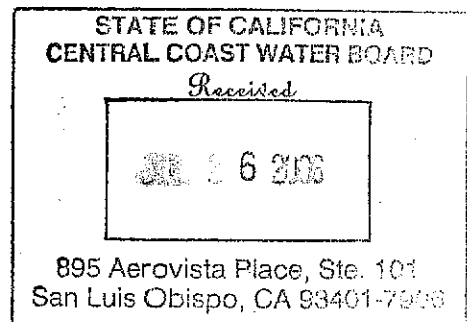


CITY OF HOLLISTER

WASTEWATER RATE ANALYSIS REPORT

JULY 6, 2006



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EXECUTIVE SUMMARY

This Wastewater Rate Study was conducted for the City of Hollister (the "City") to determine wastewater revenue requirements; system costs; appropriate, fair, and equitable rates and rate structure; and to maintain that the City is financially sound and stable over the next five (5) fiscal years. The study was conducted using historical and projected data of operating and non-operating expenses, debt service, and capital expenditures.

The City retained MuniFinancial to prepare a wastewater rate analysis that will include a new wastewater rate schedule for existing and development revenue demands that meets current and near-term projected system revenue requirements. For the purposes of determining annual revenue requirements as a basis to set future wastewater rates, we used a projection period of five (5) years, spanning fiscal years 2006/2007 through 2010/2011 (the "Study Period").

Assumptions

This section presents the assumptions used in the wastewater rate analysis.

1. The budget for fiscal year (FY) ending June 30, 2006 was used as the base year.
2. Assumes that growth rate is expected to be 2.6 percent (2.6%) starting in FY 2008/09 (due to the moratorium on growth).
3. An inflation factor of five percent (5%) was used to project future expenses.
 - Note that operating expenditures related to Domestic and Industrial Sewer costs are expected to change significantly with the completion of the new wastewater treatment plant; for these cost projections, City estimates were used rather than the five percent (5%) inflation factor.
4. The City expects to issue new debt for costs related to Capital Improvement Projects. The total new bond issue is estimated at approximately \$333 million. The following assumptions were made regarding the issuance of new debt:
 - Wastewater Treatment Plant construction costs estimated at \$120 million
 - The bond will be issued in FY 2007/08
 - The term is thirty (30) years
 - Required debt service coverage is 1.15 times the annual debt service payment
 - 1.00 times the annual debt service payment must be met by rate revenue, the remaining 0.15 may be met using other revenues
5. The ending Operating Fund balance for FY 2005/06 is \$63,180.
6. The basic wastewater rate structure for the customer classes will remain unchanged; all customers will continue to be charged a bimonthly service charge,

with commercial/industrial customers continuing to be charged an additional fee per hundred cubic feet (HCF) of water consumed.

Findings

This section presents the findings of the wastewater rate analysis.

1. A new wastewater treatment plant (the "Plant") is needed.
 - a. Costs currently estimated at \$120 million.
 - b. Debt financing necessary to fund Plant.
2. Due to these increasing expenses, current revenues are insufficient to finance the utility's operations.
3. There is currently no development fee revenue due to the moratorium on growth.
4. Future development fees are not guaranteed.
5. Existing rates do not adequately fund reserve fund balances.

Recommendations

The findings of this wastewater rate analysis indicate the City should consider adoption of the following recommendations:

1. Adopt the proposed wastewater rate structure. The rate structure adequately provides for ongoing costs, debt service, and allows for funding of reserves for unscheduled expenses.
 - a. The City should raise rates by forty-eight percent (48%) in FY 2006/07, forty percent (40%) in FY 2007/08, thirty-nine percent (39%) in FY 2008/09, and thirty-eight percent (38%) in FY 2009/10.
2. Should growth occur, development revenues from connection fees can be used to pay debt service or to retire outstanding bonds. This will reduce the debt service burden on ratepayers, potentially lowering the required rate increases.
 - a. The rate increases that could potentially be implemented if development revenue is used to retire outstanding bonds are forty-eight percent (48%) in FY 2006/07, forty percent (40%) in FY 2007/08, five percent (5%) in FY 2008/09, and five percent (5%) in FY 2009/10.
3. It is also recommended that all customers be charged on a monthly basis, rather than bi-monthly.

INTRODUCTION

This report documents the results of a Wastewater Rate Study (the "Rate Study") for the City of Hollister (the "City"). The primary purpose of this study is to develop a wastewater rate structure that will adequately fund the annual operations of the Wastewater Department (the "Department").

The Rate Study has used utility revenues, operating expenses, debt service, and capital expenditure data provided by the City. The objective of the Rate Study is to develop rate schedules for the Department over the five-year study period. The projected rate schedules are designed to produce revenues for the Department to pay all administrative, operations, and maintenance expenditures; capital improvement expenditures; and debt service and to maintain fund balances at reasonable operating levels.

The results of the Rate Study are derived from projected financial analyses of the Department based upon the budgeted revenues and expenses of the fiscal year (FY) ending June 30, 2006 (the "base year"). A five-year projection of operating results to determine future revenue requirements was developed for the Department for the fiscal years ending June 30, 2007 through 2011 (the "Study Period"). The projections also determine the amounts required to maintain sufficient balances in the Wastewater Enterprise Fund.

