CSA 10A Rate Study for Rate Ordinance

Contents

1 Executive Summary

County Service Area 10A (CSA 10A) supplies drinking water to approximately 782 customers in South Cayucos and is almost entirely funded through customer rates and charges. This Study assesses the system's financial health and evaluates whether current rates can support both current operations and future service needs. It projects revenue requirements over the next five years to cover operations and maintenance, infrastructure upgrades, critical capital replacements, and to maintain adequate operating and capital reserves for the water system.

Current rates generate approximately $1,189,743 annually, which falls short of covering projected operating expenses, debt service, capital improvement needs, and reserve contributions by approximately $160,000 in fiscal year 2026-27. To ensure financial sustainability, the Study identifies a revenue requirement of $1,353,229 for FY 2026/27, increasing to $1,534,172 by FY 2030/31. This increase is driven primarily by inflation in operating costs, debt service obligations, Master Water Plan Update, and minimal reserves.

To meet these requirements while maintaining affordability, a phased rate adjustment is proposed: a 15% increase followed by annual increases of 5% over the subsequent four years without an additional inflator like Consumer Price Index (CPI) factor.

The proposed rates in year 1 are:

- A base rate of $250.45 (bi-monthly) that includes usage up to 14 CCF [1]
- A variable rate of $13.88 per CCF for usage above 14 CCF.

The average customer bill is projected to increase incrementally from the current amount of $217.79 (bi-monthly) to $304.42 (bi-monthly) by year five.

Recommendations:

- Establish the proposed rates through the Prop 218 process.
- Seek funding to support infrastructure improvements.
- Update the Master Water Plan
- Build and maintain adequate reserve funds.

2 Introduction

2.1 Purpose of the Study

This Study examines and evaluates CSA 10A system's current finances, projected future needs, and proposes cost-based rates over a 5-year period (2026-2031).

[1] Note on water units: *1 UNIT, CON, CCF (hundred cubic feet, also called one "unit" of water) equals approximately 748 gallons. For example, 14 CCF = 10,472 gallons.*

2.2 Study Objectives

The objectives of the Study include the following:

- Assess the financial health of the water system
- Evaluate adequacy of current rates for sustaining operations and future needs
- Project five-year revenue requirements
- Support operations and maintenance
- Plan for future capital infrastructure replacements
- Ensure adequate operating and capital reserves
- Develop cost-based rates

2.3 Methodology

Data sources include historical billing records, budget projections, loan terms, and engineering estimates. Assumptions include annual inflation for O&M with minimal customer growth.

3 System Description

3.1 Community Overview

Cayucos is a small unincorporated coastal town in San Luis Obispo County, California along State Route 1 with a population of about 2,505 (2020 Census) and a median household income of $82,778 (2023 estimate). The economy thrives on tourism and is supported by agriculture and small businesses and serves as a notable vacation rental and second-home destination.

The Cayucos community is served by 3 water systems: CSA 10A, Cayucos Beach Mutual Water Company, Morro Rock Mutual Water Company. These water purveyors and the Cayucos Morro Bay Cemetery District make up the Cayucos Area Water Organization (CAWO).

3.2 Water System Description

CAWO's primary water source is Whale Rock Reservoir, located just northeast of the Cayucos Water Treatment Plant. Groundwater wells are also available for use. Only water from the reservoir and the CAWO wells are used during normal operations. No imported or recycled water is currently used.

Treated water from the Cayucos Water Treatment Plant (CWTP) passes through separate metered pipes to distinguish use by the different systems. The allocation by water system is:

- CSA 10A 190 AFY (32.65%)
- Morro Rock Mutual Water Company 170 AFY (29.21%)
- Cayucos Beach Mutual Water Company 222 AFY (38.14%)

Each water purveyor pays a proportional share of costs to treat raw water.

CSA 10A also holds a supplemental supply of 40 AFY of Nacimiento water, which allowed for the water shortage emergency declared in 1993 to be lifted on May 22, 2012. To date, CSA 10A has not needed to

use this supplemental supply. If CSA 10A needed to use its supplemental water, then an exchange agreement with the City of San Luis Obispo would allow it to trade Nacimiento water for Whale Rock water, due to the absence of a direct delivery pipeline.

CSA 10A pumps treated water from the CWTP to the water distribution system consisting of two 210,000-gallon water storage tanks, roughly 30,000 feet of pipeline, and approximately 782 service connections. The pipelines were originally installed in the early 1970s and consisted of the 6- and 4-inch asbestos cement (AC) pipelines. Newer pipelines are made of modern, more durable plastic pipe (PVC). Approximately 20,000 feet of original 6-inch AC pipeline remains in the system and is at the end of its useful life.

3.3 Customer Base

Customer Class	Number of Accounts	Total Monthly Usage[2] (CCF)	Percentage of Total Usage
Residential	776	3,164	98.54%
Commercial	5	30	.93%
Public Authority	1	17	.53%
Total	**782**	**3,210**	**100%**

Water loss is estimated at 5%, below industry averages for small systems.

