

# **2024 Rate & Capacity Charge Study**

## Board Presentation

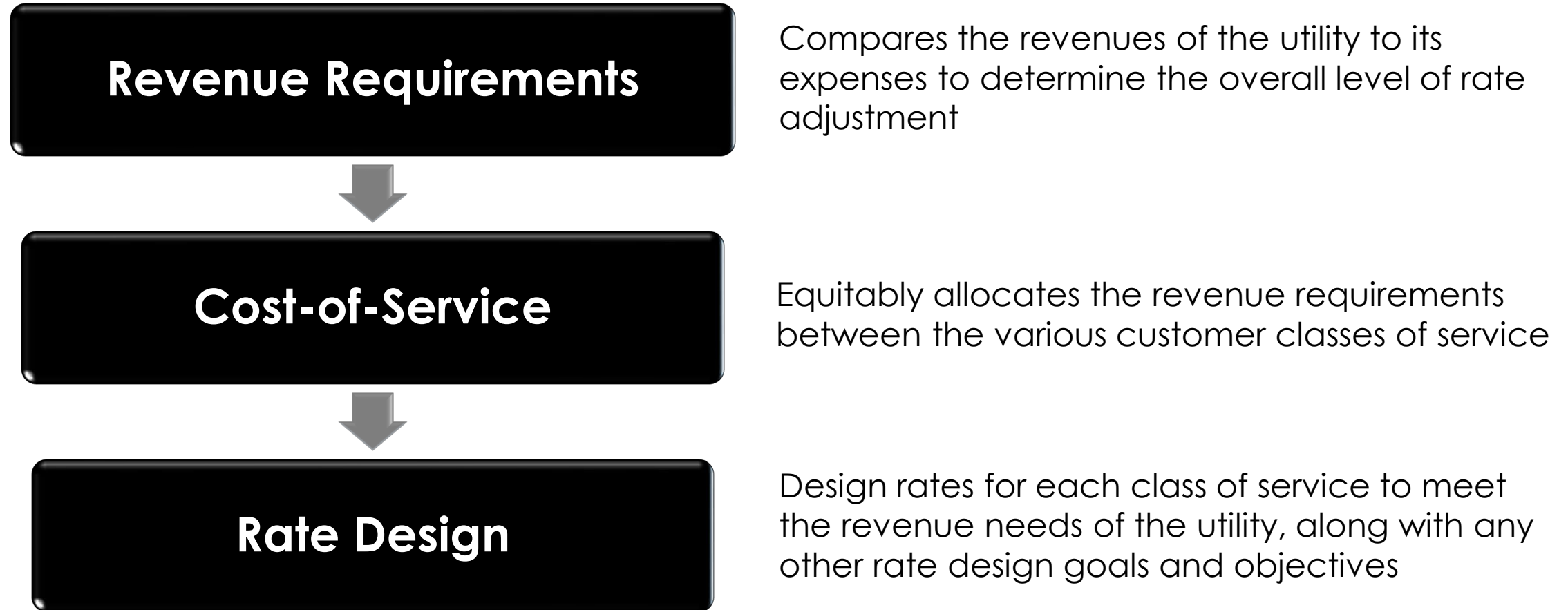
March 20, 2024



# Agenda

1. Refresher on the rate study process
2. Key financial changes since last study
3. Financial model inputs
4. Financial Plan preliminary results
5. Capacity Charge findings
6. Permit Fee findings
7. Project schedule

# The Rate Setting Process



# Observations regarding 2019 rate study projections

1. FY 22/23 operating costs were 9% lower than projected
  - CMSA costs are 3% lower than projected
  - All other operating costs are 14% lower than projected
2. FY 22/23 revenues were 0.7% higher than projected
  - Rate revenue was 2.3% lower than projected (perhaps due to the drought, recession and/or slow growth)
  - Property Tax revenue was 10% higher than projected
3. The capital spending over the past five years has been slightly higher than planned
  - \$89 million planned
  - \$92 million spent
4. Final result: Reserves levels are consistent with projections



