

**SEWER SERVICE CHARGE RATE STUDY – PRESENTATION OF THE STUDY RESULTS AND PROPOSED 5-YEAR RATE PLAN**

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**BACKGROUND:**

Following our November 2013 public meeting on our Sewer Service Charge Rate Study, staff has worked with the Sewer Rate Study Ad Hoc committee and our project consultants to develop a proposed program for Board consideration. This report presents the findings of the study results and proposed 5-year rate plan. Staff and its consultant will provide a presentation at the meeting with the detailed results and proposal.

In preparation for the meeting, several key features of the study and the proposed 5-year sewer rate plan are summarized below:

**Sewer Service Charge - Fixed and Volumetric Component**

The Districts costs are largely fixed. The last rate study implemented a fixed and volumetric component to the District's rate structure for the first time. The fixed component was set at eighty-eight (88) percent and the volumetric at twelve (12) percent based on operational expenses. The fixed and volumetric components are tied to the District's fixed and variable costs. Variable costs can change based on the volume of wastewater the District has to collect, transport and provide treatment.

Staff has completed a more in-depth analysis of the Districts' operational expenses and capital improvement costs to develop a revised fixed and volumetric component. The analysis has determined that if capital improvement costs are included and are being undertaken to address peak flow infiltration and inflow (I/I); the breakdown changes to sixty-two percent (62) fixed and thirty-eight (38) percent volumetric.

The capital sewer charge volumetric allocation has been evaluated using two approaches. One approach is to distribute capital peak flow I/I cost equally among our customers since the wastewater collection system is a shared public system that all of our customers benefit equally. A second approach being considered is to estimate peak flow I/I cost by individual customer class. This method is based on District collection system flow monitoring data and private lateral size and length which indicates the typical contribution of capital peak flow I/I from each customer class.

For non-residential customers, the District already considers wastewater flow and strength as a basis for sewer service charges. Staff does not propose any changes to the non-residential sewer rate calculation method.

### **Customer Class Wastewater Contribution**

To better understand the wastewater contribution from the District's three residential customer classes, a 5-year winter water usage history was determined from Marin Municipal Water District data. Water data from the winter period best represents the volume of wastewater a customer discharges to the sewer system, excluding external building irrigation. The results show that single family customers use the most water and contribute the most wastewater. Single family customers are designated a 1.0 per Equivalent Dwelling Unit (EDU) factor. Multi-family is designated a 0.73 per EDU factor, or 73 percent of single family usage. Floating homes is designated a 0.42 per EDU factor, or 42 percent of single family usage.

The 5-year water history indicates that the overall customer gallon per day (GPD) per EDU water usage has changed (residential and non-residential). The existing District Sewer Charge Ordinance No. 91 uses 180 GPD per EDU as the typical water use for sewer service charges. The revised water use data shows our typical customer is using 200 GPD per EDU. Staff is recommending that Ordinance No. 91 be revised to include the 200 GPD per EDU water use as the basis for sewer service charges.

### **5-Year Sewer Service Charge Rate Plan (FY 2014/15 to 2018/19)**

Based on the study results, a proposed 5-year rate plan has been developed for Board consideration. Staff is proposing two options that balance revenue needs with re-allocation of sewer service charges based on the revised sixty-two percent (62) fixed and thirty-eight (38) percent volumetric component. All of the District's customers will pay an equal fixed charge. The District's single family customer's volumetric charge will be higher to reflect their larger wastewater contribution. Multifamily and Floating Home customer volumetric charges will lower, with Floating Homes being the lowest.

Extensive analysis of the District's long term financial condition was completed. The analysis considers operating and capital improvement expenses projected over the next ten years. The financial analysis has determined that small annual increases are recommended to keep up with the cost of goods, services, supplies, equipment and construction costs. These small increases will maintain customer rate stability and limit possible larger increases at the end of the 5-year rate plan period if there were no small annual adjustments to keep pace with expenses.

#### Option 1

This option includes a rate re-allocation adjustment of the volumetric charge component phased in over the first two years. This will help to even out rate changes to customers. In addition, this option does not include a rate adjustment in FY 2014/15, but includes slightly larger adjustments in years 2, 3, 4 and 5 of three (3) percent.