4 Customer and Revenues

4.1 Customer and Revenue Characteristics

CSA 10A revenues are generated almost entirely by residential customers, approximately 99 percent or 776 of 782. The remaining accounts consist of five commercial customers and one public authority account.

A notable characteristic of the service area is the high proportion of second homes that are occupied only part of the year. This results in seasonal and variable water demand, with periods of reduced consumption and revenue despite the continued need to operate, maintain, and be prepared to serve the system year-round. Although the water system must be sized and maintained to accommodate peak demand periods, fluctuating occupancy patterns can create revenue variability and present additional challenges for long-term financial planning, reserve funding, and capital improvement programming compared to systems servicing primarily full-time residents.

This Study also evaluates and establishes charges for new water connections, reconnection, and other fees and charges discussed in section 7.3 - Rate Schedule.

[2] 2024 demand averages per State Water Resources Control Board's Safe and Affordable Funding for Equity and Resilience (SAFER) report

4.2 Historical Rate Adjustments and Accomplishments

Rate Adjustments

The last comprehensive rate adjustment for CSA 10A was completed in August 2018, following a Proposition 218 process. The rate adjustment included a five-year CPI factor to help rates keep pace with inflation. The 2018/19 rate adjustment resulted in a 34.7% increase to the fixed bi-monthly charge, generating approximately $285,000 in additional revenue to fund capital improvements and preventative maintenance. From 2019 to 2023, annual CPI increases ranging from 2% to 7% were applied. No CPI increases were applied in fiscal years 2024/25 and 2025/26.

Since the 2018 rate adjustment, several key capital projects and preventative maintenance achievements have been completed to maintain and improve the water system's infrastructure.

Capital Projects Completed

- Two 210,000-gallon water storage tanks were constructed in 2021 (USDA-financed).
- 1,750 feet of aging and leaking AC waterline was replaced on Hacienda Drive.
- Chaney Waterline Upgrade project.

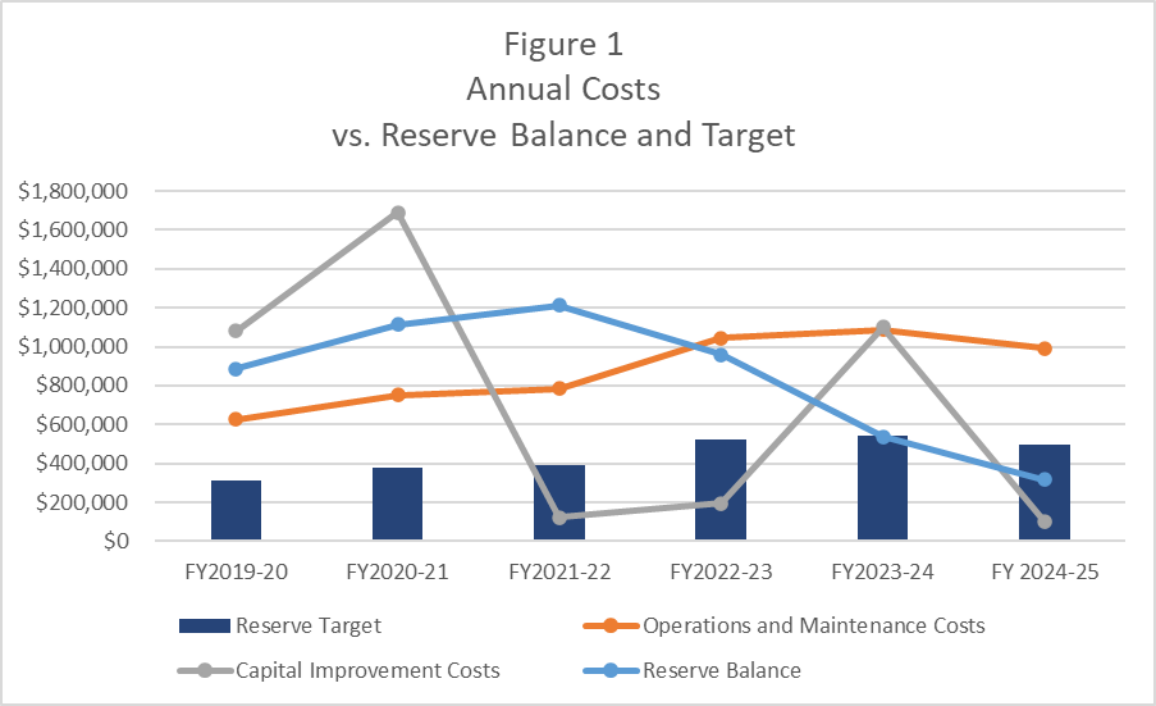
Preventative Maintenance Completed

- Replaced 8 wharf heads with standard fire hydrants.
- Installed 376 new service meters.
- Upgraded approximately 1,100 feet of substandard water lines (multiple streets).
- Installed new isolation valves and valve clusters to improve reliability and reduce service disruptions.