# Cash Balances

As of June 30, 2023

## Operating Fund

---

Unrestricted Cash: \$12,367,000

Target Operations Reserves: \$10,217,000

Target Emergency Reserve: \$2,043,000

---

**Available Cash: \$107,000**

---

## Capital Fund

---

Unrestricted Cash: \$2,150,000

Target Capital Reserve: \$5,526,000

---

## Restricted Funds

---

Canyon Road Trust: \$9,000

Pension Trust: \$7,541,000

Bond Trust \$1,588,000

---

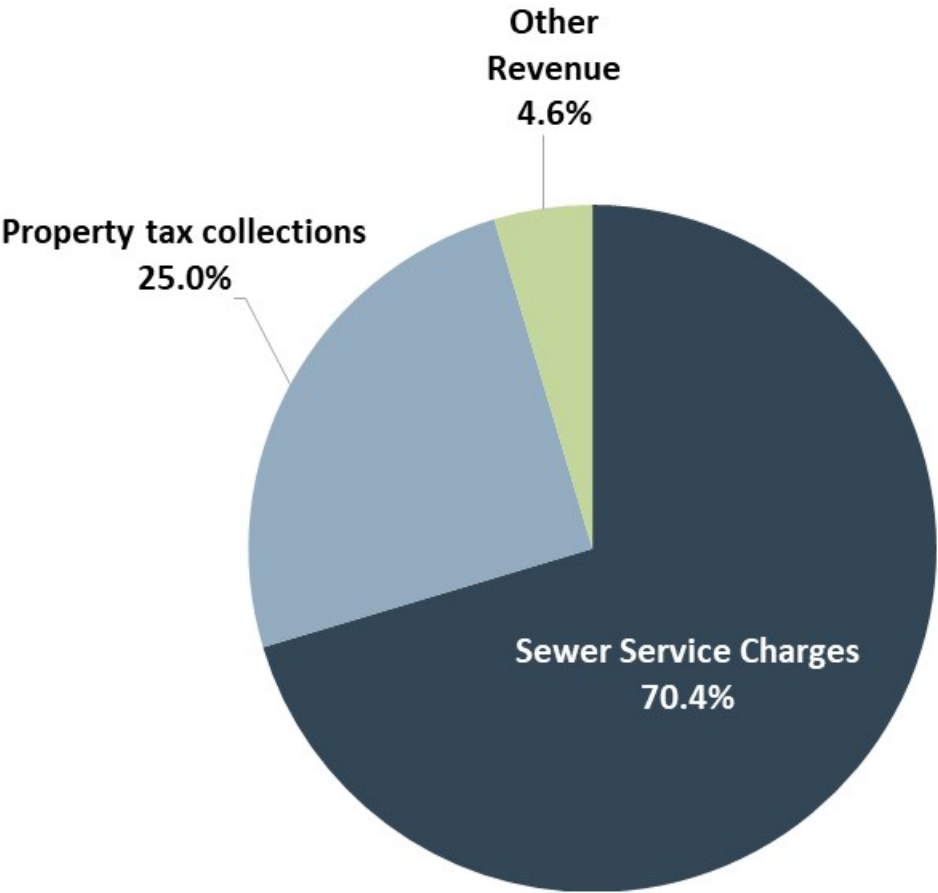
**Total: \$9,129,000**

---

# Revenue

Actuals 2022/23

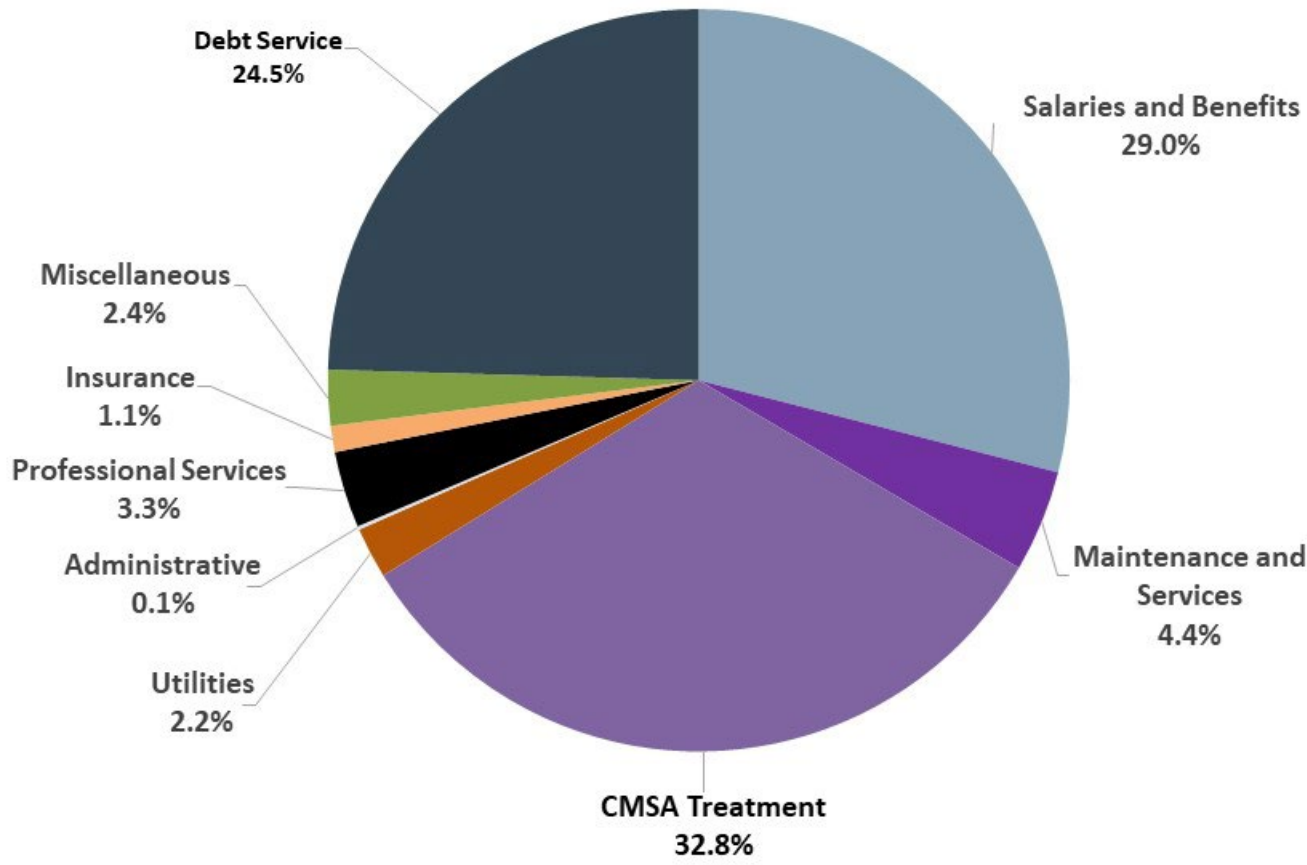
Sewer Service Charges	\$25,955,000
<b>Non-Rate Revenue</b>	
Property tax collections	\$9,226,000
Investment income	\$779,000
Permit and inspection fees	\$183,000
Other operating income	\$91,000
Miscellaneous Revenue	\$457,000
Capacity charges	\$194,000
<b>Total:</b>	<b>\$36,885,000</b>



