

MEMO

TO: BOARD OF DIRECTORS
FROM: GENERAL MANAGER
SUBJECT: SEWER RATE STUDY- CAPACITY FEES
DATE: MAY 18, 2017

Background

At their February 7, 2017 Meeting, the Finance Committee authorized the retention of Raftelis Financial Consultants to perform a Sewer Capacity Fees study and provide recommendations.

Capacity fees are considered development fees and are exempt from Proposition 218 requirements; capacity fees can be adopted via resolution and don't require enactment of an Ordinance.

Capacity fees recover the costs associated with providing additional facility capacity to new users. Though the terms "capacity fee" and "connection fee" are often used interchangeably, connection fees are understood to mean the costs associated with the physical installation of the new lateral connection to a sewer main and can be thought of as "plumbing charges;" these charges are directly reimbursable to the district based upon the actual time and materials the District expends on the installation. The Capacity Fee covers the capital cost of purchasing capacity in the rest of the existing system (pipelines, manholes, pump stations, etc.).

OCSD did not enact a capacity fee for the local sewers during the time they operated them; they used the sewer service fee to build reserve funds for the eventual rehabilitation or replacement of system capacity.

Similarly to the way the Wholesale and Retail Zone capacity fees were updated in 2016, Raftelis used the Capacity Charge Methodology, specifically, the System Buy-In Method, to calculate the sewer capacity fee. This method encompasses the following:

1. **System Buy-In Method:** The buy-in concept is based on the premise that new users are buying into an existing system which already has the capacity to serve them, and by doing so they achieve a financial position that is on par with the existing users of the system who originally provided and paid for that capacity. New users pay for the cost or value associated with the portion of the existing system capacity they use by paying a proportionate share of the "book value" of the system. For example, if the existing system has 100 units of capacity for average or peak usage and the new user buys one unit of capacity, then the new user pays 1/100 of the original cost of the existing system. In this manner new users and existing users then face future capital needs on an equal footing. This is the most appropriate equitable method of determining the value of this capacity, as the system is advanced in age, but does have some capacity left. It should be emphasized that only new connections to the system would be charged the fee, existing customers that are remodeling would not be charged an a fee.

To calculate the Fee, the sum of the original cost (total asset value as of 6/30/16, plus the value of the Reserve Fund are derived and then divided by the number of Equivalent Dwelling Units (EDUs). The recommended Sewer Capacity fee is \$2,361 per EDU as shown on the attached analysis.

At their May 15, 2017 Meeting, the Finance Committee reviewed the fee and recommended approval.

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Mr. Sanjay Gaur from Raftelis will be present to review the process used to develop the capacity fee. This presentation is a first review for the Board; the fee would also be advertised on our website for 30 days prior to adoption to allow for public comment.

Financial Impact

Staff expects that the fee will generate between \$20,000-\$30,000 annually.

Recommendation

Information only; staff will return to the June Meeting with a request for adoption.

SEWER CAPACITY FEES FOR EOCWD COLLECTION SYSTEM

August 2016 - Sewer System Transferred from OCSD to EOCWD

Asset Values by RCLD		<i>as of Aug 2016</i>	
Sewer Pipelines	170.56 miles		\$22,060,965
Manholes	3,784		\$3,624,960
Total Asset Values			\$25,685,925
Plus: Total Reserves Balances			\$39,711,444 Total Reserves
Less: Outstanding Debt Principal			\$0
NET ASSET VALUE			\$65,397,369
Current Sewer System Capacity		28,439 EDU	Go to EDU Data Source
Proposed Sewer Capacity Fees in 2016\$		\$2,300	per EDU
Asset Year CCI 2016		11,248	ENR CCI Los Angeles
Current Year CCI 2017		11,549	ENR CCI Los Angeles
CCI Adjustment Factor		1.03	
Proposed Sewer Capacity Fees in 2017\$		\$2,361	per EDU

Source: EOCWD Service Area 7 Financial Model-2015-10-08.xlsx sent by Lisa 3/23/17

