



August 15, 2012

Board of Supervisors
Bay Laurel Center Community Development District
8700 SW 99th State Road
Ocala, Florida 34481

Subject: General Explanation of the Wastewater Cap included in the District's Wastewater Rate Structure

Dear Board Members:

GAI Consultants, Inc. (GAI) has been asked by the Bay Laurel Center Community Development District Board of Supervisors (Board) to provide a detailed explanation of the basis for the 7,500 gallon cap on residential wastewater service.

The first thing to consider when discussing the Bay Laurel Center Community Development District's (District) 7,500 gallon cap for wastewater is: What does it represent? The 7,500 wastewater cap represents the level of service that the District has pledged to provide all wastewater connections (250 gallons per day * 30 days). The level of service is represented by the District's definition of an equivalent residential connection (ERC) which is defined in the District's Uniform Extension Policy (beginning on page 12), a copy of which is attached hereto. The District's Uniform Extension Policy states that an ERC is equal to 350 gallons per day for water and 250 gallons per day for wastewater. These usage levels are consistent with standards used across the water and wastewater industry and are used by the Florida Department of Environmental Protection when granting water and wastewater plant permits and requiring utilities to expand water and wastewater plants because of capacity issues. Therefore, there is a logical, valid reason for the District to have its wastewater cap set at 7,500 gallons per month.

The second thing to consider when discussing the District's 7,500 wastewater cap is: Is it reasonable? Matching the wastewater cap to the District's level of service is certainly reasonable. The District considers a typical residential connection, represented by an ERC, to be equal to 7,500 gallons of usage for a month. Another measure of

reasonableness is what do other utilities do regarding a wastewater cap? The District's latest rate study, completed in 2010, listed several public and private utilities for rate comparison purposes. **Table 1** below shows the comparable utilities from the rate study along with their wastewater cap.

Table 1
Bay Laurel Center Community Development District
Comparable Utilities From the 2010 Rate Study

<u>Comparable Public Utilities</u>	<u>Wastewater Usage Cap in Gallons</u>
City of Belleview ⁽¹⁾	No Cap
City of Dunnellon ⁽¹⁾	No Cap
City of Ocala ⁽²⁾	9,725
City of Williston ⁽¹⁾	No Cap
Marion County	6,000
<u>Comparable Private Utilities</u>	
Marion Utilities, Inc.	10,000
Rainbow Springs Utilities	8,000
Residential Water Systems, Inc ⁽³⁾	N/A
Sunshine Utilities of Central Florida ⁽³⁾	N/A
Tradewinds Utilities of Central Florida	10,000
Venture Associates Utilities Corp ⁽³⁾	N/A
Windstream Utilities Company ⁽³⁾	N/A

Notes:

- (1)- Utility does not have a wastewater cap.
- (2)- Utility charges users by cubic feet, converted to gallons for this comparison.
- (3)- Utility does not provide wastewater service.

As shown in **Table 1** three (3) of the five (5) comparable public utilities have no wastewater cap. This means that all usage going through the water meter is charged as wastewater usage. This is fairly common for public utilities. Of the two (2) remaining utilities, one has

a wastewater cap 2,225 gallons higher than the District's and one has a cap 1,500 less than the District. All of the private utilities shown in **Table 1** have a higher wastewater cap than the District (n/a represents no wastewater service provided). Based on the comparable utilities from the 2010 rate study it must be concluded that the District's 7,500 wastewater cap is reasonable.

The third thing to consider regarding the District's wastewater cap is what is the impact of changing the cap? Before discussing any changes to the wastewater cap, it is important to understand how the District's wastewater rate structure works so that the impact related to potential changes in the cap can be better understood. The wastewater rate is comprised of a fixed monthly charge and a variable monthly charge. The fixed monthly charge is the same whatever the customer's usage is. The fixed monthly charge for the District is called the Base Facility Charge (BFC). In addition to the BFC, the District has a fixed monthly Customer Account Charge. The variable component of the District's rate structure is called the Gallonage Charge. The Gallonage Charge is based upon the customer's water usage. This is standard industry practice since there are no wastewater meters available to measure low flows like those associated with a residence or small business. The residential wastewater Gallonage Charge is capped at a maximum usage of 7,500 gallons of water used. This cap in usage was chosen by the District because to them it represents a typical wastewater ERC as described above. The District's rate structure is typical of rate structures in Florida. The theory behind a fixed and variable rate structure is that the District incurs expenses to provide wastewater service to its customers. The overall cost to the District to provide wastewater service is called its Revenue Requirements. This represents the amount of total revenue the District has to generate from its customers to cover the expenses associated with providing that service. The Revenue Requirement is comprised of both fixed and variable types of expenses. The District's expenses that typically don't change with the amount of wastewater treated, which are fixed in nature (cost of wastewater plant, employee salaries, etc.) would be recovered from the BFC and those that typically would change with the amount of wastewater treated, which are variable in nature (chemical costs, power costs) would be recovered from the Gallonage Charge. The District's wastewater rates were determined in the 2010 Rate Study based

upon the Revenue Requirement to provide service divided by the number of customers and their billed usage, at the time of the study. The billed wastewater usage, for the Rate Study, used a 7,500 gallon cap. Regardless of the wastewater cap used in the Rate Study, the Revenue Requirement would have stayed the same. As an example of this, let's assume the variable portion of the wastewater Revenue Requirement was \$1,500,000. The amount of billed wastewater usage (in thousands), at a cap of 7,500, was 1,000,000. The wastewater Gallonage Rate computed for this scenario would be \$1.50 per thousand gallons ($\$1,500,000/1,000,000$). If the cap were changed to half of the 7,500, or 3,750, then the number of billed gallons would theoretically be 50% less, or 500,000. The Revenue Requirement associated with usage does not change. Therefore, the calculated wastewater Gallonage Rate would be \$3.00 per thousand ($\$1,500,000/500,000$), or twice that using a 7,500 cap. Increasing the wastewater cap would tend to increase the number of billable gallons thereby reducing the resulting rate. Therefore, a change to the wastewater cap should result in a change to the wastewater Gallonage Rate.

If the District were to consider changing the wastewater cap it should only be done during a Rate Study combined with a Level of Service Study. A change in the wastewater cap has to be accompanied by a change in the wastewater rate so that the financial stability of the Utility is maintained. The District should suffer neither a shortfall nor a windfall in revenues as the result of any change in the wastewater cap. The impact on all customer groups must be considered when determining an appropriate wastewater cap. In addition to the financial impact to a customer related to a change in the wastewater cap the potential impact on water conservation must be considered. The marginal cost associated with the wastewater cap as part of the customer's overall bill changes as the cap is changed thereby potentially affecting the water conservation price signal.

Board of Supervisors
August 15, 2012
Page 5

In conclusion, the District's current wastewater cap is appropriate and reasonable.

Should you have any questions or need further assistance, please feel free to call.

Very truly yours,

GAI Consultants, Inc.

Tara Hollis

Tara L. Hollis, CPA, MBA
Environmental Group Manager

Attachment

Cc: Gerald C. Hartman, PE, BCEE, ASA – GAI
Tony Isaacs – GAI