<b>Sewer Service Charge</b>	<b>FY 2013/14 Existing</b>	<b>FY 2014/15 Year 1</b>	<b>FY 2015/16 Year 2</b>	<b>FY 2016/17 Year 3</b>	<b>FY 2017/18 Year 4</b>	<b>FY 2018/19 Year 5</b>
Single Family	\$725	\$745	\$788	\$812	\$836	\$861

Multi-Family	\$704	\$691	\$692	\$713	\$734	\$756
Floating Homes	\$672	\$624	\$588	\$606	\$624	\$643
Non-Residential	\$725	\$745	\$788	\$812	\$836	\$861

### Option 2

This option includes a rate re-allocation adjustment of the volumetric charge component phased in over the first two years. This will help to even out rate changes to customers. In addition, this option includes small rate adjustments in years 1 through 5 of two (2) percent.

Sewer Service Charge	FY 2013/14 Existing	FY 2014/15 Year 1	FY 2015/16 Year 2	FY 2016/17 Year 3	FY 2017/18 Year 4	FY 2018/19 Year 5
Single Family	\$725	\$760	\$795	\$812	\$828	\$844
Multi-Family	\$704	\$705	\$706	\$720	\$734	\$749
Floating Homes	\$672	\$636	\$601	\$612	\$624	\$636
Non-Residential	\$725	\$760	\$795	\$812	\$828	\$844

Note: the proposed rate plan options above reflect the existing EDU definition using 180 GPD per EDU and capital volumetric cost allocation distributed equally between our customers. However, if the EDU definition is changed to 200 GPD per EDU and capital volumetric cost allocation is distributed by customer class, this will change the proposed rate schedules. The overall affect will be that residential customers will pay slightly more and non-residential slightly less.

### **5-Year Supplemental Sewer Collection Charge Rate Plan (FY 2014/15 to 2018/19)**

Staff completed an analysis of operational expenses and capital improvement costs specific to sewer collection service for the unincorporated areas of the District's jurisdiction, including Marin City. This funding pays for sewer pipeline and pump station maintenance, repair and upgrades. The existing supplemental charge is \$55 per EDU. Based on the staff analysis, the District requires \$42,796 of additional annual revenue to cover expenses. Currently, the District collects \$111,576 in sewer service charges while \$154,372 is required to cover expenses. Staff is recommending rate adjustments be phased in over the next five years to cover District expenses. The proposed 5-year rate plan is shown below:

Supplemental Charge	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19
Annual Rate per EDU	\$61	\$66	\$71	\$76	\$78
Monthly Increase	\$0.50	\$0.42	\$0.42	\$0.42	\$0.19

### **Other Study Features**

1. Sewer Lifeline Rebate Program – It is recommended that the District implement a sewer rebate program for low and fixed income customers within the unincorporated areas of the District's jurisdiction, including Marin City. The program offered will be the same as now offered for the City of Sausalito residents. Customers that participate in the Pacific Gas and Electric's (PG&E) low and fixed income program would be eligible. They would need to submit a current and valid PG&E bill to automatically qualify for a five (5)

percent rebate on their annual sewer bill. The cost of the program, should all eligible PG&E customers apply, is estimated at \$10,000 to \$15,000 per year.

2. Floating Home Customer Billing – It is recommended that the District maintain the existing sewer service charge billing method. District sewer service charges are collected on the property owner’s property tax bill. A change in the billing method to charge the Marina owners directly is not supported by the Floating Home customers at this time. Staff is open to exploring this possibility in the future.
  
3. Annual Inflation Adjustment – It is recommended that the rate plan exclude an annual inflation adjustment that the Board could consider if actual inflation is over what has been factored into the rate plan.

**Schedule for 5-Year Sewer Service Charge Rate Plan Approval**

Below outlines the anticipated project schedule. Looking ahead, the next step is to complete the study technical document and conduct a public workshop in April. Following these steps, the Board will consider for approval at the May regular meeting, the 5-year rate plan and Proposition 218 rate payer notice. The Proposition 218 notice will be mailed out in May and the Proposition 218 process will culminate with a Proposition 218 public hearing and adoption of the 5-year rate plan at the July regular Board meeting.

Nov 2013	Group meetings for input	Complete
Jan 2014	Review study with Ad Hoc Committee	Complete
Feb 2014	Review study with Ad Hoc Committee	Complete
Mar 2014	Board direction on study	
April 2014	Public meeting on proposed rate plan	
May 2014	Board study and 5-year rate plan approval and authorization of Prop 218 notice	
May 2014	Mail Prop 218 notice	
July 2014	Board meeting and Prop 218 hearing and adoption of new rates and Ordinances	
Jul/Aug 2014	Update County tax roll data update	

**RECOMMENDATION:** Receive a presentation on the Sewer Service Charge Rate Study results and proposed 5-year rate plan and provide input and direction of staff.

Prepared By: \_\_\_\_\_  
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