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.

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		***as of Aug 2016***	
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		**$65,397,369**	
Current Sewer System Capacity		28,439	EDU
Proposed Sewer Capacity Fees in 2016$		**$2,300**	per EDU
Asset Year CCI 2016		11,248	ENR CCI Los Angeles
Current Year CCI 2017		11,549	ENR CCI Los Angeles
CCI Adjustment Factor		**1.03**	
Proposed Sewer Capacity Fees in 2017$		**$2,361**	per EDU

Go to EDU Data Sourc

East Orange County Water District — **Sewer Capacity Fees Analysis**

Asset List Summary

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

Asset Summary

			Pipe Lengths (Linear Ft) by Pipe Size (inch)									
Sewer Pipelines	**Miles**	**Linear Ft**	**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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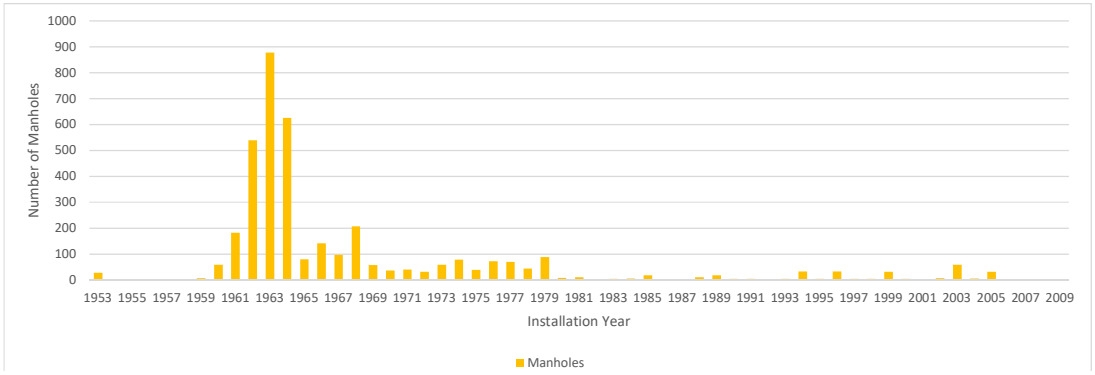
Selected Value

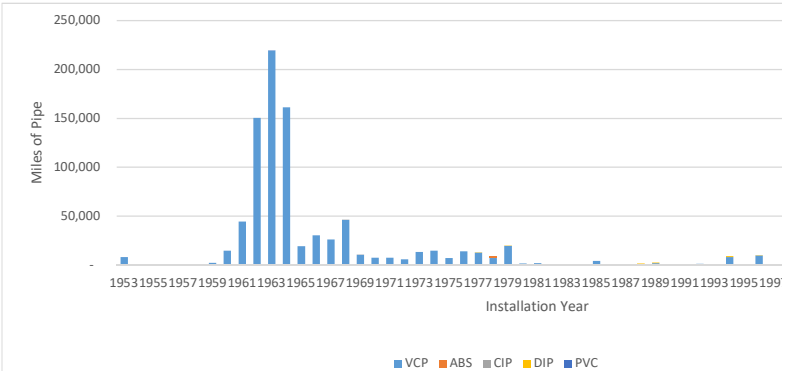
Sewer Asset Costs

Pipe Diameter	**Unit Cost**	**Rehab Cost (30%**	**Quantity**	**Replacement Costs**	**RCLD**	**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**

Sewer Asset Lives

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





East Orange County Water District — **Sewer Capacity Fees Analysis**

Reserves Information

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**

East Orange County Water District — **Sewer Capacity Fees Analysis**

Current Connections

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**