# Operating Expenses

## Actuals 2022/23

Salaries and Benefits	\$7,851,000
Maintenance and Services	\$1,203,000
CMSA Treatment	\$8,869,000
Utilities	\$603,000
Administrative	\$40,000
Professional Services	\$903,000
Insurance	\$309,000
Miscellaneous	\$656,000
Debt Service	\$6,646,000
<hr/>	
<b>Total Budget:</b>	<b>\$27,080,000</b>



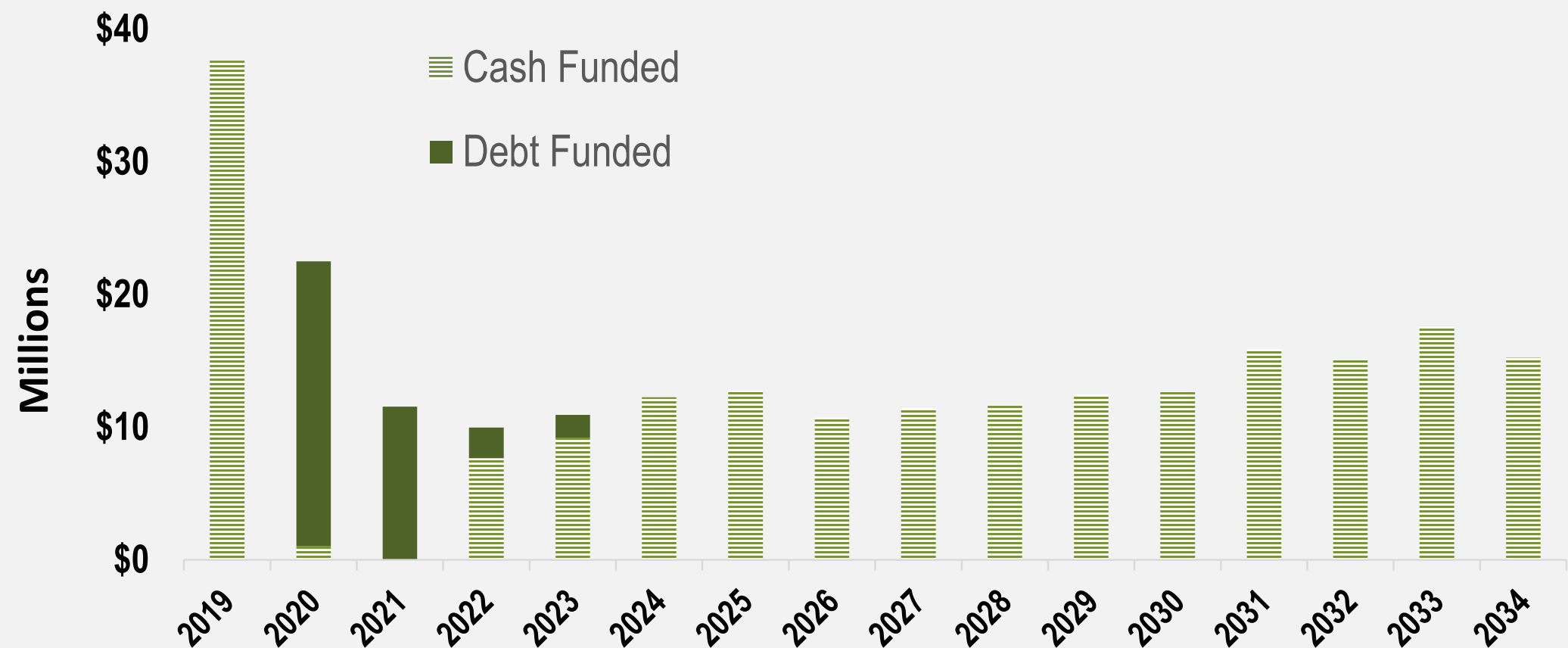
# Escalation Assumptions

Salaries/Benefits, Miscellaneous.....	4.0% per year
Insurance.....	6.0% per year
Utilities.....	4.0% per year
