

MONTALVO COMMUNITY SERVICES DISTRICT

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**Evaluation of Alternatives to Fund Needed Replacements and
Upgrades to the MCSD Sanitary Sewer System**

Prepared by
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Montalvo Community Services District (MCSD) is evaluating the options available to address the future sewer service needs of the community it has served for the past 60 years. The aging MCSD Wastewater Treatment Plant (WWTP) and collection systems require replacement and upgrade in the very near future. More rigid environmental regulations have already forced the communities of Santa Paula, Fillmore, and Piru to invest tens of millions of dollars in treatment upgrades. The MCSD collection system, although it has an excellent record with very few failures, will soon require extensive repair or replacement.

Background

MCSD began providing sanitary sewer service to the unincorporated area of Montalvo in 1954. MCSD serves approximately 600 properties north of the 101 Freeway and provides treatment services to the Auto Center under contract with the City of Ventura. Over the past 60 years the City of Ventura has grown around the Montalvo area. In 2012 the City annexed the last remaining unincorporated portion of the MCSD service area north of the 101 Freeway. The MCSD WWTP, south of the 101 Freeway and surrounded by agricultural lands, is now in the path of the expansion of Ventura’s city limits and new commercial development. The City has recently approved the Olivas Park Road Extension Project that will result in the annexation of the MCSD WWTP property and all of the surrounding properties.

Today the vast majority of the properties in and around Montalvo receive sewer service from the City of Ventura. MCSD has little opportunity to expand its service area and limited surplus treatment capacity to offer new development. The attached map highlights the area served by MCSD in comparison to the City of Ventura.

MCSO's infrastructure is over 60 years old. The treatment plant has been upgraded at various times over the past years to comply with new regulatory standards and some repairs have been completed to improve the collection system. However the treatment plant is well overdue for a major upgrade and the collection system will require extensive repair and replacement over the next ten years.

The current annual cost to operate MCSO is \$688,000 (MCSO Budget 2014-15). Approximately \$477,000 per year is the cost associated with treatment and \$211,000 per year is the cost to maintain the collection system and general administration. MCSO annual revenues are \$692,000 from three sources: \$358,000 per year are from fees for service to the Montalvo area, \$58,000 per year for contracted treatment service to the Auto Center and miscellaneous permit fees, and interest on reserve funds. MCSO also receives an ad valorem property tax allocation of \$276,000 per year. MCSO has no debt and maintains a cash reserve over \$1.0 million for emergency repairs.

MCSO collects service fees through the Ventura County Tax collector. Each year the total fee for sewer service is placed on the property tax bills of the properties serviced by MCSO. This fee for service is itemized on each property's tax bill.

MCSO offers some of the lowest sewer service rates in Ventura County. MCSO has been able to subsidize the cost of service with ad valorem property taxes and MCSO has not yet been impacted by the latest wave of environmental regulations. Over the years the portion of the cost of operation paid through ad valorem property taxes has declined significantly. Proposition 13 in 1978 changed how properties are assessed and limits increases in assessments to a maximum of 2% per year. Only a few years ago property tax revenue was 60% of MCSO total revenues. Today it is less than 40% and expected to continue to decline.

This tax revenue is different than the fee for sewer service charge which appears on the tax bill. This property tax is not levied by MCSO. MCSO has no control over this revenue; it is simply an allocation from the County Of Ventura's general property tax assessments established by Proposition 13. In addition to having no control over this revenue there have been continuous threats, caused by State budget crisis, to suspend this revenue or eliminate it completely.

MCSO has been evaluating its future options for over 6 years. The MCSO WWTP is in the path of the Olivas Park Road Extension Project and associated river levee. The project proposal has evolved over time from having only a marginal impact on the MCSO property to requiring complete removal of the WWTP. The City does not have the authority to take MCSO property without MCSO consent; however, the financial, political and regulatory realities pose significant challenges to continuing the operation of the WWTP at the current location.

MCSO is now confronted with several choices: 1.) invest millions of dollars to upgrade the WWTP to comply with the latest regulatory standards and plan on spending millions more over the next 10 years to upgrade the sewer collection system, or 2.) contract with the City of

Ventura to provide treatment services and invest only in the upgrade of the collection system, or 3.) agree to have sewer service provided by the City of Ventura.

