

County of Tulare

Traver Community Wastewater System Rate Study

September 20, 2022



PREPARED BY:

TULARE COUNTY RESOURCE MANAGEMENT AGENCY

5961 SOUTH MOONEY BLVD
VISALIA, CA 93277

Executive Summary

Residents and businesses of the community of Traver depend on Tulare County to deliver high-quality, reliable wastewater service to meet community needs. To sustainably provide this service, the County must collect rates to cover the cost of service and maintain prudent reserves, such as for capital improvement or emergency repairs. Tulare County Resource Management Agency (RMA) has conducted this rate study for the Traver Wastewater Treatment Facility on behalf of the County to meet these goals.

The objective of the rate study is to (1) review current and future financial status of the wastewater system, (2) make any adjustments to the revenue being received to ensure that financial obligations are being met now and in the future, including adequate reserves and debt service coverage, and (3) design rates and charges that generate the required revenue while being fair and equitable for the customers. The proposed rates are shown in Table 1.

TABLE 1: Traver Zone of Benefit Sewer System Proposed Rates for Fiscal Years 2023-27

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Monthly Single-Family Dwelling (SFD) Rate	\$58.01	\$59.61	\$61.29	\$63.03	\$64.81
Monthly School Rate	\$579.31	\$595.28	\$612.06	\$629.44	\$647.21

To ensure that the rates are equitable, this rate study includes an affordability assessment to determine the maximum affordable rate for the wastewater system in the community using the industry standard of 1.5 percent of median household income.

Purpose of the Study

Residents and businesses of the community of Traver depend on Tulare County to deliver high-quality, reliable wastewater service to meet the community needs. The purpose of the Traver Community Wastewater System Rate Study (the Study) is to determine equitable and sustainable rates to fund the Traver Community Wastewater System (the Wastewater System) over the next five years. To accomplish this purpose, the Study will (1) review current and future financial status of the wastewater system, (2) propose adjustments to the revenue being received to ensure that the County can meet its responsibilities as the Wastewater System owner and operator now and in the future, including establishing adequate reserves and debt service coverage, and (3) design rates and charges that generate the required revenue while being fair and equitable for the customers. The Tulare County Resource Management Agency (RMA) has conducted the Study on behalf of the County with these goals and standards in mind.

The County's responsibilities as the Wastewater System operator include the following:

1. Providing the residents and businesses of the community with a clean, safe, and reliable sewer system and wastewater treatment plant that meets or exceeds State and Federal regulatory requirements;
2. Protecting water resources;
3. Managing and maintaining the utility systems infrastructure to be fiscally responsible to current and future residents;
4. Encouraging equity and fairness in fees and charges for the system; and
5. Supporting public safety.

To promote equity, the study includes a determination of the Maximum Affordable Rate, which is the highest rate that the customers in a neighborhood should be expected to pay for a water or wastewater utility without a substantial or inequitable impact on the community. Here, this is of particular concern as the community of Traver is a disadvantaged community.

To promote system fiscal sustainability, the proposed rate will ensure adequate funding so that all assets are properly operated and maintained at all times, which will reduce the frequency and costs of emergency repairs and ensure that the system is not subject to regulatory fines or penalties. In addition, the proposed rate will consider reserves, which may be used to cover unanticipated costs or provide for accelerated repayment of debt service to minimize the future financial burden on the system.

The Study provides an explanation and justification of the calculated wastewater rates through Fiscal Year 2027 and it documents adherence to applicable law regarding setting wastewater rates in California. Per California Constitution Article XIII Section D (also known as Proposition 218) water and wastewater rates shall not be extended, imposed, or increased by any agency unless doing so meets all of the following requirements:

1. Revenues derived from the fee or charge shall not be exceed the fund required to provide the property related service.
2. Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.
3. The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.
4. No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on protentional, or future use of a service are not permitted.
5. No fee or charge may be imposed for general governmental services including, not limited to, police, fire, ambulance or library, services, where the service is available to the public at large in substantially the same manner as it is to property owners.

The study projects revenue and expenses and calculates proposed rates for Fiscal Years 2023-27 in accordance with the requirements of Proposition 218.

