



DATE: March 26, 2018

TO: President and Members of the EMID Board of Directors

VIA: Kevin M. Miller, District Manager

FROM: Dante G. Hall, Assistant District Manager  
Edmund Suen, Finance Director

SUBJECT: REVIEW OF PROJECTED WASTEWATER RATES FOR FY 2018-2019 THROUGH FY 2022-2023; POLICY DIRECTION FOR RATE NOTIFICATION UNDER PROPOSITION 218

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### RECOMMENDATION

It is recommended that the Estero Municipal Improvement District (EMID) Board of Directors:

1. Review and approve a rolling 5-year wastewater rate increase schedule of 14.25% per year from FY 2018-2019 through FY 2022-2023; and
2. Based on that direction, authorize District staff to establish the new wastewater rates for FY 2018-2019 through FY 2022-2023 that will be noticed to all rate payers under the requirements of Proposition 218.

### EXECUTIVE SUMMARY

EMID is responsible for its share of operating and maintenance costs that San Mateo (as the lead agency and the contracting party) incurs treating the District's wastewater, as well as approximately 24.5% of the capital improvement costs incurred as part of the Clean Water Program (CWP), a 10-year comprehensive capital improvement project initiated in 2014 at the Waste Water Treatment Plant (WWTP). Last year, the EMID Board of Directors adopted a 5-year annual wastewater rate increase of 14.25% on all wastewater rates for the period between FY 2018-2019 to FY 2022-2023. The rate was designed to ensure that the wastewater enterprise generates enough revenue to pay for its share of the future capital improvement costs of the WWTP and to strengthen the District's position to obtain low-cost long-term financing for that purpose.

Based on updated WWTP cost estimates from the City of San Mateo, the District's share of the project requires an additional \$36 million contribution. District staff recommends that the District extend the 14.25% rate increase one additional year to FY 2022-2023 and approve a rolling 5-year wastewater rate increase schedule of 14.25% per year from FY 2018-2019 to FY 2022-2023 to ensure that the District will remain eligible to receive debt proceeds. Rates must be in place to ensure adequate funds to cover debt service.

Based upon the EMID Board of Directors' policy direction this evening, the District will mail a notice to all ratepayers on or before April 16, 2018 for a public hearing to be held on June 4, 2018 to consider the new rates. If adopted, the new rates will go into effect on July 1, 2018.

### BACKGROUND/ANALYSIS

EMID's wastewater operations serve 13,482 residential, commercial and institutional accounts. The operational costs for wastewater services are borne jointly by the District and the City of San Mateo via the San Mateo Wastewater Treatment Plant Joint Exercise of Powers Agreement executed in June 1974. Those costs include recurring operations and maintenance, as well as capital improvement costs. The rates that residential wastewater customers pay are based on a fixed charge for the category or type of residential unit (single-family, townhouse - duplex, or apartment - condominium). Commercial customers are charged a variable rate based upon the amount of water consumed by their business and the business wastewater strength category.

The District has historically set rates on a "Pay As You Go" basis, meaning that rates are increased only based upon budgeted current operating expenditures in order to meet minimum reserve requirements equal to 25% of annual operating expenditures and \$2 million for unanticipated capital expenditures, consistent with the EMID Board of Directors' existing reserve policy.

The City of San Mateo and Estero Municipal Improvement District are expanding the jointly owned WWTP at an estimated cost of about \$578 million, of which the District is responsible for approximately \$155 million. This is in addition to local capital projects for the District's own sewage collection system. The wastewater enterprise intends to fund collection system capital expenditures through annual transfers of \$1,080,000 from the operating fund to the capital improvement fund.

In June 2017, to fund the anticipated costs of the WWTP Clean Water Program (CWP) improvements, the EMID Board of Directors approved a 5-year wastewater rate increase of 14.25% per year from FY 2017-2018 through FY 2021-2022. Based on updated cash flow estimates, Bartle Wells Associates (BWA) recommends that the District extend the 14.25% rate increase one additional year to FY 2022-2023 and approve a rolling 5-year wastewater rate increase schedule of 14.25% per year from FY 2018-2019 to FY 2022-2023 to ensure that the District will remain eligible to receive debt proceeds. Rates must be in place to ensure adequate funds to cover debt service.