Criteria for Selection of Best Alternative

MCS D's primary mission has been to provide quality sewer service at a reasonable price. As the City's service area has grown around MCS D, MCS D has been able to offer very competitive service rates. If MCS D can continue to provide quality service for less than the City of Ventura, it is in the best interest of the residents of Montalvo to pursue funding alternatives that will ensure its competitiveness well into the future. However, if the community can receive sewer service from the City of Ventura for less than MCS D can provide, then it is in the best interest of the community to be served by the City of Ventura.

To select the best alternative for the future of the Montalvo service area MCS D has evaluated the cost and the projected sewer service rates required to fund for each of the identified alternatives.

Estimated Cost of Upgrade to WWTP and Collection System

The MCS D WWTP can treat up to 250,000 gallons per day. It currently treats 200,000 to 225,000 gallons per day. MCS D maintains 6 miles of collection lines ranging in size from 6 inch to 15 inch diameter.

WWTP

The treatment process is a relatively simple aeration process that also removes nitrates. Treated water is disposed through percolation into the upper perched zone of the water table consisting of brackish water not suitable for drinking water use. Waste solids are dewatered as much as possible and disposed by hauling to large composting facilities in the Central Valley. Regulatory requirements for disposal of both water and solids have been historically relatively lenient. Evolving regulations have become significantly more rigid, first applied to the larger WWTP throughout the State, and now beginning to be applied to smaller plants as permits expire and new permits are issued.

It is very difficult to anticipate what new requirements will be included in MCS D's new permit. The permit is due for renewal and is being held in the back log of permits to be reviewed by the Regional Water Quality Control Board. At a minimum MCS D expects phosphate removal will be added to the constituents currently regulated and limits on a series of other constituents will be under consideration. MCS D ability to meet those additional requirements without added treatment is unknown at this time.

Solids handling and disposal is even more tenuous. Regulations on air emissions, odor control and restrictions on hauling are evolving to a point where ultimately all solid disposals maybe required to be handled locally. This will require extensive additional treatment either by the WWTP or at a regional disposal facility.

Nearly all of the WWTP in Ventura County have implemented upgrades over the past 20 years beginning with the largest plants. MCSD WWTP is one of the smallest plants followed by Saticoy, Piru, Fillmore, and Santa Paula. Santa Paula, Fillmore and Piru were upgraded in the past ten years. Santa Paula's upgrade cost over \$50 million (\$11.90 per gallon capacity), Fillmore's plant cost \$76 million (\$30 per gallon capacity) and Piru's plant cost \$14.5 million (\$9.60 per gallon capacity). This wide variation in costs is the result of each plant's permit requirements and the method of treatment selected. If we assume MCSD could upgrade its WWTP for the lowest per gallon cost of \$9.60, like Piru, MCSD's total cost would be \$2.5 million.

Collection System

Although the collection system is currently operating well with little or no spills, the age of the system is taking its toll on the manholes and the main truck lines. The manholes are constructed of brick, which was the standard in the 1950's. Brick eventually deteriorates allowing groundwater to enter the system and can cause the manhole stack to collapse into the sewer line. Nearly all of the 175 manholes must be replaced over the next decade. The estimated cost of replacement is \$3.8 million. Some of the oldest collection lines in the lower section of the service area as well as the main truckline from the 101 Freeway to the WWTP will require linings or replacement at an estimated cost of \$1.0 million. The total estimated cost of needed repair and replacements to the collection system is \$4.8 million.

Alternative No. 1 – Finance System Upgrades through Service Rates

Over the next decade MCSD will need a minimum of \$7.3 million to upgrade the sewer system. MCSD's current reserves are over \$1.0 million. MCSD must consider borrowing \$7.0-\$7.5 million to upgrade the WWTP and begin repairs on the collection system, and at the same time maintain an emergency reserve to deal with the multitude of unknowns that can occur during routine operations.

The annual estimated cost of financing the improvements is \$480,000 (\$7.5 million at 0.4% interest for 25 years). Added to MCSD current operation costs (indexed for ordinary inflation of 2% per year over the next 3 years), the projected total annual cost of operation will increase to \$1.2 million. MCSD annual revenues are currently \$690,000 per year. Nearly 40% of that revenue is from property taxes, taxes which MCSD cannot increase. Alternative No. 1 will require MCSD to increase sewer service rates by 37% each year over the next 3 years to fund the needed improvements.

