



## County Service Area (CSA) 23 – Zone A - Financial Analysis

County Service Area 23 currently provides street lighting, and water services to the unincorporated community of Santa Margarita. Zone A has been planned to incorporate Tract 2586 – Santa Margarita Ranch into residential water services. Tract 2586 is a subdivision consisting of 111 residential parcels at the completion of three proposed phases. The analysis provided in this report is related to Zone A.

### **Purpose**

The purpose of this rate study is to evaluate the financial requirements for water service in CSA 23A. The study assesses revenue requirements for operations and maintenance, and capital improvements planned for this system, determining the rate structure to generate that revenue.

### **Proposed Operations and Maintenance Budget and 4-year Forecast**

Fiscal Year	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Operations and Maintenance Budget	\$ 167,761	\$ 172,794	\$ 177,978	\$ 183,317	\$ 188,816

The Operations and Maintenance budget is broken down into the following components:

- **Labor Costs:** District Staff include Water Service Workers, Supervisors, Engineers and technical support staff. The cost per hour varies by position, total labor hours for the year equate to approximately 0.5 of one full-time equivalent employee.
- **Vendor Costs:** Outside vendors are often contracted to perform technical tasks that require additional expertise in addition to the purchase of system parts and other operations equipment.
- **Energy Costs:** Costs incurred from Pacific Gas and Electric for the conveyance of water.
- **Water Quality:** The SLO County Public Works Department, Water Quality Lab provides periodic sampling, laboratory testing and analysis of drinking water for this service area.
- **Administrative Support:** Annual software maintenance cost for utility billing software. Labor costs for an Accountant's time spent to develop the annual budget, provide periodic reporting as required.
- **Debt:** There is currently no debt obligations connected to this service area.
- **Reserves:** Planned savings for future capital replacements.

## Proposed Operations and Maintenance Budget (continued)

County Service Area 23A - Operations and Maintenance Budget and Forecast					
Fiscal Year	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Labor	\$ 75,921	\$ 78,199	\$ 80,545	\$ 82,961	\$ 85,450
Vendors	\$ 47,875	\$ 49,311	\$ 50,790	\$ 52,314	\$ 53,883
Energy	\$ 9,460	\$ 9,743	\$ 10,036	\$ 10,337	\$ 10,647
Water Quality	\$ 24,465	\$ 25,199	\$ 25,955	\$ 26,733	\$ 27,535
Administrative Support	\$ 10,041	\$ 10,342	\$ 10,652	\$ 10,972	\$ 11,301
Debt	\$ -	\$ -	\$ -	\$ -	\$ -
Total	\$ 167,761	\$ 172,794	\$ 177,978	\$ 183,317	\$ 188,816

The proposed routine operations and maintenance budget for the CSA 23 Zone A system has used the existing CSA 23 system as a baseline for anticipated expenditures connected to servicing 111 residential units in the Santa Margarita area. The proposed phased approach of buildout will proportionally align with anticipated expense and water usage revenues to fund operations and maintenance in Zone A.

Infrastructure to support the full buildout of 111 lots will be contributed and accepted by the CSA, including SCADA, two groundwater wells and a bolted water storage tank to support fire flow.

## Proposed Capital Improvement Plan

No projects have been planned for Zone A within the next 5-year period. Looking further into the future, the 288,000-gallon steel bolted tank is expected to need replacement approximately 30 years from installation. The current estimated replacement value is \$1,295,000, to be incorporated into a fixed charge for Zone A residents, detailed in the fixed charge component of the Proposed Rate Structure section below.

## Proposed Rate Structure

Zone A will have a mixed rate structure that will provide revenues sufficient to support both fixed costs and variable costs driven by increased water usage, such as electricity and chemicals. The overall rate structure is based on rates and future needs of CSA 23, with an added base rate component to establish a tank replacement reserve. These rates are intended to set a rate ceiling based on expectations for the operating budget. Rates will be reviewed and increased annually to capture CPI increases to ensure revenue keeps pace with cost increases. Service charges will be initiated as residential customers are connected to and receive CSA 23A water service.

### - **FIXED CHARGE (Base rate)**

The proposed bi-monthly base rate to support Zone A fixed costs will be \$141.43, regardless of water usage. This represents the minimum amount of revenue needed for this water system to recoup the cost of providing services, ensuring revenue stability. This rate will support ongoing fixed costs, including a minimum level of support from the water operations team, required water quality support, testing and analysis, utility billing software costs and administrative support labor hours to support the annual budget and reporting

requirements. The annual fixed charge component of the budget is detailed below, which equates to the bi-monthly fixed charge for 111 homes.

