City of Lompoc

June 13, 2013

2013 Wastewater Rate Study

Administrative Draft Report

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Executive Summary

The wastewater enterprise of the City of Lompoc (City) is a division of the City which has the mission to collect and treat effluent from properties within its service area. In 2007, the City broke ground on a treatment facility expansion project, known as the Lompoc Regional Wastewater Reclamation Plant Upgrade Project (LRWRPP Project), to meet waste discharge requirements issued by the Central Coast Regional Water Quality Control Board. The City funded the LRWRPP primarily through a State Revolving Fund Loan (SRF Loan) equal to approximately $75 Million and the LRWRPP was completed in 2012 at a total cost of approximately $105 Million. The LRWRPP also receives discharge from the Vandenberg Village Community Services District (VVCSD) and the Vandenberg Air Force Base (Base) through long-term agreements with the City. As such, these agreements require the CSD and Base to submit annual payments based on percentage of total flow and demand to fund operations, capital, as well as debt service payments.

The City completes an independent review of its rates periodically and the last comprehensive rate study was completed in 2005 and outlined multi-year phased rate increases, with the last increase occurring in 2010. It is common industry practice and highly recommended for water/wastewater agencies to have an independent review of its long-term financial plan and wastewater rates at least every five years. In the case of the City, the last study was prior to the SRF Loan and didn't incorporate the new debt service obligation, which is a primary driver of needed revenue adjustments.

Besides the SRF Loan, which requires 100% coverage on the annual debt service payments, the City also has debt associated with revenue bonds that requires 125% coverage on the annual debt service pursuant to the bond covenants. Bond covenants are a binding contractual agreement between the City and bondholders that require the City to ensure that the coverage ratio is maintained by increasing rates if necessary. Through the course of this study, the City received a downgrade from A1 to A2 to its bonds by the Moody's Investor Service Rating Agency, in the fourth quarter of 2012, due to a very slim debt service coverage ratio and failure to increase rates in a timely manner in recent years.

Although the City is currently in compliance with each of the bond covenants by utilizing available rate stabilization reserve fund monies, reserves are depleting and additional revenues will be required to maintain coverage while funding operations, capital and rebuilding reserve fund balances. While revenue adjustments and corresponding rate increases are never desired, the 10-year financial plan developed herein ensures that the appropriate minimum debt service coverage is maintained for its bond covenant.

The financial plan, cost of service analysis, and rate design was comprised of several components and these were presented to the City's Utility Commission and the City Council through multiple publicly noticed meetings. These presentations included educational background on rate design, reserve policies, growth projections, discharge projections, revenue adjustments, and the review of existing customer classes.

The key to developing a sound rate structure of the wastewater utility is to review and confirm the fiscal objectives of the enterprise and create a 10-year financial plan that meets these objectives in the near-term and long-term. There are many ways to reach the end result, but based on the unique characteristics and priorities of the City, a tailored financial plan and rate design was created to meet the City's fiscal objectives. The following are the primary fiscal objectives of the City's Wastewater Utility, in order of priority:

- Ensure compliance with Bond Covenants including debt service reserve requirements
- Repay internal loan from pool funds of the City
- Revenue adjustments should be leveled as much as possible
- Build up Operation Reserve to 90-days of O&M expenses over a reasonable period of time
- Achieve a self-supporting Utility Enterprise
- Set money aside on an annual basis to reinvest in capital infrastructure

The City has a sound implementation process for updating its utility rates, which includes multiple layers of review and discussion starting with City staff, then the City Utility Commission, followed by City Council. Through the course of this study, multiple scenarios were developed and presented ranging from meeting the City's objectives quickly or through a measured approach over the course of 10 years. Each case had different financial implications to the City and rate impacts to affected customers. However, the comparative analysis between scenarios and discussion revealed the most appropriate financial plan to accept for the City and its constituency.

Through three separate meetings with the City's Utility Commission, two scenarios were refined and presented that included a 5-year financial plan and a 10-year financial plan. The 5-year financial plan was structured to achieve the objectives identified above with revenue adjustments over the next five years equal to 21%, 17%, 11%, 11%, and 11%. Alternatively, the 10-year financial plan wouldn't fully fund reserves until Fiscal Year 2021-2022, but would minimize revenue adjustments over the next five years as follows: 21%, 12%, 8%, 5%, and 5%. In an effort to rectify the current financial health of the utility in a timely manner, the Utility Commission supported the 5-year financial plan over the 10-year financial plan because it would reach the utility's fiscal objectives within the 5-year noticing timeframe and would not require future utility commissioners to approve future revenue adjustments between years 6 through 10 that were not necessitated under their watch.

The two scenarios were also presented to City Council on January 8, 2013 and then again on March 5, 2013 as Council Member Holmdahl was not present at the January 8, 2013 meeting. On March 5, 2013, the City Council reviewed and discussed the 5-year and 10-year financial plans and ultimately gave direction on a hybrid of the two scenarios reflecting revenue adjustments equal to 21%, 10.5%, 10.5%., 10.5%, and 10.5% (the Financial Plan). The Financial Plan will, in order of priority:

1) Ensure compliance with bond covenants,
2) Mitigate revenue adjustments in future years,
3) Generate positive net income in the second fiscal year,
4) Build up at least 90-days of operating reserves within the next 5 years, and
5) Set aside funds for reinvestment in the City's capital replacement program.

The corresponding rates associated with this Financial Plan of the next five years are listed below:

Figure E-1: Recommended Wastewater Charges*

	July 1, 2013	July 1, 2014	July 1, 2015	July 1, 2016	July 1, 2017
	Variable Charge	Variable Charge	Variable Charge	Variable Charge	Variable Charge
Average Residential / Office Only[1]	$ 6.22	$ 6.87	$ 7.60	$ 8.40	$ 9.28
Average Commercial[2]	$ 8.35	$ 9.23	$ 10.20	$ 11.27	$ 12.45
Average Industrial[3]	$ 8.78	$ 9.70	$ 10.72	$ 11.84	$ 13.09

1. Customer class includes but is not limited to the following land use types: residential, Professional offices, department stores, banks, nurseries, churches, lumber yards, wine tasting, etc.

2. Customer class includes but is not limited to the following land use types: auto steam cleaning, bakery-wholsale, Wine bottling, medical offices, convalescent care facilities, restaurants, schools, light manufacturing, etc.

3. Customer class includes but is not limited to the following land use types: industrial, specialty shop, gas station,water conditioning, wine/food processing, etc.

*Minimum Charge equaled to 5 HCF for all Customer Classes

The continued annual review of water usage to determine customer billing units is recommended to continue. In addition, the new classification of customers will simplify the variable rate structure while incorporating known differences in the complexity of effluent received from each customer class. The minimum charge for any customer will increase from four units to five units in recognition of the larger fixed costs of the utility as a result of the LRWPP, which equate to approximately $41/month/customer for the debt service payment related to the remaining $91M in principle outstanding.

Introduction

In 2012, the City of Lompoc (the "City") selected Willdan Financial Services to perform a wastewater rate analysis and financial plan. This analysis provides financial recommendations that focus on two key objectives: short and long-run financial health and stability; and, equitable cost-of-service rates.

The initial review of the City's existing rate structure suggested that it does not charge rates that reflect the true cost of providing wastewater services and facilities to the City's customers for the long term. As such, the existing rates fail to generate sufficient revenue to fund existing and projected expenditures (operations, maintenance, and capital) and reserve targets. Without revenue adjustments, existing rates would result in running an annual net loss for the enterprise. Running a net loss has brought the utility into a negative wastewater fund cash balance.