Central Marin Sanitary Agency (treatment).....	4.5% per year





# Proposed Capital Spending



Average Capital Spending Past 5 Years: \$18.5 million  
Average Capital Spending 10-year Plan: \$12.9 million

# Reserve Policies

Minimum  
Reserve  
Levels

## **Operations and Maintenance Fund Balance**

- Policy: Approximately 6 months of operating budget
- Approximately \$10.6 million in FY2023/24

## **Emergency Reserve**

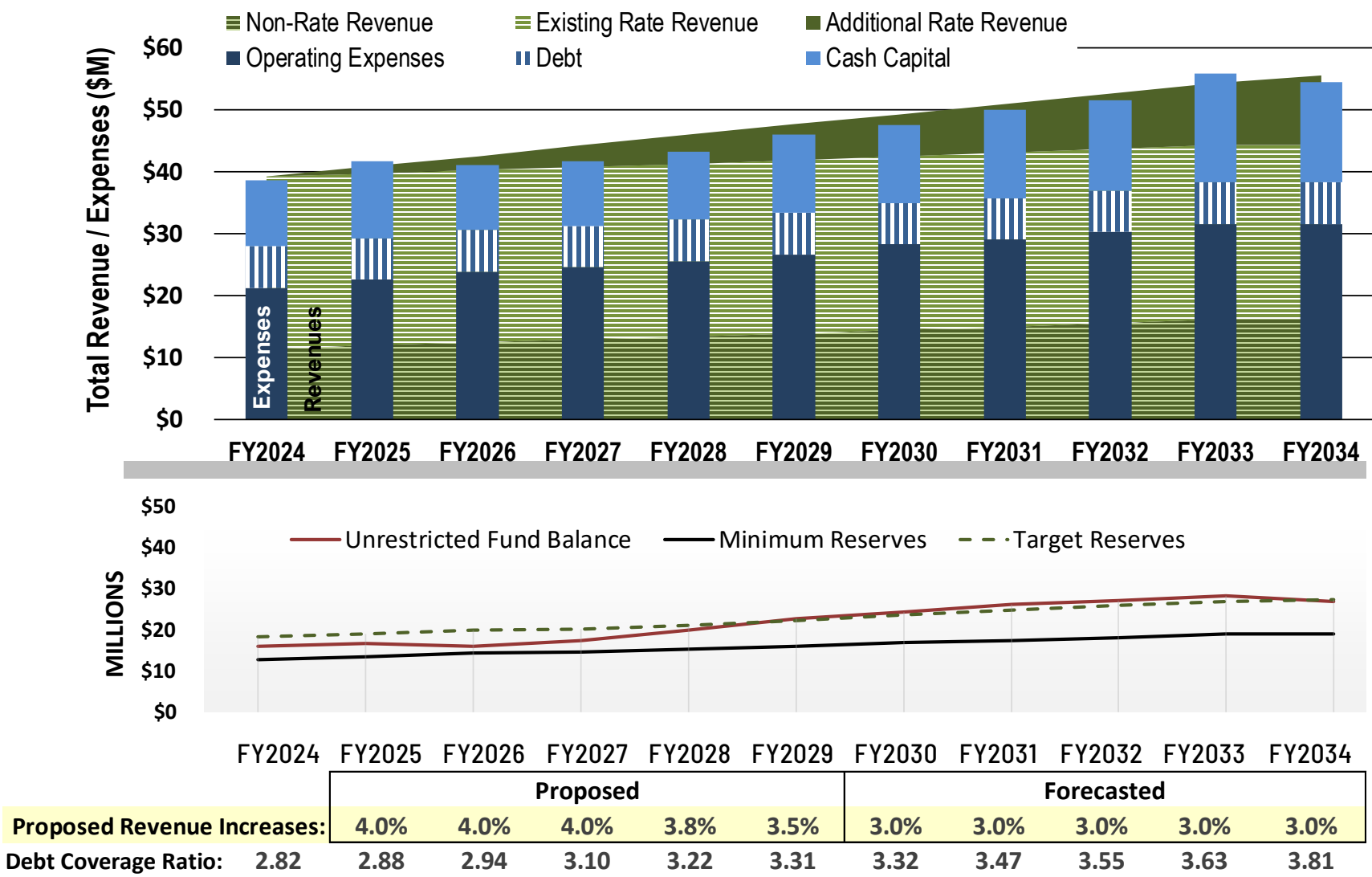
- Policy: the greater of 10% of the operating budget or \$2 million
- \$2.1 million in FY2023/24