What are not included in this estimated cost are any increases in operation expenses that may occur as the result of a new treatment plant. If the anticipated additional treatment standards are applied, expenses for additional labor, treatment chemicals and energy will likely increase. How much they will increase is unknown. For the purpose of this analysis it is assumed that expenses will only increase by an average of 2% per year for ordinary inflation.

Regardless of MCS D's decision, the City is planning to construct a new sewer truckline to collect sewage from the Auto Center, and will terminate the treatment contract with MCS D with in the near future. This will result in a loss a \$43,000 per year in revenue to MCS D.

Alternative No. 2 – Contract with Ventura for Treatment

For some time MCS D has been considering contracting with the City of Ventura for wastewater treatment. The City's main truckline to the Ventura WWTP is less than a mile from Montalvo's WWPT. A truckline could be constructed to tie MCS D collection system into the City system at the end of the intersection of Olivas Park Road and Golf Course Drive.

This alternative would not be feasible if it were not for the Olivas Park Road Extension Project. The cost of constructing the sewer truckline to the City, plus treatment capacity fees required to connect to the City's WWTP are approximately \$4.5 million. This is far more costly than constructing a new MCS D WWTP.

However, the Olivas Park Road Extension Project needs the MCS D WWTP property for construction of the planned road and river levee. In exchange for the MCS D property the participants in the Olivas Park Road Extension Project have offered to fund the construction of the truckline extension and the WWTP capacity fees.

This project offers MCS D the opportunity to avoid the large capital expense of upgrading the existing WWTP and eliminates MCS D's current operating costs for the WWTP of \$477,000 per year. Under a contract with the City of Ventura, the City would charge MCS D approximately \$595,000 per year for treatment services by 2017. Added to MCS D cost of operation for the collection system and general administration (indexed for ordinary inflation of 2% per year over the next 3 years), the projected total annual cost of operation will increase to \$820,000.

MCS D would still be responsible for the operation and maintenance of the collection system. The system requires approximately \$5.0 million in repairs over the next 10 years. If MCS D finances the repairs, the debt service would be about \$300,000 per year (\$5.0 million at 4% for 25 years), bringing the total cost of operations to \$1.12 million per year. To fund this alternative sewer service rates must increase 32% each year over the next 3 years.

Alternative No 3 – Full Sewer Service from City of Ventura

The third alternative being considered by the MCS D Board of Directors is the transition of both treatment services and collection system operation and maintenance to the City of Ventura. The total cost of full service from the City would be \$717,000 per year beginning in 2017-18.

Funding the needed upgrades to the collection system would be done over a 5-10 year period. MCS D can contribute over \$1.0 million dollars from reserves to fund the most immediate needs of the collection system. MCS D would increase rates to match City of Ventura rates and dedicate MCS D's ad valorem tax revenues of approximately \$275,000 to fund additional improvements to the collection system. By paying Ventura's full sewer rates the Montalvo

community would also be contributing to the City's general capital replacement fund which will finance the long term needs of the collection system.

Alternative No. 3 would require MCS D to eventually forfeit the ad valorem property tax to the County of Ventura. Alternative No. 3 would require an increase in service rates of 27.5% each year over the next 3 years. Once parity with Ventura's rates is reached MCS D would continue to dedicate its remaining tax revenues for a period of 2 to 5 years for the needed improvements to its collections system. Beginning in July of 2018 the residents of Montalvo would begin receiving sewer service bills directly from the City of Ventura and pay the same rate as all City of Ventura customers. Beginning in 2018-19 the properties in MCS D service area would no longer be billed for sewer service on their tax bills.

Best Alternative

Alternative No. 3, full service from the City will result in the least costly service to the Montalvo community. Even though, following the full transition to service from the City of Ventura, MCS D will forfeit the ad valorem property tax to the County of Ventura; Alternative No. 3 will result in lower overall cost of operation and require a smaller increase in service rates.

Alternative No. 1 annual cost would be \$518,000 more than current operations and require an increase in service fee revenues of \$544,000 per year. Alternative No.2 will cost \$427,000 more annually and require an increase in service fee revenues of \$453,000 per year. The annual cost of full service from the City of Ventura in 2017-18 will cost about \$25,000 more than current costs and require an increase in annual service fee revenues of \$360,000.

The Table I below compares the various costs of operation for each alternative in 2017-18, the required increases in service fee revenues, and the projected residential rate for a single family property.