Current Rates

The wastewater rate structure has eight customer classes:

- ♦ Single-family Residential
- ♦ Multi-family Residential
- ♦ Mobile Homes
- ♦ Commercial/Industrial (low strength)
- ♦ Commercial/Industrial (moderate strength)
- ♦ Commercial/Industrial (high strength)
- ♦ Elementary and Middle Schools
- ♦ High Schools

Currently, all customers are charged a bimonthly service charge while commercial/industrial customers are charged additionally per hundred cubic feet (HCF) of water consumed. Table 1 below shows the current wastewater rate schedule. Note that the rates shown in Table 1 include the twenty-nine percent (29%) rate increase that was implemented in March 2006.

Table 1: Current Wastewater Rates

Customer Class	Current Rate	
	Bimonthly Service Charge	Quantity Charge per HCF
Single-family Residential	\$ 62.60	
Multi-family Residential	54.57	
Mobile Homes	38.29	
Commercial/Industrial (Low Strength)	29.46	2.73
Commercial/Industrial (Moderate Strength)	54.72	3.28
Industrial (High Strength)	212.87	6.09
Elem. & Middle Schools	2.28	
High School	2.28	

Sources: City of Hollister; MuniFinancial.

Current Customers

Table 2 lists the City of Hollister's current sewer system discharge and number of units per customer class.

Table 2: Current Wastewater Customers

Class	Estimated Annual Sewer Discharge (HCF)	Units	MGD	Gallons Per Unit (GPU) (est)	Rectified	Rectified
					GPU	MGD
Single Family Residential	770,989	7977	1.580	198	225.60	1.800
Multi-Family Residential	158,189	2303	0.324	141	160.33	0.369
Mobile Homes	19,031	306	0.039	127	145.17	0.044
Com/Ind (Low Strength)	101,028	275	0.207	753	857.51	0.236
Com/Ind (Mod Strength)	28,968	51	0.059	1,164	1325.81	0.068
Industrial (High Strength)	57,012	48	0.117	2,434	2772.41	0.133
Elem & middle Schools	30,225	8	0.062	7,743	8818.79	0.071
High School	12,995	1	0.027	26,631	30332.54	0.030
	1,178,437		2.415			2.751

Source: City of Hollister.

ANNUAL REVENUE REQUIREMENTS

As in most cities, the Department is operated on an enterprise basis with expenses and revenues accounted for separately from the City's general and other funds. The City's wastewater enterprise fund must receive sufficient total revenue to ensure proper operation and maintenance of the department as well as preserve the financial integrity of the utility and the fund. Adequacy of wastewater revenues can be measured by comparing the Department's revenue requirements to be met from the wastewater rates it charges to its customers.

Approaches to Determining Revenue Requirements

In order to develop adequate revenues from a system of wastewater rates, the annual revenue requirements of the City are first determined. There are two commonly accepted bases for determining annual revenue requirements in order to develop a financially sound wastewater rate structure. These approaches are the "cash needs" approach and the "utility" approach.

The "cash needs" basis is typically used when establishing customer rates. Under this approach, the basic revenue-requirement components include:

- ♦ Operating and maintenance (O&M) expenses
- ♦ Debt service costs (principal and interest on wastewater utility-related debt instruments)
- ♦ Capital expenditures funded directly from current revenues or accruals on a pay-as-you-go basis
- ♦ Other elements such as interdepartmental expenses (cost allocation), in-lieu taxes, and interest earnings (considered as a credit to the expenses)

The "utility" basis for determining annual revenue requirements is typically used by regulated investor-owned utilities and regulated municipal utilities. Items normally included in annual revenue requirements based on this approach include:

- ♦ Operating and maintenance (O&M) expenses
- ♦ In-lieu taxes
- ♦ Depreciation expense
- ♦ Fair rate of return on the rate base

To determine the revenue requirements for the City we have used the "cash needs" approach.

Current and Future Revenue Requirements

The annual revenue requirements are derived from maintenance and operations costs, debt service expenses, and required fund balances. Interest earnings, fines and forfeitures, and other miscellaneous income may offset some of these expenses, but the majority of the costs should be recovered via customer rates and charges.

The Department prepares an annual budget that itemizes all the expenditures for each fiscal year. These expenses include personnel costs, maintenance and operations, and equipment repair and replacement. For the study we also added a repair and replacement reserve fund, to account for depreciation expenses, an operating reserve fund, and a rate stabilization fund. The Department activities included in our analysis were gathered from the City's annual operating budget and audited financial statements.

Historical Revenues and Expenses

Base year income and expense data for the Department was obtained for FY 2005/06 using the Department budget for that year. This analysis is not a restatement of the City's audits or budgets, but does rely heavily on these data sources.

Capital Projects

The wastewater treatment plant reached its treatment capacity in 2002; therefore, a new wastewater treatment plant (the "Plant") is necessary. The proposed design capacity of five million gallons per day (5 mgd) for the Plant is in accordance with the growth projections in the City's General Plan. The treatment process will be upgraded as well, incorporating membrane bioreactor technology to help meet tertiary effluent water quality standards in accordance with regional reclaimed water objectives for reuse and recycling of treated effluent. Table 3 lists the capital improvement projects, dates the City intends to award a contract for the work, and their respective costs.