4.3 Historical Financial Performance

Fiscal Year	Revenues ($)	Expenses ($)	CIP ($)	Net Income ($)	Reserves ($)
2023/24	1,327,408	1,248,333	1,099,031	(1,019,956)	538,555
2024/25	1,209,624	1,165,065	101,897	(57,338)	481,217
2025/26	1,189,743	1,305,412	191,160	(306,829)	174,388

CSA 10A has maintained a positive net operating income but reserves are below the current reserve target of $572,120, which is 6-months' of total operating costs (50% of FY2025 Operations and Maintenance budget). The reserve balance has decreased over time due to increases in the cost of operations and maintenance and full utilization of reserves to help fund major capital improvement projects as reflected in Figure 1 below:



4.4 Needs

Sufficient Reserves

CSA 10A typically does not have sufficient funds to fully fund needed infrastructure projects due to its small size, and has historically relied on reserves and external financing, including interest-free parent-fund loans consistent with prior Board policy. Recent capital projects have relied on available reserves with approximately $925,000 used in fiscal years 2022/23 and 2023/24 for the Hacienda Pipeline Replacement project, and an additional $70,670 used in fiscal year 2025/26 for the Chaney Waterline Upgrade. Using reserves for capital projects is common for systems of this scale and helps reduce reliance on higher-cost external borrowing. However, once reserves are used, they must be replenished over time to maintain sufficient financial capacity.

Maintaining a sustainable reserve level is critical for reliable operations and maintenance, emergency responses, potential grant-match requirements for infrastructure needs, and long-term financial stability. Rebuilding these balances through planned rate adjustments will reduce reliance on short term internal borrowing and improve the ability to pursue low interest loan programs and competitive grant opportunities. Strengthening reserves now will support long-term stability, protect customers from sudden rate increases and ensure that CSA 10A can address both anticipated and unforeseen system needs.

Debt Repayment

CSA 10A currently carries $1,201,305 in internal debt to the Parent Fund, which was used in combination with reserves to fund major infrastructure improvements to enhance the reliability and safety of the water system. The Hacienda Pipeline Replacement Project replaced a deteriorated waterline, reducing water loss and the risk of future leaks and service interruptions, while the Chaney Waterline Upgrade increases

fire flow capacity to properties on Studio Drive west of Highway 1, improving fire protection and supporting public safety. Repayment of this internal debt will occur at a reasonable pace designed to avoid reductions in service levels, prevent further depletion of reserves, and minimize impacts on customers.

The added debt burden increases the revenue required to restore the system to a balanced and sustainable financial plan. Strengthening reserves through the proposed rate adjustments will support repayment of this obligation while maintaining financial stability and ensuring that CSA 10A can continue delivering reliable water service now and in the future.

Inflation Adjustments

CSA 10A's financial condition has been affected by economic conditions that were not anticipated when rates were last established in 2018, including the impacts of the COVID-19 pandemic and subsequent inflationary pressures. These factors have resulted in substantial increases in the cost of labor, materials, services, and other operational needs. Because CPI adjustments to water service rates expired at the end of fiscal year 2023–24, revenues have not kept pace with these rising costs. As a result, reserve funds have been used to support ongoing operations and maintenance expenses, reducing available reserves for future system needs. As is common practice for water utilities, rates are periodically reviewed to ensure revenues remain sufficient to support the safe and reliable operation of the system.

Cost Drivers

- Construction costs exceeded estimates because of sustained inflation.
- Post-COVID inflation significantly impacted materials and equipment, driving up procurement costs.
- Aging asbestos cement (AC) pipes have led to frequent leaks and breaks, resulting in higher-than-expected maintenance, repair and replacement costs.
- Labor costs have increased annually since rates were last adjusted in 2018, contributing to higher ongoing operational expenses.

5 Financial Plan and Revenue Requirement Analysis

Financial planning for the water system includes identifying and projecting revenues and revenue requirements for a five-year planning period. Estimates of revenue from various sources are compared with the projected revenue requirements of the water system. This comparison allows the review of the adequacy of existing revenue to meet annual obligations and provide the basis for any rate adjustments.

This section describes current water rates, projected revenues under current rates, revenue requirements, capital improvement expenditures, financing debt service obligations, and proposed reserve target.

5.1 Revenues

The CSA 10A water system is primarily financed by rates and fees associated with water services. Minimal miscellaneous revenue is collected from sources including water meter installations, service connections, application fees and penalty fees. Lastly, this CSA is apportioned a small percentage (.01410% or one hundred forty-one ten thousandths of a percent) of property tax revenue collected for San Luis Obispo County.

5.2 Operations & Maintenance

O&M expenses are an on-going obligation of the water system, and such costs are normally met from water service revenue. O&M expenses include the cost to operate and maintain the water supply, treatment and distribution system facilities. Costs also include technical services performed by outside vendors and other general and administrative expenses.

Operation and maintenance expenses are generally expected to increase because of inflation, aging system components, and increases in labor costs. The average CPI increase applied to the CSA 10A rates during the previous 5-years from 2019 to 2024 was 4%.

