

Sewer and Solid Waste Rate Study



Midway City Sanitary District
Serving Westminster & Midway City Since 1939

BCONSULTING

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Midway City Sanitary District – Sewer and Solid Waste Rate Study

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Executive Summary

Midway City Sanitary District (District) reviews its sewer and solid waste rates annually to determine if adjustments are necessary to generate sufficient revenue to meet operational costs, capital investment needs, and reserve funding. The District hired IB Consulting to conduct a comprehensive cost-of-service update to its sewer and residential solid waste rates. This report sets sewer and residential solid waste rates for Fiscal Year 2022-2023 (FY 2023)¹ through FY 2027 (Financial Plan Period). The District collects its sewer and residential solid waste charges on the property tax roll and finalizes proposed charges against each parcel before submitting the levy to Orange County (County) by August 10th. The District contracts with CR&R for commercial solid waste and receives franchise fees. Therefore, commercial solid waste rates are not part of this study, and the revenue from franchise fees is shown as a revenue offset to the solid waste revenue requirements.

In addition to rate revenue and franchise fees, the District also receives ad valorem property taxes and property tax pass-throughs from eliminating Redevelopment Areas (RDAs) equal to approximately \$4.6M for FY 2022. Property taxes coupled with the District's budget strategy to minimize operational cost increases through expense reductions and operational efficiencies have kept the District in a strong financial position. However, the District has significant capital spending on the horizon. It plans to enhance its footprint through land acquisitions, renovations, and expansions for both sewer and solid waste.

Updating the District's long-term financial plan and performing a comprehensive cost-of-service analysis is a prudent business practice to ensure the District can fully fund its revenue needs through FY 2027 and beyond. As part of reviewing and updating sewer and solid waste rates, the first step is to review the District's current financial health. Based on our financial review, the District is in a strong financial position with a healthy reserve balance. However, the District's Capital Improvement Plan (CIP) will draw down reserves below the District's minimum reserve requirements over the next five years. Therefore, the proposed updated rates over the Financial Plan Period cover the District's O&M and system improvements while satisfying the minimum reserve requirements.

IB Consulting developed a financial plan model to review the long-term financial outlook at current rates and to determine the District's revenue requirements over the next five years and beyond for updating sewer and residential solid waste rates.

¹ FY 2023 is from July 1, 2022 through June 30, 2023

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Developing a financial plan requires a thorough review of the District's current financial health. The District's current CIP includes significant capital projects during the Financial Plan Period, generating pressure to increase sewer and solid waste rates. Significant projects coming online over the next few years include the District Headquarters, Solar Project, and Land Acquisition for expansions. Collectively, the District's proposed 5-year CIP totals over \$27 million. Without any rate adjustments, current rate revenues will not be sufficient to fund operating expenses, capital investment needs, and satisfy the District's minimum reserve requirements.

The existing sewer rate structure consists of annual fixed charges per number of residential dwelling units or non-residential units or activities (herein referred to as Sewer Units or EDUs). Existing Non-Residential sewer rates are separated into five categories: Very Low Demand, Low Demand, Average Demand, High Demand, and Very High Demand. The five non-residential categories include Very Low Demand, Low Demand, Average Demand, High Demand, and Very High Demand. Residential solid waste also utilizes units of service (also herein referred to as EDUs) with parcels assigned 1 EDU for each residential dwelling unit. As part of the levy submittal process with the County, the District updates the levy database to capture newly created parcels, parcel subdivisions, and development status changes from vacant to developed. Through this annual parcel database update, the District captures new EDUs. Therefore, our analysis uses the last levy database submitted to the County (FY 2022 Levy) and does not examine the assignment of EDUs to each parcel.

The proposed sewer rate structure maintains the existing Sewer Unit (EDU) assignments but consolidates the five different sewer rates into one uniform rate per EDU. The District does not treat influent and conveys it to the regional treatment plants owned and operated by Orange County Sanitation District (OCSD). OCSD charges its own rates against properties within the District's service area to recover the cost of treatment. Therefore, the proposed sewer rates within this report reflect a uniform rate per Sewer Unit / EDU (\$/EDU). The proposed residential solid waste rate structure will remain similar to the current rates as a uniform rate per EDU.

Each customer's proposed rates were noticed by mail as part of the Proposition 218 noticing requirements. On June 21, 2022, a Public Hearing will occur on the proposed annual rates identified in Table 1.

Table 1: Proposed Annual Sewer and Residential Solid Waste Rates

Proposed Rate Schedule (\$/EDU)					
Service Line	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Sewer	\$97.48	\$100.41	\$103.43	\$106.54	\$109.74
Residential Solid Waste	\$189.99	\$195.69	\$201.57	\$207.62	\$213.85

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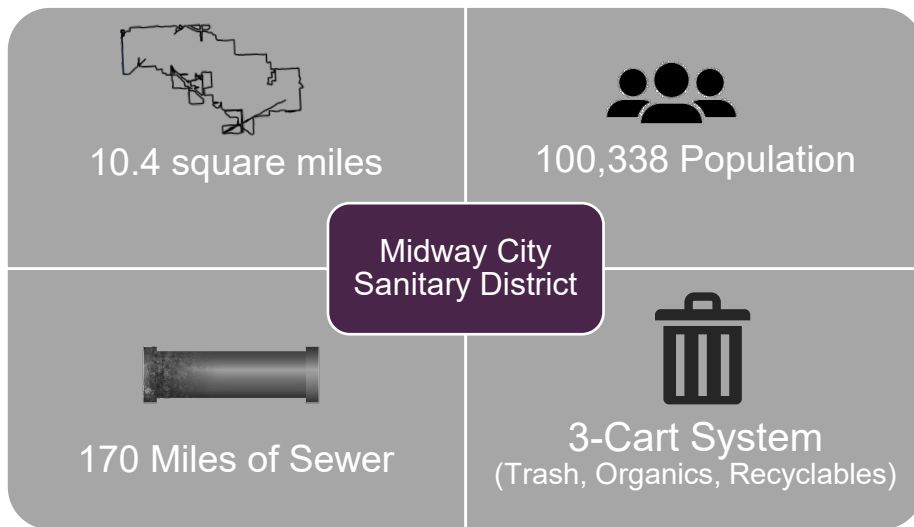
Background

The District provides sewer collection and solid waste services to the City of Westminster and the unincorporated area of the County known as Midway City, with a population of approximately 100,000.

The sewer collection system is comprised of 170 miles of sewer lines ranging in size from 6" to 18" and four lift stations. The District maintains, repairs, and replaces components of the system, as needed. The District's collection system is aging and in need of repairs. The District's facilities are 30 to 70 years old and have been negatively impacted by corrosive soils, instances of subsidence, tidal effects on the water table, and general deterioration over time.

Residential solid waste collection services include weekly pickups for a three-cart system of trash, organics, and recyclables. The District has its own solid waste fleet, which runs on Compressed Natural Gas (CNG). The District also provides bulky item pickup, mattress recycling, and oil recycling programs to all parcels. In addition, the District has a helping hands program funded through ad valorem property taxes.

Figure 1: Midway City Sanitary District



Midway City Sanitary District – Sewer and Solid Waste Rate Study

The District recently completed a sewer master plan in 2019 and updated its strategic plan in 2021. Through these updated plans, the District developed a detailed Capital Improvement Plan (CIP) for the next ten years, with approximately \$27.7 million in planned capital expenditures over the Financial Plan Period. The CIP is broken out into three separate categories: Lift Station & Sewer Lines, Vehicle Replacement, and Building-Equipment and Facilities. Figure 2 through Figure 4 identifies the CIP for each of the three categories, respectively, and Figure 5 summarizes all CIP combined through FY 2027.

Figure 2: Capital Improvement Program – Lift Stations & Sewer Lines

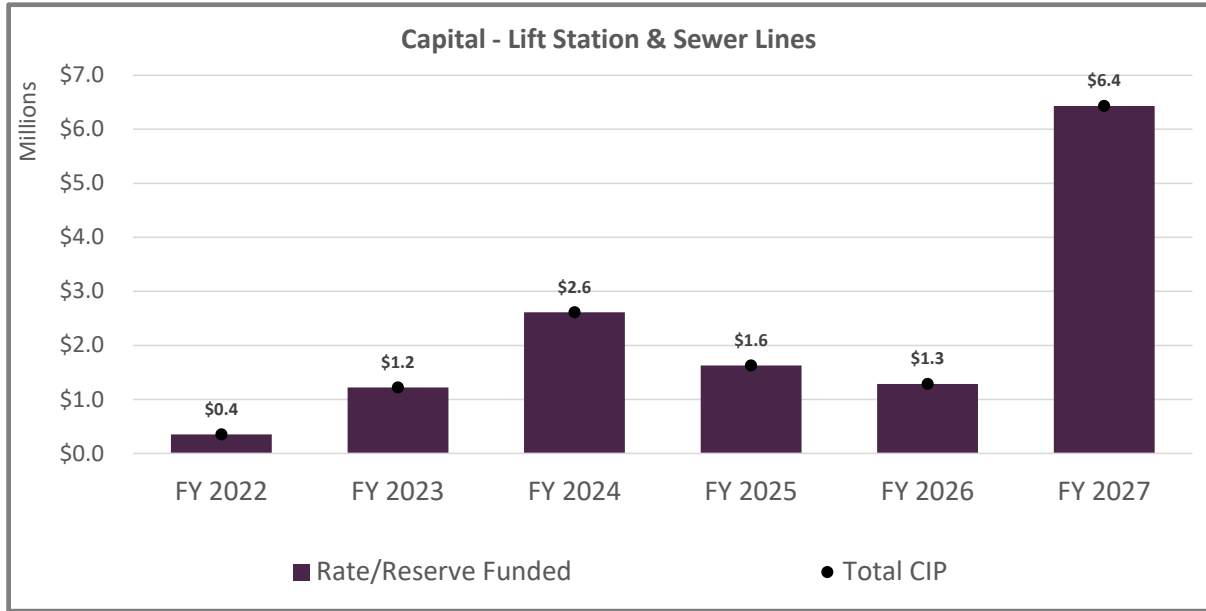
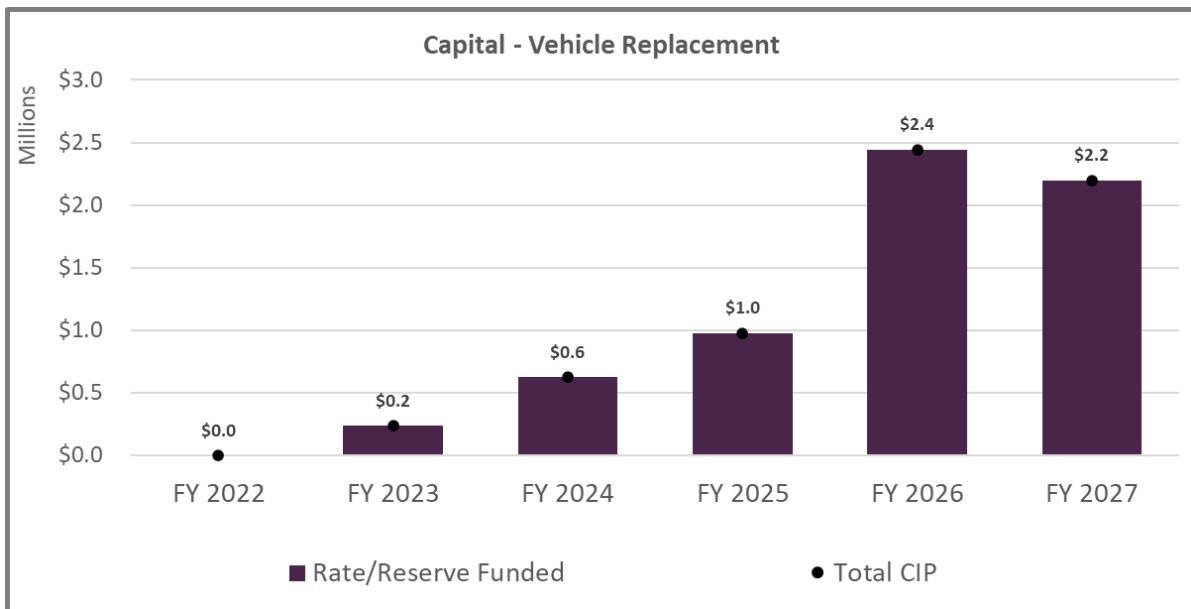


