



Los Osos Wastewater Project Revenue Requirements and Rate Analysis



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I. SUMMARY OVERVIEW

It is important to acknowledge that the rates determined in this study are not anticipated to be collected until after the Los Osos Wastewater System (the “Project”) is estimated to be completed in 2014, and are based upon many key assumptions. The cost of completing the Project, the terms of the financings used to secure the construction of the Project, and the future operating and maintenance costs each directly impact the wastewater charges that will need to be imposed by the County of San Luis Obispo (the “County”) to fund the wastewater system.

This study assumes that the aggregate rates will need to be established at a level sufficient to pay the ongoing operating, maintenance and capital replacement reserves (“OM&R”) of the Project. This study also assumes that the aggregate rates charged will need to repay the portion of project financing not available to be repaid by assessments collected by the County. Finally, this report outlines the method describing the allocation of rates among categories of users in the manner best deemed equitable by the County in light of the estimated use of water for such categories.

II. REQUIRED WASTEWATER CHARGES

Establishing Overall Charges Necessary for OM&R

Estimated annual OM&R levels have been provided by the County, based upon conservative wastewater use levels of the Project. The estimated first year of full operation is anticipated to process approximately 254.6 megagallons of wastewater through the Collection System and cost \$2.37 million, with approximately 76% constituting fixed costs and 24% representing variable costs. A breakdown of these estimated costs by category is as follows:

Table 1. - Estimated First Year of Full Operation

	<u>Fixed Costs</u>	<u>Variable Costs</u>
Treatment Facilities:		
labor	\$400,000	
energy and hauling		\$505,000
replacement costs (maint, filters, solids)	625,000	
Collection System:		
labor	170,000	
energy and hauling		60,000
replacement costs (maint, filters, solids)	200,000	
Miscellaneous		
overhead/indirect	300,000	
operating reserve	50,000	
other (allowances, habitat mitigation)	<u>60,000</u>	<u> </u>
	\$1,805,000	\$565,000

Establishing Overall Charges Necessary for Capital Costs

Future annual charges of the wastewater system necessary to repay the debt incurred to finance the Project’s construction are dependent on the terms of the loans and associated bonds, and on the assessments levied on parcels. The County has received a Letter of Conditions for a loan and a grant from the United States Department of Agriculture and Rural Development (a “USDA Loan” and “USDA Grant”) for \$83.129 million and \$4.061 million, respectively. The County has also been working with the State of California to secure advantageous financing from its State Revolving Fund Loan program (an “SRF Loan”) for the remaining costs of constructing the Project. Each of the USDA Loan, USDA Grant and SRF Loan are subject to the Project meeting certain conditions. One such condition is the USDA requiring an additional annual deposit of \$206,300 into a depreciation reserve for short-lived assets.

Pursuant to the December 2007 passage of the Proposition 218 Assessment Vote within the San Luis Obispo County Wastewater Assessment District No. 1, approximately \$127 million of the wastewater system’s development costs will be funded through assessments levied on developed properties (the “Assessments”). A condition of the USDA Loan is that it be repaid entirely from Assessments (the USDA Grant will not require repayment at all). The SRF Loan will be repaid by the remaining Assessments and by wastewater charges to the System’s users.

The costs of the Project, including accrued interest and financing costs, are estimated by the County to be \$167.11 million. An additional \$6.5 million is being required by the State of California to repay an outstanding loan previously provided by the State to the Los Osos Community Service District, and brings the total financing necessary for the development of the wastewater system to \$173.61 million. In summary, the funding for this amount is provided as follows:

Table 2. – Repayment Sources of the Project’s Funding Components

	Total Funding	Repaid by Assessments	Repaid by Users
USDA Loan	\$83,129,000	\$83,129,000	\$ --
USDA Grant	4,061,000	--	--
SRF Loan	<u>86,420,000</u>	<u>43,593,296</u>	<u>42,826,704</u>
	\$173,610,000	\$126,722,296	\$42,826,704

Based on current parameters of the SRF Loan program, discussions with the State, and current market interest rates, the annual wastewater charges required to repay the approximate \$42.8 million portion of the SRF Loan is approximately \$2.88 million. This portion of the SRF Loan will also require an annual reserve fund deposit equal to 10% of the annual debt service payment for the first ten years of the loan’s repayment period. The SRF Loan is currently anticipated to mature twenty years from the date of completion of the Project, while the USDA Loan matures no greater than 40 years from the date of its closing. The final SRF Loan payment may be paid by the debt service reserve fund that is collected over the first ten years of the repayment period. With an estimated three year construction

period and the previously identified OM&R costs, the annual wastewater system charges will need to fund the following amounts after the Project's completion:

Table 3. Estimated Annual Wastewater Charges Required

OM&R	\$2,370,000
Depreciation Fund	206,300
SRF Loan	2,877,734
SRF Loan Reserve	<u>287,773</u>
	\$5,741,807

III. ALLOCATION OF WASTEWATER CHARGES

There are four categories of users that are anticipated to use the collection system and treatment facility. These users are broken down into the following:

Table 4. – Customer Categories

	<u># of Users</u>	<u>Annual Mega Gallons</u>	<u>System % Flow</u>
Single Family Residences	4,289	203.018	79.7%
Multifamily Residential	809	28.723	11.3%
Mobile Homes	542	12.834	5.0%
Non Residential	<u>169</u>	<u>10.010</u>	<u>4.0%</u>
	5,809	254.585	100%

A special user category exists to include residences in the Los Osos area that will remain on septic tanks and not be connected to the wastewater system. This category is anticipated to pay \$22,500 a year to the treatment facility to have its wastewater disposed of via sewer trucks. Due to this special user offset, the 5,809 users to be connected to the Los Osos Wastewater system will be required to generate revenues sufficient to fund \$5,719,307 (\$5,741,807 less the \$22,500 special user offset). This annual revenue requirement has been allocated among the user categories by the estimated flows of each category. The allocation of the \$5,719,307 from the categories is shown in the following table.

Table 5. – Required Wastewater Charges per Category

	Single Family Residential	Multi Family Residential	Mobile Homes	Non Residential	Aggregate Accounts
Users per Category	4,289	809	542	169	5,809
Annual Mega Gallons	203.018	28.723	12.834	10.010	254.585

PROJECT REVENUE REQUIREMENTS

Variable OM&R Costs	\$ 450,556	\$ 63,745	\$ 28,483	\$ 22,216	\$ 565,000
Fixed OM&R Costs	1,439,387	203,647	90,994	70,972	1,805,000
Capital Replacement Fund	164,513	23,275	10,400	8,112	206,300
Operational/Replacement Costs	\$ 2,054,456	\$ 290,667	\$ 129,877	\$ 101,299	\$ 2,576,300
Loan Repayment	\$ 2,294,833	\$ 324,676	\$ 145,073	\$ 113,152	\$ 2,877,734
Debt Reserve Fund	229,483	32,468	14,507	11,315	287,773
Debt Service Costs	\$ 2,524,316	\$ 357,144	\$ 159,580	\$ 124,467	\$ 3,165,507
Total Annual Revenue Requirements	\$ 4,578,773	\$ 647,811	\$ 289,457	\$ 225,766	\$ 5,741,807
Less: Special Users (Septage) *	(17,943)	(2,539)	(1,134)	(885)	(22,500)
* applied proportionately to the other category charges					
Adjusted Annual Revenue Requirements	\$ 4,560,830	\$ 645,273	\$ 288,323	\$ 224,881	\$ 5,719,307

Flat Rate (“Minimum” Charge) Component Calculations

The County has determined to fix the portion of the debt service costs into a flat minimum charge per user for each particular category. The percentage of the Debt Service Costs to the Total Annual Revenue Requirements is 55.1% (\$3,165,507 divided by \$5,741,807). This flat rate will be applied to each category as follows:

Table 6. – Flat Rate Calculation

	Single Family Residential	Multi Family Residential	Mobile Homes	Non Residential	Total
Users per Category	4,289	809	542	169	5,809
Adjusted Annual Revenue Requirements	\$ 4,560,830	\$ 645,273	\$ 288,323	\$ 224,881	\$ 5,719,307
Flat Rate Component - 55.1% (rounded)					
Annual Aggregate Flat Rate	\$ 2,514,425	\$ 355,744	\$ 158,955	\$ 123,979	
Annual Flat Rate per User	\$ 586	\$ 440	\$ 293	\$ 734	
Monthly Flat Rate	\$ 48.85	\$ 36.64	\$ 24.44	\$ 61.13	

Volume Charge Component Calculation

Because the Adjusted Annual Revenue Requirements are allocated among the user categories on an anticipated wastewater flow basis, the volume charge per user in each category will be the same. The following table summarizes these calculations.