Year	CPI %
2019/20	2.48%
2020/21	3.46%
2021/22	5.60%
2022/23	7.07%
2023/24	2.36%
Average	4.19%

Table 2 categorizes the various work efforts into fixed or variable expense types, and projects the cost of ongoing operations and maintenance over the next 5 years. O&M expenses have been projected using an annual inflation rate of 4%, based on the previous 5-year average.

Table 2

County Service Area 10A - Operations and Maintenance Financial Plan by Expense Type & Category

Expense Type	Expense Category	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Fixed	Labor	$ 514,945	$ 534,803	$ 556,195	$ 578,443	$ 601,581	$ 619,628
Variable	Vendors	$ 112,631	$ 114,181	$ 118,748	$ 123,498	$ 128,438	$ 132,291
Variable	Energy	$ 2,211	$ 2,299	$ 2,391	$ 2,487	$ 2,586	$ 2,664
Variable	Water Quality	$ 49,271	$ 51,242	$ 53,292	$ 55,423	$ 57,640	$ 59,369
Variable	Water Treatment Costs	$ 19,884	$ 10,395	$ 10,811	$ 11,243	$ 11,693	$ 12,044
Fixed	Water Treatment Costs	$ 404,570	$ 386,788	$ 402,260	$ 418,350	$ 435,084	$ 448,136
Fixed	Administrative Support	$ 40,527	$ 42,148	$ 43,834	$ 45,587	$ 47,411	$ 48,833
Fixed	Debt	$ 161,373	$ 211,373	$ 209,869	$ 210,074	$ 210,234	$ 210,348
	Total O&M	**$ 1,305,412**	**$ 1,353,229**	**$ 1,397,399**	**$ 1,445,106**	**$ 1,494,667**	**$ 1,533,314**

Category	Description
Labor	Staff time required to operate, maintain, and manage the water system.
Vendors	Contracted serviced and outside vendors that support system operations and repairs.
Energy	Electricity required to operate system facilities, pumps and wells.
Water Quality	Testing, monitoring, and regulatory compliance required to meet drinking water standards.
Water Treatment	Operation and maintenance of the water treatment system, including chemicals and equipment. Water treatment costs are split between fixed and variable costs. Variable costs in this category are defined as the component of chemical costs, energy costs and outside vendor costs related to the treatment plant driven by increased water usage. The fixed costs in this category are expected to remain constant regardless of water usage.
Administrative Support	County support services such as accounting, purchasing, human resources, and other administrative functions.
Debt	Repayment of financing used for past infrastructure improvements.

5.3 Capital Improvements and Replacements

The Capital Improvement Plan for CSA 10A outlines anticipated capital expenditures from FY 2026–27 through FY 2030–31. Over this period, approximately $60,000 is expected to be invested in updating the Master Water Plan to identify future capital improvements and replacement needs.

Projects

Master Water Plan

A new Master Water Plan will provide an updated evaluation of the water system, reflect current regulatory requirements, and guide future investments using accurate, modern hydraulic modeling. Since the 2003 Master Water Plan, all recommended projects have been completed or are currently under construction, with the exception of the Gilbert line upgrade and 2 wharf heads replacements. Updating the Master Water Plan will allow CSA 10A to quantify the improvements generated by those completed projects and use that information to strategically develop future capital improvement plans. The remaining Gilbert upgrade represents a high cost with limited benefit. The 2003 plan concluded that upsizing the Gilbert pipeline will only provide a limited benefit because fire flow in the area would remain inadequate due to the elevation of the existing storage tanks. To fully resolve the issue, the plan identified an expensive alternative: constructing a new storage tank at a higher elevation, which would create an additional pressure zone and require dramatic and costly changes to the system. Given these constraints relative to cost, deferring major infrastructure projects such as the Gilbert upgrade while rebuilding reserves and funding a new Master Water Plan will support responsible financial planning and ensure future investments are based on up-to-date system conditions.

Future Major Pipeline Replacement Project

Approximately 20,000 feet of CSA 10A's system pipelines will ultimately require replacement as part of the community's long-term infrastructure strategy. Instead of a single project, this effort will involve a series of phased pipeline replacements. These lines are approaching the end of their useful life and replacing them over time will reduce the likelihood of leaks, breaks, and service interruptions. Currently, about 75 percent of CSA 10A's waterlines are more than 50 years old and constructed of AC pipe, which gradually weakens due to calcium leaching. The updated Master Water Plan will help determine the prioritization, phasing, and timing of these future replacement projects, which are expected to occur beyond the next five years. Construction is anticipated to be funded through loans or available grants, with the associated annual debt service incorporated into future rate structures.

5.4 Debt Service

CSA 10A is obligated to pay debt service on the waterline upgrades and two water storage tanks completed in 2014 and 2021, with debt service amortization payments until 2053 and 2061, respectively. The annual debt service does not vary significantly from year to year; the payment is approximately $161,000 per year.