Figure 3: Capital Improvement Program – Vehicle Replacement



Midway City Sanitary District – Sewer and Solid Waste Rate Study

Figure 4: Capital Improvement Program – Building-Equipment and Facilities

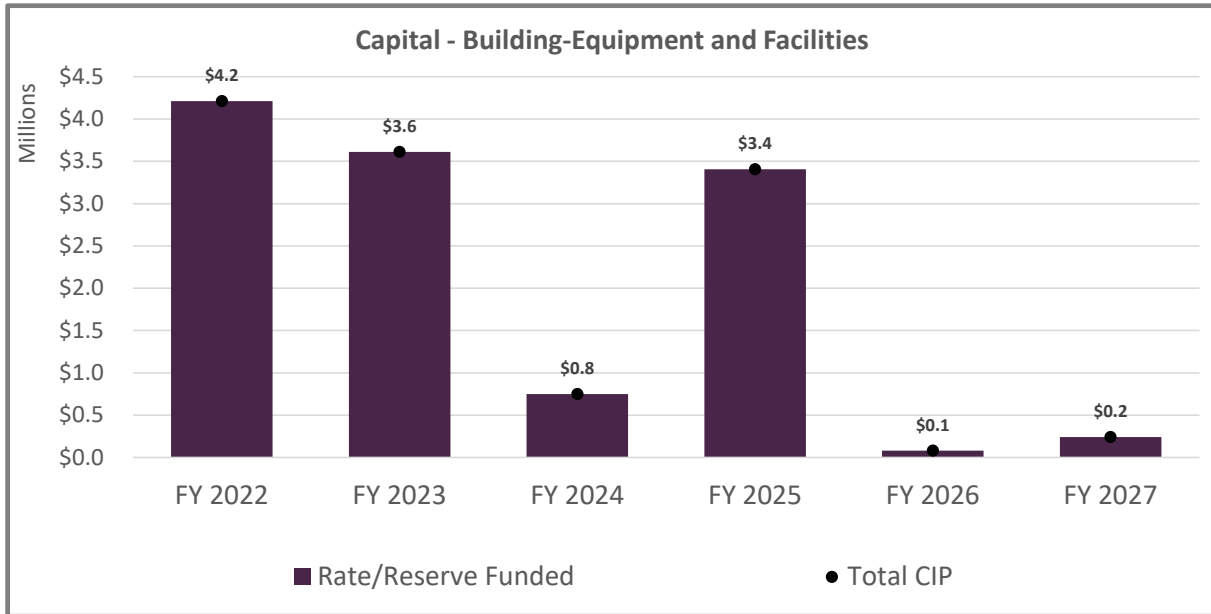
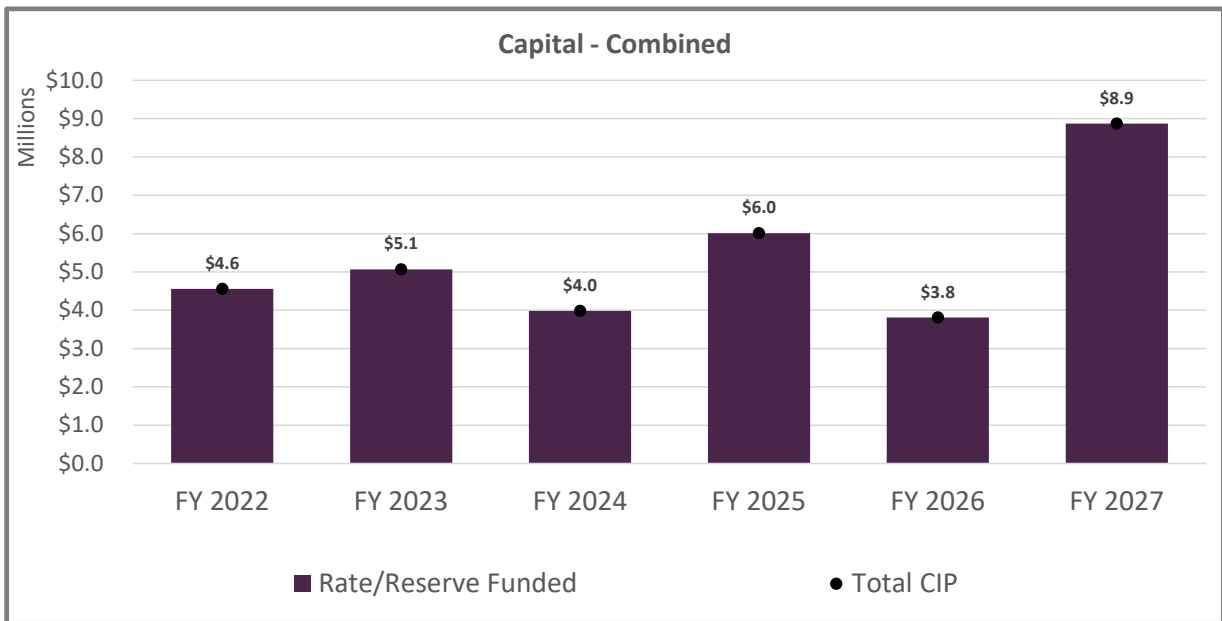


Figure 5: Capital Improvement Program – Combined



Midway City Sanitary District – Sewer and Solid Waste Rate Study

Customers

The District serves 20,062 parcels within its service area with 35,175 Sewer EDUs and 19,766 Residential solid waste EDUs. Table 2 summarizes parcels by existing sewer rate classifications. The “Commercial – Mixed Use” category include parcels that contain multiple uses, such as, multi-family residential units and commercial activities ranging from Very Low Demand up to Very High Demand. Table 3 summarizes EDUs for sewer and residential solid waste.

Table 2: Midway City Sanitary District Parcels

Parcels	FY 2022
Residential	19,188
Commercial - Very Low Demand	175
Commercial - Low Demand	102
Commercial - Average Demand	66
Commercial - High Demand	37
Commercial - Very High Demand	106
Commercial - Mixed Use	388
Subtotal Parcels	20,062

Table 3: Sewer EDUs and Residential Solid Waste EDUs

Annual Sewer Units (EDUs)	FY 2022
Residential	30,673
Commercial - Very Low Demand	559
Commercial - Low Demand	146
Commercial - Average Demand	101
Commercial - High Demand	45
Commercial - Very High Demand	111
Commercial - Mixed Use	3,540
Subtotal Annual Sewer Units (EDUs)	35,175
Annual Solid Waste Units (EDUs)	
Residential Solid Waste	19,766

Midway City Sanitary District – Sewer and Solid Waste Rate Study

The current sewer and residential solid waste annual rates are identified in Table 4.

Table 4: FY 2022 Sewer and Residential Solid Waste Annual Rates ²

Existing Annual Charges		\$/EDU
Sewer Rate (\$/EDU)		FY 2022
Residential		\$87.00
Commercial - Very Low Demand		\$119.49
Commercial - Low Demand		\$183.98
Commercial - Average Demand		\$275.98
Commercial - High Demand		\$367.97
Commercial - Very High Demand		\$459.96
Commercial - Mixed Use		Varies
Solid Waste (\$/EDU)		FY 2022
Residential Solid Waste		\$177.00

² The Commercial – Mixed Use parcels contain multiple uses, such as, multi-family residential units and commercial activities ranging from Commercial - Very Low Demand up to Commercial - Very High Demand and charged the applicable rate.

Financial Plan Overview

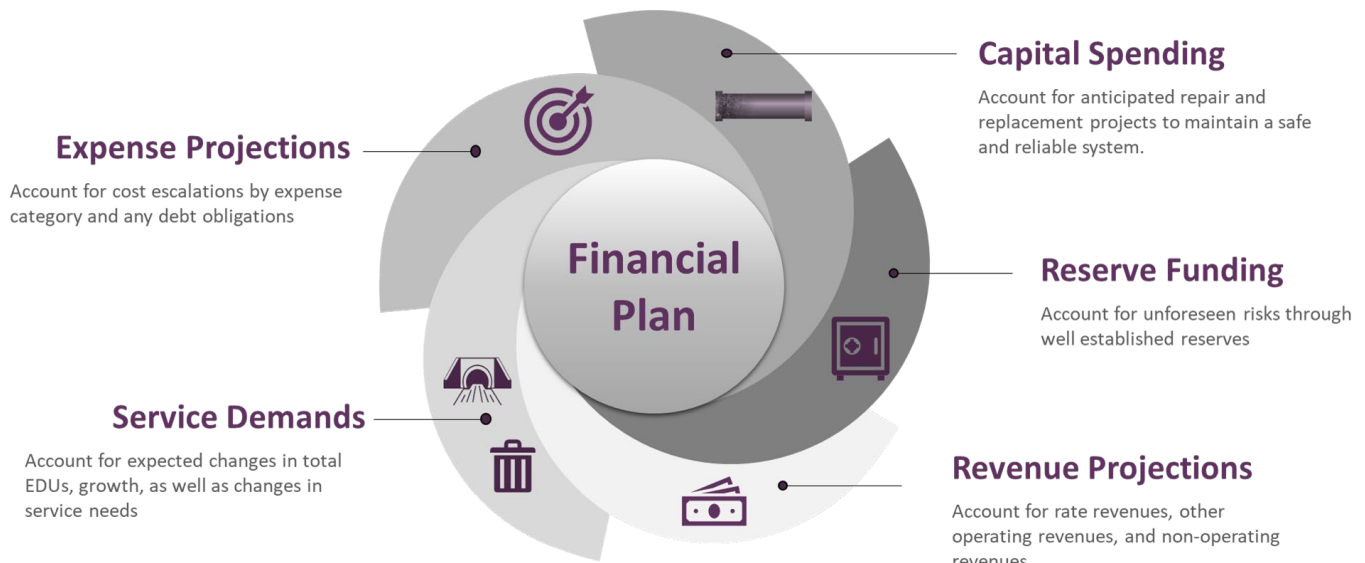
Financial Planning

Financial planning incorporates numerous considerations, including projecting revenues and forecasting expected costs using various inflationary adjustments. Utilities also need to account for changes in parcels served, state mandates, growth, and economic factors. In addition, system maintenance and reinvestment, reserves, and debt compliance all influence the revenues needed in future years. Therefore, a comprehensive financial plan reviews the following:

- 1) Changes in total parcels and EDUs serviced.
- 2) Operational costs that may change over the planning period due to inflation and any new expenditures incurred to meet strategic goals, regulatory requirements, or changes in operations.
- 3) Multi-year system improvements and scheduling improvements based on priority. This review also considers available funding sources to complete capital projects such as "pay-as-you-go (PAYGO)", grants, and debt financing.
- 4) Reserve funding to meet adopted reserve policies. The goal is to generate adequate cash on hand to mitigate financial risks related to operating needs, unexpected increases in expenses, shortages in system reinvestment, and potential system failures.

Figure 6 illustrates the key elements when developing a long-term financial plan.

Figure 6: Financial Plan Key Elements



Midway City Sanitary District – Sewer and Solid Waste Rate Study

Financial Planning Assumptions

Developing a long-term financial plan requires an understanding of the District's financial position by evaluating existing revenue streams, ongoing expenses, how those expenses are expected to change over time, debt requirements (if any), new strategic objectives, and reserve policies. With these considerations, certain assumptions are required for projecting revenues, expenses, and expected ending fund balances. Table 5 identifies assumptions used for forecasting revenues, and Table 6 identifies assumptions used to forecast expenses increases through FY 2027.

Table 5: Revenue Forecasting Assumptions

Key Assumptions	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenue						
Non-Rate Revenues	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Ad Valorem Property Tax	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Reserve Interest	1.4%	1.4%	1.4%	1.4%	1.4%	1.4%
Growth	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Sewer EDUs	35,175	35,175	35,175	35,175	35,175	35,175
Residential Solid Waste EDUs	19,779	19,779	19,779	19,779	19,779	19,779

Table 6: Expense Forecasting Assumptions

Key Assumptions	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Expenditure Escalation						
Benefits	Budget	3.0%	3.0%	3.0%	3.0%	3.0%
Capital	Budget	3.2%	3.2%	3.2%	3.2%	3.2%
Utilities	Budget	5.0%	5.0%	5.0%	5.0%	5.0%
General Costs	Budget	2.5%	2.5%	2.5%	2.5%	2.5%
Non-Inflated	Budget	0.0%	0.0%	0.0%	0.0%	0.0%
Pers / OPEB	Budget	5.0%	5.0%	5.0%	5.0%	5.0%
Salaries	Budget	3.0%	3.0%	3.0%	3.0%	3.0%
Disposal	Budget	2.5%	2.5%	2.5%	2.5%	2.5%

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Current Financial Position

Revenues

The District collects its sewer and residential solid waste charges on the County tax roll. Commercial solid waste is through franchise fees from CR&R. The County guarantees the levy as part of the Teeter Plan (California Revenue and Taxation Code Section 4701-4717). The Teeter Plan allows cities and special districts to receive the total allocation of each levy submitted. In return, the County keeps all delinquencies and penalties incurred.

Based on the forecasting assumptions, revenues were calculated using existing rates and EDU data in Table 3, which remains constant through FY 2027. Table 7 shows the calculated rate revenues through the Financial Plan Period. The detailed calculations can be found in the rate model on file with the District. Table 8 summarizes calculated rate revenues and other non-rate revenues available through the Financial Plan Period with projections, starting in FY 2023, rounded to the nearest thousands.

Table 7: Calculated Rate Revenues ³

Sewer Revenues	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Sewer Rate (\$/EDU)						
Residential	\$2,668,551	\$2,668,551	\$2,668,551	\$2,668,551	\$2,668,551	\$2,668,551
Commercial - Very Low Demand	\$66,795	\$66,795	\$66,795	\$66,795	\$66,795	\$66,795
Commercial - Low Demand	\$26,861	\$26,861	\$26,861	\$26,861	\$26,861	\$26,861
Commercial - Average Demand	\$27,874	\$27,874	\$27,874	\$27,874	\$27,874	\$27,874
Commercial - High Demand	\$16,559	\$16,559	\$16,559	\$16,559	\$16,559	\$16,559
Commercial - Very High Demand	\$51,056	\$51,056	\$51,056	\$51,056	\$51,056	\$51,056
Commercial - Mixed Use	\$618,653	\$618,653	\$618,653	\$618,653	\$618,653	\$618,653
Total Sewer Revenues	\$3,476,349	\$3,476,349	\$3,476,349	\$3,476,349	\$3,476,349	\$3,476,349
Solid Waste Revenues	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Residential Solid Waste Revenue	\$3,498,582	\$3,498,582	\$3,498,582	\$3,498,582	\$3,498,582	\$3,498,582
Total Sewer and Solid Waste	\$6,974,931	\$6,974,931	\$6,974,931	\$6,974,931	\$6,974,931	\$6,974,931

³ Revenue for Commercial – Mixed Use equals the amount levied on these commercial parcels for FY 2022.

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Table 8: Total Projected Revenues

Revenue Summary	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Operating Revenue						
Sewer	\$3,476,349	\$3,476,000	\$3,476,000	\$3,476,000	\$3,476,000	\$3,476,000
Residential Solid Waste	\$3,498,582	\$3,499,000	\$3,499,000	\$3,499,000	\$3,499,000	\$3,499,000
Sewer Plan Checks/Inspection Fees	\$48,000	\$48,000	\$48,000	\$48,000	\$48,000	\$48,000
Franchise Fees	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000
Additional Container Rentals	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
CalRecycle Curbside Program	\$3,000	\$11,000	\$11,000	\$11,000	\$11,000	\$11,000
Subtotal Operating Revenue	\$8,177,931	\$8,186,000	\$8,186,000	\$8,186,000	\$8,186,000	\$8,186,000
Non-Operating Revenues						
Property Tax Secured Current Year	\$1,300,000	\$1,326,000	\$1,353,000	\$1,380,000	\$1,407,000	\$1,435,000
Property Tax Unsecured Current Year	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000
Property Tax Secured Prior Years	\$28,000	\$29,000	\$29,000	\$30,000	\$30,000	\$31,000
Interest - Banking, LAIF, Investments, etc.	\$400,000	\$647,000	\$634,000	\$621,000	\$585,000	\$586,000
Interest on Undistributed Taxes	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Homeowner's Property Tax Relief	\$4,500	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
State-Assessed Public Utility Tax	\$62,000	\$63,000	\$65,000	\$66,000	\$67,000	\$68,000
Pass thru County of Orange	\$400,000	\$408,000	\$416,000	\$424,000	\$433,000	\$442,000
Pass thru City of Westminster	\$2,850,000	\$2,907,000	\$2,965,000	\$3,024,000	\$3,085,000	\$3,147,000
Other Non-Operating Revenue (Misc.)	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Gain/(Loss) on Disposal of Assets	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
From other Agencies, Grants, Agreements, etc.	\$185,000	\$185,000	\$185,000	\$185,000	\$185,000	\$185,000
Subtotal Non-Operating Revenues	\$5,297,500	\$5,638,000	\$5,720,000	\$5,803,000	\$5,865,000	\$5,967,000
Total Revenues	\$13,475,431	\$13,824,000	\$13,906,000	\$13,989,000	\$14,051,000	\$14,153,000

Expenses

The FY 2022 budget was used as the baseline expenses for the District and were adjusted in subsequent years based on the percentage increases shown in Table 6. Table 9 provides projected Operational & Maintenance (O&M) costs through FY 2027, with projections, starting in FY 2023, rounded to the nearest thousand. Each expense category includes detailed line-item expenditures discussed with staff to determine the appropriate escalation factor for forecasting how costs will increase over time. The detailed expense line items for each expense category is part of the District's budget and the rate model on file with the District.

