23,022	\$23,022
FY 2022/23	26,978	26,978
FY 2023/24	26,998	26,998
FY 2024/25	26,997	26,997
FY 2025/26	26,973	26,973
FY 2026/27	26,993	26,993
FY 2027/28	26,989	26,989
FY 2028/29	27,026	27,026
FY 2029/30	27,037	27,037
FY 2030/31	27,054	27,054
FY 2031/32	22,916	22,916
FY 2032/33	22,925	22,925
FY 2033/34	22,942	22,942
FY 2034/35	22,934	22,934
FY 2035/36	22,311	22,311
FY 2036/37	0	0
FY 2037/38	0	0
Total Debt Service	\$303,098	\$303,098

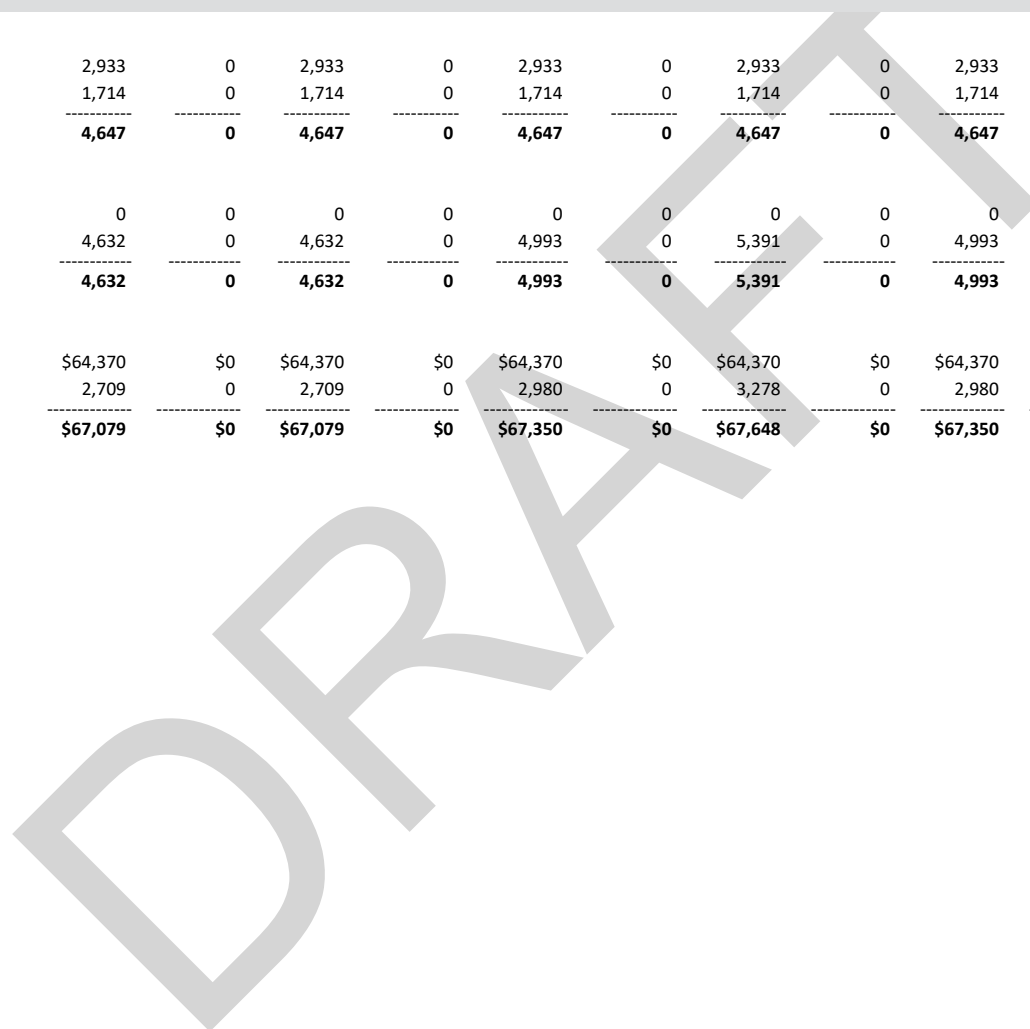
Source: District provided debt service schedule(s)