Table 3: Capital Improvement Projects

Project	Cost	Date Construction Awarded
Domestic WWTP	\$ 73,000,000	10 / 2006
Seasonal Storage Ponds	22,000,000	3 / 2007
Effluent Disposal System	25,000,000	9 / 2007
Total	\$ 120,000,000	

Sources: City of Hollister; MuniFinancial.

Future Revenue Requirements

An evaluation of future revenue requirements should focus on three specific areas. These areas are increases in operating expenses, requirements for debt service, and the maintenance of fund balances. The following sections discuss the impact of these three factors on the wastewater utility revenue requirements.

Operating Expense Projections

For purposes of determining annual revenue requirements as a basis to set future wastewater rates, we used a projection period of five years (the "Study Period"). During this period (FY 2006/07 through FY 2010/11), costs are naturally assumed to increase

due to inflationary pressures. Therefore, we have projected future revenue requirements of the wastewater utility by applying an annual inflation factor of five percent (5%) to operating expense line items. In addition, operating expenditures related to Domestic and Industrial Sewer costs are expected to change significantly with the completion of the Plant. For these cost projections, City estimates were used rather than the five percent (5%) inflation factor. These costs are shown in Table 4.

Table 4: Wastewater Treatment Plant Affected Operating Costs

	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11
Sewer Domestic	\$ 1,086,293	\$ 1,140,608	\$ 1,855,294	\$ 3,693,832	\$ 3,730,770	\$ 3,917,309
Sewer Industrial	274,578	288,307	302,722	-	-	-
Total	\$ 1,360,871	\$ 1,428,914	\$ 2,158,016	\$ 3,693,832	\$ 3,730,770	\$ 3,917,309

Source: City of Hollister.

Debt Service

Table 5 shows the total estimated debt service schedule related to the Plant. There is an assumed debt coverage requirement of 1.15 times the annual debt service payment associated with the new debt service (with 1.00 times required to be met through rate revenue). Note that capitalized interest is used so that the debt payments may be phased-in.

Table 5: Estimated Debt Service Schedule

	<u>Principal</u>	<u>Interest</u>	<u>Gross DS</u>	<u>Capl</u>	<u>Net DS</u>
6/30/2007	\$ 770,000.00	\$ 6,083,871.83	\$ 6,853,871.83	\$ (4,333,043.33)	\$ 2,520,828.50
6/30/2008	535,000.00	9,105,070.25	9,640,070.25	(5,899,565.00)	3,740,505.25
6/30/2009	560,000.00	9,079,739.00	9,639,739.00	(3,039,782.50)	6,599,956.50
6/30/2010	2,440,000.00	9,008,019.00	11,448,019.00		11,448,019.00
6/30/2011	2,560,000.00	8,886,739.00	11,446,739.00		11,446,739.00
6/30/2012	2,690,000.00	8,756,769.00	11,446,769.00		11,446,769.00
6/30/2013	2,830,000.00	8,617,354.00	11,447,354.00		11,447,354.00
6/30/2014	2,980,000.00	8,468,007.00	11,448,007.00		11,448,007.00
6/30/2015	3,140,000.00	8,308,792.50	11,448,792.50		11,448,792.50
6/30/2016	3,310,000.00	8,139,045.00	11,449,045.00		11,449,045.00
6/30/2017	3,490,000.00	7,957,972.50	11,447,972.50		11,447,972.50
6/30/2018	3,680,000.00	7,765,255.00	11,445,255.00		11,445,255.00
6/30/2019	3,895,000.00	7,553,913.75	11,448,913.75		11,448,913.75
6/30/2020	4,120,000.00	7,328,632.50	11,448,632.50		11,448,632.50
6/30/2021	4,355,000.00	7,094,481.25	11,449,481.25		11,449,481.25
6/30/2022	4,605,000.00	6,843,538.75	11,448,538.75		11,448,538.75
6/30/2023	4,870,000.00	6,574,652.50	11,444,652.50		11,444,652.50
6/30/2024	5,160,000.00	6,287,507.50	11,447,507.50		11,447,507.50
6/30/2025	5,465,000.00	5,980,672.50	11,445,672.50		11,445,672.50
6/30/2026	5,795,000.00	5,653,263.25	11,448,263.25		11,448,263.25
6/30/2027	6,140,000.00	5,304,744.00	11,444,744.00		11,444,744.00
6/30/2028	6,510,000.00	4,934,731.50	11,444,731.50		11,444,731.50
6/30/2029	6,905,000.00	4,540,616.50	11,445,616.50		11,445,616.50
6/30/2030	7,325,000.00	4,120,099.00	11,445,099.00		11,445,099.00
6/30/2031	7,775,000.00	3,672,750.25	11,447,750.25		11,447,750.25
6/30/2032	8,250,000.00	3,197,196.50	11,447,196.50		11,447,196.50
6/30/2033	8,755,000.00	2,691,710.25	11,446,710.25		11,446,710.25
6/30/2034	9,290,000.00	2,154,407.00	11,444,407.00		11,444,407.00
6/30/2035	9,865,000.00	1,583,094.75	11,448,094.75		11,448,094.75
6/30/2036	10,470,000.00	976,095.00	11,446,095.00		11,446,095.00
6/30/2037	11,115,000.00	331,782.75	11,446,782.75		11,446,782.75
	<u>\$ 159,650,000.00</u>	<u>\$ 187,000,523.58</u>	<u>\$ 346,650,523.58</u>	<u>\$ (13,272,390.83)</u>	<u>\$ 333,378,132.75</u>

Notes:

DS = Debt Service

Capl = capitalized interest

Source: Stone and Youngberg.