Table I

Cost Comparison for Each MCSD Alternative

	Current 2014-15 Current Operations	Alternative No 1 2017-18 Projected w/Improvements	Alternative No. 2 2017-18 Contract for Treatment	Alternative No.3 2017-2018 City Provide Full Service
Expenses				
WWTP Operations and Administration (1)	\$477,000	\$506,196	\$0	\$0
Treatment Contract Services (2)			\$595,000	\$0
Collection System and Administration (1)	\$211,000	\$223,915	\$223,915	\$0
Debt Service	\$0	\$480,090	\$300,000	\$0
Full Service from City (2)				\$717,000
Total Operating Costs	\$688,000	\$1,210,201	\$1,118,915	\$717,000
Revenues				
Fee for Service Revenues	\$358,000	\$902,307	\$811,021	\$717,000
Tax Revenues (3)	\$276,000	\$292,893	\$292,893	\$0
Out-of-District (4)	\$58,000	\$15,000	\$15,000	\$0
Total Revenues	\$692,000	\$1,210,201	\$1,118,915	\$717,000
Typical Annual Residential Rate for MCSD	\$294	\$756	\$676	\$608
Typical Annual Residential Rate City of Ventura	\$428	\$608	\$608	\$608

- (1) Projected expenses are assumed to increase by 2% per year for ordinary inflation
- (2) Based on Ventura's adopted rates for 2017-18
- (3) Tax revenues are assumed to increase the maximum allowable under Prop 13 of 2% per year. Tax revenues will be dedicated to collection system upgrades and eventually surrendered to the County of Ventura in Alternative No. 3
- (4) Treatment services to the Auto Center will be terminated when the City completes the new sewer truckline.

The potential for fines levied by regulatory agencies, the potential cost of clean-up resulting from a sewer spill, and the potential cost of repairing unanticipated system failures is significant with any sewer system operation. However when that liability is shared by as few as 600 properties, the per capita cost can be staggering.

From a financial perspective Alternative No. 3, full service from the City of Ventura, is the best alternative. The cost of service will be significantly less than MCSD can provide either by implementing all of the needed improvements or by contracting with the City for treatment only.

The estimated cost of Alternative No. 1 is very conservative. The estimated construction costs of a new WWTP are based on comparative costs for Piru that are nearly 10 years old. The revenue projections do not include any surplus revenues for future capital replacement costs or unanticipated additional regulatory requirements. As stated above, these costs do not include any additional operation expenses associated with a new treatment plant and operating permit. In reality sewer service rates would have to increase more than the projected amount each year to cover these added costs and satisfy the credit requirements needed to secure funds at a reasonable interest rate.

The estimated cost of Alternative No. 2 is more accurate, but again do not include any surplus revenues for unanticipated events. There is no accurate means of quantifying the liability of operating a sewer collection system which is inheritably vulnerable to sewer spills from manmade and natural disasters. Sewage spills are subject to very large fines from the regulatory agencies and the cleanup can be very costly.

The 2017-18 cost of service for Alternative No. 3 is based on rates already adopted by the City of Ventura effect in July 2017. Obviously the City’s rates can and will increase in the future, but those increases will be driven by the same economic and regulatory requirements as other sanitary sewer service agencies.

The analysis is very conservative in that it does not include the added cost of inflation when considering MCS D’s cost of service and assumes that a new treatment facility with potentially greater treatment requirements would cost no more than the current operations. The evaluation assumes the least expensive upgrades to the treatment plant and does not include any additional treatment that maybe required by the Regional Water Quality Board. City of Ventura rates for 2017 are already set and include allowances for inflation over the 3 year period.

Comparison of City’s Sewer Rates with Surrounding Community

A comparison of sewer service rates through Ventura County indicates that the City’s sewer rates are competitive with agencies in the surrounding community. The Table II below compares 2014 sewer service rates in western Ventura County.