Table 7. – Volume Charge Calculation

	Single Family Residential	Multi Family Residential	Mobile Homes	Non Residential	Total
Annual Mega Gallons	203.018	28.723	12.834	10.010	254.585
Adjusted Annual Revenue Requirements	<u>\$ 4,560,830</u>	<u>\$ 645,273</u>	<u>\$ 288,323</u>	<u>\$ 224,881</u>	<u>\$ 5,719,307</u>
Volume Charge Component - 44.9% (rounded)					
Annual Volume Rate Collections	\$ 2,046,406	\$ 289,528	\$ 129,368	\$ 100,902	
Volume Rate per Mega Gallon	\$ 10,080	\$ 10,080	\$ 10,080	\$ 10,080	
Volume Cost per Unit (748 gallons)	\$ 7.54	\$ 7.54	\$ 7.54	\$ 7.54	

IV. UNDEVELOPED PROPERTIES

If an assessment vote passes or connection fees are established on undeveloped properties to provide for \$27,721,704 in funding, the portion of the SRF Loan repaid by wastewater charges would be reduced and Table 2 would be changed to the following:

Table 8. – Adjusted Repayment Sources of the Project’s Funding Components

	Total <u>Funding</u>	Repaid by <u>Assessments</u>	Repaid by <u>User Charges</u>
USDA Loan	\$83,129,000	\$83,129,000	\$ --
USDA Grant	4,061,000	--	--
SRF Loan	<u>86,420,000</u>	<u>71,315,000</u>	<u>15,105,000</u>
	\$173,610,000	\$154,444,000	\$15,105,000

Consequently, the estimated annual wastewater charges required would change from Table 3 to the following:

Table 9. Adjusted Estimated Annual Wastewater Charges Required

OM&R	\$2,370,000
Depreciation Fund	206,300
SRF Loan	1,014,978
SRF Loan Reserve	<u>101,498</u>
	\$3,692,776

Applying the wastewater users and categories of Table 4 would result in lower Adjusted Annual Revenue Requirements per category as follows:

Table 10. – Adjusted Required Wastewater Charges per Category

	Single Family Residential	Multi Family Residential	Mobile Homes	Non Residential	Aggregate Accounts
Users per Category	4,289	809	542	169	5,809
Annual Mega Gallons	203.018	28.723	12.834	10.010	254.585
PROJECT REVENUE REQUIREMENTS					
Variable OM&R Costs	\$ 450,556	\$ 63,745	\$ 28,483	\$ 22,216	\$ 565,000
Fixed OM&R Costs	1,439,387	203,647	90,994	70,972	1,805,000
Capital Replacement Fund	164,513	23,275	10,400	8,112	206,300
Operational/Replacement Costs	\$ 2,054,456	\$ 290,667	\$ 129,877	\$ 101,299	\$ 2,576,300
Loan Repayment	\$ 809,389	\$ 114,513	\$ 51,167	\$ 39,909	\$ 1,014,978
Debt Reserve Fund	80,939	11,451	5,117	3,991	101,498
Debt Service Costs	\$ 890,327	\$ 125,965	\$ 56,284	\$ 43,899	\$ 1,116,476
Total Annual Revenue Requirements	\$ 2,944,784	\$ 416,632	\$ 186,161	\$ 145,199	\$ 3,692,776
Less: Special Users (Septage) *	(17,943)	(2,539)	(1,134)	(885)	(22,500)
* applied proportionately to the other category charges					
Adjusted Annual Revenue Requirements	\$ 2,926,841	\$ 414,094	\$ 185,027	\$ 144,314	\$ 3,670,276

Due to the lower debt service repaid by wastewater charges, the minimum charge per category will be adjusted to 30.2% (\$1,116,478 divided by \$3,692,776). This adjusted flat rate would then be applied to each category as follows:

Table 11. – Adjusted Flat Rate Calculation

	Single Family Residential	Multi Family Residential	Mobile Homes	Non Residential	Total
Accounts per Category	4,289	809	542	169	5,809
Adjusted Annual Revenue Requirements	\$ 2,926,841	\$ 414,094	\$ 185,027	\$ 144,314	\$ 3,670,276
Flat Rate Component - 30.2% (rounded)					
Annual Aggregate Flat Rate	\$ 884,903	\$ 125,197	\$ 55,941	\$ 43,632	
Annual Flat Rate per User	\$ 206	\$ 155	\$ 103	\$ 258	
Monthly Flat Rate	\$ 17.19	\$ 12.90	\$ 8.60	\$ 21.51	