All sewage for the roughly 50,000 customers is treated at the Lompoc Regional Water Reclamation Plant (LRWRP). The LRWRP receives wastewater from the Vandenberg Village Community Services District (VVCSD), Vandenberg Air Force Base (Base), and the City of Lompoc. The existing LRWRP was constructed in 1976-77 and significantly modified in a major 2007 upgrade to meet decidedly more stringent discharge requirements. The plant currently has an average dry weather design flow capacity of 5.5 million gallons per day (mgd), a permitted discharge limit of 5.0 mgd, and typically discharges approximately 3 mgd to San Miguelito Creek. The upgraded plant is a Class IV tertiary treatment facility equipped with influent screening and pumping, a grit removal system, oxidation ditches, secondary clarifiers , flow equalization, tertiary cloth-media filtration, and an ultraviolet light disinfection system. Solids are separated via dissolved air flotation thickening, and then transferred to aerobic digestion, facultative sludge lagoons, and drying beds; biosolids are yielded to compost.

The City also operates an industrial pretreatment program to control industrial and commercial discharges to the sanitary wastewater system. The City is located in Santa Barbara County approximately 10 miles inland from the Pacific Ocean and 55 miles northwest of the City of Santa Barbara. The City maintains approximately 111 miles of wastewater mains. The City is committed to maintaining its sewage collection, treatment and disposal systems as a model for other communities.

This report details the methodology, approach, and results of this analysis. Based on discussion with City staff, guidance and direction from the City Council throughout the process, this report presents the recommended revenue adjustments and the corresponding rate impacts.

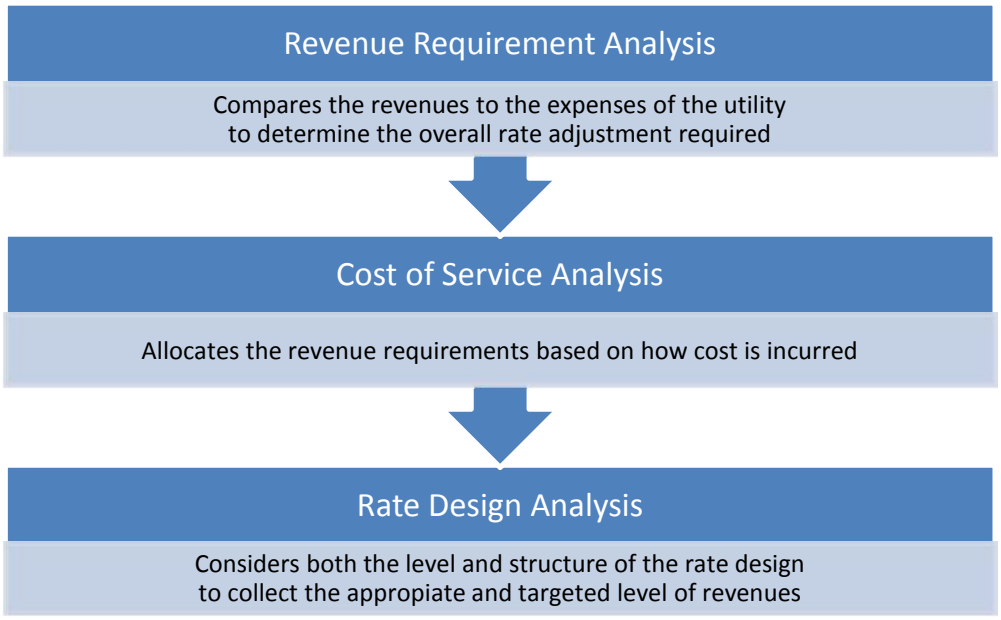
Overview of the Rate Setting Process

The scope of this study included the development of cost-based water and wastewater user charges through a comprehensive cost of service and rate design analysis. Utility rates must be set at a level where a utility's operating and capital expenses are met with the revenues received from customers. This is a significant point, as failure to achieve this level could lead to a situation where insufficient funds are available to adequately maintain the system. A comprehensive rate study typically consists of following three interrelated analyses.

I. ***Financial Planning/Revenue Requirement Analysis***: Creation of a ten-year plan to support an orderly, efficient program of on-going maintenance and operating costs, capital improvement and replacement activities, debt financing, and retirement of any outstanding debt. In addition, the long-term plan should fund and maintain reserve balances to adequate levels based on industry standards and the City's fiscal policies.

II. ***Cost of Service Analysis***: Identifies and apportions annual revenue requirements to customers based on their demand on the utility system.

III. ***Rate Design:*** Develops an equitable and proportionate schedule of rates to recover the costs of the utilities. This is also where other policy objectives can be achieved, such as building up a certain level of reserves for operations and capital expenses. The policy objectives are harmonized with cost of service objectives to achieve the delicate balance of equity, financial stability and resource conservation goals.



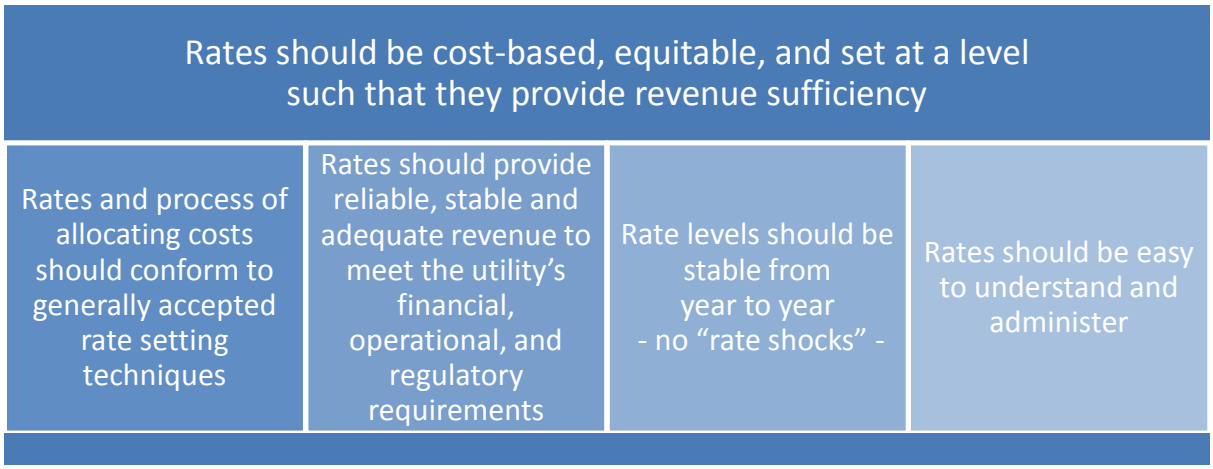
Rate Setting Principles

The primary objective when conducting this comprehensive rate and financial analysis was to determine the adequacy of the existing rates (pricing, structure, and revenue sufficiency) and provide the basis for any necessary adjustments to meet the City's operating and capital needs and policy objectives. The City desires a rate structure that fully funds operations, maintenance, and capital costs while providing long term funding of reserves.