	7.1.14	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Total
Residential														
Base Fee	\$ / Acct													
Single Family	\$19.49	2,933		2,933		2,933		2,933		2,933		2,933		2,933
<i>Total Base Fee Revenue</i>		\$57,164		\$57,164		\$57,164		\$57,164		\$57,164		\$57,164		\$342,985
Total Residential Revenue		\$57,164	\$0	\$57,164	\$0	\$57,164	\$0	\$57,164	\$0	\$57,164	\$0	\$57,164	\$0	\$342,985
Non-Residential														
Base Fee	\$ / Acct.													
School	\$1.37	1,298		1,298		1,298		1,298		1,298		1,298		1,298
RV Park	10.96	314		314		314		314		314		314		314
5/8 x 3/4"	19.49	46		46		46		46		46		46		46
3/4"	19.49	20		20		20		20		20		20		20
1"	19.49	8		8		8		8		8		8		8
1 1/2"	19.49	13		13		13		13		13		13		13
2"	19.49	7		7		7		7		7		7		7
3"	19.49	0		0		0		0		0		0		0
4"	19.49	0		0		0		0		0		0		0
6"	19.49	1		1		1		1		1		1		1
FOG - 5/8 x 3/4"	19.49	3		3		3		3		3		3		3
Commercial	19.49	2		2		2		2		2		2		2
Public Agency	19.49	1		1		1		1		1		1		1
Flat	19.49	1		1		1		1		1		1		1
		1,714		1,714		1,714		1,714		1,714		1,714		1,714
<i>Total Base Fee Revenue</i>		\$7,206		\$7,206		\$7,206		\$7,206		\$7,206		\$7,206		\$43,236
Volume Charge	\$ / CCF													
< 10 CCF	\$0.00	1,020		1,020		1,020		1,020		1,020		1,020		6,120
> 10 CCF	0.75	3,612		3,612		3,973		4,371		3,973		3,612		23,153
		4,632		4,632		4,993		5,391		4,993		4,632		29,273
<i>Total Volume Charge Revenue</i>		\$2,709		\$2,709		\$2,980		\$3,278		\$2,980		\$2,709		\$17,365
Total Non-Residential Revenue		\$9,915	\$0	\$9,915	\$0	\$10,186	\$0	\$10,484	\$0	\$10,186	\$0	\$9,915	\$0	\$60,601

	7.1.14	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Total
Summary														
Customers														
Residential		2,933	0	2,933	0	2,933	0	2,933	0	2,933	0	2,933	0	1,467
Non-Residential		1,714	0	1,714	0	1,714	0	1,714	0	1,714	0	1,714	0	857
Total Number of Customers		4,647	0	4,647	0	4,647	0	4,647	0	4,647	0	4,647	0	2,324
Volume														
Residential		0	0	0	0	0	0	0	0	0	0	0	0	0
Non-Residential		4,632	0	4,632	0	4,993	0	5,391	0	4,993	0	4,632	0	29,273
Total Consumption		4,632	0	4,632	0	4,993	0	5,391	0	4,993	0	4,632	0	29,273
Revenues														
Base Fee		\$64,370	\$0	\$64,370	\$0	\$64,370	\$0	\$64,370	\$0	\$64,370	\$0	\$64,370	\$0	\$386,221
Volume Charge		2,709	0	2,709	0	2,980	0	3,278	0	2,980	0	2,709	0	17,365
Total Revenues		\$67,079	\$0	\$67,079	\$0	\$67,350	\$0	\$67,648	\$0	\$67,350	\$0	\$67,079	\$0	\$403,586

FY 2022/23 Actual **\$400,259**
Difference \$3,327
Percent 0.8%

FY 2024/25 Budgeted **\$400,000**
Difference \$3,586
Percent 0.9%



Oceano CSD
Wastewater Rate Study
Exhibit 7
Volume Distribution Factor

	FY 2025/26	5.0%	Total Annual	Avg. Daily	% of
	Annual Flow	Inflow and	Flow at Plant	Flow At	% of
	(CCF)	Infiltration ^[1]	(CCF)	Plant (MGD)	Total
Residential	177,159	8,858	186,017	0.38	77.5%
Non-Residential	29,273	1,464	30,737	0.06	12.8%
School	3,188	159	3,348	0.01	1.4%
RV Park	18,966	948	19,915	0.04	8.3%
Total	228,586	11,429	240,016	0.49	100.0%
		<i>Actual Flows ^[2]</i>	292,781	0.60	

(VOL)

