



**Marina Coast Water District
*Financial Plan and Rate Study***

Revisions to Capacity Fee Update

Capacity fees are one-time charges that are assessed when new connections are added to the water or wastewater system, or existing connections are increased in size. The purpose of capacity fees is to ensure that each customer is appropriately reimbursing the agency for the cost of system capacity required to service their connection.

Marina Coast Water District currently uses a combined buy-in and future cost approach to calculate capacity fees. In this approach, existing system assets that will benefit a new user plus an additional capital costs necessary to provide service are appropriate to be recovered by the service provider.

To calculate the current value of the existing assets, the replacement values of the existing system are calculated. And, as the system is not new, cumulative depreciation of the existing system is subtracted out.

During the public process, a number of questions were raised regarding the replacement value of existing assets. The questions largely stem from the District's Fiscal Year 2002 acquisition of the Ford Ord's water and sewer system. As these assets were conveyed to the District at zero cost, no reimbursement of these pre-2002 Ord assets should be included in the buy-in component. Carollo worked with District staff to research available records to more specifically address these questions. Based on this research and discussions with District staff, it is necessary to adjust the Value of Non-Depreciable Assets as well as the Replacement Cost New Less Depreciation.

Value of Non-Depreciable Assets

In FY 2002, the District recorded Journal Entries of roughly \$100M as "Donations from Other Agencies." This value recognized the value of the assets being conveyed to the District. Of these assets, the District's depreciable assets (General Plant) increased by \$1.60M on the water system and \$1.28M on the sewer system. The remaining values were recorded as non-depreciable assets comprised of water and sewer rights and property easements. Table 1 provides a record of these assets. As these entries pre-date existing staff, it is unknown how these values were determined.

Table 1: Conveyed Asset Journal Entry

Journal Entry	2002 Value		Existing Value	
	Water	Sewer	Water	Sewer
General Plant	\$1,600,000	\$1,278,000	<i>Depreciated</i>	<i>Depreciated</i>
Water Rights	\$57,200,000	-	\$57,200,000	-
Sewer Rights	-	\$15,300,000	-	\$15,300,000
Property Easement	\$14,100,000	\$10,800,000	\$14,100,000	\$10,800,000
Total	\$72,900,000	\$27,378,000	\$71,300,000	\$26,100,000

Based on a review of available asset records, the value of the conveyed General Plant asset has since then fully depreciated. The Water and Sewer Rights and Property Easements assets are non-depreciable and therefore still have a value. The current value of the conveyed assets is shown in Table 1. This existing value should not be included for purposes of calculated the water or sewer buy-in component.

Replacement Cost New Less Depreciation

Given the nature of how the Ord's system was recorded, and although the General Plant cost is fully depreciated, the calculated Replacement Cost New Less Depreciation (RCNLD) needs to be adjusted to account for accumulated depreciation that occurred off the District's financials – prior to the system being conveyed.

Originally, the Replacement Cost New portion of the RCNLD was calculated in a separate Capital Replacement Funding Memo developed by Schaaf & Wheeler earlier in 2013. The memo outlined the replacement cost of each system's assets by function or service, including conveyed assets. The calculated replacement cost for Ord water was calculated at roughly \$120M and \$63M for the sewer system. However, as the District's CAFR does not account for depreciation of the Ord assets prior to conveyance, the RCNLD had to be recalculated separately to define the appropriate amount of depreciation.

As such, Carollo worked with the District to compile and analyze the District's Asset Records in order to define each asset's (or Journal entry's) original cost, depreciation, and existing book values. Adjusted values were also calculated to reflect the original cost, depreciation, and book values at today's costs. Although this follows the original methodology, the originally calculated Replacement Cost New defined the full replacement cost of the Ord Water and Sewer Systems and didn't recognize the full depreciation of the conveyed system.

Based on the generated Asset Records and removal of the Conveyed assets, Table 2 provides the revised capacity fee calculations and proposed capacity system charges.

Table 2: Calculation of Water System Capacity Charges

	Water	Sewer
RCNLD of Infrastructure in Service	\$20,418,305	\$5,951,445
RCNLD of Other Depreciable Assets	-	-
Sub-Total of Adjustments	12,075,482	2,059,347
Total Value of Capital Assets	\$32,493,787	\$8,010,792
Liability and Asset-Related Adjustments	\$7,952,134	\$4,161,888
Total Value of Existing Assets Net of Liabilities	\$24,541,654	\$3,848,904
Infrastructure Related Future CIP Costs	\$90,693,766	\$35,130,846
Total Value of Existing and Future Assets	\$115,235,420	\$38,979,750
Total Number of Meter Equivalents	14,387	11,734
System Capacity Charge	\$8,010	\$3,322
<i>(Per Meter Equivalent)</i>		