Financial Management, Policies, and Rates

A financial plan revolves around the development of a proper long and short-term balance of revenues and expenditures. The following provides an outline of the City's financial targets and policies, and the financial foundation of the cost of service and rate analysis. Over the past years, many generally accepted principles or guidelines have been established to assist in developing utility rates. The purpose of this section of the report is to provide a general background of the methodology and guidelines used for setting cost based utility rates, in order to provide a higher-level understanding of the rate setting approach detailed later in this report.

As a practical matter, there should be a general set of principles used to guide the development of water and wastewater rates. For water rates, the American Water Works Association (AWWA) establishes these principles in the M1 Manual – *Principles of Water Rates, Fees and Charges.* For wastewater rate setting, the Water Environment Federation (WEF) establishes similar guidelines. These guiding principles help to ensure there is a consistent global approach that is employed by all utilities in the development of their rates (water and water-related utilities, including wastewater and reclaimed water). Below is a summary listing the established guidelines, which public utilities should consider when setting their rates. These closely reflect the City's specified objectives.



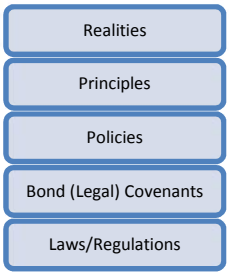
These guidelines, along with the City's objectives, have been utilized within this study as a framework to help develop utility rates that are cost-based and equitable.

Overview of Rate Setting Environment, Objectives, Process

Rate analyses are typically performed every few years to ensure that revenues from rates are adequately funding utility operations, maintenance, and future capital needs. In California, rate analyses also require compliance with the cost-of-service principles imposed by Proposition 218 to ensure that rates correlate to how costs are incurred.

Considerations in Setting Revenue Requirements

There are a multitude of considerations, ranging from financial to political to legal, which must be analyzed or discussed during the revenue requirements process of a rate analysis. This section, along with the accompanying graphic, provides an overview of the considerations that are reviewed during this process.



Capital Budgeting and Financing

Capital needs are defined by the City's Capital Improvement Plan. As part of its budget and planning process, the City identifies capital improvements that are necessary for the continued collection and treatment of wastewater in accordance with increasingly stringent wastewater standards. The Capital Improvement Plan is funded by a variety of sources including system depreciation, wastewater rates, connection (impact) fees, and capital reserves. Recent economic realities, including slower than anticipated growth and usage, have reduced funding and/or delayed funding of critical system improvements.

Capital Funding: Debt vs. PAYGO

The selection of the most appropriate funding strategy for capital projects is primarily a policy decision between use of cash ("Pay-as-you-go financing" or PAYGO), the issuance of debt (bonding), or a combination. PAYGO is the use or build-up of cash to fund capital improvements. With debt financing, capital improvements are paid for with borrowed funds (usually through the issuance of bonds) with the obligation of repayment, typically with interest, in future years. Development of an optimal capital financial plan depends on the definition of optimal. Each funding mechanism has a different impact on rates in the short and long run, different net present values, risks, and legal obligations. Due to the borrowing costs associated with debt, cash funding can be cheaper in the end; however, debt typically ensures greater generational equity for larger and longer lasting capital projects.

Our review of the City's historical and planned Capital Improvement Plan revealed that the City does not have sufficient funding on hand to meet its planned capital investments without a significant increase to rates.

Revenue Requirements

The method used by most public utilities to establish their revenue requirements is called the "cash basis" approach of setting rates. As the name implies, a public utility combines its cash expenditures over a time period to determine their required revenues from rates and other forms of income. The figure below presents the "cash basis" methodology.

Figure 1-1: Overview of the "Cash Basis" Design

+ Operation and Maintenance Expenses
+ Taxes
+ Capital Additions Financed with Rate Revenue
+ Debt Service (Principal and Interest)
= Total Revenue Requirements

To ensure that existing ratepayers are not paying for growth-related capital projects, Willdan reviewed existing, approved/pending, and proposed Capital Improvement Projects (CIPs) with City staff in order to allocate projects between new (growth) and existing customers (operations and maintenance or "O&M"). Additionally, capital replacement expense (depreciation) is sometimes included in the cash basis approach to stabilize annual required revenue by spreading the replacement costs of a depreciated asset over the expected life of the asset, or through the term of a bond issue.

Based on the revenue requirement analysis, the utility can determine the overall level of rate adjustments needed in order for the utility to meet its overall expenditures.

Financial Planning

In the development of the revenue requirements, certain parameters are utilized to project future expenditures, growth in customers and usage, and necessary revenue adjustments. The City's budget documents are used as the baseline, which are then projected over a ten-year planning horizon to account for fluctuations in costs from year to year as well as adjustments to debt service payments.

Conservative growth assumptions and prudent financial planning are fundamental in ensuring adequate rate revenue to promote financial stability. The developed financial model considers the City's existing debt service coverage ratio and operating cash balances (cash on hand). In addition, as part of the financial planning, municipal bond financing is incorporated into the model to fund necessary capital improvements, including repair and replacement. The cost of depreciated infrastructure is collected through rate revenue and used to fund annual repair and replacement of the infrastructure as it ages. As debt is redeemed, additional bonds may be utilized to fund additional capital improvements required due to aging infrastructure.

Rate Setting Principles Summary

In meeting the overall objectives of the City, the rate design must also conform to the State Constitution and the State's Water Code. More specifically, Proposition 218 requires that property related fees and charges, such as utility rates (as affirmed in Bighorn-Desert View Water Agency v. Verjil), not exceed the reasonable cost of providing the service associated with the fee or charge, and shall also not exceed the proportional cost of the service attributable to the parcel that is subject to the fee or charge.

Rate Design

The final element, the rate design process, applies the results from the revenue requirements to develop rates that achieve the general guidelines, policies and objectives of the City, and compliance with the provisions of law. These objectives are achieved through the development of cost-based rates, but may also account for adjustments to expenditures or the level of cash reserves to balance rate shock, continuity of past rate philosophy, ease of administration, and legal requirements. This section of the report incorporates the general principles, and techniques used to set utility rates. These principles and techniques were the starting point for this rate study and the groundwork used to meet the City's key objectives in analyzing and redesigning their utility rates.

This utility rate study was performed to allocate the costs of providing service to users in order to ensure that the resulting rates are equitable and in compliance with Proposition 218 requirements. The total cost of serving the City's customers is determined by distributing each of the utility cost components based upon the service demands placed on the City by its customers. Therefore, a cost of service rate study enables a utility to adopt rates based on the costs incurred to serve its customers and corresponding accounts. The purposes of this cost of service study include defining the proportional allocation of the costs of service to users and deriving unit costs to support the development of wastewater rates.

Wastewater Rate Analysis

The wastewater utility is in a similar financial position when compared to the water fund. Similar to the water utility, the wastewater utility currently has a negative operations reserve, the Wastewater Fund is facing increased future expenditures related to operations, debt service and a need to repair and replace aging infrastructure. This section of the report outlines the details of the analysis and the approach to developing the recommendations.

Wastewater Discharge and User Characteristics

As wastewater usage (discharge) is not metered, an examination of seasonal water consumption plays a critical role in ensuring equitable and revenue sufficient rates. Willdan examined the previous five years of billing data provided by the City. Multiple years of data were analyzed to ensure short-term anomalies did not skew the data analysis and long-term trends were captured. These discharge assumptions were cross-analyzed against treatment plant information (gallons treated) to confirm the appropriateness of the user discharge analysis.