Rate Component	Fixed
Labor	\$ 56,978
Vendors	\$ 2,714
Energy	\$ -
Water Quality	\$ 24,465
Administrative Support	\$ 10,041
Debt	\$ -
Capital Reserve	\$ -
<b>Total</b>	<b>\$ 94,197</b>

Fixed Revenue	
Fixed Charge per customer	\$ 141.43
Number of Customers	111
Annual Billing Periods	6
$\$141.43 \times 111 \times 6$	\$ 94,192
<b>Total Annual Fixed Revenue</b>	<b>\$ 94,192</b>

In addition to the primary base rate charge of \$141.43, a base charge for capital improvements will be incorporated into the Zone A rates. As mentioned in the proposed capital improvement plan above, replacement for the bolted water storage tank will be amortized over 30 years to establish a tank replacement reserve for expected tank replacement. This will result in a fixed bi-monthly charge to Zone A residents of \$64.81, reflected below.

Tank Replacement Costs	
Total Replacement Value	1,295,000
30 year amortization	43,166.67
Cost per lot (111)	388.89
<b>Base rate addition</b>	<b>\$ 64.81</b>

Capital Improvements Revenue	
Capital Charge per customer	\$ 64.81
Number of Customers	111
Annual Billing Periods	6
$\$64.81 \times 111 \times 6$	\$ 43,163
<b>Total Annual Capital Revenue</b>	<b>\$ 43,163</b>

Combined, these two components will result in a bi-monthly base rate of \$206.24 shown below in the five-year rate table. Following the adoption of the proposed rate structure, the Public Works Department will increase the current rate annually by the consumer price index (CPI) until five years from the Effective Date of the Ordinance. The basis for CPI will align with the Bureau of Labor Statistics as approved by the County's Board of Supervisors on May 7, 2019, in Resolution No. 2019-123.

Proposed CSA 23A Base Rate	Year 1	Year 2	Year 3	Year 4	Year 5
Bi-monthly base rate	141.43	Prior Rate + CPI	Prior Rate + CPI	Prior Rate + CPI	Prior Rate + CPI
Bi-monthly base rate for Tank Replacement	64.81	Prior Rate + CPI	Prior Rate + CPI	Prior Rate + CPI	Prior Rate + CPI
<b>TOTAL BASE RATE</b>	<b>206.24</b>				

- **VARIABLE CHARGE (Usage rate)**

The proposed bi-monthly variable rate to support Zone A variable costs will be \$7.36 per hundred cubic feet (unit) or 748 gallons of water used. This rate is intended to support costs caused by an increase in water usage, including increased energy costs and chemical costs connected to the delivery of water in addition to contributing to operating reserves for future efforts as needed and is structured to reflect actual usage, meaning customers who use more water will pay a proportionately higher amount, helping ensure that the system remains well-funded and capable of meeting future needs. The annual variable charge component of the budget is detailed below, which equates to the bi-monthly variable charge based on an average residential water consumption of 15 units.

Rate Component	Variable Budget
Labor	\$ 18,943
Vendors	\$ 45,161
Energy	\$ 9,460
Water Quality	\$ -
Administrative Support	\$ -
Debt	\$ -
Capital Reserve	\$ -
<b>Total</b>	<b>\$ 73,564</b>

Variable Revenue	
Variable Rate per unit	\$ 7.36
Average Consumption	15 units
Total Customers	111
Annual Billing Periods	6
Variable Rate x Usage x Customers x Billing Periods	
$\$7.36 \times 15 \times 111 \times 6$	\$ 73,526.40
<b>Total Annual Variable Revenue</b>	<b>\$ 73,526.40</b>

Bi-Monthly invoices will be mailed to residents based on the fixed and variable components of the rate structure to support the operating budget, a contribution to both operating reserves and capital reserves. This service area will be accounted for in a fund established specifically for water service in CSA 23A, all funds collected and expended in this fund will be accounted solely for that purpose.

The average usage in the existing CSA 23 area is currently 15 units, the table below represents an example bi-monthly water bill for a resident using 15 units over a 60-day period.

Example Water Bill for Average Customer	
Total Bi-monthly base rate	206.24
Variable usage rate per unit	7.36
Total Base Rate	206.24
Total Variable $\$7.36 \times 15$ units	110.4
<b>Total Average Bi-Monthly Bill</b>	<b>\$ 316.64</b>