CSA 10A's debt to the Parent Fund is $1,201,305 to cover the funding shortfall to implement the Tank Replacement, Hacienda Pipeline Replacement and Chaney Waterline Upgrade Projects. The debt to the parent fund will be paid back interest free at an affordable pace, estimated to be $50,000 per year.

5.5 Reserve Target and Policies

Designated reserves have been established to meet federal loan requirements and ensure financial stability during unforeseen circumstances. The reserve types and the target balance used in CSA 10A are discussed below.

United States Department of Agriculture (USDA) Loan Reserve – USDA loans require that the borrower set aside one year's principal and interest as a reserve. CSA 10A has two USDA loans:

Project	Total Loan	Annual Debt Service	Loan Term (end)
Water Tank #1	$1,621,000	$66,500	July 2053
Water Tank #2	$2,691,476	$93,500	November 2061

CSA 10A is required, as a condition of its loan agreements, to maintain reserves equal to the annual loan payment throughout the term of the loans. Rates are projected to generate sufficient revenue to maintain the required reserve balance and comply with loan reserve requirements.

Operating/CIP Reserve - The purpose of this reserve is to provide cash flow during emergency operations, to cover unexpected expenses, and allow daily operations to continue without interruptions. This reserve ensures that operations can continue should there be an unforeseen revenue shortfall or funding delay (seasonal drop in revenue). This reserve, if balance is available, may also support the delivery of critical projects. The target operating reserve is 3 months (25 percent) of the annual operating expenses.

Table 3 below summarizes the reserve categories discussed above, listing the current reserve balance and establishing the reserve target to be 25% of annual operating expenses starting in 2026. Historically, CSA 10A had a reserve target of 6 months (50%) operating expenses, however, the target was reduced to moderate the revenue needs and associated rate adjustments and reduce financial impacts to CSA 10A customers. While this lower target begins to rebuild reserves, it will be a smaller "rainy day" fund, will limit the amount of revenue available for reinvestment and may extend the timeline needed to complete infrastructure replacement projects.

Table 3

Reserve Type	Reserve Balance	Reserve Target - Year 1
Operating/CIP Reserve	$ -	$ 285,649
USDA Loan Reserve	$ 174,388	$ 174,388
Total	$ 174,388	$ 460,037

5.6 Financial Analysis and Revenue Shortfalls

This section evaluates current revenues compared to the revenue requirements needed to operate and maintain the water system, and maintain required USDA Loan reserve. A budget summary has been prepared and is presented in Table 4, showing projected revenues under current rates, required expenditures, and the resulting annual shortfalls over the five-year study period.

TABLE 4 CSA 10A Revenue Using Existing Rates	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Annual Base Water Billing Revenue	1,021,871	1,021,871	1,021,871	1,021,871	1,021,871	1,021,871
Annual Variable Water Billing Revenue	43,429	43,429	43,429	43,429	43,429	43,429
Estimated Other Revenue (Prop Tax & Interest)	124,444	126,932	129,471	132,061	134,702	137,396
Total CSA 10A Revenue	**1,189,743**	**1,192,232**	**1,194,771**	**1,197,360**	**1,200,001**	**1,202,695**
CSA 10A Revenue Requirements						
O&M Budget	1,144,039	1,141,856	1,187,530	1,235,031	1,284,433	1,322,966
Existing Debt	161,373	211,373	209,869	210,074	210,234	210,348
Total CSA 10A Revenue Requirements (non-capital)	**1,305,412**	**1,353,229**	**1,397,399**	**1,445,106**	**1,494,667**	**1,533,314**
Projected shortfall	**(115,669)**	**(160,997)**	**(202,629)**	**(247,746)**	**(294,666)**	**(330,619)**

Current rates do not generate sufficient revenue to cover even modest increases to operation and maintenance costs. Key cost drivers are typical and include rising labor expenses, increased vendor, materials and construction costs affecting both routine work and capital projects. As a result, even basic O&M activities increasingly rely on reserves to balance the budget.

If no rate adjustment is made, CSA 10A would be unable to generate the revenue necessary to meet its required funding levels. Under the existing rates, the system would be unable to adequately support ongoing maintenance and capital planning, meet loan obligations, and would completely exhaust reserves.

If no rate adjustments are made, CSA 10A would be unable to maintain existing service levels, respond effectively to emergencies, or undertake needed system reinvestment. Under these conditions, deferred maintenance and delayed infrastructure replacement would increase the likelihood of costly future failures, limit access to loan and grant funding due to depleted reserves, and ultimately raise long-term system costs.

Adjusting rates is necessary to eliminate the revenue shortfall, support reliable operations, meet loan obligations, and plan infrastructure projects.

5.7 Financial Strategy Summary

The financial strategy for CSA 10A ensures the water utilities long-term sustainability by aligning revenues with the costs of operations maintenance, capital improvement planning, debt service and reserve requirements while complying with proposition 218. The financial plan projects revenues and revenue requirements over a five-year period.

Table 5 provides the annual revenue increases recommended to meet the projected revenue requirements for the five-year Study period (FY 2026/27 to FY 2030/31). These increases are necessary to meet the revenue requirements discussed in previous sections.