Target  
Reserve  
Levels

## **Capital Improvement Reserve**

- 50% of average annual forecasted capital spending
- Approximately \$5.5 million in FY2023/24

# 10-Year Financial Forecast



# Rate Structure

Rate structure will retain same basis for allocating costs and charging rates:

- EDUs
  - Assigned per dwelling for residential
  - Assigned based on winter water usage for commercial
- Strength
  - Domestic strength
  - High Strength
- Location (tax contributions)
  - Ross Valley
  - Larkspur

# Property Tax Revenue Application

The District receives Ad Valorem Property Tax revenue from Ross Valley service area customers. As such, those customers receive a credit to their sewer bill.

$$\frac{\$10.03 \text{ million tax revenue (FY 24/25)}}{18,693 \text{ Ross Valley EDUs}} = \text{approximately } \$537 \text{ per EDU per year}$$

(currently the credit to Ross Valley customers is \$500 per EDU)

# Rate Structure Details

- **Single Family** = 1 EDU
- **Single Family with ADU** = 1.5 EDUs
- **Multifamily** = 0.9 EDUs per dwelling unit
- **Commercial** = 1 EDU per 215 gallons per day during winter
  - Gallons per day assumption affects how Commercial accounts are charged and the total number of EDUs that are reported to CMSA
  - High-strength EDUs (food service) are multiplied by 2.34
  - “Commercial Minimum”
    - 1.0 when the account is active but uses minimal water
    - 0.78 EDU when there is no water usage for the entire fiscal year

# Change to Commercial EDU Assignment

- Decrease EDU assignment from 215 gpd to 205 gpd to more closely reflect long-term decreases in residential water usage
- Most non-residential customers will experience a 4.8% increase in their bill, in addition to the Year 1 rate increases

# Bill Impacts by Customer Class

Current Rates		Proposed Year 1			Proposed Year 2		
Ross Valley		Rate	Change		Rate	Change	
Single Family	\$1,212	\$1,239	\$27	2.2%	\$1,289	\$50	4.0%
Single Family ADU	\$1,819	\$1,861	\$42	2.3%	\$1,935	\$74	4.0%
Multi-Family	\$1,087	\$1,113	\$26	2.4%	\$1,158	\$45	4.0%
Commercial Low	\$1,212	\$1,239	\$27	2.2%	\$1,289	\$50	4.0%
Commercial High	\$2,797	\$2,884	\$87	3.1%	\$2,999	\$115	4.0%
Commercial Minimum	\$911	\$966	\$55	6.0%	\$1,005	\$39	4.0%
Larkspur							
Single Family	\$1,712	\$1,776	\$64	3.7%	\$1,847	\$71	4.0%
Single Family ADU	\$2,568	\$2,669	\$101	3.9%	\$2,776	\$107	4.0%
Multi-Family	\$1,533	\$1,591	\$58	3.8%	\$1,655	\$64	4.0%
Commercial Low	\$1,712	\$1,777	\$65	3.8%	\$1,848	\$71	4.0%
Commercial High	\$3,933	\$4,124	\$191	4.9%	\$4,289	\$165	4.0%
Commercial Minimum	\$1,284	\$1,385	\$101	7.9%	\$1,440	\$55	4.0%