Notes

[1] - Estimated

[2] - Page 61 of 2020 Sewer System Management Plan

Oceano CSD
Wastewater Rate Study
Exhibit 8
Customer Distribution Factors

	<i>Actual Customer</i>		<i>Cust. Serv. & Acntg</i>		<i>Capacity Demand</i>	
	Number of Account ^[1]	% of Total	Units ^[2]	% of Total	Equivalent Meters ^[3]	% of Total
Residential	2,953	96.4%	2,953	63.1%	2,933	81.2%
Non-Residential	103	3.4%	103	2.2%	267	7.4%
School	5	0.2%	1,307	27.9%	98	2.7%
RV Park	2	0.1%	316	6.8%	314	8.7%
Total	3,062	100.0%	4,678	100.0%	3,612	100.0%
		<i>(AC)</i>		<i>(WCA)</i>		<i>(CD)</i>

Notes

- [1] - Based on January 2025 Billing Data
- [2] - Based on District records
- [3] - Based on meter size

Oceano CSD
Wastewater Rate Study
Exhibit 9
Strength Distribution Factors

	<i>Biochemical Oxygen Demand</i>				<i>Total Suspended Solids</i>		
	Daily Flow (MGD)	Avg. Factor (mg/l)	Calculated Pounds ^{[1][2]}	% of Total	Avg. Factor (mg/l)	Calculated Pounds ^{[1][2]}	% of Total
Residential	0.38	225	261,098	77.5%	325	377,141	77.5%
Non-Residential	0.06	225	43,143	12.8%	325	62,317	12.8%
School	0.01	225	4,699	1.4%	325	6,787	1.4%
RV Park	0.04	225	27,952	8.3%	325	40,376	8.3%
Total	0.49		336,891	100.0%		486,621	100.0%
				(BOD)			(TSS)

Notes

[1] - Calculated Pounds = Daily Flow * Factor * 8.34 (Lbs. / MGD)

[2] - Retail figures based on WRF influent design

Oceano CSD
Wastewater Rate Study
Exhibit 10
Revenue Distribution Factor

	Projected	% of
	FY 2025/26	Total
Residential	\$345,283	85.0%
Non-Residential	29,489	7.3%
School	10,738	2.6%
RV Park	20,780	5.1%
Total	\$406,290	100.0%

(RR)

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Oceano CSD
Wastewater Rate Study
Exhibit 11.1
Net Plant in Service

	As of 06/30/24	Strength Related			Weighted for			Revenue (RR)	Direct (DA)	Basis of Classification
		Volume (VOL)	Biochemical Oxygen Demand (BOD)	Total Suspended Solids (TSS)	Actual Customer (AC)	Customer Acct/Svcs (WCA)	Capacity Demand (CD)			
Collection	\$1,013,317	\$1,013,317	\$0	\$0	\$0	\$0	\$0	\$0	100.0% VOL	
Land	0	0	0	0	0	0	0	0	100.0% VOL	
Lift Station	0	0	0	0	0	0	0	0	100.0% VOL	
Treatment	0	0	0	0	0	0	0	0	100.0% VOL	
CWIP	0	0	0	0	0	0	0	0	100.0% VOL	
Plant Before General Plant	\$1,013,317	\$1,013,317	\$0	\$0	\$0	\$0	\$0	\$0		
% Plant Before General Plant	100.0%	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0% Factor PBGP	
General Plant										
General - Buildings	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	85.0% AC 15.0% WCA	
General - CWIP	0	0	0	0	0	0	0	0	85.0% AC 15.0% WCA	
General - Equipment	13,572	0	0	0	11,536	2,036	0	0	85.0% AC 15.0% WCA	
General	25,566	0	0	0	21,731	3,835	0	0	85.0% AC 15.0% WCA	
Total General Plant	\$39,138	\$0	\$0	\$0	\$33,267	\$5,871	\$0	\$0		
Net Plant in Service	\$1,052,455	\$1,013,317	\$0	\$0	\$33,267	\$5,871	\$0	\$0		

Oceano CSD
Wastewater Rate Study
Exhibit 12.1
Allocation of the Revenue Requirement