Fund Balances

Repair and Replacement Reserve Fund. A Repair and Replacement Reserve Fund has been established for the Department, in order to ensure the availability of funds for necessary system repair and maintenance. The fund is to collect \$82,290 annually beginning in FY 2006/07.

Wastewater Operating Fund. The Enterprise Fund for the Department is projected to have a balance of \$63,180 as of June 30, 2006, according to the City. It is recommended that the City maintain a balance of four (4) months of operating expenses in the Operating Fund. The Rate Study projects that with the revenue increase outlined in Table 6, the City will be able to meet and maintain its requirement throughout the remainder of the Study Period.

Rate Stabilization Fund. A Rate Stabilization Fund has been established for the Department, in order to ensure the debt coverage requirement is met each year. Any excess revenue in the Operating Fund above the desired amount may be put into the Rate Stabilization Fund. Note that the Rate Stabilization Fund is not to exceed 0.15 times the annual debt service payment for any given year.

Revenue Requirements

Table 6 presents the five-year projected revenue requirements for the Department. This table includes annual revenues projected to be raised using the current rate structure, the additional revenue required to meet projected Department expenditures, the projected operating and non-operating expenses, and fund balance information based on the revenues generated from rate and fee increases.

Row 6 of Table 6 shows the revenue generated using current rates and fees (a 2.6% population growth factor was used in the projection of these rates and fees, beginning in FY 2008/09, reflecting projected population growth). These rates and fees do not produce enough revenue to maintain a positive operating fund balance. The section below the current revenues (rows 4 through 14) incorporates the revenue generated by the proposed rate and fee increases. As the table illustrates, total system revenues must be increased by forty-eight percent (48%) in FY 2006/07, forty percent (40%) in FY 2007/08, thirty-nine percent (39%) in FY 2008/09, and thirty-eight percent (38%) in FY 2009/10 in order to maintain a positive cumulative fund balance during the Study Period. Note that the initial rate increase would take effect in September 2006; all other rate increases will take effect at the beginning of each of their respective fiscal years.

Total Operating Expenses and Non-Operating Expenses are shown in rows 26 and 39, respectively. Net income is found in row 40, with the Operating Fund Balance detailed near the bottom of the table in row 54.

Repair and Replacement Reserve (row 37) is a new line item in the budget. This captures the depreciation cost associated with the Department. These values are taken from the most recent audited financial statements, ending June 30, 2006. Should the City decide to collect rate revenues to fund this cost item, the City should establish a separate account number to track the balance of funds dedicated to it.

A line for Desired Operating Fund Balance (row 48) is also included in the table. This shows the minimum amount of funds the City would like to maintain in its Operating Fund, to address any emergency requirements that may arise for the Department.

Rows 49 through 53 represent the Rate Stabilization Fund, which is targeted at maintaining a balance of 0.15 times the annual debt service payment.