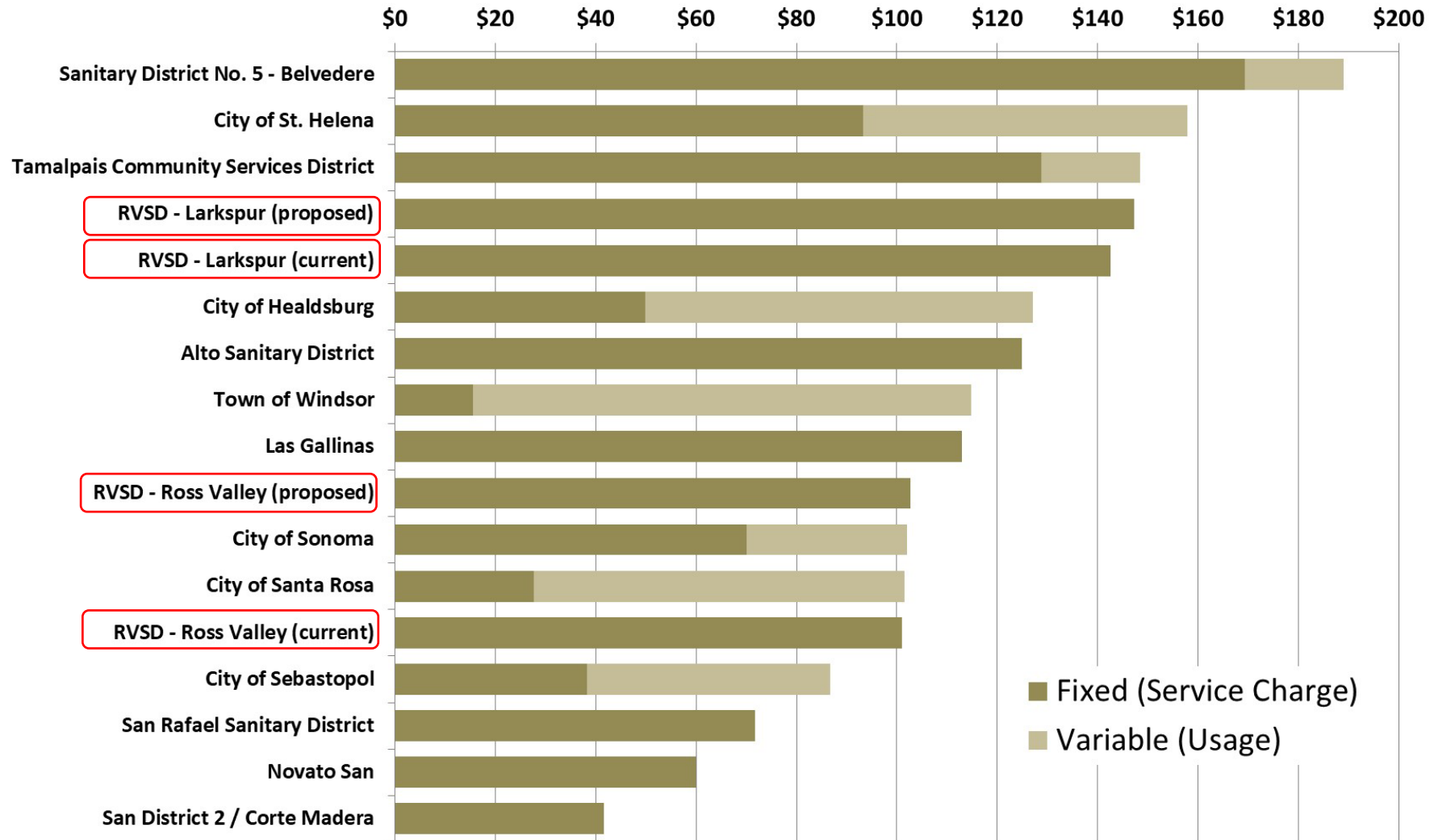
# 5-Year Rate Schedule

		Proposed Monthly Sewer Service Charges (per EDU)				
		Effective July 1, 2024	Effective July 1, 2025	Effective July 1, 2026	Effective July 1, 2027	Effective July 1, 2028
Curent Rates						
<b>Ross Valley Rate Zone</b>						
Single Family	\$1,212	\$1,239	\$1,289	\$1,341	\$1,392	\$1,441
Single Family with ADU	\$1,819	\$1,861	\$1,935	\$2,012	\$2,088	\$2,161
Multi-Family	\$1,087	\$1,113	\$1,158	\$1,204	\$1,250	\$1,294
Commercial Low-Strength	\$1,212	\$1,239	\$1,289	\$1,341	\$1,392	\$1,441
Commercial High-Strength	\$2,797	\$2,884	\$2,999	\$3,119	\$3,238	\$3,351
Commercial minimum*	\$911	\$966	\$1,005	\$1,045	\$1,085	\$1,123
<b>Larkspur Rate Zone</b>						
Single Family	\$1,712	\$1,776	\$1,847	\$1,921	\$1,994	\$2,064
Single Family with ADU	\$2,568	\$2,669	\$2,776	\$2,887	\$2,997	\$3,102
Multi-Family	\$1,533	\$1,591	\$1,655	\$1,721	\$1,786	\$1,849
Commercial Low-Strength	\$1,712	\$1,777	\$1,848	\$1,922	\$1,995	\$2,065
Commercial High-Strength	\$3,933	\$4,124	\$4,289	\$4,461	\$4,631	\$4,793
Commercial minimum*	\$1,284	\$1,385	\$1,440	\$1,498	\$1,555	\$1,609

