



MISSION HILLS COMMUNITY SERVICES DISTRICT

MEMORANDUM

TO: Board of Directors

FROM: Loch A. Dreizler, General Manager
Casey Fowler, Administrative Assistant

DATE: February 20, 2019

SUBJECT: Resolution to approve participation in Santa Barbara County Integrated Regional Water Management Group

Recommendation / Proposed Motion

- Recommendation: The Board of Directors approve and adopt the Resolution for participation in Integrated Regional Water Management (IRWM) Group
- Proposed Motion: Move to Adopt Resolution No. 19-328. Approving Staff to work with the Santa Barbara County IRWM Group to move forward with proposed projects and programs included in the Santa Barbara County adopted 2019 Integrated Regional Water Management Plan (IRWMP).

Policy Reference

- None

Budget Resource

- \$850 annual fee

Alternatives Considered

None

Background

At the December 2018, Joint Meeting with Vandenberg Village CSD Fray Crease and Jane Grey gave a PowerPoint presentation discussing grant funding their organization peruses for members of their organization.

At the January 16, 2019, regular meeting the Board of Directors authorized the General Manager to join the Integrated Regional Water Management (IRWM) Group.

Discussion

IRWM requires Mission Hills CSD to adopt a resolution to participate.

Recommendation

District Staff recommends the Board of Directors approve Resolution No. 19-328 to allow participation with IRWA and continue to pursue grant funding sources for District projects.

Attachments:

1. Resolution No. 19-328

RESOLUTION NO: 19-328

A RESOLUTION OF MISSION HILLS COMMUNITY SERVICES DISTRICT APPROVING STAFF TO PARTICIPATE IN THE SANTA BARBARA COUNTY INTEGRATED REGIONAL WATER MANAGEMENT (IRWM) PROGRAM

WHEREAS, the Mission Hills Community Services District (the "District") is a community services district duly formed under California Government Code Section 61000 *et seq.* to provide community services within the District's service area ("District Service Area"), including water and sewer services; and

WHEREAS, in 2002 Senate Bill 1672 created the IRWM Act to encourage local agencies to work cooperatively to manage and improve water supply reliability and water quality; and

WHEREAS, in 2002 California voters passed Proposition 50, the Water Security, Clean Drinking Water, Coastal and Beach Protection Act, which provided \$500 million to fund competitive grants for projects consistent with an adopted IRWM Plan; and

WHEREAS, in 2005 Santa Barbara County Water Agency (Water Agency), along with 29 cities, special districts, joint powers authorities, non-governmental organizations, and water companies (Cooperating Partners) created a process to promote and practice integrated regional water management strategies through the development and adoption in 2007 of an IRWM Plan; and

WHEREAS, in 2006 California voters passed Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act, which provided \$5.388 billion statewide of which \$1 billion was allocated for IRWM; and

WHEREAS, in 2013 the Santa Barbara County IRWM Plan was updated in accordance with the State Department of Water Resources (DWR) 2012 IRWM Plan Standards and Guidelines used to implement the Proposition 84 grant program; and

WHEREAS, the Water Agency acts as the single eligible grant recipient responsible for administration of IRWM grants, functioning as a pass-through agency between DWR and local project proponents; and

WHEREAS, on behalf of the Cooperating Partners, the Water Agency applied for and had been granted over \$30 million for 27 water-related plans and projects within the Santa Barbara County IRWM region through Propositions 50 and 84; and

WHEREAS, in 2014 California voters passed Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act, which provides \$510 million in IRWM funding for Implementation, Planning and Disadvantaged Community Involvement efforts; and

WHEREAS, on behalf of the Cooperating Partners, the Water Agency applied for and has been allocated through Proposition 1, \$865,207 for Disadvantaged Community Involvement efforts and approximately \$6.3 million for Implementation projects; and

WHEREAS, the 2019 Santa Barbara County IRWM Plan update was completed in accordance with the Department of Water Resources (DWR) 2016 IRWM Plan Standards and Guidelines used to implement the Proposition 1 grant program; and

WHEREAS, the Water Agency, on behalf of the Cooperating Partners, prepared a Notice of Exemption in accordance with CEQA for preparation of the 2019 IRWM Plan; and