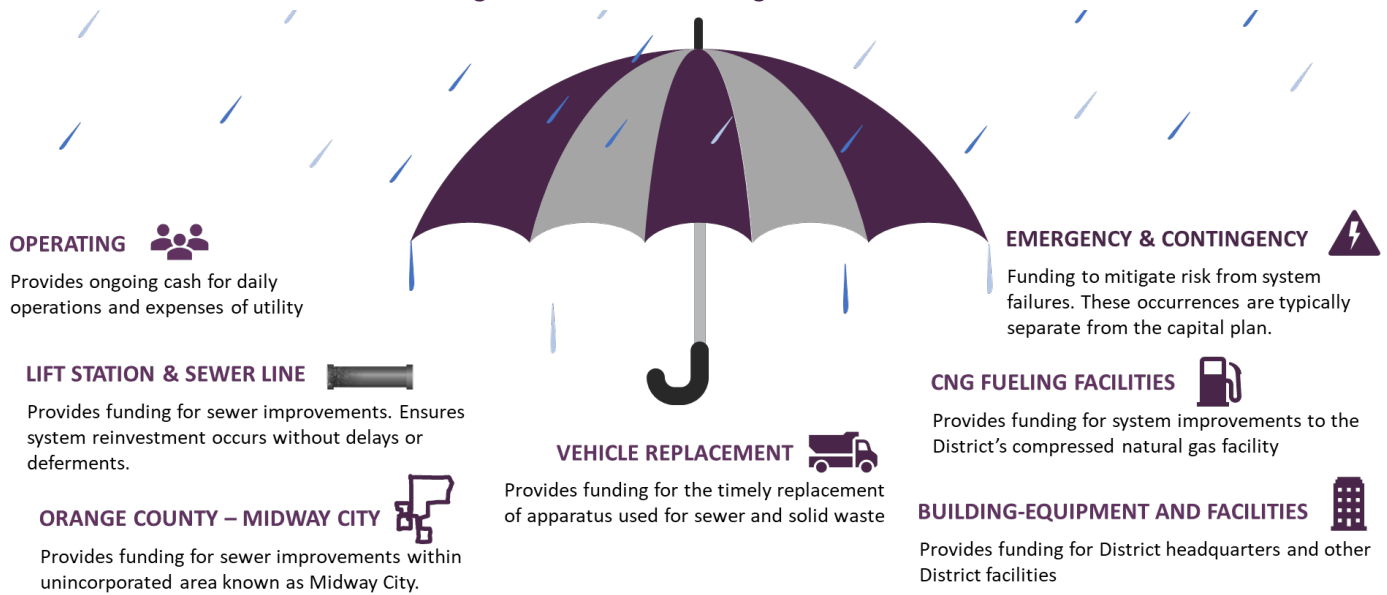
Table 9: Projected O&M Expenses

Expenditure Summary	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Operating Expenses						
Board of Directors	\$279,588	\$288,000	\$296,000	\$304,000	\$313,000	\$322,000
Administration	\$2,014,303	\$2,624,000	\$2,703,000	\$2,784,000	\$2,867,000	\$2,953,000
Fleet Maintenance	\$528,797	\$545,000	\$563,000	\$580,000	\$598,000	\$617,000
Solid Waste	\$5,344,411	\$5,548,000	\$5,705,000	\$5,866,000	\$6,031,000	\$6,202,000
Sewer Department	\$1,178,324	\$1,485,000	\$1,534,000	\$1,584,000	\$1,636,000	\$1,689,000
Subtotal Operating Expenses	\$9,345,423	\$10,490,000	\$10,801,000	\$11,118,000	\$11,445,000	\$11,783,000

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Reserves

Figure 7: District Designated Reserves



The District has seven designated reserves, with five of them connected to its capital-related needs. In addition, the District has one restricted reserve for CalPERS. Reserves include Operating, Lift Station & Sewer Line, Orange County – Midway City (sewer reserve for capital needs within the unincorporated area of the County), Vehicle Replacement, Building-Equipment and Facilities, CNG Fueling Facilities, Emergency & Contingency, and Pension 115 Trust - CalPERS. These designated reserves and set aside funds mitigate risks to the District by ensuring sufficient cash is on hand for daily operations and to fund annual system improvements. In addition, these reserves help smooth rates and mitigate rate spikes due to emergencies or above-average system costs. Over the Financial Plan Period, the District plans to use capital-related reserves to fund a portion of capital each year to keep rates as low as possible while satisfying the minimum reserve requirements. Table 10 summarizes each reserve's minimum reserve requirement and ideal target.

Table 10: Minimum Reserve Requirements and Targets

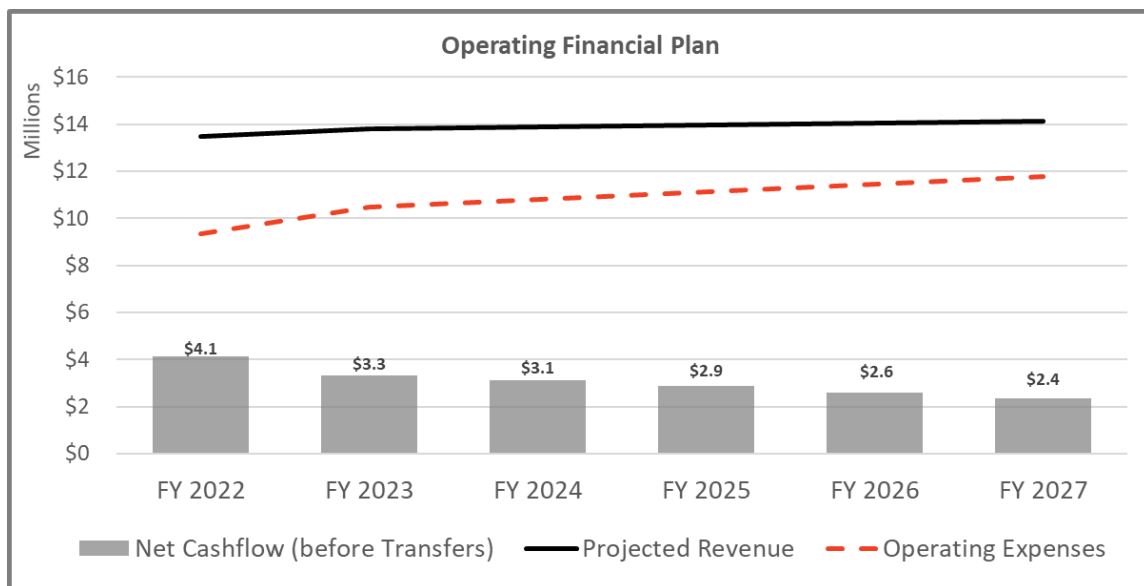
Reserve	Minimum Requirement	Target	Beginning Balance as of July 1, 2021
Operating	180 days of O&M	365 days of O&M	\$9,832,928
Lift Station & Sewer Line	50% of Assets	-	\$24,524,878
Orange County – Midway City	Fixed Amount = \$3.6M	-	\$2,476,153
Vehicle Replacement	Fixed Amount = \$5.0M	-	\$3,407,699
Building-Equipment and Facilities	Fixed Amount = \$6.0M	-	\$5,352,992
CNG Fueling Facilities	Fixed Amount = \$3.2M	-	\$962,928
Emergency & Contingency	10% of Assets	15% of Assets	\$1,505,662
Total			\$48,063,240
RESTRICTED			
Pension 115 Trust - CalPERS	Fixed Amount = \$3.3M	-	\$3,590,856

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Financial Outlook at Existing Rates

Calculating revenue using existing rates and projecting expenses helps determine the current financial health of the utility. Revenues from existing rates are sufficient to fund O&M and generate positive net operating income but decline throughout the Financial Plan Period. Net operating income funds the District's capital plan and reserves. However, the projected net operating income is not sufficient to fully fund capital on its own. As a result, reserves are needed to cover system improvements, which causes the total reserve balance to reduce below the minimum reserve requirement. Figure 8 illustrates the operating position of the District, where O&M expenses are identified with the dashed red trendline, and the horizontal black trendline shows total revenues at existing rates. The bars represent the net operating income available for capital spending and reserve funding

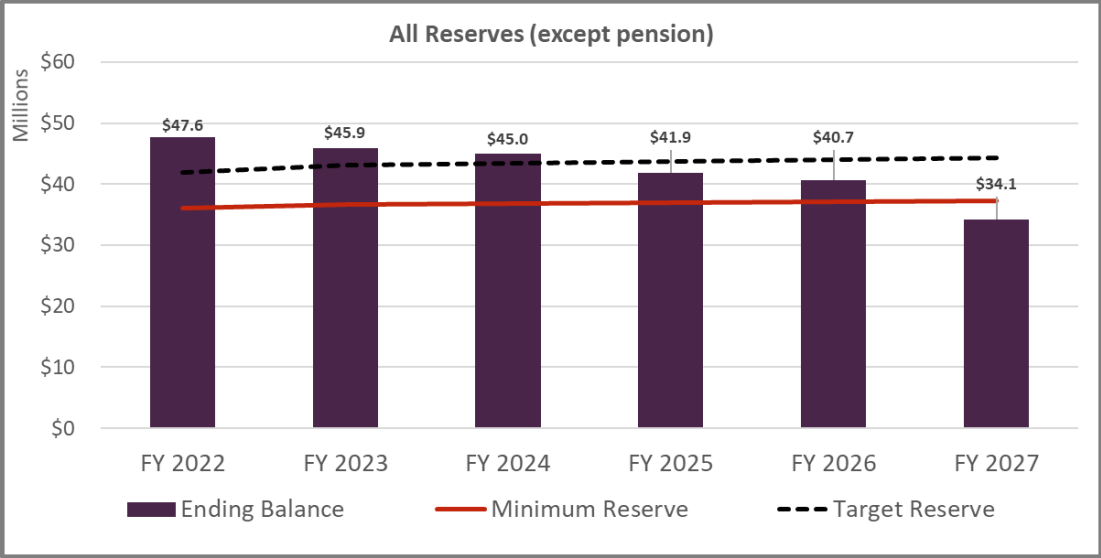
Figure 8: Current Operating Financial Position



With capital spending of \$27.7 over the Financial Plan Period, as shown in Figure 5, reserves will cover the remaining capital expenses to ensure necessary projects continue to move forward as scheduled. Figure 9 reflects the projected ending balances of designated reserves (excluding the restricted CalPERS reserve) after funding operating and capital projects. By FY 2027, reserves are below the minimum reserve requirement.

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Figure 9: Projected Ending Reserve at Existing Rates



Proposed Financial Plan

Based on existing revenues, projected expenses, updated CIP, and reserves, a proposed financial plan can be developed to meet the overall revenue requirements over the Financial Plan Period. The District's CIP is the primary factor driving the need to increase rate revenue. At existing rates, the proposed CIP will draw down reserves below the District's minimum reserve requirements over the next five years causing the District to not meet its minimum reserve requirements. As such, Table 11 forecasts projected revenues and expenses over the Financial Plan Period, including a 3% revenue adjustment each fiscal year, to fully fund operations and capital improvements while satisfying the District's reserve requirements. The revenue adjustments for FY 2023 through FY 2027 will generate approximately \$3.2M in additional rate revenue over the Financial Plan Period.