Customer Statistics

During the Fiscal Year 2012, an analysis of the wastewater billing data, provided by the City, revealed service to an estimated 12,639 units across 33 different customer classifications, and discharging an estimated 1.474 million Hundred Cubic Feet (HCF) of wastewater. A projection of units, discharge, and loading strengths is necessary in the evaluation of the revenue requirements. This projection is critical for the determination of revenues from rates, escalation of treatment-related costs, and design of the rates. As previously mentioned, the City also receives and treats discharge from the VVCSD and the Base through long-term agreements with the City. These agreements account for the loading and total flow generated by these two outside areas and the cost of serving these two areas are recovered and removed from the revenue requirements charged to customers within the City.

Revenue Requirements Analysis

Similar to water, the first step in a wastewater rate analysis is the review of required revenues. The result of this analysis is a snapshot of the utility's existing financial health, which is necessary to determine current and future revenue needs. To ensure that both short and long-term financial health were reviewed, Willdan performed a 10-year financial outlook; however, for the purposes of this study, rates and financial projections will be limited to 5 years. Willdan reviewed expenditures (operation and maintenance (O&M), capital, and reserves requirements) against revenues (rate revenue, capacity fee revenues, etc). Willdan also analyzed and reviewed the wastewater fund's historical and current financial statements, three years of water consumption records, capital improvement programs and plans, reserve policies, and conferred with staff to forecast future expenditures.

Existing Wastewater Revenues

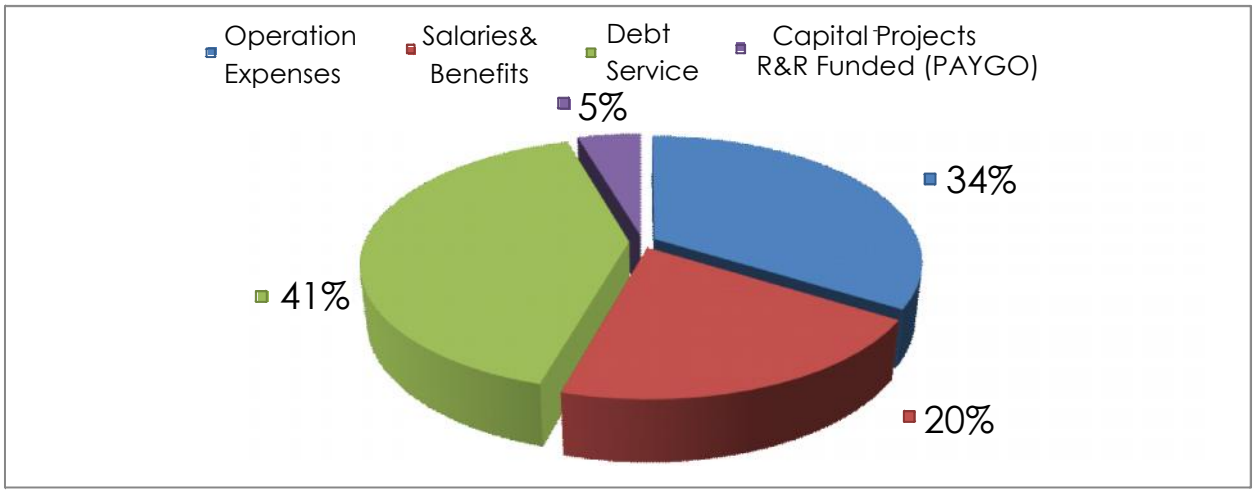
Similar to Water, the Wastewater Fund receives a majority of its revenues from rates. In Fiscal Year 2011-2012, the Wastewater Fund yielded $7.99 million in operating rate revenue, compared with $71 thousand in non-operating revenue.

Existing Wastewater Expenditures

To achieve long-term financial health, a utility's revenues must be sufficient to meet total expenditures or cash obligations. This "required revenue" includes all incurred costs related to operation and maintenance, capital improvement programs, and principal and interest payments on existing or proposed debt.

As demonstrated by Figure 4-1, Wastewater Fund expenditures were categorized into one of four classifications: (1) Operation Expenses; (2) Salaries & Benefits; (3) Debt Service; and (4) Capital Improvement;. The pie chart below demonstrates the relative size of the various expense categories over the study period.

Figure 4-1: Wastewater Fund - Cost Distribution by Expenditure Classification



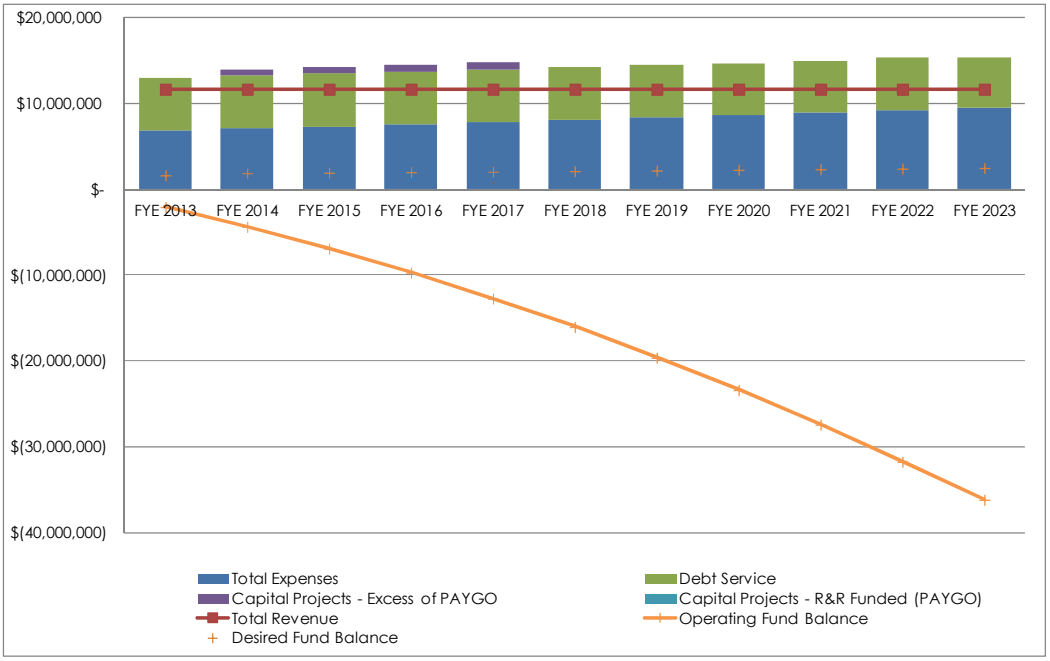
The City prepares a list of wastewater related capital improvements to address current and future system needs. As a result of the economic downturn, and in an attempt to limit capital expenditures, the utility has reduced or delayed capital projects to only essential and critical needs.

Through the study period debt service costs, related to principal and interest on the existing debt service account for a roughly forty-one percent (41%) of the wastewater fund's expenditures. Revenues must be targeted to ensure the City meets its debt service coverage requirements, of 1.25, on any existing and proposed debt service.

In addition, to maintain financial flexibility, the wastewater fund has a target to maintain an operating reserve of nearly $1.9 million cash on hand (90 days of operating expense) as part of its recommended reserve policy. At the end of June (FYE 2012), the wastewater fund had a negative cash balance of nearly $2.00 million. With the shortfall in the reserves, daily operational needs and capital projects will burden the City's current reserve levels.