## FY 2018-2019 to FY 2022-2023 Wastewater Rate Impact

Single Family Residential and Multi-Family Residential class customers are billed using a flat rate. Commercial customers are billed at a variable volumetric rate based on water usage and strength classification. The new wastewater rate projections propose an overall rate increase of 14.25% on all wastewater rates for FY 2018-2019 to FY 2022-2023. The table below provides a comparison of current rates to proposed rates.

Table 2  
City of Foster City / Estero Municipal Improvement District  
Projected Wastewater Rate Impacts

Projected Rates	Current	Projected - Fiscal Year Ending June 30				
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
<b>% Rate Increase</b>		<b>14.25%</b>	<b>14.25%</b>	<b>14.25%</b>	<b>14.25%</b>	<b>14.25%</b>
<b>Residential (flat monthly rate)</b>						
Single Family	\$65.27	\$74.57	\$85.20	\$97.34	\$111.21	\$127.06
<i>Increase (Decrease)</i>		9.30	10.63	12.14	13.87	15.85
Townhouse/Duplex	\$54.83	\$62.64	\$71.57	\$81.77	\$93.42	\$106.73
<i>Increase (Decrease)</i>		7.81	8.93	10.20	11.65	13.31
Apartment/Condominium (Pools w/ Restrooms)	\$54.83	\$62.64	\$71.57	\$81.77	\$93.42	\$106.73
<i>Increase (Decrease)</i>		7.81	8.93	10.20	11.65	13.31
<b>Commercial (rate per ccf of water use)</b>						
High Strength	\$11.86	\$13.55	\$15.48	\$17.69	\$20.21	\$23.09
<i>Increase (Decrease) per ccf</i>		1.69	1.93	2.21	2.52	2.88
Medium/Domestic Strength	\$4.17	\$4.76	\$5.44	\$6.22	\$7.11	\$8.12
<i>Increase (Decrease) per ccf</i>		0.59	0.68	0.78	0.89	1.01
Low Strength	\$2.74	\$3.13	\$3.58	\$4.09	\$4.67	\$5.34
<i>Increase (Decrease) per ccf</i>		0.39	0.45	0.51	0.58	0.67

## Rate Survey

The survey found that the District's water rates are among the lowest in the region. The average monthly water bill for the region (based on 8 ccf of monthly usage) is \$75.07 per month and the District's current average monthly residential water bill is \$60.09 per month, or about 20% less than the current average of neighboring communities.

The District's wastewater rates are also low amongst its comparator agencies. The average monthly bill among the comparator agencies is \$74.23 and the District's current monthly residential wastewater bills for FY 2017-2018 is \$65.27 per month, or about 12% less than the average of the neighboring communities.

## Proposition 218 Notification

Per the requirements under Proposition 218, the District will mail a notice to all ratepayers on or before April 16, 2018, based upon the EMID Board of Directors' policy direction this evening. Due to the complexity of the rate model changes being

recommended, District staff will prepare a user-friendly notice that also meets the Proposition 218 noticing requirements. A public hearing will be held and the rates adopted on June 4, 2018. The rates would go into effect on July 1, 2018.

It should be noted that between the notification date and the public hearing date, the EMID Board of Directors will receive the FY 2018-2019 Preliminary Annual Budget and 5-Year Financial Plan. Any adjustments that occur based upon EMID Board of Directors' direction at the Budget Study Session will be incorporated into an updated rate model at the time of the public hearing. However, it is the opinion of District staff that conservative assumptions have been employed in the creation of the attached rate model. Accordingly, District staff believes that the rates proposed herein are the maximum rates that would be recommended for FY 2018-2019 to FY 2022-2023. At the public hearing, the EMID Board of Directors would have the option of reducing rates lower than what was noticed to rate payers under Proposition 218 if budgetary estimates change, but it could not increase the rates above what was noticed.

Attachment:

- Bartle Wells Associates Water and Wastewater Rate Study Results Memo