\* For commercial accounts with no water usage

# Sewer Rate Survey

Monthly Rate for Typical Single-Family Home



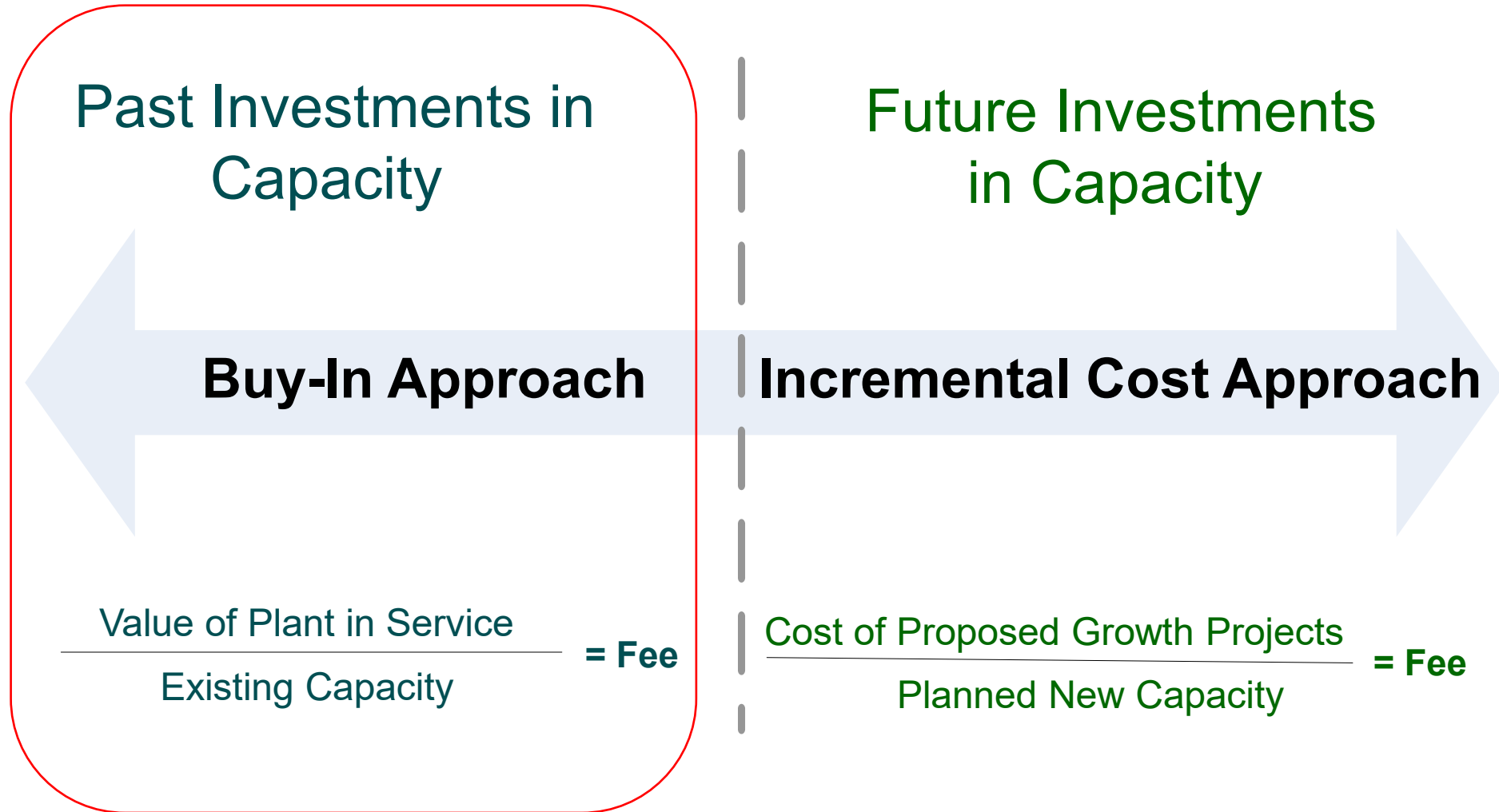
# Capacity Charges

**Definition:** Capacity Charges (aka “system development charges”, “capital facility charges” “developer impact fees” or “connection fees”) are one-time charges paid by new development (and redevelopment) for capacity in the District’s sewer collection system.

**Purpose:** Ensure that development pays its fair share of the costs associated with providing system capacity.

**Project Background:** Previous study was done in 2019. Ordinance 90 was updated in 2018 to address Accessory Dwelling Units (ADUs)

# Common Capacity Charge Approaches



# Reasons for using the Buy-In Approach

1. The District's collection system has sufficient capacity to accommodate the limited growth that is anticipated over the foreseeable future.
2. The Buy-In Approach is the basis for the existing charges and is therefore familiar to the District and to customers;
3. The Buy-In Approach seeks to be reimbursed for past capital costs (sunk costs), therefore new capacity charge revenue is considered a reimbursement for those past expenses. This eliminates the legal requirement for detailed accounting of the use of capacity charge revenue.