Figures 4-2 demonstrates the Baseline Scenario for the Wastewater Fund. This represents current and projected financial conditions of the wastewater utility absent any revenue adjustment (increases) over the next 5 years. As the figure illustrates, existing revenue levels are unsustainable and the wastewater fund is forecasted to continue to run at a loss.

Figure 4-2: Wastewater - Baseline Financial Scenario



The declining orange line (lower line) shows the fund's projected ending cash balance. While short-term drops or dips of reserve levels are acceptable, given the beginning cash balance, the continued downward trend must be reversed with revenue adjustments, as the illustrated baseline scenario is unsustainable.

Revenue Requirement Summary

Given the existing financial condition of the utility, without near term revenue adjustments, the City's wastewater fund will not be able to meet its objectives without significant increases in rates in the future. As such, Willdan worked with City staff, the Utility Commission, and the City Council to seek input for the development a financial plan and rate structure that provides appropriate adjustments to provide continued financial stability throughout the study period. Numerous financial scenarios were analyzed and presented over the course of the study. The results and recommendations provided in the analysis were presented in March 2013 and stakeholders were subsequently mailed a Proposition 218 Noticed in June 2013. The recommended financial scenario was structured and analyzed to achieve a positive net income within the five-year study period and to maintain be incompliance with the City's Debt Coverage Ratio.

Figure 4-3 details the existing and projected expenditures of the wastewater fund and the corresponding impact of the revenue adjustments on the fund's financial health.

Figure 4-3: Wastewater - Revenue Requirements Analysis

Description	FYE2014	FYE2015	FYE2016	FYE2017	FYE2018
RevenuefromRates	Projected				
RESIDENTIALSALES/CHARGES	$7,923,342	$7,923,342	$7,923,342	$7,923,342	$7,923,342
RECLAIMEDWATERSALES	3,648	3,648	3,648	3,648	3,648
EXTRASTRENGTHSEWERCHARGES	71,075	71,075	71,075	71,075	71,075
TotalOperatingRevenue	$7,998,065	$7,998,065	$7,998,065	$7,998,065	$7,998,065
AdditionalRateRevenueRequired					
FYE2014	1,679,600	1,679,600	1,679,600	1,679,600	1,679,600
FYE2015		1,016,200	1,016,200	1,016,200	1,016,200
FYE2016			1,122,900	1,122,900	1,122,900
FYE2017				1,240,800	1,240,800
FYE2018					1,371,000
TotalAdditionalRateRevenue	$1,679,600	$2,695,800	$3,818,700	$5,059,500	$6,430,500
TotalRequiredRevenue	$9,677,665	$10,693,865	$11,816,765	$13,057,565	$14,428,565
OperationExpenses					
Salaries&Benefits					
SALARIESFULLTIME	209,930	218,328	227,061	236,143	245,589
SALARIESOVERTIME	1,082	1,125	1,170	1,217	1,265
SALARIESPARTTIME	23,537	24,478	25,457	26,476	27,535
SALARIESSTANDBYPAY	21,963	22,841	23,755	24,705	25,694
INSURANCEBENEFITS	56,655	58,921	61,278	63,729	66,279
PTMEDI-CARE/WC/UNEMPINS	2,555	2,657	2,763	2,874	2,989
INSURANCEBENEFITS-OTHER	318	331	344	358	372
RETIREMENTBENEFITS	53,549	55,691	57,918	60,235	62,644
PTRETIRE-NONPERSCOVERED	883	918	955	993	1,033
SALARIESFULLTIME	500,624	520,649	541,475	563,134	585,659
SALARIESOVERTIME	27,040	28,122	29,246	30,416	31,633
SALARIESSHIFTDIFFERENTIAL	9,475	9,854	10,248	10,658	11,084
SALARIESSTANDBYPAY	9,107	9,471	9,850	10,244	10,654
INSURANCEBENEFITS	174,473	181,452	188,710	196,259	204,109
INSURANCEBENEFITS-OTHER	2,758	2,868	2,983	3,102	3,227
RETIREMENTBENEFITS	126,167	131,213	136,462	141,920	147,597
RETIREMENTBENEFITS-OTHER	4,562	4,745	4,934	5,132	5,337
SALARIESFULLTIME	160,655	167,081	173,764	180,715	187,943
SALARIESOVERTIME	216	225	234	243	253
INSURANCEBENEFITS	50,859	52,893	55,009	57,209	59,497
RETIREMENTBENEFITS	41,204	42,852	44,566	46,348	48,202
SALARIESFULLTIME	38,023	39,544	41,125	42,770	44,481
SALARIESOVERTIME	541	562	585	608	633
INSURANCEBENEFITS	12,284	12,776	13,287	13,818	14,371
RETIREMENTBENEFITS	9,681	10,068	10,471	10,890	11,326
SALARIESFULLTIME	438,405	455,942	474,179	493,147	512,872
SALARIESOVERTIME	1,298	1,350	1,404	1,460	1,518
INSURANCEBENEFITS	169,823	176,616	183,681	191,028	198,669
RETIREMENTBENEFITS	112,012	116,492	121,152	125,998	131,038
SALARIESFULLTIME	224,030	232,991	242,311	252,003	262,083
SALARIESOVERTIME	54	56	58	61	63
INSURANCEBENEFITS	55,264	57,475	59,774	62,165	64,651
RETIREMENTBENEFITS	59,355	61,729	64,198	66,766	69,437
Other Expenses					
OPRSUP-CHEMICALS	44,558	45,895	47,271	48,690	50,150
OPRSUP-PHOTOGRAPHIC	318	328	338	348	358
OPRSUP-GLOVES	1,167	1,202	1,238	1,275	1,313
OPRSUP-SMALLTOOLS	3,183	3,278	3,377	3,478	3,582
WORK&SAFETYCLOTHING	1,697	1,748	1,801	1,855	1,910
UNIFORMS	1,252	1,289	1,328	1,368	1,409
SAFETYSUPPLIES	5,570	5,737	5,909	6,086	6,269
WW-SEWERMAINSSUPPLIES	201,571	207,618	213,847	220,262	226,870
WW-RIVERPRKSEWAGEPUMPING	1,061	1,093	1,126	1,159	1,194

