MCWD Responses to WWOC Questions on 2013 Rate Study

BIA Questions from the October 11th FORA Board Meeting	District Responses
1. Why did you exclude FORA funding contributions? When the FORA funding is collected, how will the over-payment of fees be reimbursed or credited?	The District excluded the FORA Water Voluntary Contribution (in the FORA CIP) as there is currently no mechanism for receipt of these funds. Upon completion of a formal means to collect the contributions from FORA, MCWD will apply the contribution as a credit to the calculated capacity charge to new customers who will then pay the net capacity charge.
2. Why are the Ord Community water and sewer capital surcharges being eliminated and being passed through to capacity charges? Why the significant change from the 2008 approach?	They are being eliminated for new users to reflect that a new user is fully bought into the system, rather than paying a surcharge (over time).
3. Since new development is a more water efficient than existing housing stock, how is this recognized in the proposed rate and capacity fee updates?	Consistent with industry standards, Meter equivalents were utilized as a basis. Although a usage assumptions could be developed, the fee reflect the possible demand of the meter, rather than actual usage.
4. What is the basis for the land assumptions in Appendix D?	No land assumptions were made. Rather CIP would provide sufficient capacity to the system to 2030 (based on UWMP growth assumptions).
5. What is the basis for allocating the outstanding bond debt? Why is the debt coverage paid by rate payers higher than required by debt covenants? What is the use of the excess revenue generated due to these higher debt coverage(s)?	Debt is allocated to each cost center, based on funding of capital (use of debt). The Debt Coverage is higher to provide/enable easier funding of future projects and to reduce the risk of falling below coverage requirements. Revenues are largely variable (consumption dependant) and need a buffer in case of wet/cool weather or increased conservation.
6. Can you provide an example differentiating between circumstances in which capital improvements are deemed operating costs vs. capital costs?	No.
7. Why did Ord water capacity fees increase by $9,919 / meter equivalent while Marina water capacity fees decreased by $924 / meter equivalent?	MCWD provided an updated asset valuation study which increased the value of the Ord systems. Marina decreased as the system depreciated faster than capital was reinvested and/or reduced capital funding needs.
8. Why did Ord sewer capacity fees increase by $5,486 / EDU while Marina sewer capacity fees decreased by $1,617 /	Same as above.

EDU?	
9. Under the “buy-in” methodology, how is “bought” capacity being quantified? Where is the engineering information that went into the “buy-in” calculations? In other words, have all of the improvements been assigned an existing share and a future share? Is that result the amounts identified in appendix D?	Units are quantified based on a Meter Equivalent. A connection is paying its share of existing and future capital costs.
10. How are the existing deficiencies (from prior year under collections) funded in Marina and Ord?	Existing deficiencies are funded with reserves / delay of capital. Proposed increases for Ord are greater than would otherwise be necessary if previously proposed increases were fully adopted.

CSUMB Questions from the October 16th WWOC Meeting	**District Responses**
1. page 38 In setting of Capacity Charges Buy in Component: How were replacement cost values established for assets received through no cost conveyances? 2. Have these assets been depreciated in the methodology? 3. What is the $ contribution to the buy in component of assets received through no cost conveyances (ie replacement cost - depreciation)?	1. This seems to be a repeated question. To confirm, the asset values provided to us (in the 2013 Replacement Analysis) DO NOT include conveyed assets. 2. Yes, assets from the 2013 replacement cost analysis include depreciation. The value of the system is replacement cost new less depreciation. 3. My understanding is this is the number shown. We do not include costs associated with Free assets. Replaced or repaired assets would/should show up. Assets conveyed and untouched, should not be included.
4. In future cost component (CIP): What amount of the CIP cost is related to replacing or extending the life of assets received through no cost conveyances?	4.
5. For each asset received through no cost conveyance can you show a listing of: Replacement cost, accumulated depreciation, Associated CIP cost.	