Table II

Comparison of 2014 Sewer Service Rates in Surrounding Communities for Single Family Residents		
	Bi-monthly	Annual Fee
MCS D	\$ 49.00	\$ 294.00
Ventura	\$ 67.33	\$ 404.00
Camarillo	\$ 88.15	\$ 529.00
Oxnard	\$ 64.00	\$ 384.00
Piru	\$ 117.00	\$ 707.00
Ojai	\$ 104.00	\$ 624.00
Santa Paula	\$ 168.33	\$ 1,010.00
Fillmore	\$ 179.17	\$ 1,075.00
Saticoy	\$ 51.35	\$ 308.10

Common elements that explain the differences in sewer serve rates among these communities are the size of the service area and the status of upgrades to the sewer systems. The largest communities that have upgraded sewer systems; Oxnard, Camarillo and Ventura are able to spread the costs over a much larger customer base. The cost of capital improvements are shared by thousands of people verses a few hundred. Piru, Fillmore, and Santa Paula have much smaller populations and must fund multi-million dollar projects with fewer rate payers. Saticoy and Montalvo have not yet implemented the required improvements and will fund those improvements with only a few hundred rate payers. This comparison demonstrates a significant advantage for Montalvo to become a part of a much larger group of customers who share the costs of replacements and new regulatory requirements as well as the inherent liability of operating a sewer system. Table III compares projected 2017 sewer service rates based on ordinary inflation increases of 2% annually to MCS D Alternative No. 1, Alternative No. 2 and the adopted 2017-18 rate for the City of Ventura. The City of Ventura’s rates are still competitive with other agencies even without knowing what challenges other agencies are facing in the future.

Table III

Comparison of 2017 Sewer Service Rates in Surrounding Communities for Single Family Residents (*)			
MCS D Alternative No 1	\$	126.00	\$ 756.00
MCS D Alternative No 2	\$	112.67	\$ 676.00
Ventura	\$	101.33	\$ 608.00
Camarillo	\$	93.55	\$ 561.27
Oxnard	\$	67.92	\$ 407.50
Piru	\$	124.16	\$ 744.97
Ojai	\$	110.37	\$ 662.19
Santa Paula	\$	178.64	\$ 1,071.82
Fillmore	\$	190.13	\$ 1,140.80
Saticoy	\$	54.49	\$ 326.96

* All rates except Ventura and MCS D are indexed for inflation by 2% annually
 Ventura's 2017 rate has been adopted.
 MCS D are based on rate increases contained in this analysis

Implementation

Before a final decision can be reached MCS D must reach agreement with the City of Ventura. It is important to the MCS D Board of Directors that the implementation has a minimal impact of the residents of Montalvo. Proposed rate increases must be spread over at least a three year period to avoid sudden large increases.

The transition from the current method of billing (tax bills) to bi-monthly charges on the City of Ventura water bills must also be implemented in a manner that does not unfairly burden those currently served by MCS D. Currently MCS D prepares the sewer service charges for the period July through June in May of each year and apply them to the County's tax bill. The property owner pays the sewer service fee each year along with the general property taxes. Renters and tenants do not currently see the sewer charges although it is included in their rental fees. Also homeowners that pay taxes through mortgage impound accounts pay the sewer service fee as well as their taxes on a monthly basis with their mortgage payment. Once the transition to full service from the City occurs in 2018 the fees will no longer be placed on the tax bill. The sewer service charge will be included in the bi-monthly water bills from the City of Ventura. The party that pays the water bill, the property owner or the tenant, will now receive the sewer bill. Those with impound accounts on their mortgage will see their tax bill decrease but may not realize the decrease until the mortgage holder adjust the impound charges on the mortgage payment. Both the City of Ventura and MCS D plan to keep everyone informed of the scheduling of this transition to avoid confusion and surprise to the rate payers when the transition is implemented.