Test Year FY 2025/26	Strength Related			Weighted			Revenue (RR)	Direct (DA)	Basis of Classification	
	Volume (VOL)	Biochemical Oxygen Demand (BOD)	Total Suspended Solids (TSS)	Actual Customer (AC)	Customer Acct/Svcs (WCA)	Capacity Demand (CD)				
Salaries & Wages										
Salaries and wages	\$88,200	\$0	\$0	\$0	\$74,970	\$13,230	\$0	\$0	\$0	85.0% AC 15.0% WCA
Overtime	13,125	0	0	0	11,156	1,969	0	0	0	85.0% AC 15.0% WCA
Total Salaries & Wages	\$101,325	\$0	\$0	\$0	\$86,126	\$15,199	\$0	\$0	\$0	
Benefits										
Workers Compensation Insurance	\$4,598	\$0	\$0	\$0	\$3,908	\$690	\$0	\$0	\$0	85.0% AC 15.0% WCA
Operating Crew Benefits Allocation	60,219	0	0	0	51,186	9,033	0	0	0	85.0% AC 15.0% WCA
Total Benefits	\$64,817	\$0	\$0	\$0	\$55,095	\$9,723	\$0	\$0	\$0	
Service & Supplies										
Communication	\$536	\$516	\$0	\$0	\$17	\$3	\$0	\$0	\$0	As Net Plant
Maint: Sewer Structures / Improvements	10,400	10,013	0	0	329	58	0	0	0	As Net Plant
Maintenance: Equipment	4,992	4,806	0	0	158	28	0	0	0	As Net Plant
Maintenance: Vehicles	3,744	3,605	0	0	118	21	0	0	0	As Net Plant
Gas and Oil	3,658	3,521	0	0	116	20	0	0	0	As Net Plant
Maint: Structures / Improvements	5,340	5,142	0	0	169	30	0	0	0	As Net Plant
System Parts / Operating Supplies	8,570	8,251	0	0	271	48	0	0	0	As Net Plant
Safety Exense	2,964	2,854	0	0	94	17	0	0	0	As Net Plant
Memberships	1,092	1,051	0	0	35	6	0	0	0	As Net Plant
Office Expense	536	516	0	0	17	3	0	0	0	As Net Plant
Outside UB Mailing Expense	9,984	9,613	0	0	316	56	0	0	0	As Net Plant
Professional Services	34,204	32,932	0	0	1,081	191	0	0	0	As Net Plant
Contracted Engineering	2,977	2,866	0	0	94	17	0	0	0	As Net Plant
Rents & Leases / Equipment	3,120	3,004	0	0	99	17	0	0	0	As Net Plant
Regulatory Permits & Fees	5,408	5,207	0	0	171	30	0	0	0	As Net Plant
Classes / Seminars / Training Fees	2,912	2,804	0	0	92	16	0	0	0	As Net Plant
Utilities	2,717	2,616	0	0	86	15	0	0	0	As Net Plant
Bad Debt Expense	364	350	0	0	12	2	0	0	0	As Net Plant
Claims & Settlements	1,976	1,903	0	0	62	11	0	0	0	As Net Plant
Total Service & Supplies	\$105,492	\$101,569	\$0	\$0	\$3,335	\$588	\$0	\$0	\$0	

Oceano CSD
Wastewater Rate Study
Exhibit 12.1
Allocation of the Revenue Requirement

Test Year FY 2025/26	Strength Related			Weighted			Revenue (RR)	Direct (DA)	Basis of Classification	
	Volume (VOL)	Biochemical Oxygen Demand (BOD)	Total Suspended Solids (TSS)	Actual Customer (AC)	Customer Acct/Svcs (WCA)	Capacity Demand (CD)				
Additional O&M										
Additional FTEs	\$50,000	\$48,141	\$0	\$0	\$1,580	\$279	\$0	\$0	\$0	As Net Plant
Total Additional O&M	\$50,000	\$48,141	\$0	\$0	\$1,580	\$279	\$0	\$0	\$0	
Total O&M Expenses	\$665,314	\$309,681	\$0	\$0	\$302,288	\$53,345	\$0	\$0	\$0	
Transfers										
Equipment Fund	\$38,165	\$17,765	\$0	\$0	\$17,341	\$3,060	\$0	\$0	\$0	As O&M
Total Transfers	\$38,165	\$17,765	\$0	\$0	\$17,341	\$3,060	\$0	\$0	\$0	
Rate Funded Capital	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	100.0% VOL
Debt Service										
2021 CalPERS UAL Bond	\$26,973	\$0	\$0	\$0	\$22,927	\$4,046	\$0	\$0	\$0	85.0% AC 15.0% WCA
Assumed Vehicle Loan	76,094	73,264	0	0	2,405	424	0	0	0	As Net Plant
Assumed Low Interest Loan	0	0	0	0	0	0	0	0	0	As Net Plant
Assumed Revenue Bond	0	0	0	0	0	0	0	0	0	As Net Plant
Additional Long-Term Debt	0	0	0	0	0	0	0	0	0	As Net Plant
Total Debt Service	\$103,067	\$73,264	\$0	\$0	\$25,333	\$4,470	\$0	\$0	\$0	
LESS: Other Funding										
Wastewater Connections	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	As Debt
Net Debt Service	\$103,067	\$73,264	\$0	\$0	\$25,333	\$4,470	\$0	\$0	\$0	
Reserve Funding										
To / (From) Operating Reserve	\$1,862	\$0	\$0	\$0	\$1,583	\$279	\$0	\$0	\$0	85.0% AC 15.0% WCA
To / (From) Capital Fund	15,000	0	0	0	12,750	2,250	0	0	0	85.0% AC 15.0% WCA
Total Reserve Funding	\$16,862	\$0	\$0	\$0	\$14,333	\$2,529	\$0	\$0	\$0	
Total Revenue Requirement	\$823,408	\$400,710	\$0	\$0	\$359,294	\$63,405	\$0	\$0	\$0	
Less: Non-Operating Revenue										
Inspection Fees	\$101	\$0	\$0	\$0	\$86	\$15	\$0	\$0	\$0	85.0% AC 15.0% WCA
FOG Program	4,127	0	0	0	3,508	619	0	0	0	85.0% AC 15.0% WCA
Interest	8,632	0	0	0	7,337	1,295	0	0	0	85.0% AC 15.0% WCA
Total Other Revenues	\$12,860	\$0	\$0	\$0	\$10,931	\$1,929	\$0	\$0	\$0	
Net Revenue Requirement	\$810,548	\$400,710	\$0	\$0	\$348,363	\$61,476	\$0	\$0	\$0	