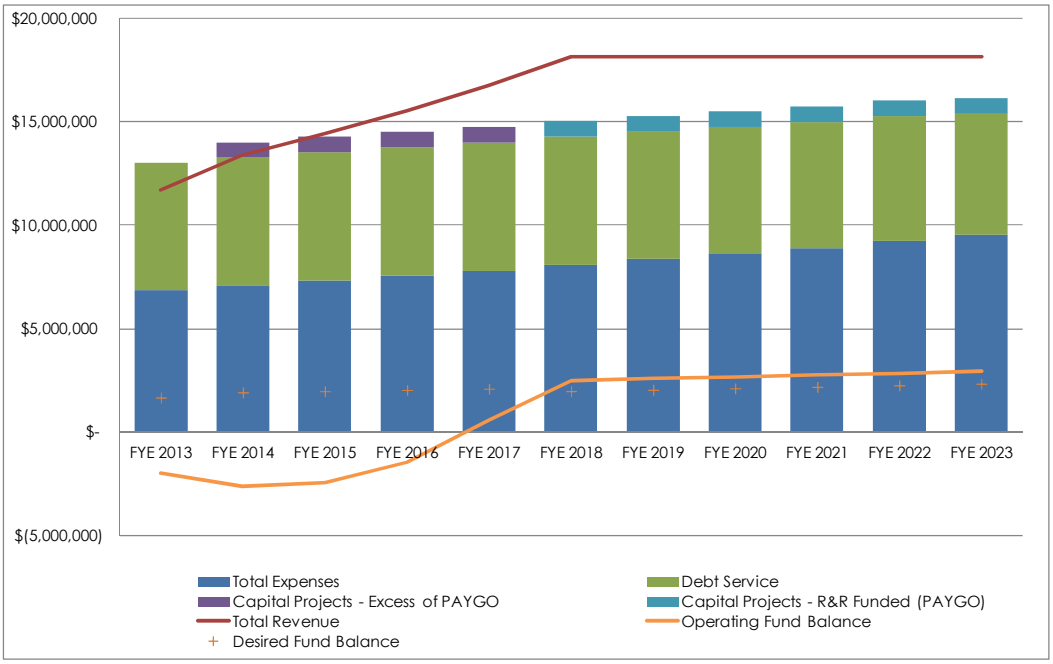
Description	FYE2014	FYE2015	FYE2016	FYE2017	FYE2018
UTILITIES	955	983	1,013	1,043	1,075
UTILITIES-WATER	204	210	216	223	229
UTILITIES-ELECTRIC	3,059	3,150	3,245	3,342	3,442
UTILITIES-GAS	45	46	47	49	50
COMMUNICATIONS-TELEPHONE	1,585	1,633	1,682	1,732	1,784
COMMUNICATIONS-CELLPHONE	3,462	3,566	3,673	3,783	3,896
SERVICES-VIDEOINSPECTION	6,365	6,556	6,753	6,956	7,164
SERVICES-GISMAPPING	39,858	41,054	42,285	43,554	44,861
SERVICES-UNDERGRNDALERT	318	328	338	348	358
SVC-DRUG&ALCOHOLTESTING	675	695	716	737	759
SERVICES-OTHERGENFDSUPPORT	596,075	613,957	632,376	651,347	670,888
REPAIR&MAINT-SPECIALEQUIP	35,116	36,169	37,254	38,372	39,523
REPAIR&MAINT-RADIOEQUIP	797	821	845	871	897
R&MAHC(UPLANDS)PUMPSTATION	1,167	1,202	1,238	1,275	1,313
REPAIR&MAINT-GISMAPSYSTEM	1,994	2,054	2,116	2,179	2,245
PROFSVC-ARCHAEOLOGICAL	12,731	13,113	13,506	13,911	14,329
CLASSA\BLICENSEFEE(S)	159	164	169	174	179
INSURANCE-LIABILITY	19,629	20,218	20,824	21,449	22,092
INTRLSVC-FLEETREPLACEMENTS	51,604	53,152	54,747	56,389	58,081
INTRLSVC-FLEETOPERATIONS	67,855	69,891	71,988	74,147	76,372
RENT-EQUIPMENT	5,305	5,464	5,628	5,796	5,970
INTRLSVC-ENGINEERING	1,061	1,093	1,126	1,159	1,194
INTERNALSVCS-ENVIRONMENTAL	530	546	563	580	597
GISSHAREDCOMPUTEREQUIP	7,095	7,095	7,095	7,095	7,095
OPRSUP-UTILITY	212	219	225	232	239
REPAIR&MAINT-CALIBRATION	557	574	591	609	627
INTRLSVC-FLEETREPLACEMENTS	1,596	1,643	1,693	1,744	1,796
INTRLSVC-FLEETOPERATIONS	2,098	2,161	2,226	2,293	2,362
OPRSUP-SUPPLIES	7,426	7,649	7,879	8,115	8,358
OPRSUP-HOUSEHOLD	5,305	5,464	5,628	5,796	5,970
OPRSUP-CHEMICALS	1,061	1,093	1,126	1,159	1,194
OPRSUP-GLOVES	1,061	1,093	1,126	1,159	1,194
OPRSUP-SMALLTOOLS	1,061	1,093	1,126	1,159	1,194
WORK&SAFETYCLOTHING	1,591	1,639	1,688	1,739	1,791
UNIFORMS	3,384	3,486	3,590	3,698	3,809
UTILITIES-WATER	25,987	26,766	27,569	28,396	29,248
UTILITIES-ELECTRIC	965,911	994,889	1,024,735	1,055,477	1,087,142
UTILITIES-REFUSE	4,948	5,096	5,249	5,407	5,569
UTILITIES-GAS	7,957	8,195	8,441	8,695	8,955
PROFSVC-ENGINEERING	10,609	10,927	11,255	11,593	11,941
PROFSVC-LEGAL	5,305	5,464	5,628	5,796	5,970
PROFSVC-OTHER	33,901	34,918	35,965	37,044	38,155
SERVICES-GROUNDSMAINT	106,886	110,092	113,395	116,797	120,301
SERVICES-SLUDGEDISPOSAL	46,680	48,080	49,522	51,008	52,538
REPAIR&MAINT-RADIOEQUIP	1,893	1,949	2,008	2,068	2,130
REPAIR&MAINT-SLUDGELAGOONS	21,218	21,855	22,510	23,185	23,881
INSURANCE-LIABILITY	44,164	45,489	46,854	48,259	49,707
PERMITFEE(S)	50,732	52,254	53,822	55,436	57,100
RENT-LAND	3,411	3,513	3,619	3,727	3,839
INTRLSVC-FLEETREPLACEMENTS	11,148	11,482	11,827	12,182	12,547
INTRLSVC-FLEETOPERATIONS	11,110	11,443	11,786	12,140	12,504
INTRLSVC-ENGINEERING	2,122	2,185	2,251	2,319	2,388
INTERNALSVCS-ENVIRONMENTAL	1,061	1,093	1,126	1,159	1,194
OPRSUP-SUPPLIES	26,523	27,318	28,138	28,982	29,851
OPRSUP-GLOVES	212	219	225	232	239
WORK&SAFETYCLOTHING	318	328	338	348	358
UNIFORMS	1,091	1,123	1,157	1,192	1,227
PROFSVC-OTHER	42,436	43,709	45,020	46,371	47,762
REPAIR&MAINT-SPECIALEQUIP	2,652	2,732	2,814	2,898	2,985
INSURANCE-LIABILITY	14,722	15,164	15,619	16,087	16,570