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Table 11: Proposed Financial Plan

Revenue	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Rate Revenue						
Sewer	\$3,476,349	\$3,476,000	\$3,476,000	\$3,476,000	\$3,476,000	\$3,476,000
Residential Solid Waste	\$3,498,582	\$3,499,000	\$3,499,000	\$3,499,000	\$3,499,000	\$3,499,000
Total Rate Revenue	\$6,974,931	\$6,975,000	\$6,975,000	\$6,975,000	\$6,975,000	\$6,975,000
Additional Revenue (from revenue adjustments):						
Fiscal Year	Revenue Adjustment					
FY 2022	0.0%	\$0	\$0	\$0	\$0	\$0
FY 2023	3.0%		\$209,000	\$209,000	\$209,000	\$209,000
FY 2024	3.0%			\$216,000	\$216,000	\$216,000
FY 2025	3.0%				\$222,000	\$222,000
FY 2026	3.0%					\$229,000
FY 2027	3.0%					\$236,000
Total Additional Revenue		\$0	\$209,000	\$425,000	\$647,000	\$876,000
Projected Rate Revenues (with adjustments)	\$6,974,931	\$7,184,000	\$7,400,000	\$7,622,000	\$7,851,000	\$8,087,000
Operating Revenue						
Sewer Plan Checks/Inspection Fees	\$48,000	\$48,000	\$48,000	\$48,000	\$48,000	\$48,000
Franchise Fees	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000	\$1,150,000
Additional Container Rentals	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000
CalRecycle Curbside Program	\$3,000	\$11,000	\$11,000	\$11,000	\$11,000	\$11,000
Subtotal Operating Revenue	\$1,203,000	\$1,211,000	\$1,211,000	\$1,211,000	\$1,211,000	\$1,211,000
Non-Operating Revenues						
Property Tax Secured Current Year	\$1,300,000	\$1,326,000	\$1,353,000	\$1,380,000	\$1,407,000	\$1,435,000
Property Tax Unsecured Current Year	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000	\$34,000
Property Tax Secured Prior Years	\$28,000	\$29,000	\$29,000	\$30,000	\$30,000	\$31,000
Interest - Banking, LAIF, Investments, etc.	\$400,000	\$647,000	\$634,000	\$621,000	\$585,000	\$586,000
Interest on Undistributed Taxes	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000	\$4,000
Homeowner's Property Tax Relief	\$4,500	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
State-Assessed Public Utility Tax	\$62,000	\$63,000	\$65,000	\$66,000	\$67,000	\$68,000
Pass thru County of Orange	\$400,000	\$408,000	\$416,000	\$424,000	\$433,000	\$442,000
Pass thru City of Westminster	\$2,850,000	\$2,907,000	\$2,965,000	\$3,024,000	\$3,085,000	\$3,147,000
Other Non-Operating Revenue (Misc.)	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000	\$25,000
Gain/(Loss) on Disposal of Assets	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
From other Agencies, Grants, Agreements, etc.	\$185,000	\$185,000	\$185,000	\$185,000	\$185,000	\$185,000
Subtotal Non-Operating Revenues	\$5,297,500	\$5,638,000	\$5,720,000	\$5,803,000	\$5,865,000	\$5,967,000
Total Revenues	\$13,475,431	\$14,033,000	\$14,331,000	\$14,636,000	\$14,927,000	\$15,265,000
O&M Expenses						
Operating Expenses						
Board of Directors	\$279,588	\$288,000	\$296,000	\$304,000	\$313,000	\$322,000
Administration	\$2,014,303	\$2,624,000	\$2,703,000	\$2,784,000	\$2,867,000	\$2,953,000
Fleet Maintenance	\$528,797	\$545,000	\$563,000	\$580,000	\$598,000	\$617,000
Solid Waste	\$5,344,411	\$5,548,000	\$5,705,000	\$5,866,000	\$6,031,000	\$6,202,000
Sewer Department	\$1,178,324	\$1,485,000	\$1,534,000	\$1,584,000	\$1,636,000	\$1,689,000
Subtotal Operating Expenses	\$9,345,423	\$10,490,000	\$10,801,000	\$11,118,000	\$11,445,000	\$11,783,000
Debt Service						
Existing Debt	\$0	\$0	\$0	\$0	\$0	\$0
Subtotal Debt Service	\$0	\$0	\$0	\$0	\$0	\$0
Total Expenses	\$9,345,423	\$10,490,000	\$10,801,000	\$11,118,000	\$11,445,000	\$11,783,000
Net Cashflow	\$4,130,008	\$3,543,000	\$3,530,000	\$3,518,000	\$3,482,000	\$3,482,000

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Figure 10 identifies the operating position based on the proposed financial plan. Figure 11 and Figure 12 show the capital plan with funding sources and projected ending reserve balances, respectively.

Figure 10: Proposed Operating Position

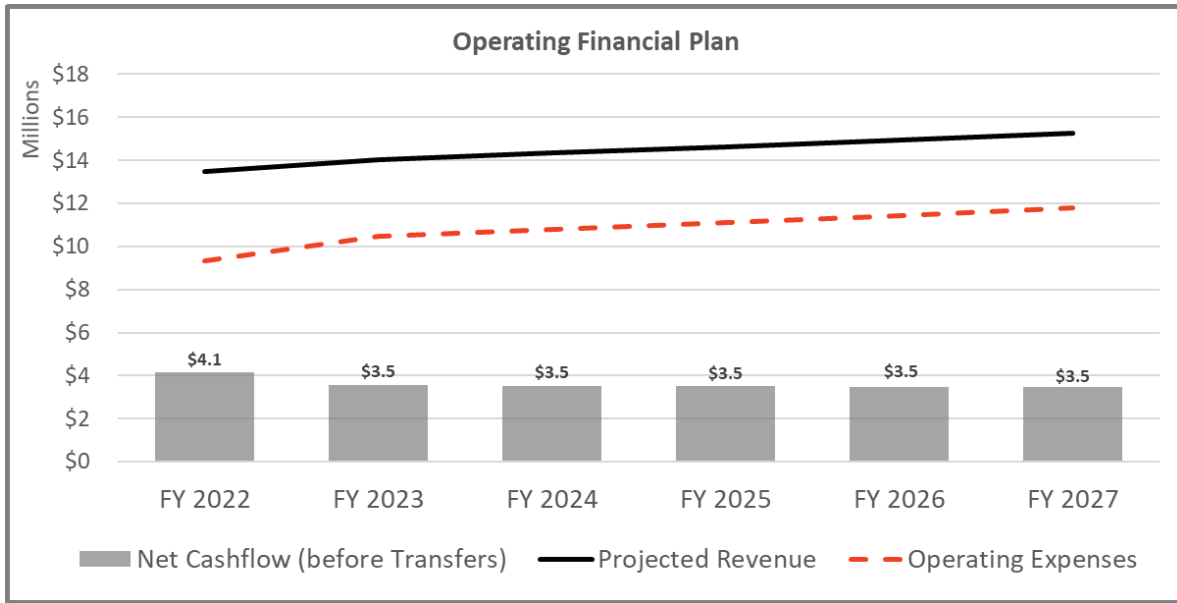
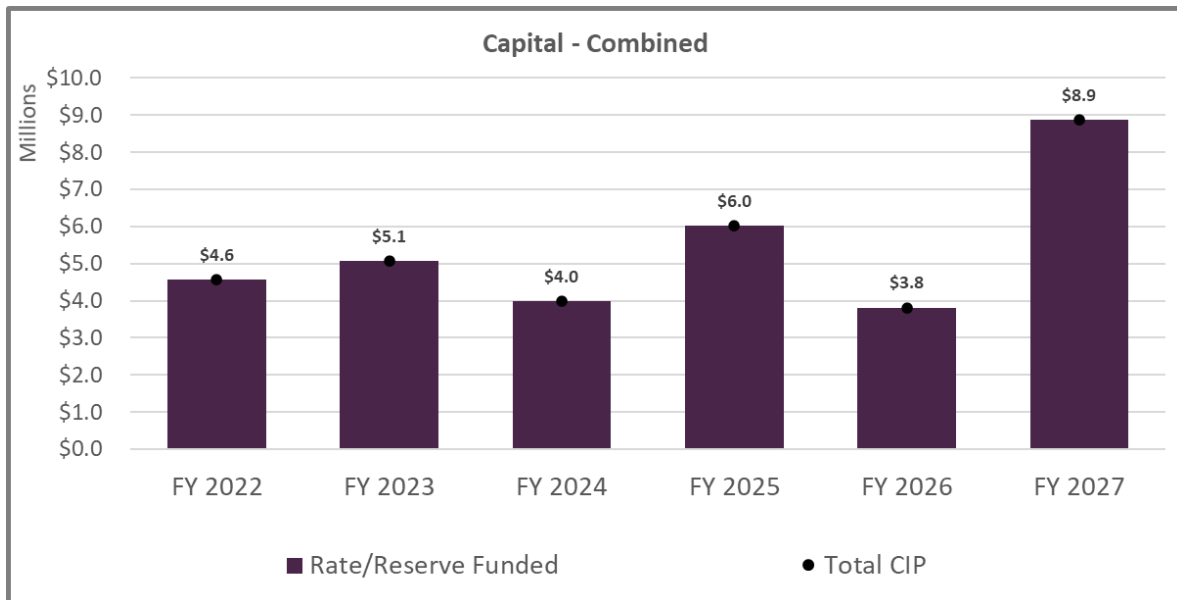
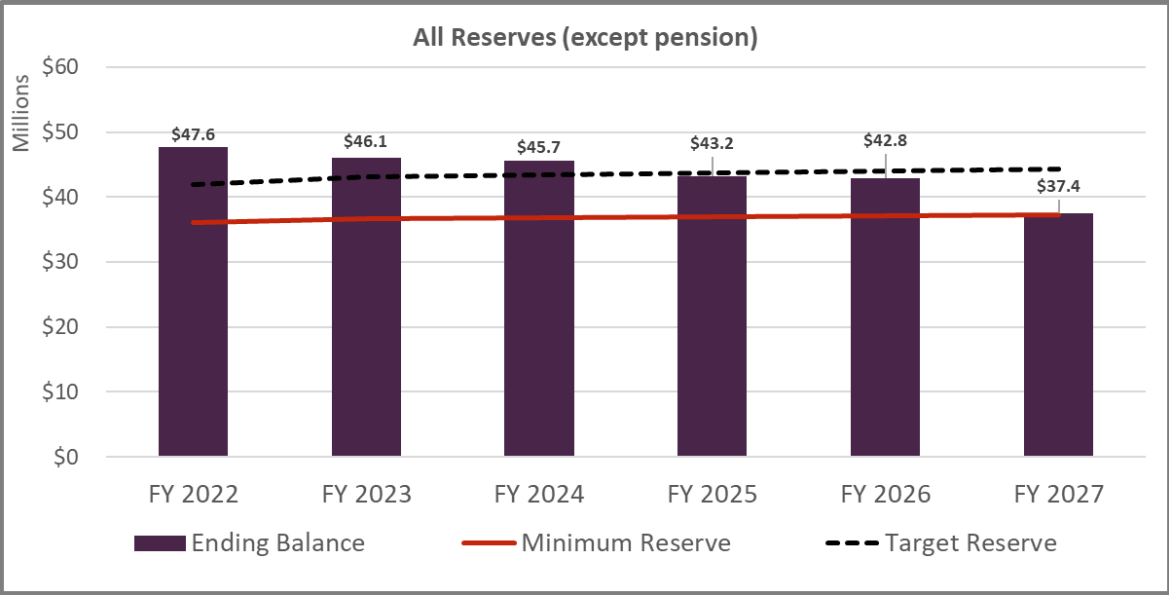