6. What would the Capacity Charge be if assets that were received at no cost were excluded from buy in component?	5. Assuming the System had NO EXISTING VALUE (no Conveyed assets or recognition of improvements) the fee would be $7415 for water and $3425 for sewer.
7. Please explain the methods that the District uses to estimate the volume of water required by proposed development in calculating capacity charges and how the actual usage is ultimately reconciled.	6. For the Fee development a meter equivalent is determined based on a ¾" meter capacity. The purchased capacity in the system and the actual usage isn't reconciled as a user may under utilize the full demand capacity of the meter.
8. Why do FORA and the District not reach agreement on offseting Capacity Charges BEFORE the rates are enacted?	7. The District contracted Carollo to calculate the capacity fee to connect to the system(s) because the FORA contribution is a finite amount. Once the contribution is exhausted, the District needs to know what the true charge should be to connect.
9. Will the District lower Capacity Charges if an agreement is reached with FORA?	8. No. The Capacity Charge does not change. When an agreement is reached on how the District will receive the contribution from FORA, the contribution will be a credit to the capacity charge and the Developer will pay the net charge.
10. page 5 Fire Service Charges: if only 29 of 289 accounts have been billed it would seem that this charge is not in place and arbitrarily applied. Perhaps a refund to these 29 accounts is due?	9. No. there is a current existing fee in place.
11. page 18 Water for Land: It seems overly optimistic that this revenue stream will be converted to cash. Will the District ask for equivalent offsetting revenue from rate payers if this cash flow does not materialize?	10. No.
12. Page 30: Rate Structure: There is no analysis supporting the assertion that the current rate structure is appropriate. The rate structure appears to be solely geared for residential. Please provide some justification for retaining this structure and explain how it is equitable for institutional/multifamily housing.	11. Although the District maintains various account types, the existing and proposed rate structure does not differentiate between users or billing classes– other than metered and non-metered accounts. The tiered rate structure is designed to recover the agency's variable costs. A larger user of water pays more as they take more – the district incurs greater costs to serve greater quantities of water. A smaller user will subsequently pay less, as they use a smaller amount of water. This rate structure encourages efficient use of water and should

	help the District achieve its conservation objectives.
City of Seaside Questions from the October 16th WWOC Meeting	**District Responses**
1. City believes that it would be beneficial to complete the review of the CIP finalizing the Fee and budget discussions.	1. The existing CIP is District staff's best estimate of necessary projects to serve new development as well as continued repair and replacement needs. While a "complete review" or update master plans may provide additional detail, it is reasonable and within industry norms to utilize staff's professional judgment.
2. It is unclear how the expenses for the defunct regional water project being reimbursed. Please clarify.	2. The District is pursuing legal avenues for reimbursement of the regional project expenses.
3. Please clarify the following statement in Section 1.2, on Page 5, "Residential users with upsized meters currently pay the monthly meter charged associated with the larger meter."	3. Upsized meters refer to meters that are only "upsized" to meet fire regulations and are not due to the daily demands of the meter. The updated methodology recommends upsized meters only pay for the "daily demand" portion of the meter and implement a separate charge (fire service charge) for the portion of the meter that is "upsized".
4. In Section 2.1.1, the Study states that one of the objectives is to "Conduct a cost of service study…" However, is Section 1.3, the Fee Study states "Additionally, Carollo did not audit nor verify the accuracy of the District's customer billing or financial records used as the foundation of this analysis." In order to perform a valid cost of service study, Carollo should have either performed an audit or reviewed audited financial statements to verify accuracy of billing and financial records. Please verify that either of these activities were performed by Carollo.	4. The District's audited financials were utilized as a basis of the study (CAFR, Budget, financial records). Carollo did not independently validate the figures; however, based on the consistency of revenues and customer records between the years reviewed, the figures appear reasonable.
5. In Section 2.1.2, the Fee Study states that "The population of the Ord Community service area is expected to increase from approximately 15,300 in 2010 to approximately 34,000 in 2020, an annualized growth rate of 7.6 percent. Given the realized growth rate since 2010 is considerably lower, Carollo has adjusted the analysis with a forecasted annual customer growth of 4.3 percent." However, the Fee Study	5. Over the 30-year period, the annualized growth rate of7.6% is correct. As the Ord experienced over 10% annualized growth from FY10-FY13, the remaining future growth rate must collectively fall below 7.6%. However, the population growth did not correlate with the realized customer account growth (which was almost flat over the same period). In order to minimize a potential under collection of rate revenue