Table 5						
	Budget	Projected				
Description	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Proposed Fixed Rate Increase		15.0%	5.0%	5.0%	5.0%	5.0%
Base Rate (Includes usage up to 14 CCF)	217.79	250.45	262.97	276.12	289.93	304.42
Variable Rate (14+ CCF)	12.07	13.88	14.57	15.30	16.07	16.87
Proposed Variable Rate % Increase		15.0%	5.0%	5.0%	5.0%	5.0%
Revenue						
Annual Revenue from Base Rate	$ 1,021,871	$ 1,175,111	$ 1,233,867	$ 1,295,560	$ 1,360,338	$ 1,428,355
Annual Estimated Revenue from Variable	43,429	49,941	52,438	55,060	57,813	60,704
Miscellaneous Revenue	13,100	13,493	13,898	14,315	14,744	15,186
Other Revenue (Prop Tax & Interest)	111,344	114,684	118,125	121,668	125,318	129,078
Total Revenue	$ 1,189,743	$ 1,353,229	$ 1,418,328	$ 1,486,604	$ 1,558,214	$ 1,633,323
Revenue Requirements						
Operations and Maintenance	$ 1,112,838	$ 1,142,597	$ 1,188,301	$ 1,235,833	$ 1,285,266	$ 1,323,824
Debt Service	211,373	210,632	209,869	210,074	210,234	210,348
Total Revenue Requirements	$ 1,324,211	$ 1,353,229	$ 1,398,170	$ 1,445,907	$ 1,495,500	$ 1,534,172
Net Income before capital	$ (134,468)	$ -	$ 20,158	$ 40,696	$ 62,714	$ 99,151
Capital						
Capital Financing - Master Plan Developme	-	-	-		60,000	-
Net Funds after Capital	**$ (134,468)**	**$ -**	**$ 20,158**	**$ 40,696**	**$ 2,714**	**$ 99,151**
Available Reserves						
Beginning Available Reserves	326,629	174,388	174,388	194,546	235,242	237,956
Addition (reduction) to Reserves	(152,241)	-	20,158	40,696	2,714	99,151
Ending Available Reserves	**174,388**	**174,388**	**194,546**	**235,242**	**237,956**	**337,107**
USDA Loan Reserve	$ 174,388	$ 174,388	$ 174,388	$ 174,388	$ 174,388	$ 174,388
Target O&M/CIP Reserves	$ 278,210	$ 285,649	$ 297,075	$ 308,958	$ 321,317	$ 330,956
TOTAL Reserve Target	**$ 452,598**	**$ 460,037**	**$ 471,463**	**$ 483,346**	**$ 495,705**	**$ 505,344**
Above (below) Target	(278,210)	(285,649)	(276,918)	(248,104)	(257,749)	(168,237)

The proposed rate increase is the minimum cost-based adjustment needed and is projected to provide revenues to meet ongoing operations and maintenance and debt service requirements. The proposed rate increase provides adequate revenue to maintain designated USDA Loan Reserve as required, but does not provide adequate revenues to build the Operating/CIP Reserve. Over the next 5 years, the CSA 10A Operating and CIP Reserve fund stay well below target levels.

6 Cost of Service Analysis and Unit Cost Analysis

CSA 10A currently uses a fixed charge that includes up to 14 units of water usage, with a variable volumetric charge applied to each unit of water used above 14.

6.1 Unit Costs

Current residential water service in CSA 10A is supported by a rate structure consisting of a minimum fixed charge that includes up to 14 CCF of water use, along with a variable charge applied to water use exceeding the included allowance. This approach provides a stable revenue source for recovering fixed system costs while also allocating a portion of costs based on customer water consumption.

CSA 10A fixed charges are intended to recover costs that are incurred regardless of the amount of water used. These costs include staffing, contracted operational services, water quality testing and laboratory

analysis, water treatment, accounting and water billing support, and debt service obligations. While these costs may increase over time due to inflation and other economic factors, they generally do not fluctuate significantly with water demand.

Table 6		
Fixed Costs		
Operations & Maintenance Fixed	$	1,175,111
Number of Customers		782
Annual Billing Periods		6
Fixed Cost per Customer	$	250.45

Table 6 – Fixed Costs summarizes the Fixed Operations and Maintenance costs identified in Table 2 and allocates those costs across the customer base to determine the fixed cost per customer per billing period. Based on this analysis, the calculated fixed cost is $250.45 per customer per billing period. This amount serves as the basis for the proposed fixed charge adjustment. The calculated fixed cost is approximately 15 percent higher than the current fixed charge per customer, indicating that an increase is necessary to more fully recover the utility's fixed operating and infrastructure costs.

The proposed fixed charge will increase 15 percent initially, followed by annual increases of 5 percent for the subsequent 4 years. These adjustments are intended to maintain adequate revenue as operating costs continue to rise. Implementing moderate annual adjustments will help keep rates aligned with the cost of service and reduce the need for larger corrective adjustments in future.