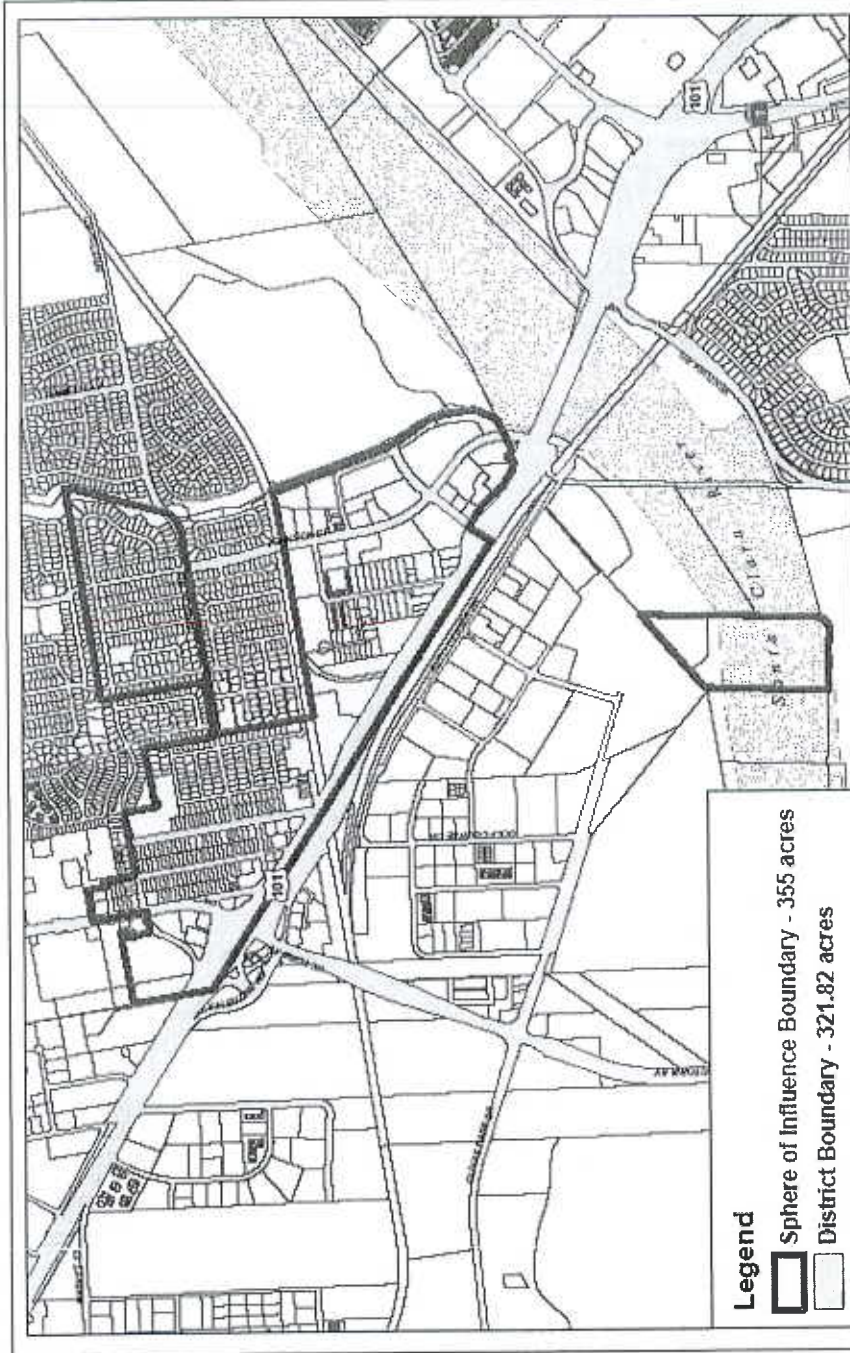
The City of Ventura's residential rate structure differs from MCS D in that MCS D is a flat rate for all residential customers. The City of Ventura's rate structure includes a flat service charge plus a charge for average water consumption during the winter months. This average reflects the estimated amount of indoor use that would flow to the sewer system. The rate used in this analysis assumes indoor use of 7 hundred cubic feet (HCF) per month or 14 HCF per bi-monthly billing period. This is representative of most properties in Montalvo. However, many residents use less and will have lower sewer rates than projected, while a few may use more and may have slightly higher fees. Also, MCS D has only one rate for all residential users, while the city has a lower rate for multi-family units.

The transition to service by the City will also result in the eventual dissolution of the MCS D. Once dissolved MCS D ad valorem property tax allocation will be forfeited to the County of Ventura.

Conclusion

Agreeing to be served by the City of Ventura will provide the Montalvo community with reliable and cost effective sewer service well into the future. If MCS D can reach an agreement that meets MCS D's goals and insulates the Montalvo community, as much as possible, from sudden large rate increases and unexpected changes in the billing process, it is clearly in the best interest of those served by MCS D to move forward on this action.

MCS D's unique opportunity to benefit from the Olivas Park Road Extension Project and the ability to contribute reserve funds and tax revenues to pay for need upgrades of the collection system makes this a very timely decision for MCS D. The result will be stable rates for the Montalvo residents as well as a financially equitable merger for the current residents of the City.



Montalvo Community Services District

Current as of September 17, 2014

Prepared by County of Ventura - IT Services Department - GIS Services
 State Plane Coordinate System California Zone V - NAD 27

This map was compiled from records and computations

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