states in Section 1.1 that the "Ord Community service area has a current (2013) population of approximately 20,500 residents." If these numbers in the Fee Study are correct, the annualized growth rate would be approximately 10 percent over the three years from 2010 to 2013. Since 10 percent is greater than 7.6 percent, the reduction to 4.3 percent in the Fee Study and corresponding analysis do not make sense. Please either provide further justification for reducing growth rate to 4.3 percent or use the FORA estimate of 7.6 percent.	(due to optimistic growth forecasting), the Customer Account growth rate was reduced.
6. In Section 3.2.1, the Fee Study states "The budget was compared with prior year actual [emphasis added] financial information to identify any anomalies or one-time expenditures not appropriate for forecasting in future years." Audited financial statements for at least the prior three years should be used to determine actual financial information and potential anomalies. Please confirm that at least three years of audited financial statements were evaluated.	6. Carollo reviewed multiple years of data and held numerous conversations with District staff to confirm existing and future budget adjustments.
7. In Table 3-1, the Construction Cost Inflation is 3.5 percent. The FORA CIP uses 2.8 percent based upon ENR data. Please submit compelling reason for using 3.5 percent or change to an acceptable industry standard, such as ENR, which is estimate to be 2.8 percent.	7. While the 2.8% CIP projection used by FORA is one reasonable figure, the use of a long-term ENR-CCI average of 3.5% is also reasonable. Both ENR amounts are based on a historical basis and not a predictor of future cost inflation. Also, typically lulls in the CPI (as we are in currently) are followed by greater than average inflation.
8. In Section 3.2.2, the Fee Study states "each debt obligation is allocated to each cost center, based on use of funds within each series, to reflect the benefit received." Please clarify the nexus between use of funds and the benefits received. a. What are the O&M costs for each cost center? Are there audited financial statements for each of these cost centers? b. What activities and projects are covered by the current	

debt service? c. What are the associated amounts for these activities and projects under the current debt service?	
9. In Section 3.2.3, the Fee Study states "District's adjusted net revenues shall amount to at least 135 percent of the annual debt service." Based upon other statements in the Fee Study, the net revenues should be adjusted to either 135 or 120 percent according to the debt obligation and District Policy of increasing the actual obligation by 10 percent. The adjustment should be calculated according to the requirements of the debt service and District policy and not to an arbitrary amount of 135 percent.	9. Carollo analyzed the rates to generate a 1.35x coverage ratio to provide additional financial flexibility. This is particularly important as the District is considering issuing new debt, a higher coverage ratio would allow for additional debt to be issued. Additionally, as much of the District's revenues are variable (consumption based) a higher target will provide an allowance for meeting ratios during moderate drought conditions.
10. In Section 3.2.4, the Fee Study states "…only projects related to supporting the existing infrastructure are included in the rate analysis and proposed rates." Please submit additional information to support this statement since this is not clear from the information given to date. Also, recent California Superior Court decisions would indicate that costs associate with projects undertaken for the benefit of specific users need to be allocated to those users and not spread across the entire cost center. Please submit additional specific information to indicate who benefits from projects listed in Appendix B to the Fee Study. That is, the CIP should be vetted for development-specific versus existing infrastructure benefits. Please clarify the calculations which incorporate the CIP projects for each of the user rates and capacity fees.	10. Question is unclear
11. The third paragraph in Section 3.2.4 indicates that there are difficulties in developing a rate model to adequately support specific projects and that several alternatives were evaluated. Please clarify what these alternatives are. This paragraph may indicate that the Fee Study does not meet the Prop 218 requirements to determine "… the basis upon which the amount of the proposed fee or charge was calculated …{California Constitution, Article XIII D, Section 6}." Please specify projects that would be supported by the proposed user rates and projects that would be supported by the proposed capacity fees.	11. Projects solely related to future expansion (need) are not funded through monthly rates and charges. The proposed CIP related to R&R far exceeds the revenues or funding capacity without significant rate increases (above and beyond those proposed). The timing and funding of these projects are within the District's discretion. The proposed rates will generate additional revenues to fund some, not all, of the outlined R&R needs. This is consistent with Proposition 218 as the basis of the analysis is the proposed R&R and does not exceed the reasonable cost of service.