NOW, THEREFORE, BE IT RESOLVED, that the Board of Directors of Mission Hills Community Services District approves Staff to work with the Santa Barbara County IRWM Group to move forward with proposed projects and programs included in the Santa Barbara County adopted 2019 Integrated Regional Water Management Plan (IRWMP):

<http://www.countyofsb.org/pwd/water/irwmp/plan-2019.sbc>

PASSED, APPROVED, AND ADOPTED by the Board of Directors of Mission Hills Community Services District, State of California, on this 20th day of February 2019 by the following vote:

AYES:

NAYS:

ABSENT:

ABSTAIN:

Walt Fasold, President
Board of Directors

ATTEST:

Casey Fowler, Secretary to the Board



MISSION HILLS COMMUNITY SERVICES DISTRICT

MEMORANDUM

TO: Board of Directors

FROM: Loch A. Dreizler, General Manager
Melissa Smith, Accountant
Casey Fowler, Administrative Assistant

DATE: February 20, 2019

SUBJECT: Water and Sewer Capacity Charge Study

Recommendation / Proposed Motion

- Recommendation: The Board of Directors approve and adopt the Sewer Capacity Charge Study prepared by NBS Government Finance Group.
- Proposed Motion: Move to Adopt the NBS *Water and Sewer Capacity Charge Study* dated February 2019 as submitted and begin Public Notice/Ordinance approval process at the regular board meeting in March 2019.

Policy Reference

- Current Capacity Charges for Water and Sewer Facilities are established in Ordinance No 16-82, Article II - *Schedule of Fees to Connect to District Facilities*, Section 1. *Connection Fee Charges*.
- California Government Code §66013 allows local agencies, including special districts, to impose fees (capacity charges) for water and wastewater.

Budget Resource

- The contract for the capacity charge study includes a not to exceed the amount of \$37,620. The District expended those funds on September 4, 2018, and is now paying NBS on an hourly basis.
- Capacity Charges and added monthly usage rates are a potential source of revenue.

Alternatives Considered

None

Background

At the March 2018 regular board meeting the Board approved the proposal from NBS Government Finance Group to commence a study of the District's water and sewer capacity charges.

Discussion

The District's water and wastewater capacity charges are being revised in anticipation of future development and will provide the district with a legally defensible reference. From the NBS Proposal: "Overview of Capacity Charges - Capacity charges are intended to ensure that prospective customers pay their 'fair share' of the current system assets funded by current ratepayers plus the costs of new facilities needed to serve them."

The Board has reviewed the NBS Study at Regular Meetings in July, August, and September of 2018, Special Meetings in August 2018, and January 2019, and also in multiple committee meetings.

Recommendation

District Staff recommends the Board of Directors approve and adopt this Study.

District Staff may annually review rates, charges, and revenue. It is advised that any time an Agency adopts new rates and charges, they should be periodically reviewed — even more so when new capital facilities are planned, and significant repair and replacements projects are undertaken. Approval will help ensure the revenue generated is enough to cover the cost of capital projects, the fiscal health of the District is maintained, and future customers bear their fair share of infrastructure costs.

With Board approval and direction, staff can begin the ordinance process, postings and public hearing. This process is required by California Government Code §66017 and the new capacity charges would go into effect 60 days following adoption of the new ordinance.

Available Upon Request:

1. NBS Water and Sewer Capacity Charge Study

Summary of changes from previous version:

Planned Assets – Sewer Utility

- Pond Valve Replacement - \$160,000 (up from \$100,000)
- Pond Rehabilitation - \$600,000 (down \$150,000)
- Aeration System for Developments - \$250,000 (up from \$100,000)
- New Wastewater Treatment System - \$1,060,000 (up from \$840,000)
- New Wastewater Treatment System, Add'l Loads - \$440,000 (up from \$360,000)



MISSION HILLS COMMUNITY SERVICES DISTRICT

**Water and Sewer Capacity
Charge Study**

February 2019

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SECTION 1. PURPOSE AND INTRODUCTION TO THE STUDY

A. PURPOSE

Mission Hills Community Services District (District) retained NBS to conduct a water and sewer capacity charge¹ study to ensure these fees reflect the cost of capital infrastructure needed to serve new connections, or any person requesting additional capacity in the District's Water and/or Sewer Utility (referred to throughout as "future customers").