Figure 11: Capital Improvement Plan with Funding Sources



Midway City Sanitary District – Sewer and Solid Waste Rate Study

Figure 12: Projected Ending Reserves

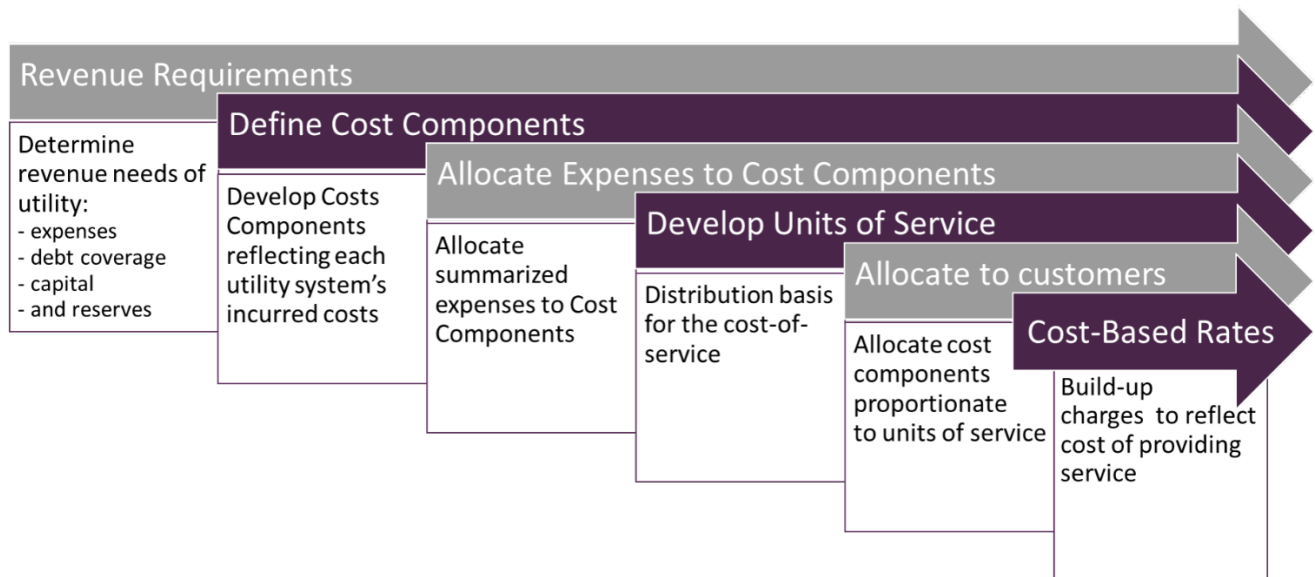


Cost-of-Service Analysis

Cost-of-Service Process

The next step in updating sewer and residential solid waste rates is to perform a cost-of-service analysis. The following graphic summarizes the cost-of-service process. This process allocates costs incurred to each service line and corresponding customers based on their proportional share. As a result, proposed rates are cost-based and reflect the costs incurred for each utility.

Figure 13: Cost-of-Service Process



Revenue Requirements

With FY 2023 as the first year of the proposed rate schedule, revenue requirements are determined for FY 2023 and used for the cost-of-service. Revenue requirements include O&M expenses, available offsets from non-rate revenues, and annual net income for capital spending and reserve funding. The proposed revenue adjustments and corresponding rates collectively accumulate the necessary funding over the Financial Plan Period to fund total revenue requirements and satisfy the District's minimum reserve requirements. The results of the financial plan analysis are summarized in Table 12 and represent the revenue required from rates over the Financial Plan Period.

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Table 12: Revenue Requirements

	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Revenue Requirements					
Operations & Maintenance					
Board of Directors	\$288,000	\$296,000	\$304,000	\$313,000	\$322,000
Administration	\$2,624,000	\$2,703,000	\$2,784,000	\$2,867,000	\$2,953,000
Fleet Maintenance	\$545,000	\$563,000	\$580,000	\$598,000	\$617,000
Solid Waste	\$5,548,000	\$5,705,000	\$5,866,000	\$6,031,000	\$6,202,000
Sewer Department	\$1,485,000	\$1,534,000	\$1,584,000	\$1,636,000	\$1,689,000
Total District O&M	\$10,490,000	\$10,801,000	\$11,118,000	\$11,445,000	\$11,783,000
Operating Revenue Offsets					
Sewer Plan Checks/Inspection Fees	(\$48,000)	(\$48,000)	(\$48,000)	(\$48,000)	(\$48,000)
Franchise Fees	(\$1,150,000)	(\$1,150,000)	(\$1,150,000)	(\$1,150,000)	(\$1,150,000)
Additional Container Rentals	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)
CalRecycle Curbside Program	(\$11,000)	(\$11,000)	(\$11,000)	(\$11,000)	(\$11,000)
Total Revenue Offsets	(\$1,211,000)	(\$1,211,000)	(\$1,211,000)	(\$1,211,000)	(\$1,211,000)
Non-Operating Revenue Offsets					
Property Tax Secured Current Year	(\$1,326,000)	(\$1,353,000)	(\$1,380,000)	(\$1,407,000)	(\$1,435,000)
Property Tax Unsecured Current Year	(\$34,000)	(\$34,000)	(\$34,000)	(\$34,000)	(\$34,000)
Property Tax Secured Prior Years	(\$29,000)	(\$29,000)	(\$30,000)	(\$30,000)	(\$31,000)
Interest - Banking, LAIF, Investments, etc.	(\$647,000)	(\$634,000)	(\$621,000)	(\$585,000)	(\$586,000)
Interest on Undistributed Taxes	(\$4,000)	(\$4,000)	(\$4,000)	(\$4,000)	(\$4,000)
Homeowner's Property Tax Relief	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)
State-Assessed Public Utility Tax	(\$63,000)	(\$65,000)	(\$66,000)	(\$67,000)	(\$68,000)
Pass thru County of Orange	(\$408,000)	(\$416,000)	(\$424,000)	(\$433,000)	(\$442,000)
Pass thru City of Westminster	(\$2,907,000)	(\$2,965,000)	(\$3,024,000)	(\$3,085,000)	(\$3,147,000)
Other Non-Operating Revenue (Misc.)	(\$25,000)	(\$25,000)	(\$25,000)	(\$25,000)	(\$25,000)
Gain/(Loss) on Disposal of Assets	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)
From other Agencies, Grants, Agreements, etc.	(\$185,000)	(\$185,000)	(\$185,000)	(\$185,000)	(\$185,000)
Total Revenue Offsets	(\$5,638,000)	(\$5,720,000)	(\$5,803,000)	(\$5,865,000)	(\$5,967,000)
Adjustments					
Capital / Reserve Funding	\$3,543,000	\$3,530,000	\$3,518,000	\$3,482,000	\$3,482,000
Total Adjustments	\$3,543,000	\$3,530,000	\$3,518,000	\$3,482,000	\$3,482,000
Revenue Required from Rates	\$7,184,000	\$7,400,000	\$7,622,000	\$7,851,000	\$8,087,000

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Cost Components

Cost-of-service requirements are allocated between the sewer and solid waste utilities based on how the cost is incurred and reflects each utility's proportionate share. Therefore, the cost components for this study are the two utilities, as shown in Figure 14.

Figure 14: Utility Services



Allocate Expenses to Utilities

When allocating expenses to each utility, it is vital to have a sound basis for how each expense was apportioned between the two utilities. The distribution of expenses to the utilities should be straightforward to ensure the method of apportionment is **understandable** and easily **correlates to how expenses are incurred**. A description of each expense category is identified below.

Expense Categories:

Board of Directors – Director fees, insurance, travel expenses, supplies, and election costs.

Administration – Salaries and benefits of central services (general manager, finance, HR, IT, etc.), group insurance, workers' compensation, public outreach, contract services, and departmental supplies.

Fleet Maintenance – Salaries and benefits of department, equipment, and supplies.

Solid Waste – Operating expenses of the Solid Waste utility, including salaries and benefits, supplies, utilities, public outreach, repairs and maintenance, and tonnage disposal fees.

Sewer – Operating expenses of the Sewer utility, including salaries and benefits, supplies, utilities, and repairs and maintenance.

Table 13 summarizes the percent allocation of operating expenses to sewer and solid waste. The expense categories of the Board of Directors and Administration were split evenly between the two utilities because both utilities require a legislative body and central service departments to provide services. Fleet Maintenance was allocated based on the number of apparatus (as a percentage) between sewer and solid waste. Sewer has two vehicles, and solid waste has 15 trucks (sewer – $2 \div 17 = 11.8\%$; solid waste – $15 \div 17 = 88.2\%$). Lastly, the expense categories of Solid Waste and Sewer were allocated 100% to the corresponding utility. Table 13 reflects the percent allocations for each expense category, and Table 14 uses the percent allocations in Table 13 to allocate expenses in dollars to each utility.

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Table 13: O&M Expense Allocation to Utilities (%)

Functionalized Expenses	Sewer	Solid Waste	Total
Board of Directors	50.0%	50.0%	100.0%
Administration	50.0%	50.0%	100.0%
Fleet Maintenance	11.8%	88.2%	100.0%
Solid Waste	0.0%	100.0%	100.0%
Sewer Department	100.0%	0.0%	100.0%

Table 14: O&M Expense Allocation to Utilities (\$)

Functionalized Expenses	Sewer	Solid Waste	Total
Board of Directors	\$144,000	\$144,000	\$288,000
Administration	\$1,312,000	\$1,312,000	\$2,624,000
Fleet Maintenance	\$64,118	\$480,882	\$545,000
Solid Waste	\$0	\$5,548,000	\$5,548,000
Sewer Department	\$1,485,000	\$0	\$1,485,000
Total Allocation (\$)	\$3,005,118	\$7,484,882	\$10,490,000
O&M Allocation (%)	28.6%	71.4%	100.0%

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Table 15 summarizes the percent allocations of "Other Operating Revenues." These additional operating revenues were assigned 100% to the utility generating the revenue. Table 16 uses the percent allocations in Table 15 to allocate Other Operating Revenues to offset each utility's operating expenses. Table 17 reduces the O&M expenses from Table 14 by the Other Operating Revenue Offsets in Table 16 to derive the percentages of net operating costs associated with each utility.