Variable charges are applied only to water consumption exceeding the 14 CCF included in the minimum fixed charge. This approach allocates usage-related costs to the customers responsible for those costs and helps ensure that rates remain proportional to the cost of providing service.

For CSA 10A, variable costs consist of expenses that increase as water production and system demand increase. These costs include electricity required to operate wells, pumps, and treatment facilities; water quality testing and monitoring activities; contracted services associated with system operations; and the variable component of water treatment costs, including treatment chemicals, energy consumption, and vendor services directly related to the volume of water produced and treated.

Table 7 separates the variable Operations and Maintenance costs identified in Table 2 and allocates those costs based on annual water consumption subject to the volumetric rate. Labor, administrative support, debt service, and the fixed portion of water treatment costs are excluded from the variable rate calculation because these costs are generally incurred regardless of water usage levels and are recovered through the fixed charge.

Table 7		
Variable Costs		
Operations & Maintenance Variable	$	49,941
Annual water Consumption +14 CCF		3,598
Variable Cost per CCF	$	13.88

Based on this analysis, the variable cost is calculated at $13.88 per CCF. This amount serves as the basis for the proposed volumetric rate applied to water consumption exceeding the 14 CCF included in the minimum fixed charge.

7 Proposed Rates

7.1 Proposed Rates

Customer Class	Bi-Monthly Base Rate (up to 14 CCF) Year 1	Variable Rate per CCF over 14 ($/CCF) Year 1
Residential, Commercial Public Authority	$250.45	$13.88

Phased: 15% increase in Year 1, then 5% annually for Years 2-5. Meter charges: Scaled by size in Table 8

Current Rates CSA 10A	
Meter Size	
1 inch meter	$ 18.75
1-1/4 inch meter	$ 19.75
1-1/2 inch meter	$ 20.75
2 inch meter	$ 24.75
3 inch meter	$ 30.75
4 inch meter	$ 36.75
Water customer Fixed Charge 0-14 CCF	$ 217.79
14+ CCF (per unit)	$ 12.07

Table 8

Proposed					
	Year 1	Year 2	Year 3	Year 4	Year 5
	Water Meter Fixed Charge (bi-monthly)				
	$ 18.75	$ 18.75	$ 18.75	$ 18.75	$ 18.75
	$ 19.75	$ 19.75	$ 19.75	$ 19.75	$ 19.75
	$ 20.75	$ 20.75	$ 20.75	$ 20.75	$ 20.75
	$ 24.75	$ 24.75	$ 24.75	$ 24.75	$ 24.75
	$ 30.75	$ 30.75	$ 30.75	$ 30.75	$ 30.75
	$ 36.75	$ 36.75	$ 36.75	$ 36.75	$ 36.75
	Fixed Charge (0-14 CCF)				
	250.45	262.97	276.12	289.93	304.42
	Variable Charges (per CCF above 14)				
	13.88	14.57	15.30	16.07	16.87

There are other fees charged in CSA 10A that are collected from customers, detailed below in Table 9. The discussion below addresses fees that are proposed to increase from the current fee, while the rest will remain unchanged. Each fee is calculated based on the cost of each service. The few rates proposed to increase have gone unchanged for several years and the proposed adjustment will align the fee with the current cost of service.

- **Connection Fee:** Covers the cost of new water connections and contributes to the initial capital investment in County infrastructure. It is calculated by dividing the net value of CSA 10A's fixed assets ($8,550,751) by the total number of customers (782), rounded down to the nearest multiple of ten totaling $10,930. Connection fees also help offset the cost of Nacimiento supplemental water supply.
- **Application Fee:** Reflects the administrative cost of processing new service connection applications. Based on staff time, this fee includes two hours of staff time at the Program Manager level, using actual salary and benefit rates.
- **Service Deposit:** Serves as a financial guarantee equal to half of the bi-monthly fixed minimum charge. It protects against unpaid final bills from non-owner customers. If the account remains in good standing, the deposit is fully refundable.