Table 6: Wastewater Utility Revenue Requirements

Description	FY 05/06	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11
1 Operating Revenues				Growth Starts		
2 Charges for Service	\$ 3,713,276	\$ 4,283,575	\$ 4,283,575	\$ 4,394,948	\$ 4,509,217	\$ 4,626,456
3 Total Operating Revenues	3,713,276	4,283,575	4,283,575	4,394,948	4,509,217	4,626,456
4 Additional Revenue Required						
5 Year	Revenue Increase	Months Effective				
6 FY 06/07	48%	9	-	2,109,575	2,164,424	2,220,699
7 FY 07/08	40%	-	2,535,877	2,601,809	2,669,456	2,738,862
8 FY 08/09	39%	-	-	3,551,470	3,643,808	3,738,547
9 FY 09/10	38%	-	-	-	4,935,024	5,063,335
10 FY 10/11	0%	-	-	-	-	-
Total Additional System Operating Revenue Generated from Rate	-	1,542,087	4,591,993	8,262,854	13,412,712	13,761,443
16 Total Operating Revenues	3,713,276	5,825,662	8,875,568	12,657,802	17,921,929	18,387,899
17 Applications of Funds						
18 Operating Expenditures						
19 City Manager	1,000	1,050	1,103	1,158	1,216	1,276
20 Finance	69,459	72,932	76,579	80,408	84,428	88,650
21 Information Systems	44,300	46,515	48,841	51,283	53,847	56,539
22 Engineering	102,688	107,822	113,214	118,874	124,818	131,059
23 Sewer Domestic	1,086,293	1,140,608	1,855,294	3,693,832	3,730,770	3,917,309
24 Sewer Industrial	274,578	288,307	302,722	-	-	-
25 Sewer Collection	1,189,055	1,248,508	1,310,933	1,376,480	1,445,304	1,517,569
26 Total Operating Expenses	2,767,373	2,905,742	3,708,685	5,322,034	5,440,382	5,712,401
27 Net Operating Income (Loss)	945,903	2,919,921	5,166,883	7,335,768	12,481,547	12,675,498
28 Debt Service						
29 Series 1993 Bonds ¹	1,210,000	-	-	-	-	-
30 Proposed Refunding Bonds	-	2,520,829	3,740,505	6,599,957	11,448,019	11,446,739
31 Total Debt Service	1,210,000	2,520,829	3,740,505	6,599,957	11,448,019	11,446,739
32 Non-Operating Income						
33 Interest	6,986	6,749	32,247	63,650	90,026	124,713
34 Intergovernmental	-	-	-	-	-	-
35 Total Non-Operating Income	6,986	6,749	32,247	63,650	90,026	124,713
36 Non-Operating Expenses						
37 Repair & Replacement Reserve	82,290	82,290	82,290	82,290	82,290	82,290
38 Transfers Out	-	-	-	-	-	-
39 Total Non-Operating Expenses	82,290	82,290	82,290	82,290	82,290	82,290
40 Net Income (Loss)	(339,400)	323,551	1,376,335	717,171	1,041,264	1,271,182
41 Operating Fund		Increase Rate				
42 Total Funds	(339,400)	323,551	1,376,335	717,171	1,041,264	1,271,182
43 Wastewater Enterprise Fund						
44 Beginning Operating Fund Balance	402,580	63,180	386,731	1,236,228	1,774,011	1,813,461
45 Deposit (Withdrawals)	(339,400)	323,551	1,376,335	717,171	1,041,264	1,271,182
46 Net Balance	\$ 63,180	\$ 386,731	\$ 1,763,065	\$ 1,953,400	\$ 2,815,275	\$ 3,084,642
47 Fund Balance Percent of O&M	33%	33%	33%	33%	33%	33%
48 Desired Operating Fund Balance	922,458	968,581	1,236,228	1,774,011	1,813,461	1,904,134
49 Rate Stabilization Fund						
50 Target Rate Stabilization Fund (15% of Debt)		378,124	561,076	989,993	1,717,203	1,717,011
51 Excess Reserves		-	526,837	179,388	1,001,815	1,180,509
52 Transfer into Rate Stabilization Fund		-	526,837	179,388	1,001,815	8,971
53 Ending Rate Stabilization Fund Balance		-	526,837	706,225	1,708,040	1,717,011
54 Final Operating Fund Balance	\$ 63,180	\$ 386,731	\$ 1,236,228	\$ 1,774,011	\$ 1,813,461	\$ 3,075,672

Notes:

Revenue sources are projected to increase 2.6 percent annually, beginning in FY 08/09. Operating expenses are assumed to increase 5 percent per year. FY 05/06 Operating Expenditures based on City's trial balance sheet as of 12/5/05.

¹ FY 04/05 Series 1993 Bonds debt service includes principal and interest from several enterprise funds.

Sources: City of Hollister; Stone and Youngberg; MuniFinancial.

PROPOSED WASTEWATER RATES

Based on the analysis conducted for the Department in this Rate Study, a rate schedule has been developed which, if implemented by the City, should be adequate to generate the projected operating revenues to cover estimated expenses and maintain the desired wastewater fund balances depicted in Table 6. Therefore, the City should raise its wastewater fees by 48% in FY 2006/07, 40% in FY 2007/08, 39% in FY 2008/09, and 38% in FY 2009/10. The proposed Wastewater Service Rate Schedule is shown below in Table 7.

Chart 1 is a graphical representation of the Department's current financial situation. The bars in the chart represent expenses, the solid line represents revenue using the recommended rate increases, the dashed line represents revenue using current rates, and the dotted line represents the Operating Fund Balance (the star marks the desired Operating Fund balance for FY 2010/11). As shown in the chart, current rates are not sufficient to meet the Department's current obligations (the dashed line falls below the bars). However, the solid line never falls below the bars, indicating that the recommended rates are sufficient to adequately provide for ongoing costs, debt service, and allow for funding of reserves for unscheduled expenses.