Background of Utility System

The County of Tulare provides wastewater collection and treatment services to the community of Traver under a Zone of Benefit (ZOB) within County Service Area #1. The Traver ZOB provides sewer services to one hundred eighty-eight (188) residential connections, including twelve (12) standby connections and twelve (12) vacant connections, as well as one (1) connection to the Traver School.

The system is located at 36550 Road 44, approximately 0.5 miles south of Avenue 368 in Traver, California. IMAGE 1 shows the location of the wastewater treatment plant as well as the boundary of the system.

The Wastewater System was designed and constructed in the late 1980s. The Wastewater Treatment Facility's (WWTF) discharge is regulated by Waste Discharge Requirement (WDRs) Order No. 88-098, which permits a maximum discharge of 89,000 gallons per day of domestic wastewater from an aerated pond (both lined with soil cement) to two evaporation/percolation ponds. The WWTF consist of a magnetic flow meter, a channel-mounted raw sewage grinder and a bypass bar screen. A backup generator powers the WWTF in the event of a power outage.

Staff are working with the California Central Valley Regional Water Quality Control Board to transition the WDR to the *State Water Resources Control Board Order WQ 2014-0153-DWQ – General Waste Discharge Requirements for Small Domestic Wastewater Treatment Systems* ("General Order"). The financial impact of this transition is discussed in later sections. The update to the WDR will change the data and lab sampling requirements at the WWTF but is not expected to change the treatment process. Submittal of the application package is expected to be completed in December 2022. If it is accepted by California Central Valley Regional Water Quality Control Board, the board will issue a Notice of Applicability and additional mandates if deemed necessary.

The Wastewater System's current rates were established by Board Resolution 2013-0467, which was passed in July 2013. TABLE 2 shows the current rates structure, customers, and annual expected revenue.

TABLE 2 Traver ZOB Sewer System Current Rates & Annual Revenue

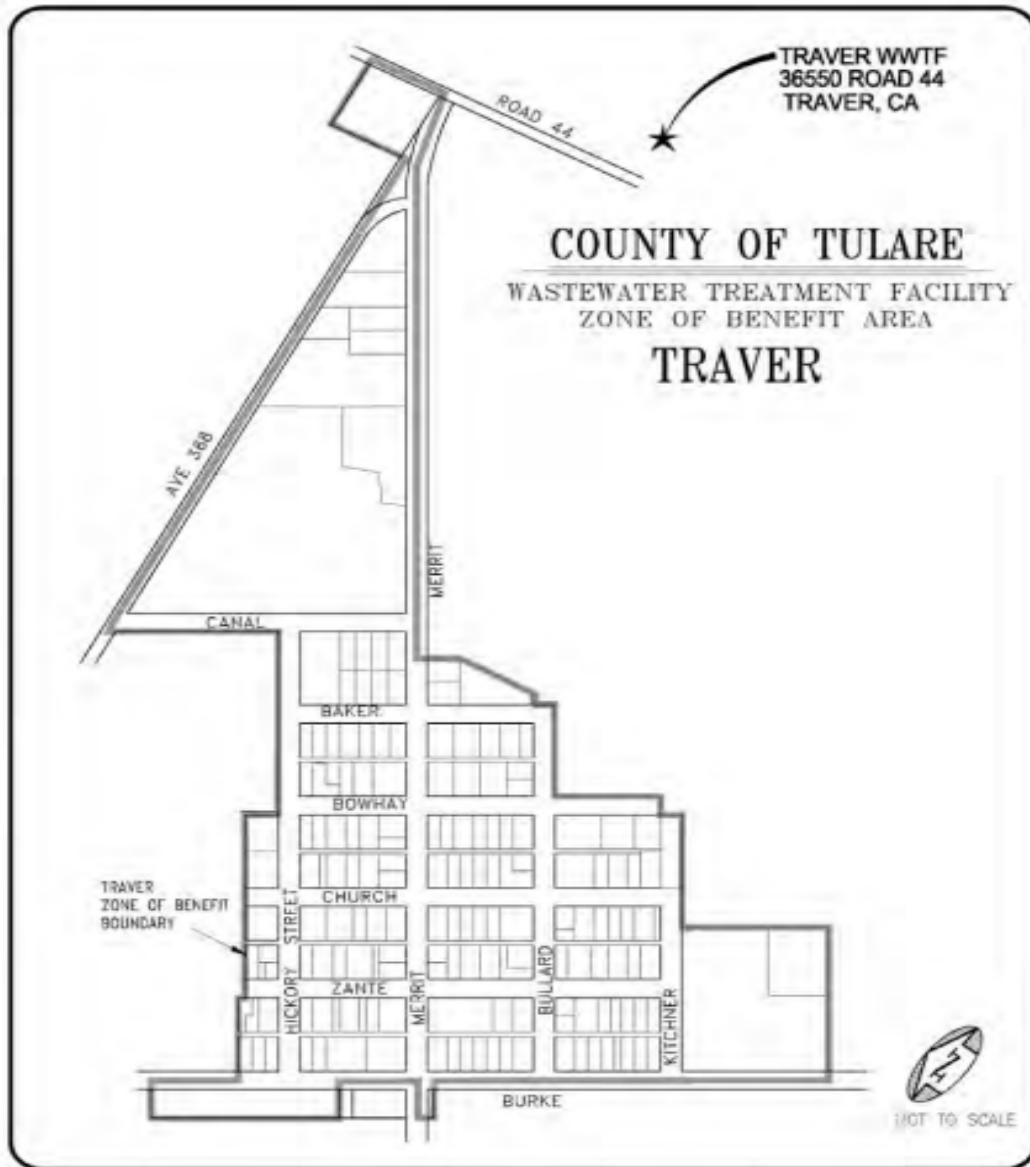
Customer Classification	Number of Customers	Current Monthly Rates	Annual Revenue
Residential ¹	188	\$ 36.50	\$ 82,344
School	1	\$ 364.50	\$ 4,374
Other Revenue			\$ 2,232
Total Annual Revenue			\$ 88,950