Asset Summary

Sewer Pipelines	Miles	Linear Ft	Pipe Lengths (Linear Ft) by Pipe Size (inch)												
			4	6	8	10	12	15	18	21	24	27			
Pre-1960 VCP	2.04	10,791			4,223 ft	5,723 ft	845 ft								
Post-1960 VCP <8"	0.13	672	25 ft		647 ft										
Post-1960 VCP =8"	154.13	813,822				813,822 ft									
Post-1960 VCP >8"	13.03	68,809					27,078 ft	12,728 ft	4,524 ft	13,031 ft	3,633 ft	6,894 ft	920 ft		
ABS	0.32	1,694			78 ft	1,616 ft									
CIP	0.04	197	128 ft			69 ft									
DIP	0.73	3,861				3,659 ft	202 ft								
PVC	0.14	718				718 ft									
	170.56	900,564	153 ft		4,948 ft	825,608 ft	28,125 ft	12,728 ft	4,524 ft	13,031 ft	3,633 ft	6,894 ft	920 ft		

Manholes		Counts
1950	1960	Pre-1960 97
1961	1970	1961 - 1970 2,850
1971	1980	1971 - 1980 531
1981	1990	1981 - 1990 76
1991	2000	1991 - 2000 126
2001	Post-2000	104
		3,784

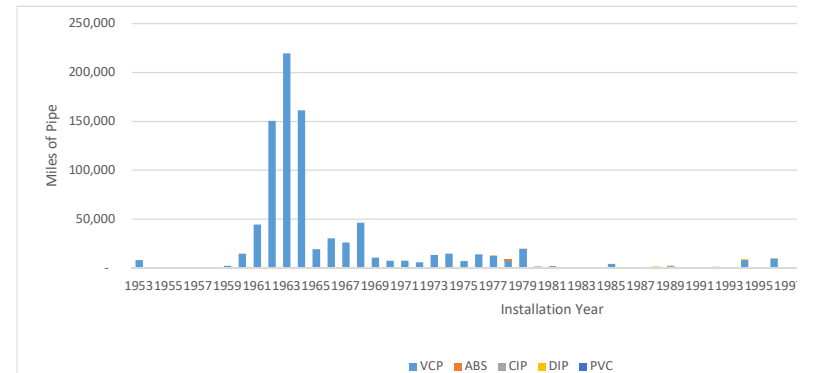
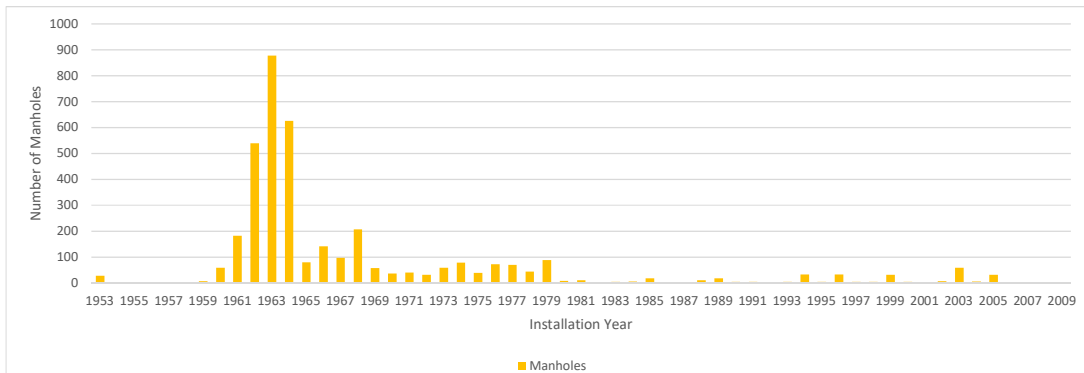
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Selected Value