Table 7: Proposed Wastewater Service Rates

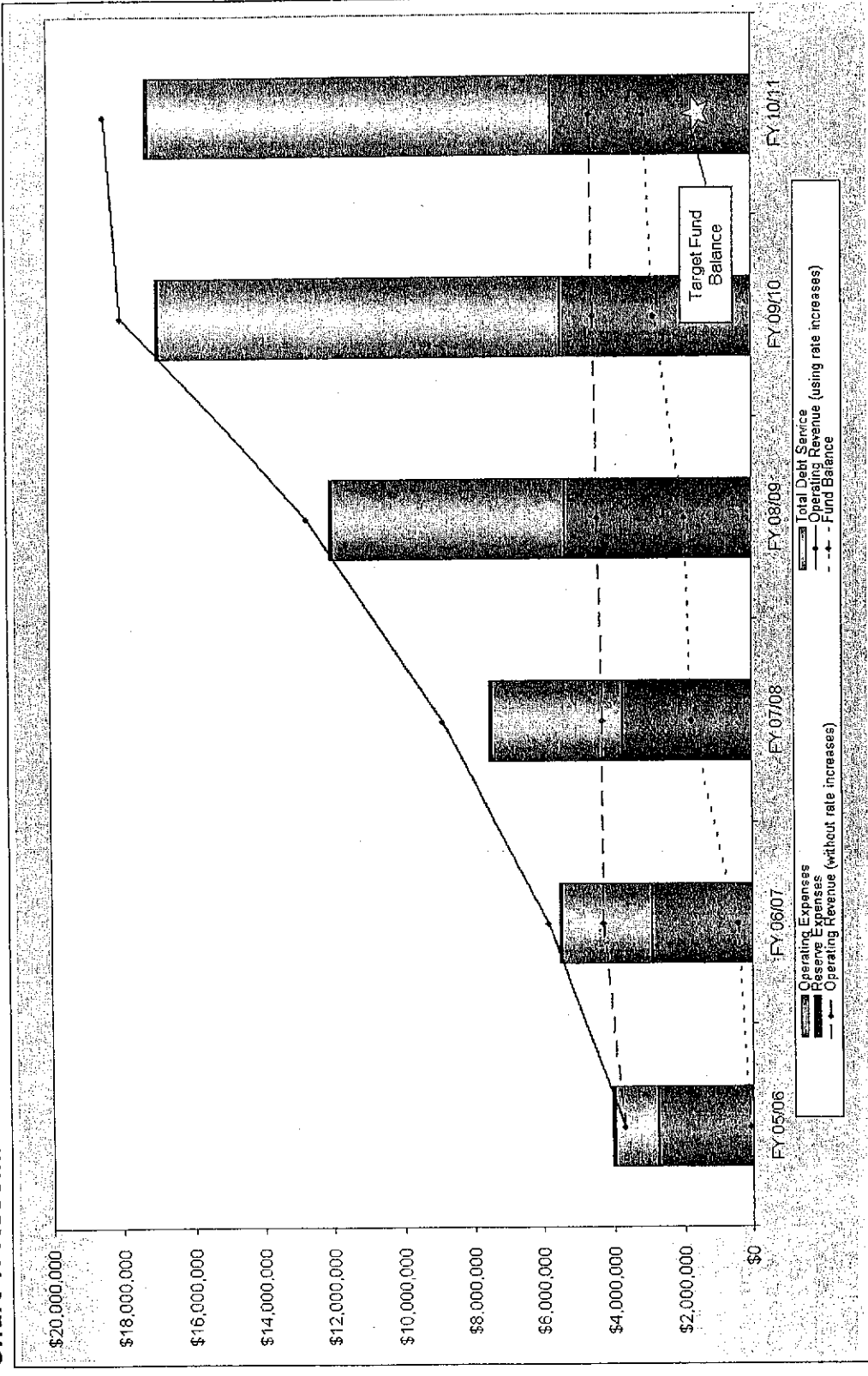
Customer Class	Bimonthly Service Charge					
	Current Rate	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11
Single Family Residential	\$ 62.60	\$ 92.65	\$ 129.71	\$ 180.29	\$ 248.80	\$ 248.80
Multi-Family Residential	54.57	80.76	113.07	157.17	216.89	216.89
Mobile Homes	38.29	56.67	79.34	110.28	152.18	152.18
Commercial/Industrial (Low Strength)	29.46	43.60	61.04	84.85	117.09	117.09
Commercial/Industrial (Moderate Strength)	54.72	80.99	113.38	157.60	217.49	217.49
Industrial (High Strength)	212.87	315.05	441.07	613.08	846.05	846.05
Elem. & Middle Schools	2.28	3.37	4.72	6.57	9.06	9.06
High School	2.28	3.37	4.72	6.57	9.06	9.06

Customer Class	Quantity Charge per HCF					
	Current Rate	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11
Commercial/Industrial (Low Strength)	\$ 2.73	\$ 4.04	\$ 5.66	\$ 7.86	\$ 10.85	\$ 10.85
Commercial/Industrial (Moderate Strength)	3.28	4.85	6.80	9.45	13.04	13.04
Industrial (High Strength)	6.09	9.01	12.62	17.54	24.20	24.20

Note:
HCF = hundred cubic feet.

Sources: City of Hollister; MuniFinancial.

Chart 1: Recommended Rate Scenario



IMPLEMENTATION ALTERNATIVE

The City also requested that MuniFinancial estimate potential wastewater connection fees to be charged to new development so that they would pay their fair share of the Plant costs, should the moratorium be lifted once construction on the Plant is completed. Since excess revenue will be generated (due to rates having 1.00 times coverage), the retirement of outstanding debt can be implemented. This will reduce the debt service burden on ratepayers, potentially lowering the required rate increases.

Facility Standards and Total Dwelling Unit Equivalents

Facility standards are used to determine the capacity needed to accommodate new development. Consequently, standards provide a reasonable relationship between development and the need for public facilities to serve that development.