# Sewer System Valuation

					"Replacement Cost New"	"Replacement Cost New Less Depreciation"
					Replacement Cost	RCNLD
Asset Class	Original Cost	Book Value				
1 Land & Land Improvements	\$25,591,000	\$25,591,000	\$36,303,000	\$36,303,000		
2 Easements	\$183,000	\$183,000	\$706,000	\$706,000		
3 Building & Build Improvement	\$10,422,000	\$8,970,000	\$14,847,000	\$12,332,000		
4 Vehicles & Operations Equipmen	\$5,537,000	\$1,780,000	\$7,698,000	\$2,079,000		
5 Office Furniture & Equipment	\$427,000	\$126,000	\$642,000	\$150,000		
6 Collection & Conveyance System	\$149,795,000	\$120,302,000	\$249,351,000	\$174,707,000		
7 Pump Station Equipment	\$26,994,000	\$11,726,000	\$41,798,000	\$14,228,000		
8 Software	\$526,000	\$39,000	\$727,000	\$44,000		
9 Pipe Pre-dating 1972	Not Available	Not Available	\$159,150,000	\$18,567,000		
10 Subtotals:	\$219,475,000	\$168,717,000	\$511,222,000	\$259,116,000		
			2019 Values	\$359,679,000	167,900,000 *	

\* The increase in this value is expected given the substantial capital spending that has occurred since the 2019 study.

# Capacity Charge Calculation

## Buy-In Approach

RCNLD of all assets	\$259,116,000
Less Outstanding Debt Principal as of June 30, 2023	-\$86,153,000
Plus Total Cash Reserves	\$16,114,000
<hr/>	
<b>Total Sewer Utility Valuation:</b>	<b>\$189,077,000</b>
<b>divided by existing capacity:*</b>	<b>24,237</b>
<hr/>	
<b>Proposed Capacity Charge (\$ per EDU):</b>	<b>\$7,801</b>
 <b>Existing Capacity Charge (\$ per EDU):</b>	 <b>\$7,444</b>

\* Existing capacity based on the total number of current EDUs (21,598) plus the total number of new EDUs anticipated over the next 10 years due to anticipated potential growth.

# Capacity Charge Structure

- New Connections:**
- Minimum charge of 1 EDU
  - Incremental charge of \$339 / fixture in excess of 23 fixtures
- Remodels:**
- Incremental charge of \$339 / fixture for each fixture in excess to the number of existing fixtures
- ADUs**
- (see next page)



# Accessory Dwelling Units (ADUs)

ADUs that can be charged will be assessed the incremental charge of \$339 / fixture for each fixture in excess to the number of existing fixtures.

**Capacity  
Charge  
Allowable?**

**ADU Type**

- No.....**    **Type 1** - built within an existing footprint of a single-family residence or accessory structure.
- Yes.....**    **Type 2** – Expansions of any existing structure.
- No.....**    **Type 3** – Conversions of accessory structure such as a garage..
- Yes.....**    **Type 4** - Newly constructed separate structure (requires connecting to the existing lateral)



# Capacity Charge Survey

	Collection	Treatment	Total
<b>CMSA Agencies</b>			
Ross Valley Sanitary Districition			
Current	\$7,444	\$7,775	\$15,219
Proposed	\$7,801	\$7,775	\$15,576
San Rafael Sanitation District	\$3,083	\$7,775	\$10,858
Sanitary District No. 2	\$2,103	\$7,775	\$9,878
<b>SASM Treatment</b>			
City of Mill Valley			\$10,900
Richardson Bay Sanitary District			\$13,000
Tamalpais Community SD			\$17,384
Alto Sanitary District			\$7,414
<b>Other</b>			
Las Gallinas Valley Sanitary District			\$7,106
Novato Sanitary District			\$13,380

# Permit Fees

Calculated based on staff time, vehicle use, and 30% technology fee (to help fund permit tracking system).

- New Connections = \$568 (current: \$594)
- Remodels (including ADUs) = \$519 (current: \$594)
- Lateral Work = \$348 (current: \$217)
- Public Sewer Extension Projects = \$9,078 (current: \$8,606)
- Additional Inspections = \$237 (current: \$184)
- Discharge = \$247 (current: \$337)
- Pool Drain = \$138 (current: \$337)
- Special Projects = Time and materials
- Service Resumption Fee = 50% of missed Sewer Service Charges
  - After 12 months of non-payment
  - Paid in one-year intervals

# Presentations

- ✓ **December 19<sup>th</sup>** – Present to Finance Committee
- ✓ **January 16<sup>th</sup>** – Presented to Finance Committee
- ✓ **February 14<sup>th</sup>** - Present preliminary recommendations to Board
- ✓ **March 19<sup>th</sup>** – Present final recommendation to Finance Committee
- **March 20<sup>th</sup>** - Present final recommendations to Board
- **May 22<sup>nd</sup>** - Public hearing to adopt new sewer rates