In developing the new capacity charges, NBS worked cooperatively with District staff. The capacity charges presented in this study reflect input provided by District staff about financial matters, available capacity in the Water and Sewer Utilities, existing asset values and planned capital improvements. The purpose of this report is to summarize the results of the study and present the updated capacity charges that may be imposed on new connections.

B. INTRODUCTION

California Government Code Section 66013 authorizes public agencies to impose capacity charges on connecting customers, to ensure that they pay their fair share of the current Water and Sewer Utility assets, plus the costs of new facilities needed to serve them. In its simplest form, capacity charges are the result of dividing the cost (or value) of the Utility's current capacity plus planned capital improvements, by the expected number of future customers.

Specifically, Section 66013 defines a capacity charge as a one-time "charge for public facilities in existence at the time a charge is imposed or charges for new public facilities to be acquired or constructed in the future that are of proportional benefit to the person or property being charged, including supply or capacity contracts for rights or entitlements, real property interests, and entitlements and other rights of the local agency involving capital expense relating to its use of existing or new public facilities."

A capacity charge ensures that future customers pay their proportional share of costs to recover the following:

1. A system "buy-in" component, that reflects future customers proportional share of existing Utility asset costs.
2. An "incremental" component, that reflects future customers proportional share of planned (or "incremental") capital improvement costs that are required to provide them sufficient capacity in the Utility.

As a result, future customers connecting to the District's Water and/or Sewer Utilities would enter as equal participants (compared to current customers) regarding their financial commitment and obligations to the utilities. All Water and Sewer Utility asset values included in this study are in 2018 dollars.

¹ Otherwise known as system development charges or connection fees.

The capacity charges were calculated according to industry standard set by the American Water Works Association (AWWA)², using the methodology is referred to as the "Combination Approach". Further, it should be noted that this study defines the *maximum* amount that could be charged for new connections, and the District's Board of Directors retains the option to set a lower charge should they desire.

C. SUMMARY OF UPDATED CAPACITY CHARGES

The Water and Sewer Capacity Charges developed in this study are shown in Figure 1 and Figure 2. The following sections of this report discuss the methodology used to develop these capacity charges.

Figure 1. Updated Water Capacity Charges

Meter Size	Equivalency Factor		Capacity Charge Per Meter
	Maximum Continuous Flow (gpm) ¹	Equivalency to 1-inch meter	
1 Inch	50	1.00	\$8,667
1 1/2 Inch	100	2.00	\$17,334
2 Inch	160	3.20	\$27,735
3 Inch	320	6.40	\$55,470
4 Inch	500	10.00	\$86,671
6 Inch	1,000	20.00	\$173,343
8 Inch	2,800	56.00	\$485,360

1. Source: AWWA M1, Table B-2. Assumes displacement meters for 5/8" through 2", Compound Class I for 3" through 6" and Turbine Type, Class II for 8" meter.

Figure 2. Updated Sewer Capacity Charges

Sewer Capacity Charge Per EDU	\$7,551
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* One (1) EDU is a Single Family Residential unit.

² Method of calculating Capacity Charges (also known as System Development Charges) are set forth in the American Water Works Association's Principles of Water Rates, Fees and Charges Seventh Edition (2017) pages 311 to 347.

SECTION 2. WATER CAPACITY CHARGE STUDY

A. EXISTING CONNECTIONS AND PROJECTED FUTURE GROWTH

The District currently has approximately 963 equivalent 1-inch meter connections to the Water Utility; Figure 3 shows the number of meters by size that are currently connected. The maximum flow rate, in gallons per minute (gpm) for each size meter is used to determine the number of equivalent 1-inch meter units that are currently connected, as shown in the fifth column of Figure 3.