The City anticipates that residential/school growth will increase annually by 2.6 percent (2.6%) and commercial/industrial growth will increase by 2.9 percent (2.9%) once the moratorium is lifted in FY 2008/09, this provides for an additional 15,558 residential units (this includes single-family, multi-family, and mobile homes), 10,072,000 square feet of commercial/industrial space, and 13,253 new students by FY 2022/23. Table 8 presents the average flow generation factors for each of the land use types. The table also shows the dwelling unit equivalent (DUE) conversion by land use. A dwelling unit equivalent represents the relative demand by land use as compared to one single family residential unit. These DUE factors are used to allocate project costs among individual developments because they provide a reasonable estimate of each development's relative demand for wastewater system facilities. As shown in the table, the total number of DUEs related to growth is estimated at 5,853.

Table 8: Dwelling Unit Equivalents (DUEs) & Flow Generation Factors

Units	Single Family Residential		Multi-Family Residential		Mobile Homes		Commercial/Industrial		Elem & middle Schools		High School		Total
	Dwelling Units		Dwelling Units		Dwelling Units		1,000 SF		Students		Students		
Existing Number of Units (FY 2006)	7,977		2,303		306		6,560		6,318		2,700		
Flow per Unit (GPD)	225.60		160.33		145.17		66.54		11.17		11.23		
DUE Factor	1.00		0.71		0.64		0.29		0.05		0.05		
Existing DUEs	7,977		1,637		197		1,935		313		134		12,193
Projected Number of Units (FY 2023)	11,723		3,385		450		10,072		9,285		3,968		
DUE Factor	1.00		0.71		0.64		0.29		0.05		0.05		
Projected DUEs	11,723		2,405		289		2,971		460		198		18,046
DUEs related to growth													5,853

Sources: City of Hollister; MuniFinancial.

Wastewater Connection Fee

The new wastewater connection fee is based on new development paying their fair share of the Plant construction costs. The City has estimated that forty-six percent (46%) of the Plant construction costs are attributable to new growth. As such, it is reasonable to assume that forty-six percent (46%) or approximately \$153 million of the debt service costs are allocable to new development. Table 9 shows the calculation of the wastewater connection cost per DUE, which is determined by dividing the costs allocable to new development by the total number of new DUEs to be served by planned facilities.

Table 9: Construction Cost per DUE

Total Costs	\$ 153,353,941
DUE Growth (2006 - 2023)	5,853
Cost Per DUE	\$ 26,199

Sources: City of Hollister; MuniFinancial.

Table 10 presents the wastewater connection fee per unit based on the cost per DUE shown in Table 9 and the DUE conversion factors per dwelling unit found in Table 8.

Table 10: Wastewater Connection Cost per Unit

Land Use	Cost Per DUE	DUE Factor	Total Fee per Unit ¹
Single Family Residential	\$ 26,199	1.00	\$ 26,199 per Dwelling Unit
Multi-Family Residential	26,199	0.71	18,619 per Dwelling Unit
Mobile Homes	26,199	0.64	16,858 per Dwelling Unit
Commercial/Industrial	26,199	0.29	7,727 per 1,000 SF
Elem & middle Schools	26,199	0.05	1,297 per Student
High School	26,199	0.05	1,305 per Student

¹ SF = square feet.

Source: MuniFinancial.

Potential Rate Structure with Development Revenue

It is anticipated that this growth will occur in FY 2008/09, should the moratorium on growth be lifted when construction on the Plant is completed. As such, debt may be retired using connection fee revenue and the rate increases identified in Table 7 of this report may be decreased from thirty-nine (39%) to five percent (5%) in FY 2008/09 and thirty-eight percent (38%) to five percent (5%) in FY 2009/10. The potential rate structure that may be implemented should growth occur is shown in Table 11.

Chart 2 graphs the alternative rate implementation scenario. The bars in the chart represent expenses, the solid line represents revenue using the potentially implemented rate increases, and the dotted line represents the Operating Fund Balance (the star marks the desired Operating Fund balance for FY 2010/11). As shown in the chart, debt has been retired using projected connection fee revenue, which allows for lower rate increases. The solid line never falls below the bars, indicating that the potentially implemented rates are sufficient to adequately provide for ongoing costs, debt service, and allow for funding of reserves for unscheduled expenses.

Table 11: Potentially Implemented Wastewater Service Rates

Customer Class	Bimonthly Service Charge											
	Current Rate	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11	Current Rate	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11
Single Family Residential	\$ 62.60	\$ 92.65	\$ 129.71	\$ 136.19	\$ 143.00	\$ 143.00	\$ 62.60	\$ 92.65	\$ 129.71	\$ 136.19	\$ 143.00	\$ 143.00
Multi-Family Residential	54.57	80.76	113.07	118.72	124.66	124.66	54.57	80.76	113.07	118.72	124.66	124.66
Mobile Homes	38.29	56.67	79.34	83.30	87.47	87.47	38.29	56.67	79.34	83.30	87.47	87.47
Commercial/Industrial (Low Strength)	29.46	43.60	61.04	64.09	67.30	67.30	29.46	43.60	61.04	64.09	67.30	67.30
Commercial/Industrial (Moderate Strength)	54.72	80.99	113.38	119.05	125.00	125.00	54.72	80.99	113.38	119.05	125.00	125.00
Industrial (High Strength)	212.87	315.05	441.07	463.12	486.28	486.28	212.87	315.05	441.07	463.12	486.28	486.28
Elem. & Middle Schools	2.28	3.37	4.72	4.96	5.21	5.21	2.28	3.37	4.72	4.96	5.21	5.21
High School	2.28	3.37	4.72	4.96	5.21	5.21	2.28	3.37	4.72	4.96	5.21	5.21