Description	FYE2014	FYE2015	FYE2016	FYE2017	FYE2018
PERMITFEE(S)	2,122	2,185	2,251	2,319	2,388
OPRSUP-SUPPLIES	15,171	15,626	16,095	16,578	17,075
OPRSUP-COMPUTEREQUIPMENT	398	410	422	435	448
WORK&SAFETYCLOTHING	212	219	225	232	239
UNIFORMS	192	198	204	210	216
COMMUNICATIONS-CELLPHONE	592	610	628	647	666
PROFSVC-OTHER	12,625	13,003	13,394	13,795	14,209
REPAIR&MAINT-SPECIALEQUIP	4,350	4,480	4,615	4,753	4,896
INSURANCE-LIABILITY	4,907	5,054	5,205	5,362	5,522
INTRLSVC-FLEETREPLACEMENTS	1,393	1,435	1,478	1,522	1,568
INTRLSVC-FLEETOPERATIONS	1,456	1,499	1,544	1,591	1,638
OPRSUP-GLOVES	1,093	1,126	1,159	1,194	1,230
OPRSUP-SMALLTOOLS	5,305	5,464	5,628	5,796	5,970
WORK&SAFETYCLOTHING	2,652	2,732	2,814	2,898	2,985
UNIFORMS	2,714	2,795	2,879	2,965	3,054
SAFETYSUPPLIES	4,607	4,746	4,888	5,035	5,186
OTHERSUP-GROUNDSMAINT	47,741	49,173	50,648	52,167	53,732
OTHERSUP-GENLPLANTMAINT	195,715	201,586	207,634	213,863	220,279
FUELS,OILS,LUBRICANTS	21,218	21,855	22,510	23,185	23,881
UTILITIES-ELECTRIC	79	81	83	86	88
UTILITIES-LANDFILLTIPPINGFEE	1,061	1,093	1,126	1,159	1,194
COMMUNICATIONS-TELEPHONE	10,258	10,566	10,883	11,209	11,545
COMMUNICATIONS-CELLPHONE	3,360	3,461	3,564	3,671	3,782
PROFSVC-CLASS"B"PHYSICAL	180	186	191	197	203
SVC-DRUG&ALCOHOLTESTING	133	137	141	145	149
REPAIR&MAINT-SPECIALEQUIP	299,804	308,798	318,062	327,604	337,432
CLASSA\BLICENSEFEE(S)	66	68	70	72	74
INSURANCE-LIABILITY	34,353	35,384	36,445	37,538	38,665
INTRLSVC-FLEETREPLACEMENTS	7,602	7,830	8,065	8,307	8,557
INTRLSVC-FLEETOPERATIONS	4,250	4,377	4,509	4,644	4,783
RENT-EQUIPMENT	3,395	3,497	3,602	3,710	3,821
POSTAGE	2,070	2,132	2,196	2,262	2,330
OFFICESUPPLIES	5,464	5,628	5,796	5,970	6,149
PRINTING	580	598	616	634	653
COPYMACHINEEXPENSE	2,904	2,991	3,081	3,173	3,268
PUBLICATIONS	1,337	1,377	1,418	1,461	1,505
OPRSUP-COMPUTERSOFTWARE	1,273	1,311	1,351	1,391	1,433
PROFSVC-ADMINISTRATION	496,176	511,061	526,393	542,184	558,450
PROFSVC-ADVERTISING	212	219	225	232	239
PROFSVC-OTHER	1,061	1,093	1,126	1,159	1,194
REPAIR&MAINT-OFFICEEQUIP	318	328	338	348	358
REPAIR&MAINT-COMPUTEREQUIP	955	983	1,013	1,043	1,075
TRAINING	9,548	9,835	10,130	10,433	10,746
TRAINING-INSERVICE	4,574	4,711	4,852	4,998	5,148
MEMBERSHIPS	7,011	7,222	7,438	7,662	7,891
MEETINGS-TRVL,MEALS,ROOMFEES	9,018	9,288	9,567	9,854	10,149
INSURANCE-LIABILITY	17,175	17,690	18,221	18,767	19,331
INSURANCE-FIRE&PROPERTY	30,071	30,973	31,903	32,860	33,845
INTRLSVC-FLEETOPERATIONS	592	610	628	647	666
VEHICLEALLOWANCE	4,169	4,294	4,423	4,556	4,693
INTRLSVC-PHONEDISPATCH	6,581	6,778	6,982	7,191	7,407
SHAREDSECURITYEQUIP	12,845	12,845	12,845	12,845	12,845
PROFSVC-UTILITYBILLING&ACTG	381,674	393,124	404,918	417,065	429,577
SERVICES-METERREADING	130,947	134,875	138,922	143,089	147,382
SERVICES-PURCH&STORES	76,335	78,625	80,984	83,413	85,916
PAYGOCIP	$750,000	$750,000	$750,000	$750,000	$-
Total Operating Expenditures	**$7,826,636**	**$8,064,320**	**$8,310,175**	**$8,564,486**	**$8,077,551**

Description	FYE2014	FYE2015	FYE2016	FYE2017	FYE2018
OtherRevenue					
MAINT/OPERCHARGESVVCSD	$687,744	$687,744	$687,744	$687,744	$687,744
MAINTENANCE/OPERCHARGES-VAFB	668,825	668,825	668,825	668,825	668,825
INTERESTINCOME	186	186	186	186	186
INTINCOME-RESTRICTEDFUNDS	60,000	60,000	60,000	60,000	60,000
LANDRENTAL-MISC	5,892	5,892	5,892	5,892	5,892
VVCSD-DEBTSVCREIMBURSEMENT	831,079	831,079	831,079	831,079	831,079
VAFB-DEBTSVCREIMBURSEMENT	1,379,678	1,379,678	1,379,678	1,379,678	1,379,678
AB1600IMPACTFEES	32,820	32,820	32,820	32,820	32,820
REPLACEMENTFEES/VAFB	60,000	60,000	60,000	60,000	60,000
TotalNon-OperatingRevenue	$3,726,224	$3,726,224	$3,726,224	$3,726,224	$3,726,224
Debt Service					
PROFSVC-FINANCIALSERVICE	3,000	3,000	3,000	3,000	3,000
PROFSVC-TRUSTEEFEES	1,000	1,000	1,000	1,000	1,000
SVC-ACTUARIAL	750	750	750	750	750
INT-1998WTR/WWBOND	38,310	38,260	38,193	38,231	38,286
INTEREST-2005WWBONDS	325,484	325,051	324,486	324,806	325,274
INT-ENERGYEFFICIMPRPROJ	7,143	7,143	7,143	7,143	7,143
INT-2007W&WWREVENUEBONDS	581,480	580,708	579,697	580,270	581,105
PRINCIPAL-2005WWBONDS	194,997	194,738	194,399	194,592	194,872
PRINCIPAL-1998WTR/WWBOND	41,853	41,798	41,725	41,766	41,826
PRIN-ENERGYEFFICIMPRPROJ	6,928	6,928	6,928	6,928	6,928
PRIN-2007W&WWREVENUEBONDS	304,996	304,591	304,061	304,361	304,799
SWRCBSRFLOANPAYMENT	4,580,079	4,580,079	4,580,079	4,580,079	4,580,079
OperatingLoanRepayment	118,885	118,885	118,885	118,885	118,885
Sub-Total	$6,204,906	$6,202,930	$6,200,346	$6,201,812	$6,203,947
Net Income	$(627,652)	$152,838	$1,032,468	$2,017,491	$3,873,291
Sewer Fund(551)					
BeginningOperatingFundBalance	$(2,005,487)	$(2,633,139)	$(2,480,301)	$(1,447,832)	$569,658
DesiredFundBalance	1,929,855	1,988,463	2,049,084	2,111,791	1,991,725
TransferofO&MtoR&R	-	-	-	-	(1,953,294)
EndingOperatingFundBalance	$(2,633,139)	$(2,480,301)	$(1,447,832)	$569,658	$2,489,656
CapitalRepairandReplacementFund					
ExcessfromO&MReserveFund	-	-	-	-	1,953,294
CapitalProjects-RateorPaygoFunded	750,000	750,000	750,000	750,000	750,000
MinimumEndingReserveBalance	50,000	50,000	50,000	50,000	50,000
CapitalProjects-R&RFunded(PAYGO)	-	-	-	-	(750,000)
PAYGODeficiency	(750,000)	(750,000)	(750,000)	(750,000)	-
EndingCapitalR&RFundBalance	$-	$-	$-	$-	$1,203,294

Similar to Figure 4-2 – Wastewater - Baseline Scenario (Figure 4-4) forecasts the financial health of the wastewater fund; however, as opposed to the baseline scenario, the revenue adjustments provide a more positive outlook and allow for funding of reserves.