Table 15: Other Operating Revenue Offsets to Utilities (%)

Functionalized Expenses	Sewer	Solid Waste	Total
Sewer Plan Checks/Inspection Fees	100.0%	0.0%	100.0%
Sewer Connection Fees OCSD	100.0%	0.0%	100.0%
Franchise Fees	0.0%	100.0%	100.0%
Additional Container Rentals	0.0%	100.0%	100.0%
CalRecycle Curbside Program	0.0%	100.0%	100.0%

Table 16: Other Operating Revenue Offsets to Utilities (\$)

Functionalized Expenses	Sewer	Solid Waste	Total
Sewer Plan Checks/Inspection Fees	(\$48,000)	\$0	(\$48,000)
Sewer Connection Fees OCSD	\$0	\$0	\$0
Franchise Fees	\$0	(\$1,150,000)	(\$1,150,000)
Additional Container Rentals	\$0	(\$2,000)	(\$2,000)
CalRecycle Curbside Program	\$0	(\$11,000)	(\$11,000)
Total Allocation (\$)	(\$48,000)	(\$1,163,000)	(\$1,211,000)

Table 17: O&M less Direct Offsets (%)

Net Operating Expenses	Sewer	Solid Waste	Total
O&M Allocation (Total from Table 14)	\$3,005,118	\$7,484,882	\$10,490,000
Less Direct Offsets	(\$48,000)	(\$1,163,000)	(\$1,211,000)
O&M less Direct Offsets (\$)	\$2,957,118	\$6,321,882	\$9,279,000
O&M less Direct Offsets (%)	31.9%	68.1%	100.0%

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Other Funding includes Non-Operating Revenues and Capital/Reserve Funding. Non-operating revenues include property tax, miscellaneous fees, grants, and contracts revenues. These non-operating revenue offsets are allocated based on the O&M less Direct Offsets percentages derived in Table 17 to offset the Net O&M of each utility proportionately. Capital/Reserve funding is allocated to each utility based on the percentage of total EDUs served to recover a fair share of capital/reserve funding from each EDU (sewer – $35,175 \div 54,954 = 64\%$; solid waste – $19,779 \div 54,954 = 36\%$). Table 18 summarizes the percent allocation to each utility, and Table 19 uses the percent allocations in Table 18 to allocate expenses in dollars to each utility. Table 20 summarizes the FY 2023 revenue requirements for each utility.

Table 18: Other Funding to Utilities (%)

Functionalized Expenses	Sewer	Solid Waste	Total
Property Tax Secured Current Year	31.9%	68.1%	100.0%
Property Tax Unsecured Current Year	31.9%	68.1%	100.0%
Property Tax Secured Prior Years	31.9%	68.1%	100.0%
Interest - Banking, LAIF, Investments, etc.	31.9%	68.1%	100.0%
Interest on Undistributed Taxes	31.9%	68.1%	100.0%
Homeowner's Property Tax Relief	31.9%	68.1%	100.0%
State-Assessed Public Utility Tax	31.9%	68.1%	100.0%
Pass thru County of Orange	31.9%	68.1%	100.0%
Pass thru City of Westminster	31.9%	68.1%	100.0%
Other Non-Operating Revenue (Misc.)	31.9%	68.1%	100.0%
Gain/(Loss) on Disposal of Assets	31.9%	68.1%	100.0%
From other Agencies, Grants, Agreements, etc.	31.9%	68.1%	100.0%
Capital / Reserve Funding	64.0%	36.0%	100.0%

Table 19: Other Funding to Utilities (\$)

Functionalized Expenses	Sewer	Solid Waste	Total
Property Tax Secured Current Year	(\$422,582)	(\$903,418)	(\$1,326,000)
Property Tax Unsecured Current Year	(\$10,835)	(\$23,165)	(\$34,000)
Property Tax Secured Prior Years	(\$9,242)	(\$19,758)	(\$29,000)
Interest - Banking, LAIF, Investments, etc.	(\$206,192)	(\$440,808)	(\$647,000)
Interest on Undistributed Taxes	(\$1,275)	(\$2,725)	(\$4,000)
Homeowner's Property Tax Relief	(\$1,593)	(\$3,407)	(\$5,000)
State-Assessed Public Utility Tax	(\$20,077)	(\$42,923)	(\$63,000)
Pass thru County of Orange	(\$130,025)	(\$277,975)	(\$408,000)
Pass thru City of Westminster	(\$926,430)	(\$1,980,570)	(\$2,907,000)
Other Non-Operating Revenue (Misc.)	(\$7,967)	(\$17,033)	(\$25,000)
Gain/(Loss) on Disposal of Assets	(\$1,593)	(\$3,407)	(\$5,000)
From other Agencies, Grants, Agreements, etc.	(\$58,958)	(\$126,042)	(\$185,000)
Capital / Reserve Funding	\$2,268,343	\$1,274,657	\$3,543,000
Total Allocation (\$)	\$471,573	(\$2,566,573)	(\$2,095,000)

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Table 20: FY 2023 Cost-of-Service Requirements by Utility

Revenue Requirements	Sewer	Solid Waste	Total
Operating & Maintenance	\$3,005,118	\$7,484,882	\$10,490,000
Other Operating Revenues	(\$48,000)	(\$1,163,000)	(\$1,211,000)
Other Funding	\$471,573	(\$2,566,573)	(\$2,095,000)
Cost-of-Service Requirement	\$3,428,690	\$3,755,310	\$7,184,000

Rate Design

Units of Service and Proposed FY 2023 Rates

Unit rates per EDU for each utility are derived by spreading the revenue requirements of each utility over the corresponding EDUs. This approach provides a clear connection between the costs incurred by each utility and the total customers served, resulting in a cost-based rate structure in compliance with Proposition 218. The previous section summarized costs by expense category and then allocated to cost components based on how each cost is incurred. The next step in designing rates is to allocate the revenue requirements of each utility to customers in relation to their use of the system and facilities. The method of apportionment considers each customer's share of system costs and is reflected by the EDUs assigned to each parcel for sewer and solid waste services. Table 21 summarizes the total units of service for each utility (EDUs), and Table 22 derives the proposed FY 2023 sewer and residential solid waste rates per EDU.

Table 21: Units of Service – Sewer EDUs and Residential Solid Waste EDUs

Units of Service	Sewer	Solid Waste
Total EDUs from Table 3	35,175	19,766

Table 22: FY 2023 Sewer and Residential Solid Waste Rates

FY 2023	Sewer	Solid Waste
Revenue Requirement	\$3,428,690	\$3,755,310
EDUs ÷	35,175	19,766
Unit Rate per EDU (\$/EDU)	\$97.48	\$189.99

Cost-Based Rates Summary

Financial Plan Summary

The financial plan developed for the District identifies revenue adjustments through FY 2027. Based on the review of current rate revenue and multi-year revenue requirements, rate revenue through the Financial Plan Period will generate approximately \$3.27M in additional rate revenue, reflecting a 3% revenue increase in total rate revenue each year. These recommended revenue adjustments will allow the District to cover its revenue requirements through the Financial Plan Period while satisfying minimum reserve requirements. The financial plan should be updated annually to review actual revenue recovered, capture new accounts, update changes in EDUs, and track capital expenses as estimates change. As the baseline assumptions change, the proposed revenue adjustments may also need to be revised to reflect updated conditions.

Cost-of-Service and Rate Summary

The District's proposed sewer rates maintain a cost per EDU but eliminate the need to have rates differ for commercial classes as the District does not treat the influent and does not incur treatment costs from OCSD. Therefore, the sewer rate is structured as a uniform rate per EDU to cover the total revenue requirements of the sewer collection system.

The current residential solid waste rate is a uniform charge per EDU, and the proposed rates maintain the same structure.

The comprehensive cost-of-service analysis and rate development meet the requirements of Proposition 218 and identify the costs associated with each utility. Proposition 218 requires the following conditions:

1. An agency cannot collect revenue beyond what is necessary to provide service.

The long-term financial plan identifies the revenue requirements to recover from rates for both utilities. Reserves are healthy, and the increase in rate revenue will cover O&M and capital expenses while satisfying the minimum reserve requirements throughout the Financial Plan Period.

2. Revenues derived by the charge shall not be used for any other purpose other than that for which the charge was imposed.

The District's entire budget of revenues and expenses are shown within this report, and all other operating revenues and non-operating revenues are used to offset expenses for each utility. Therefore, rate revenues are recovering the remaining revenue requirements for services provided.

Midway City Sanitary District – Sewer and Solid Waste Rate Study

3. The amount of the fee may not exceed the proportional cost-of-service for the parcel.

The comprehensive cost-of-service analysis and updated rates reflect each customer's proportionate share of costs. Through this update, each parcel is paying for the cost of providing sewer and solid waste services to the parcel.

4. No charge may be imposed for a service unless that service is actually used or immediately available to the owner of a property.

The proposed sewer and solid waste rates connect directly to the District's budget and projected revenue requirements, which are recovered from all active parcels receiving service. Furthermore, sewer services and residential solid waste services are available to all parcels within the District's service area.

5. A written notice of the proposed charge shall be mailed to the record owner of each parcel at least 45 days prior to the public hearing.

Notices were mailed to each affected parcel at least 45 days prior to the Public Hearing.

The proposed sewer and solid waste rates for FY 2023 through FY 2027 are shown below. If a majority protest does not exist at the Public Hearing, the District Board may adopt the rates with an effective date of July 1, 2022.

Proposed Sewer and Residential Solid Waste Rates

Table 23 provides the proposed five-year annual sewer and solid waste rates per EDU for FY 2023 through FY 2027. For FY 2024 through FY 2027, the 3% revenue adjustment is applied across the board to the cost-of-service rates derived for FY 2023 as EDUs are projected to remain constant for financial planning.

Table 23: FY 2023 – FY 2027 Annual Rates per EDU

Proposed Rate Schedule (\$/EDU)					
Service Line	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Sewer	\$97.48	\$100.41	\$103.43	\$106.54	\$109.74
Residential Solid Waste	\$189.99	\$195.69	\$201.57	\$207.62	\$213.85

Residential Customer Impact

The District's parcel configuration is 95% residential. With sewer and solid waste rates charged on an EDU basis, the customer impacts in Figure 15 and Figure 16 compare existing (light purple hatched bar) and proposed rates (solid purple bar) of one residential EDU for sewer and solid waste, respectively. Figure 17 and Figure 18 provide regional comparisons of monthly sewer and solid waste rates, respectively, with the District proposed rates well below the average charge within the surrounding area.