Oceano CSD
Wastewater Rate Study
Exhibit 13
Distribution of Total Revenue Requirement

	Test Year FY 2025/26	Residential	Non- Residential	School	RV Park	Basis of Allocation
Volume Related	\$400,710	\$310,558	\$51,315	\$5,589	\$33,248	(VOL)
Total Volume Related	\$400,710	\$310,558	\$51,315	\$5,589	\$33,248	
Strength Related						
Biochemical Oxygen Demand	\$0	\$0	\$0	\$0	\$0	(BOD)
Total Suspended Solids	0	0	0	0	0	(TSS)
Total Strength Related	\$0	\$0	\$0	\$0	\$0	
Customer Related						
Actual Customer	\$348,363	\$335,880	\$11,681	\$573	\$229	(AC)
Weighted Customer	61,476	38,801	1,349	17,171	4,154	(WCA)
Total Customer Related	\$409,839	\$374,681	\$13,030	\$17,744	\$4,383	
Revenue Related	\$0	\$0	\$0	\$0	\$0	(RR)
Direct Assignment	\$0	\$0	\$0	\$0	\$0	(DA)
Total Revenue Requirements	\$810,548	\$685,240	\$64,345	\$23,333	\$37,631	

Oceano CSD
Wastewater Rate Study
Exhibit 14
Unit Costs Summary

	System Average	Residential	Non-Residential	School	RV Park
Volume Charge					
<i>Total</i>			\$2.20		
<i>Current Rates + Rate Adj.</i>			\$0.75		
Base Fee					
<i>Total</i>		\$38.68	\$21.98	\$2.98	\$19.84
<i>Current Rates</i>		\$19.49	\$19.49	\$1.37	\$10.96
Basic Data					
Billed Volumes - CCF	23,308	0	23,308	0	0
Unbilled Volumes - CCF	199,313	177,159		3,188	18,966
Distribution Factor	228,586	177,159	29,273	3,188	18,966
Number of Accounts	3,062	2,953	103	5	2
Number of Living Units	4,678	2,953	103	1,307	316

	<i>Present Rates</i>	<i>Proposed Rates</i>				
		<i>FY 2025/26</i>	<i>FY 2026/27</i>	<i>FY 2027/28</i>	<i>FY 2028/29</i>	<i>FY 2029/30</i>
Base Fee	<i>\$/Acct.</i>					
Residential	\$19.49	\$38.68	\$63.82	\$66.69	\$69.69	\$72.83
Non-Residential	19.49	21.98	36.27	37.90	39.61	41.39
School	1.37	2.98	4.91	5.13	5.36	5.60
RV Park	10.96	19.84	32.74	34.21	35.75	37.36
Volume Charge	<i>\$/ CCF</i>					
<i>Non-Residential</i>						
< 10 CCF	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
> 10 CCF	0.75	2.20	3.63	3.79	3.96	4.14

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