¹ The previous rate structure identified a "Residential" rate; however this Study is using the term "Single Family Dwelling" or "SFD" to describe the same customer class.

Affordability Analysis

To ensure that the proposed SFD rate for the community is equitable and fair, the County performed an affordability analysis to determine the Maximum Affordable Rate (MAR) for the Traver Community.

IMAGE 1: Traver Zone of Benefit Boundary Map



An MAR is the maximum rate that should be charged for a service without causing undue financial hardship to the residents of the community. An MAR is typically compared against the Single-Family Dwelling rate. Here, the MAR was calculated using the guidelines provided by the California State Water Resources Control Board’s (Water Board’s) “2021 Drinking Water Affordability Assessment” (April 2021). Under those guidelines, Water Board recommends that the annual MAR for a sewer service is no more than 1.5 percent of the Community’s Median

Household Income (MHI). The MHI for Traver, CA is approximately forty-six thousand and four hundred six dollars (\$46,406), as determined by the most recent data available from the 2020 American Community 5-Year Survey published by the United States Census Bureau for the Traver Census Designated Place².

Based on an MHI of \$46,406, the annual MAR was determined to be \$696.09 per year, which is equivalent to \$58.01 per month.

Operating Revenues, Expenses and Reserves

The 2023 budget for the Wastewater System was approved by the Tulare County Board of Supervisors on September 13, 2022 as part of the annual budget hearings. TABLE 3 summarizes the budgeted expenses for the Traver ZOB for the fiscal year, organized by major budget category. The budget was prepared considering historical system costs for the past three fiscal years and factoring in any new, changed, or anticipated costs or expenditures. A budget projection was also prepared for the subsequent four (4) fiscal years. The budget projections assume that there is no significant change in operations or cost for the system, other than new regulatory costs as described below. In addition, the rate projects assume no significant change in population, no significant development, and no expansion of the system boundaries. An assumed three percent (3%) inflation factor was applied to appropriate expenses for Fiscal Years 2024-27.