Figure 4-4: Wastewater - Recommended Financial Scenario



Cost of Service Analysis

Following the discharge and revenue requirement analysis, the next stage is to distribute costs (revenue requirements) to functional components, and ultimately, to each customer class. The cost of service analysis is a systematic process by which revenue requirements are allocated by function to generate a classification of fair and equitable costs in proportion to the service received for each user class.

This section of the report discusses the allocation of operating and capital costs to the Flow, Suspended Solids (SS) and Biochemical Oxygen Demand (BOD) parameters, the determination of unit rates, and the calculation of user class cost responsibility.

Cost Allocation by Function

The cost of service allocation conducted in this study is established on the flow and strength characteristics method, which is endorsed by the Water Environmental Federation (WEF). Under this method, revenue requirements are allocated to the different user classes proportionate to their use of the wastewater system. Allocations are based on flow volume, SS, BOD, customer accounts, and wastewater monitoring. Use of this methodology results in a generally accepted cost distribution among customer classes and a means of calculating and designing rates to proportionately recover those costs.

Figure 4-5 presents the net plant in service analysis. This analysis is important in order to determine an appropriate and reasonable means of allocating debt service requirements and future capital projects to utility demand.

Figure 4-5: Distribution of Expenditure by Function

	Rate Revenue Required	Flow Volume	BOD	SS
Percent Allocation	100%	20.0%	40.0%	40.0%
Fiscal Year Ending				
FYE 2014	$ 9,677,665	$ 1,935,533	$ 3,871,066	$ 3,871,066
FYE 2015	10,693,865	2,138,773	4,277,546	4,277,546
FYE 2016	11,816,765	2,363,353	4,726,706	4,726,706
FYE 2017	13,057,565	2,611,513	5,223,026	5,223,026
FYE 2018	14,428,565	2,885,713	5,771,426	5,771,426
FYE 2019	14,428,565	2,885,713	5,771,426	5,771,426
FYE 2020	14,428,565	2,885,713	5,771,426	5,771,426
FYE 2021	14,428,565	2,885,713	5,771,426	5,771,426
FYE 2022	14,428,565	2,885,713	5,771,426	5,771,426

The separation of costs into these functional components provides the means for further allocation to the customer classes based upon their respective demand of each function. The resulting distribution percentages are utilized to allocate annual required revenue to each customer class based on the class' respective demand on the system

Once the system cost causation analysis is complete, the next step is to design the most equitable and appropriate rate structure to recover those revenues.

Rate Design Analysis

The final step of the rate study is the design of the wastewater rates to collect the desired level of revenue determined in the revenue requirement analysis. During this analysis, consideration is given to the levels of the rates. This section reviews the proposed wastewater rate design for the City.

Criteria and Considerations

In determining the appropriate rate level and structure, Willdan, in conjunction with City staff, analyzed various generated financial scenarios concerning the proposed adjustments and the implications attributed to those decisions.

Listed below is a simplified list of the design considerations that were reviewed:

- Clear and understandable rates
- Easily administered
- Cost of service principles (fair and equitable)
- Revenue stability (month to month and year to year)
- Prudent financial planning
- Functional cost allocation
- Implementation of Capital replacements (rate of improving the existing system)
-
- Comply with legal and regulatory requirements
- Minimize rate increases

When developing the proposed rates all of the aforementioned criteria were taken into consideration. Determining the appropriate balance is crucial, as some of the criteria occasionally conflict with one another, i.e. the customer's ability to pay and cost-based rates. In designing rates, there will always be concessions between the various objectives; however, the proposed rates meet all of the leading objectives of the City as discussed with staff and the City Council.

Existing Rate Structure

The existing rate structure is a variable rate structure for all customer classes, which also includes a minimum monthly charge of $22.32 rate based on a minimum of four units of consumption.

Variable Charge: These charges reflect the total operational costs and reflect the system's collected strength characteristics. This rate is $5.58 per hundred cubic feet (HCF) based on the average amount of water used during January, February, and March. The current rate structure includes a minimum charge of 4 HCF as mentione above.

Proposed Rate Structure

Willdan recommends a monthly variable charge for single-family residential. Beyond changing the structure, some components of the rate structure were modified to reflect the current analysis and allocation of the costs incurred. Below are the proposed components of the recommended rate structure – while each customer class' rate(s) is comprised of these charges, the specific rates may differ based on demand.

> ***Variable Charge:*** Charge has been updated to reflect the cost of service of unique customer classes related to discharge strengths. The average rate is $6.28 per HCF. As part of our analysis, the average usage during the winter quarter average equaled 8 HCF. Therefore, the minimum charge will increase from the current 4HCF, but will not adjust up to 8 units of water (8 HCF). Instead, City Council decided to increase the minimum charge slightly by 1 unit to 5 HCF. Doing so would provide additional incentive for water conservation through the sewer charges, while recovering more of the fixed costs, such as debt service, from all customers.

Rate Recommendations

The proposed revenue adjustments as a percentage do not equal or necessarily correlate to an equivalent percentage increase to rates or monthly bills. The results of the cost-of-service analysis and rate redesign will affect users differently, at both the customer class and account level. The cost of service analysis conducted ensured a proper cost recognition and recovery of different users.

Wastewater Charge

Unlike water, there is only one component to the proposed variable: 100% of expenditures are distributed and recovered via variable charges that reflect a customer's discharge volume and strength characteristics. Figure 5-1 provides the maximum variable charges per HCF for each of the customer classes. The proposed maximum rates would become effective July 1, 2013, or as soon thereafter. However, the phased-rate increases will be reviewed annually and the City Council will determine the amount of revenue required during the budget process each year and will continue to look for cost saving opportunities and revenue resources in an effort to potentially reduce or suspend implementation of the proposed maximum rate increase identified below.

Figure 5-1: Recommended Wastewater Charges*

	July 1, 2013	July 1, 2014	July 1, 2015	July 1, 2016	July 1, 2017
	Variable Charge	Variable Charge	Variable Charge	Variable Charge	Variable Charge
Average Residential / Office Only[1]	$ 6.22	$ 6.87	$ 7.60	$ 8.40	$ 9.28
Average Commercial[2]	$ 8.35	$ 9.23	$ 10.20	$ 11.27	$ 12.45
Average Industrial[3]	$ 8.78	$ 9.70	$ 10.72	$ 11.84	$ 13.09

1. Customer class includes but is not limited to the following land use types: residential, Professional offices, department stores, banks, nurseries, churches, lumber yards, wine tasting, etc.

2. Customer class includes but is not limited to the following land use types: auto steam cleaning, bakery-wholsale, Wine bottling, medical offices, convalescent care facilities, restaurants, schools, light manufacturing, etc.

3. Customer class includes but is not limited to the following land use types: industrial, specialty shop, gas station,water conditioning, wine/food processing, etc.

*Minimum Charge equaled to 5 HCF for all Customer Classes

Customer Impacts

The recommended rates will provide the City with the necessary revenue to provide continued quality service, without a significant impact on the average ratepayer. The figure below provides a sample bill for two typical single-family residential customers. The black boxes represent the difference between the existing and proposed July 1, 2013 rates.

Figure 6-1: Single-Family Monthly Bill Comparison