Midway City Sanitary District – Sewer and Solid Waste Rate Study

Figure 15: FY 2023 Residential Sewer Rate Comparison

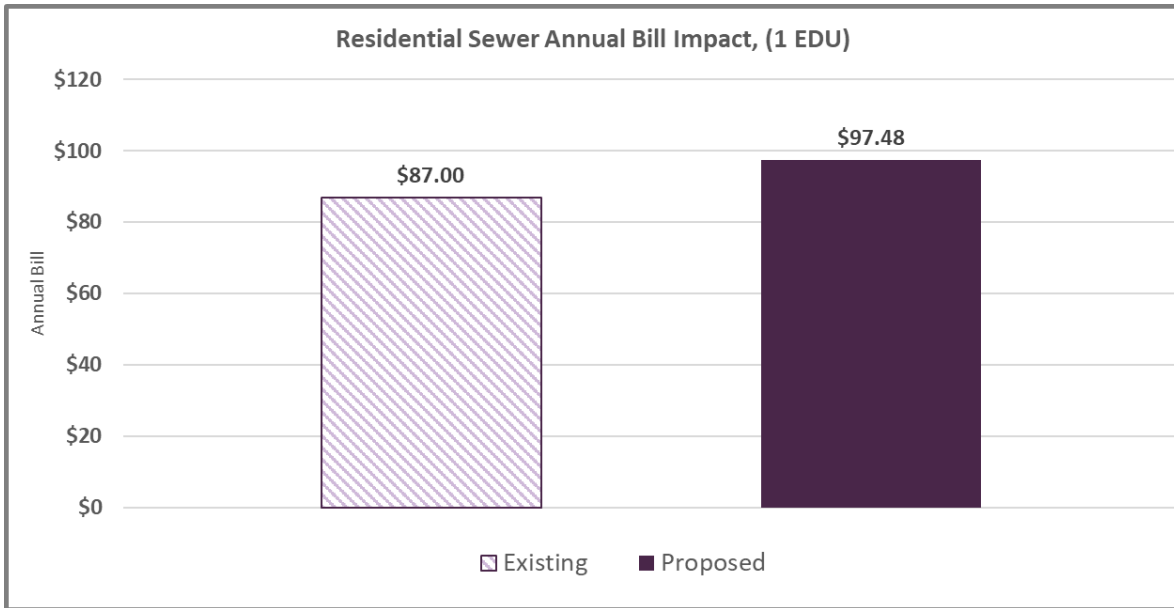
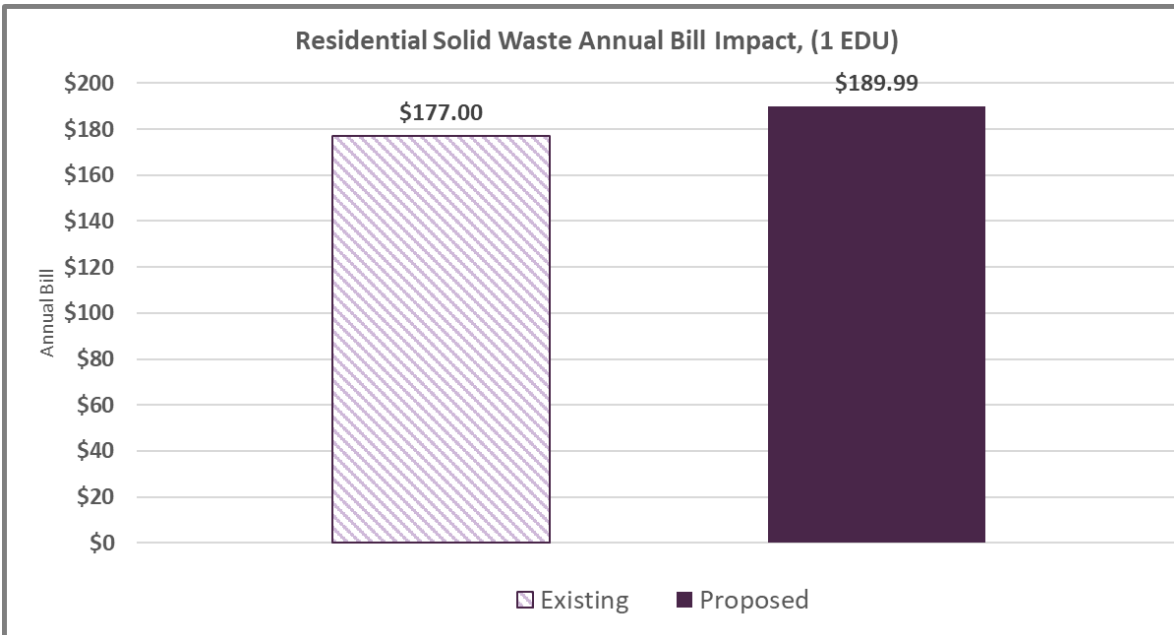


Figure 16: FY 2023 Residential Solid Waste Rate Comparison



Midway City Sanitary District – Sewer and Solid Waste Rate Study

Figure 17: FY 2023 Regional Comparison – Residential Monthly Sewer Rates

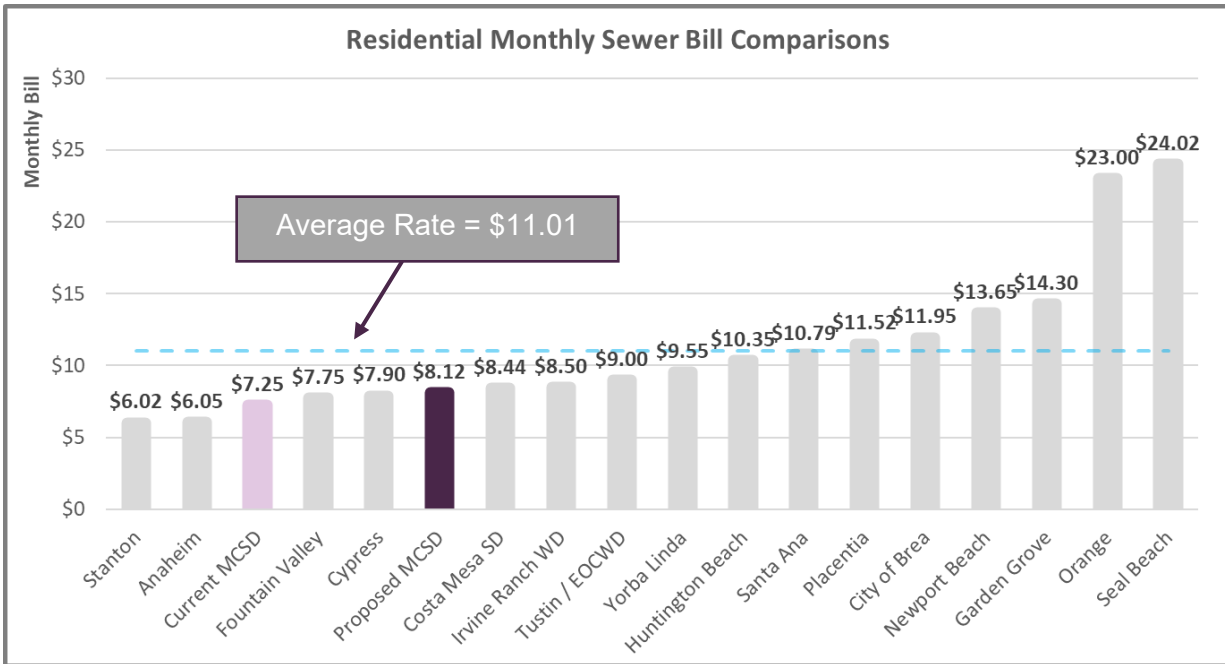
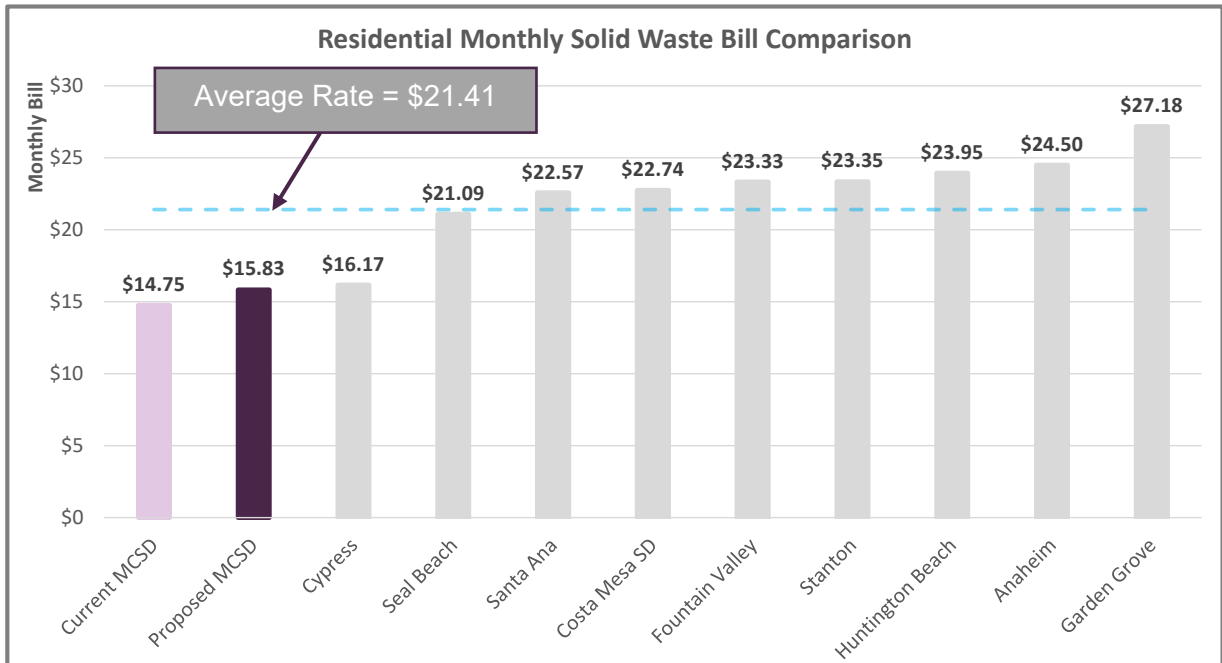


Figure 18: FY 2023 Regional Comparison – Residential Monthly Solid Waste Rates



Appendix A – Additional Solid Waste Cart Service

As part of the District's miscellaneous fees, the District provides extra carts to property owners requesting the additional services. The additional carts are picked up simultaneously with the original three-cart system routes. The District does not require additional staffing for servicing the additional cart, and the time needed to service the additional carts is negligible. Therefore, the annual cost for an additional cart service takes the total solid waste revenue requirement in Table 20 and reduces that amount by the solid waste personnel cost. Table 24 provides the revenue requirement less personnel cost for solid waste and divides the result by total carts (Solid Waste EDUs x 3 carts = 59,298) to derive a cost per additional cart service.

Table 24: FY 2023 Additional Cart Service Fee

Revenue Requirement Net of Personnel	Solid Waste
O&M less Direct Offsets (Total from Table 20)	\$3,755,310
Less Solid Waste Personnel Cost (-)	(\$1,563,788)
Total	\$2,191,521
Total Carts (Solid Waste EDUs x 3) (÷)	59,298
Solid Waste Additional Cart Service Fee	\$36.96

Table 25 provides the proposed five-year additional cart fee for FY 2023 through FY 2027. For FY 2024 through FY 2027, the 3% revenue adjustment is applied to the additional cart fee derived for FY 2023.

Table 25: FY 2023 – FY 2027 Additional Cart Service Fee

Solid Waste Additional Cart Service Fee (\$/Cart)					
Service Line	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Additional Solid Waste Cart Service Fee	\$36.96	\$38.07	\$39.22	\$40.40	\$41.62