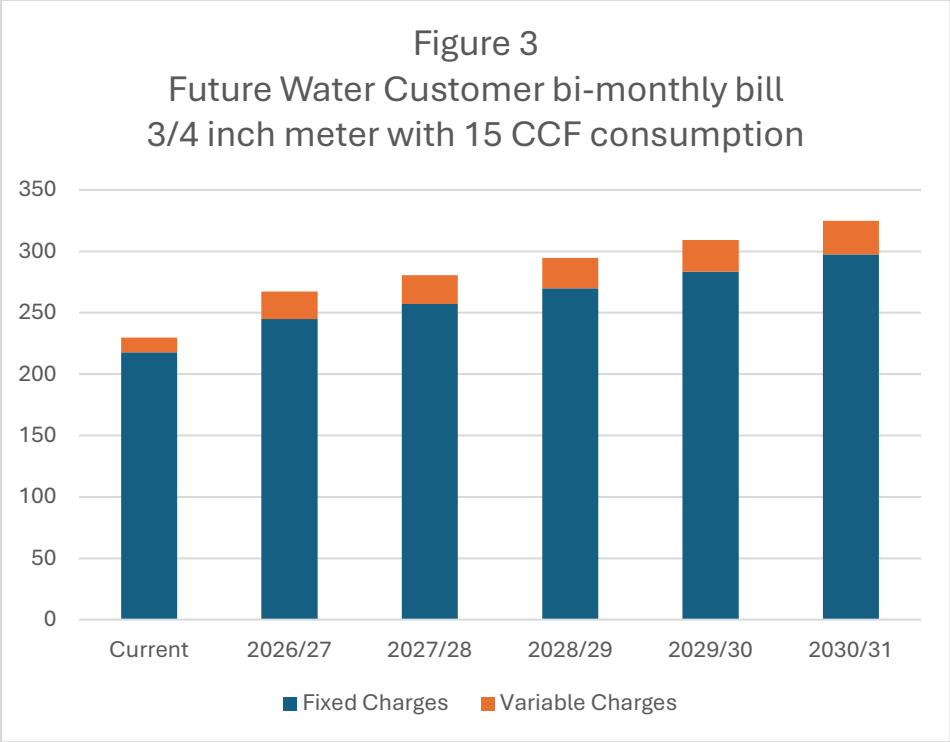
Current Fees CSA 10A		Table 9 Proposed Jul-26	Jul-27	Jul-28	Jul-29	Jul-30
		Establishing Water Service Connection				
Meter 5/8 or 3/4 inch	$ 325.00	$ 325.00	$ 325.00	$ 325.00	$ 325.00	$ 325.00
Meter 1 inch	$ 350.00	$ 350.00	$ 350.00	$ 350.00	$ 350.00	$ 350.00
Meter 1-1/4 or 1-1/2 inch	$ 375.00	$ 375.00	$ 375.00	$ 375.00	$ 375.00	$ 375.00
Installation of service	T&M	T&M	T&M	T&M	T&M	T&M
Connection Fee	$ 8,100.00	**$ 10,930**	$ 10,930	$ 10,930	$ 10,930	$ 10,930
Will Serve*	$ 1,000.00	1,000	1,000	1,000	1,000	1,000
Application Fee	$ 100.00	**$ 250.00**	$ 250.00	$ 250.00	$ 250.00	$ 250.00
		Other Charges				
Service Deposit	$ 60.00	**$ 130.00**	$ 130.00	$ 130.00	$ 130.00	$ 130.00
Service Reconnection	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00	$ 100.00
Violations during emergency	$ 60.00	$ 60.00	$ 60.00	$ 60.00	$ 60.00	$ 60.00
Violation (per CCF)	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00	$ 5.00
Damages	T&M	T&M	T&M	T&M	T&M	T&M
Fire Hydrant service charge*	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 1,500.00	$ 1,501.00
Non-Sufficient Fund (Checks)	County Fee	County Fee	County Fee	County Fee	County Fee	County Fee
Meter Testing Fee	$165 +3rd party	$165 +3rd party	$165 +3rd party	$165 +3rd party	$165 +3rd party	$165 +3rd party
* Deposit						
T&M is Time and Materials						

8 Customer Impacts and Bill Comparisons

8.1 Customer Impacts

Bi-monthly bills (14 CCF included) increase from $217.79 to $250.45 with variable rate increasing from $12.07 to $13.88 per unit above 14. The proposed adjustments include a 15% increase in Year 1, followed by 5% increases Years 2 through 5, with no additional inflators such as CPI applied.

Usage Level (CCF Bi-Monthly)	**Current Bill**	**Proposed Bill**
Low (e.g., up to 14)	$217.79	$250.45
Medium (15)	$229.86	$264.33
High (e.g., 30)	$410.91	$472.53



9 Recommendations

- Adopt the proposed rates.
- Rebuild reserve funds.
- Seek loans and grants to support future infrastructure improvements.

Appendix A: Glossary of Terms

Term	Definition
AFY	Acre-Feet per Year - a measure of annual water supply volume (1 AF ≈ 325,851 gallons). CSA 10A is allocated 190 AFY from the Cayucos Water Treatment Plant.
CCF	Hundred Cubic Feet - the standard unit of water measurement (also called one “unit”). 1 CCF = 748 gallons. Example: 8 CCF = 5,984 gallons.
CIP	Capital Improvement Plan - the schedule of planned infrastructure projects and replacements (e.g., Chaney Waterline Upgrade and future AC pipeline replacements).
CSA 10A	County Service Area 10A - the water utility serving approximately 782 customers in South Cayucos, fully funded by customer rates.
MHI	Median Household Income - the midpoint household income in the service area ($82,778 in 2023 per U.S. Census estimate). Used to evaluate affordability.
O&M	Operations and Maintenance – day-to-day costs to run the water system (labor, energy, chemicals, testing, etc.).
Operating Reserve	Funds set aside to cover 180 days (50%) of annual O&M expenses for cash-flow stability and emergencies.
USDA Loan Reserve	Required one-year debt-service reserve for federal USDA loans (maintained for the 2021 water storage tanks).