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12. In Section 3.2.4, the Fee Study states "Over the next five years, the District has identified a significant CIP program for Ord Sewer. However, looking to years 6-10, there are no proposed CIP expenditures. As such, the identified CIP is assumed to be spread over a 10-year horizon to smooth expenditures and minimize costs." Could this CIP be spread over more years to help keep the costs down? For example, why does $1.5 million need to be spent in FY 2015 and 2016 on "Misc. Lift Station Improvements?" Please submit more information on how the CIP program was developed and who the beneficiaries are of each project.	12. The Proposed CIP has already been scaled down and prioritized by District staff. It is unlikely that the projects could be further delayed without possible degradation or risk in water deliveries. As recommended in the study and discussed by Staff at recent Board meetings, an asset management plan would better define the possible risk and criticality of system assets. The CIP was developed by District staff based on their expertise and understanding of the system.
13. In Section 3.2.5, the Fee Study states "The minimum capital reserve target is $1 million for each cost center, again as dictated by District policy." What are the amounts of capital reserves recommended by Carollo? Can theses amount be revisited by the MCWD Board?	13. See #14
14. In Section 3.2.5, the Fee Study states "The analysis explored and presented to the board multiple financial scenarios exploring the effects of lowered reserve targets on revenue needs and capital funding potential." Please provide these analyses.	14. As part of the financial review, Carollo analyzed the potential use/lowering of capital funding levels (minimums). These scenarios were presented to the District's Board to enable greater funding of capital, through a reduction of reserve levels. These scenarios did not reduce the proposed revenues or rates; simply they enabled a greater and immediate funding of the underfunded capital program.
15. In Section 6.0, the Fee Study states that "there are two basic components to the District's capacity charge – the "buy-in component" (or existing cost basis); and the "future component" (or future cost basis)." The Fee Study also states "The term "future component" shall refer to future facilities (i.e., facilities in the CIP) that may be recovered through the capacity charge." and "The future component incorporates the present value of the District's CIP." This leads to questions about both of these components to the calculation. a. For the buy-in component, why do future users need to	15. a. Carollo utilized the District's 2013 Capital Replacement Funding study to determine the replacement value of the system. b. Carollo utilized the District's CAFR to determine the amounts. c. Carollo utilized the District's CAFR to determine the amounts. d. RCNLD is replacement cost new less depreciation, the

buy in to the existing infrastructure that was received at no cost to the District as a public benefit conveyance (PBC)? That is, Appendix D shows several assets that may have been received at no cost to the District. For example, how was the "Total Replacement Cost of Existing System Infrastructure" established? And is it appropriate that the District receive compensation for assets accrued through a PBC? b. In Appendix D, what is the "Total Value of Water/Sewer Rights Assets" and how was it established? If these rights were accrued through a PBC, how is it that the District would seek compensation for these? c. In Appendix D, what are the components to "Land" assets and what are their values? If these assets were accrued through a PBC, how is it that the District would seek compensation for these? d. What does 'Adjusted' RCNLD mean? How was RCNLD adjusted? e. For the future component, what are the future facilities that may be recovered through the CIP? Are any of these facilities also accounted for in any other District fees? If so, please explain how this is not double counting. Also, if any of these facilities directly attributable to planned development, then the cost of these facilities should be removed from the calculation and charged directly to the users benefiting from these improvements.	"adjustment" in Figure 6.1 refers updating the amounts to current (today's) values. e. The Future component refers to the proposed CIP. This amount is divided by existing and future users. New users will fund their portion of the future system with a capacity charge and then subsequently pay for their portion of continued R&R through the monthly service charges.
16. In Section 6.0, the Fee Study states that "Staff also provided direct guidance on the allocation of assets among each of the four cost centers." Please provide additional information regarding the guidance and identify possible independent studies or analyses that would support the allocations made.	16. The District provided debt allocations between the cost centers. Also, allocations utilized to distribute General Water or General Sewer projects were provided by the District.