The Traver ZOB will be subject to new fees and expenses for additional regulatory compliance. These include additional monitoring costs related to the transition of the Wastewater Treatment Plant's operating permit to the General Order. It further includes compliance with the Central Valley Salinity Alternatives for Long-Term Sustainability program (CV-SALTS) which is composed of the Nitrate Control Program and Salt Control Program. To comply with CV-SALTS and Nitrate Control Program for the Traver ZOB, the County has entered into a Management Zone Agreement with the Kings Water Alliance.³ This Management Zone Agreement allows its member to work together to meet the requirements of CV-SALTS, including the nitrate control program, in the most cost-effective manner. Under the Management Zone Agreement, the Traver ZOB will owe dues of approximately \$2,500 per year. To comply with the CV-SALTS Program the County is required to join the State's Prioritization and Optimization Study and pay an estimated annual fee of \$1,350. Additional testing under the General Order is estimated to cost approximately \$2,400 per year, assuming no additional groundwater monitoring is required.

In addition, a Reserve Fund was included for the wastewater system. In efforts to keep rates affordable, the County is proposing establishing a Reserve Fund of two thousand six-hundred dollars (\$2,600) per year. The Reserve Fund will be established to serve as an operational

² Information available at: <https://www.census.gov/search-results.html?searchType=web&cssp=SERP&q=Traver%20CDP,%20California>

³ Management Zone Agreement between the Kings Water Alliance and the Traver Sewer Zone of Benefit; Tulare County Agreement No. 30347

contingency or provide for the replacement of equipment in an emergency. In addition, the Reserve Fund could be used for repayment towards the Revolving Fund Loan⁴ as the Revolving Fund Loan helps serve to provide emergency cash and operational contingency for the system. Repayment of the Revolving Fund Loan would both ensure that the Fund is available for emergency use as well as decreasing the financial burden on the system from interest on the Revolving Fund Loan. The calculation of the Reserve Fund will be discussed in further detail in the Proposed Rates section below.

TABLE 3: Traver ZOB Sewer System Budget for Fiscal Year⁵ 2023 and Projections for Fiscal Years 2024-2027

Budget	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Operation & Maintenance	\$47,449.00	\$48,872.47	\$50,338.64	\$51,848.80	\$53,404.27
Laboratory Services	\$3,500.00	\$3,605.00	\$3,713.15	\$3,824.54	\$3,939.28
Admin & Engineering	\$30,112.00	\$31,015.36	\$31,945.82	\$32,904.20	\$33,891.32
Publication & Legal Notices	\$3,500.00	\$3,605.00	\$3,713.15	\$3,824.54	\$3,939.28
Permit Fees	\$15,850.00	\$16,325.50	\$16,815.27	\$17,319.72	\$17,839.31
Utilities	\$16,000.00	\$16,480.00	\$16,974.40	\$17,483.63	\$18,008.14
Printing	\$200.00	\$206.00	\$212.18	\$218.55	\$225.10
Mail	\$482.00	\$496.46	\$511.35	\$526.69	\$542.50
Debt service	\$7,173.00	\$7,065.00	\$7,050.00	\$7,025.00	\$6,990.00
Interest on Revolving Fund	\$6,400.00	\$6,592.00	\$6,789.76	\$6,993.45	\$7,203.26
Telecommunications	\$417.00	\$429.51	\$442.40	\$455.67	\$469.34
Additional Regulatory Compliance	\$6,350.00	\$6,540.50	\$6,736.72	\$6,938.82	\$7,146.98
Total Operating Cost & Debt Services	\$137,433.00	\$141,232.80	\$145,242.83	\$149,363.62	\$153,598.78
Annual Reserves	\$2,600.00	\$2,600.00	\$2,600.00	\$2,600.00	\$2,600.00
Total Annual Budget⁶:	\$140,033.00	\$143,832.80	\$147,842.80	\$151,963.60	\$156,198.80

At this time, the County will establish a Reserve Fund but will not be establishing a complete reserve policy for the system, which would include separate emergency reserves, capital reserves, and other reserves. Typically, an emergency reserve would be used to fund the repair or replacement of the most expensive piece of equipment with available cash. Additional funds through the Revolving Fund Loan will be used for emergencies that exceed available reserves. A full Capital Reserve fund is also not recommended at this time to keep the rate affordable. In

⁴ The Revolving Fund Loan was established under California Government Code Section 25210.9c. Available at: <https://law.justia.com/codes/california/2005/gov/25210.1-25210.9c.html>.