Pipe Diameter	Unit Cost	Rehab Cost (30%)	Quantity	Replacement Costs		RCLD	
4	\$ 280	n/a	153 ft	\$ 42,868	\$ 2,152	\$ 2,152	
6	\$ 280	n/a	4,948 ft	\$ 1,385,457	\$ 24,907	\$ 24,907	
8	\$ 280	\$ 84	825,608 ft	\$ 231,170,154	\$ 11,491,763	\$ 11,491,763	
10	\$ 300	\$ 90	28,125 ft	\$ 8,437,375	\$ 1,351,586	\$ 1,351,586	
12	\$ 360	\$ 108	12,728 ft	\$ 4,582,203	\$ 717,519	\$ 717,519	
15	\$ 450	\$ 135	4,524 ft	\$ 2,035,938	\$ 981,471	\$ 981,471	
18	\$ 540	\$ 162	13,031 ft	\$ 7,036,946	\$ 3,667,026	\$ 3,667,026	
21	\$ 630	\$ 189	3,633 ft	\$ 2,288,738	\$ 522,554	\$ 522,554	
24	\$ 720	\$ 216	6,894 ft	\$ 4,963,997	\$ 2,844,521	\$ 2,844,521	
27	\$ 810	\$ 243	920 ft	\$ 744,928	\$ 457,466	\$ 457,466	
Pipe Total			900,564 ft	\$ 262,688,603	\$ 22,060,965	\$ 22,060,965	
Manhole	\$ 12,000	\$ 3,600	3,784	\$ 45,408,000	\$ 3,624,960	\$ 3,624,960	
All Assets				\$ 308,096,603	\$ 25,685,925	\$ 25,685,925	

Asset Type	Life (years)	Rehab Period
Pre-1960 VCP	50	n/a
Post-1960 VCP <8"	50	n/a
Post-1960 VCP =8"	50	n/a
Post-1960 VCP >8"	50	25
ABS	50	n/a
CIP	50	n/a
DIP	30	n/a
PVC	75	n/a
Manhole	50	25

Based on Discus
Based on Discus
Based on Discus
Based on Discus
Based on Discus



Source: Provided by Cindy Byerrum email 5/2/2017

Reserves as of Aug-16

\$41,524,444 Total Received from OCSD

\$1,500,000 Property Tax & Sewer Service Fees

\$313,000 to repay the Wholesale Zone for their costs prior to transfer

\$39,711,444 transfer in above the repayment and service fees/property taxes

\$20,000,000 investment with Chandler Assets Management (Capital Reserves)

\$15,000,000 investment in LAIF (Capital Reserves?)

\$4,711,444 working capital

\$35,000,000 Capital Reserves

\$4,711,444 Working Capital

\$39,711,444 Total Reserves

Source: Provided by Lisa 5/8/17 11:14PM

Aug-16

Total Current Connections 18,502 parcels

EDUs

Source: ORANGE COUNTY SANITATION DISTRICT WASTEWATER REVENUE AND RATE STUDY, FINAL JAN 2013 Completed by Carollo Engineers, Inc.
Table A-10 & Table 19

		FY 2014	FY 2015	FY 2016	FY 2017	FY 2016
Table A-10	Local Sewer Operating Rev	\$2,300,105	\$2,392,110	\$2,487,794	\$2,587,306	\$2,487,794
Table A-10	Local Capital Replacement Fund	\$4,115,983	\$4,192,568	\$4,273,591	\$4,352,109	\$4,273,591
Table A-10	Local Sewer Remittance (15%)	-\$962,413	-\$987,702	-\$1,014,208	-\$1,040,912	-\$1,014,208
	Local Sewer Service	\$5,453,675	\$5,596,976	\$5,747,177	\$5,898,503	\$5,747,177
	Local Sewer Service excl. Local Sewer Remittance (15%)	\$6,416,088	\$6,584,678	\$6,761,385	\$6,939,415	\$6,761,385
Table 19	Annual EDU Rate	\$227/EDU	\$232/EDU	\$238/EDU	\$244/EDU	\$238/EDU
	Estimated EDUs	28,327	28,382	28,439	28,499	28,439