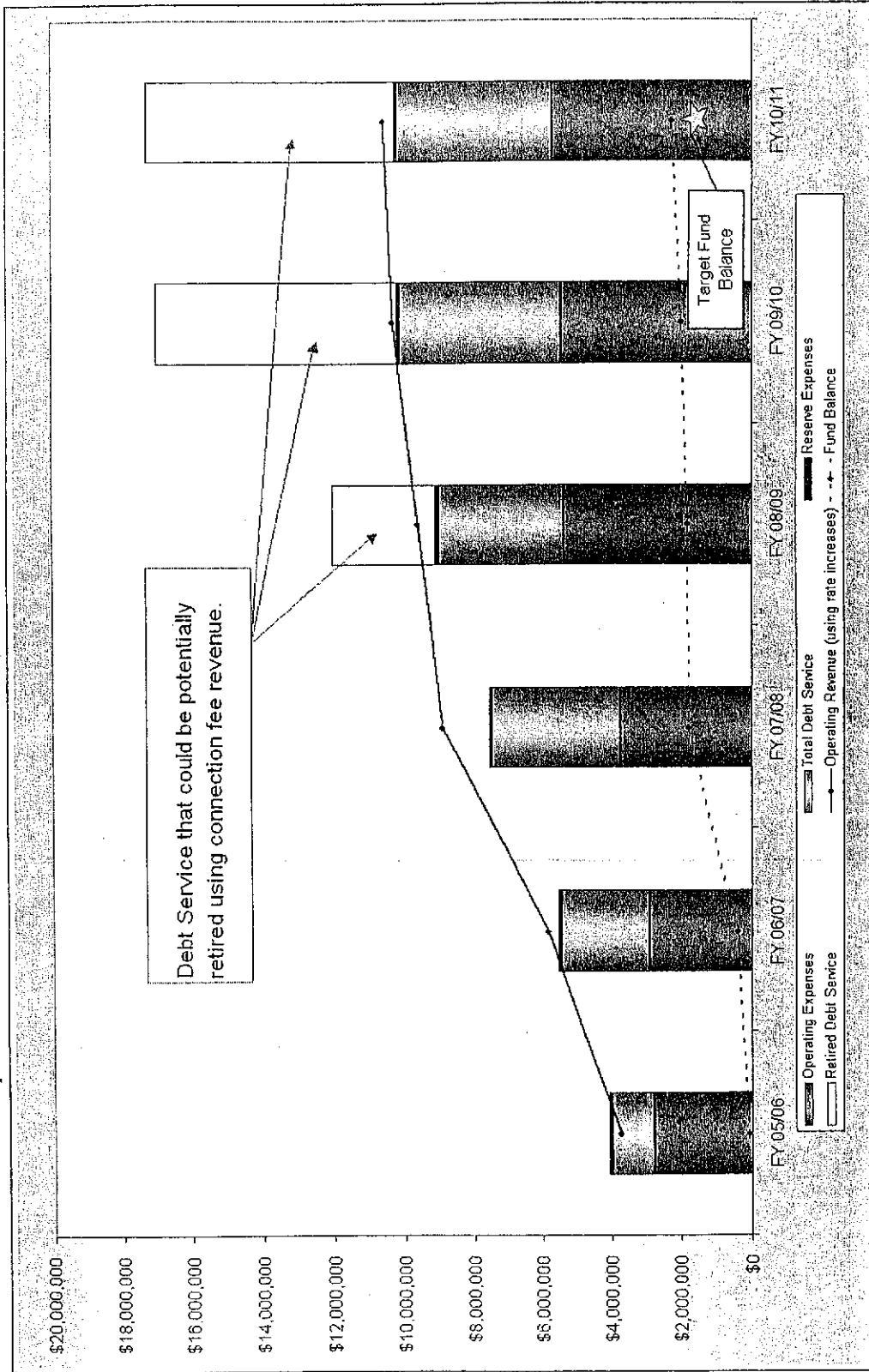
Customer Class	Quantity Charge per HCF					
	Current Rate	FY 06/07	FY 07/08	FY 08/09	FY 09/10	FY 10/11
Commercial/Industrial (Low Strength)	\$ 2.73	\$ 4.04	\$ 5.66	\$ 5.94	\$ 6.24	\$ 6.24
Commercial/Industrial (Moderate Strength)	3.28	4.85	6.80	7.14	7.49	7.49
Industrial (High Strength)	6.09	9.01	12.62	13.25	13.91	13.91

Note:

HCF = hundred cubic feet.

Sources: City of Hollister; MuniFinancial.

Chart 2: Potential Implementation Scenario



RECOMMENDATIONS

The findings of this wastewater rate analysis indicate the City should consider adoption of the proposed wastewater rate structure. The rate structure adequately provides for ongoing costs, debt service, and allows for funding of reserves for unscheduled expenses. Should growth occur, development revenues from connection fees can be used to pay its fair share. Since excess revenue will be generated (due to rates having 1.00 times coverage), the retirement of outstanding debt can be implemented. This will reduce the debt service burden on ratepayers, potentially lowering the required rate increases.