⁵ Tulare County’s Fiscal Year begins July 1 and ends June 30.

⁶ Rounded to the nearest 10th.

addition, the Wastewater System would likely be eligible for grant funding for capital replacement when system components reach end of design life as the system serves Traver, which is a disadvantaged community. This assumption is based on current, recent, and proposed state and federal programs that provide grant funding for wastewater systems in disadvantaged communities.

Proposed Rates

Based on the expenses, other considerations as discussed above, and other system revenues, the County is proposing the rates shown in TABLE 4. The School Rate for the Wastewater System is currently 9.986 times the SFD rate, a ratio that is based on calculated wastewater flows from when the rate was established. The proposed rate keeps the same ratio between the SFD rate and the School rate.

TABLE 4: Traver ZOB Sewer System Proposed Rates & Annual Revenue

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Monthly SFD Rate	\$58.01	\$59.61	\$61.29	\$63.03	\$64.81
No. of Customer	188	188	188	188	188
Annual SFD Total:	\$130,870.60	\$134,480.20	\$138,270.20	\$142,195.70	\$146,211.40
Monthly School Rate	\$579.31	\$595.28	\$612.06	\$629.44	\$647.21
No. of Customers	1	1	1	1	1
Annual School Total:	\$6,951.70	\$7,143.40	\$7,344.70	\$7,553.20	\$7,766.50
Other Misc. Revenue	\$2,232.00	\$2,232.00	\$2,232.00	\$2,232.00	\$2,232.00
Projected Annual Revenue⁷	\$140,054.30	\$143,855.60	\$147,846.90	\$151,980.90	\$156,209.90

The County is proposing setting the SFD rate at fifty-eight dollars and one cent (\$58.01) for Fiscal Year 2023 to cover projected operating costs, debt service, and reserves for the Traver WWTP. These rates were designed to first ensure that the Wastewater System’s Operating Costs and Debt Service were adequately financed. As the rate required to cover those costs was less than the MAR, Staff recommended the establishment of a Reserve Fund in the amount of \$2,600 per year, which would be consistent with a rate that did not exceed the MAR as determined in the Affordability Analysis section above.

The proposed Reserve Fund would not be large enough to provide both an Emergency Reserve and Capital Reserve for the system, so one combined fund is proposed to provide maximum flexibility as described in the Operating Revenues, Expenses and Reserves section above.

The proposed SFD and School Rates for Fiscal Years 2024-27 are shown in TABLE 4 and were determined to cover the Budget Projections using the same Reserve Fund and other assumptions as described above.

⁷ Rounded to the nearest tenth.

Public Notice and Public Hearing (Proposition 218 Compliance)

Proposition 218 was a voter approved initiative in California that, in part, added Article XIII.D to the California Constitution which governs taxes and fees related to wastewater services. Proposition 218 created procedural requirements related to the setting of wastewater fees, including mandating a Public Hearing prior to their implementation. In addition, the County further defined the Public Hearing requirements under Ordinance 3604 (adopted April 5, 2022).⁸

Under these requirements, the County must provide all affected properties with a minimum of 45 days written notice prior to the Public Hearing to both the record owners and customers, if different. Publication must be circulated twice before the hearing. The notice must include:

- The schedule of charges by which the property owner or customer can easily calculate their own potential charge.
- The basis upon which the amount of the proposed fee or charge is to be imposed on each parcel. An explanation of the costs which the proposed fee will cover and how the costs are allocated among property owners.
- Date, time, and location of the public hearing on the rate adjustment. The public hearing must occur 45 or more days after the mailing of the notice.

At or before the Public Hearing, the affected owners and customers have the ability to “protest” the proposed rate change. Every party listed on the parcel ownership will be mailed a notice. If a majority of affected owners and customers, representing a majority of the impact parcels, file written protests with the Clerk prior to the close of the Public Hearing, Proposition 218 states that the County cannot implement the proposed rate. However, the County is only required to count one protest per parcel. Accordingly, even if all parties listed on an individual parcel file a protest, only one protest will be counted for purposes of determining the majority protest. If there is not a majority protest, the County has the authority to implement the proposed rate change.

⁸ Tulare County Code Part VIII County Service Areas Chapter 6 Water and Sewer Fees