Figure 3. Current Water Customers

Meter Size	Existing Water Meters ¹	Meter Equivalence		Existing 1" Meter Equivalent Units
		Maximum Flow (gpm) ²	Equivalency to 1" Meter Size	
3/4 Inch	856	30	0.60	514
1 Inch	403	50	1.00	403
1 1/2 Inch	2	100	2.00	4
2 Inch	5	160	3.20	16
3 Inch	1	320	6.40	6
4 Inch	2	500	10.00	20
Total	1,269			963

1. Source: *Summary of Customer Information.xlsx*.

2. Source: *AWWA M1, Table B-1*. Assumes displacement meters for 5/8" - 2" and Compound Class I for 3" - 4".

The District has several developments that are expected to connect to the Water Utility in the next five years, along with projected water use for each. These projections were used in this study to determine the number of new single-family home equivalent connections³ to the Water Utility. As shown in Error! Reference source not found., there are seven residential developments and one commercial kitchen planned, which is equivalent to 535 single family homes (or 1-inch meters) that are expected to connect in the next five years.

³ The new base meter size for all new connections is 1-inch and all new single-family homes will be required to install a 1-inch meter upon connection to the water system.

Figure 4. Water Consumption Projection for Future Development Projects

Project ¹	Number of Units	Number of Commercial Facilities	Estimated Year of Construction	Water Duty Factor (gpd/Unit)	Total Water Usage (Gallons/ Day)	Future Equivalent 1" Meter Units ²
Summit Views	44	0	2019	330	14,520	44
Burton Ranch						
Multi-Family Residence	100	0	2020	233	23,250	70
Single Family Residence- Phase 1	55	0	2021	330	18,150	55
Single Family Residence- Phase 2	210	0	2022	330	69,300	210
Single Family Residence- Phase 3	74	0	2023	330	24,420	74
Supportive Housing Units	70	0	2019	233	16,275	49
Supportive Housing Commercial Kitchen (4,900 SF)	0	1	2019	1,400 gpd/acre	785	2
Lots for Future Single Family Residences	30	0	2023	330	9,900	30
Total	583	1			176,600	535

1. Source: Mission Hills EDU Revision 5.21.18.pdf

2. Total Water Use (Gallons/Day) divided by 330 gallons/day (estimated usage per single-family home).

Capacity in the District's Water Utility is allocated to current and future customers, as shown in Figure 5. The percentage assigned to current and future customers is based upon their assigned share equivalent 1-inch meters (or single-family homes).

Figure 5. Allocation of Capacity to Current and Future Customers

Water Utility Capacity Allocation	Current Customers	Anticipated Future Connections ¹	Estimated Total Customers
Number of Connections (Equivalent SFR units/1" meters)	963	535	1,498
Percentage (%) of Total Capacity	64.3%	35.7%	100.0%

1. Customer growth is based on flow projections provided by District staff.

Source: Mission Hills EDU Revision 5.21.18.pdf

B. EXISTING AND PLANNED ASSETS

The capital assets addressed in this study include existing assets and planned capital improvements (i.e. the buy-in and incremental assets). An important aspect of this study is how the value of existing utility assets is determined. For example, purchase price does not account for wear and tear, and current book value⁴ typically underestimates the "true value" of facilities, as it does not account for cost increases over time. Therefore, this study uses the replacement-cost-less depreciation (RCNLD⁵) approach to estimate

⁴ Book value is purchase price less accumulated depreciation.

⁵ American Water Works Association's Principles of Water Rates, Fees and Charges Seventh Edition (2017) page 332.

existing asset values, because it provides an up to date asset value that reflects estimated cost inflation and depreciation.⁶

The Engineering News Record (ENR) Construction Cost Index and Handy-Whitman Index of Public Utility Construction Costs are cost inflation indices that track construction costs; these were used to estimate the replacement value of the existing assets. The RCNLD, also known as the System Buy-In Cost Basis, is calculated by taking the book value of existing assets and escalating them to current-day values using the ENR Construction Cost or Handy-Whitman Index. Figure 6 summarizes the System Buy-In Cost Basis by Asset Category for the Water Utility.

For this analysis, assets that have exceeded their useful life (as defined in the District's asset records) were considered to have no remaining value. The total estimated values of existing assets are summarized in Figure 6 as the System Buy-In Cost Basis. General Assets, which are mostly office assets and vehicles, are shared between the Water and Sewer Utility. They are separated based on the share of fixed assets for each Utility. The Water Utility owns 49.79 percent of these general assets, and the Sewer Utility owns 50.21 percent of these assets.

Figure 6. Summary of Existing Asset Values – Water Utility

Asset Category ¹	Original Values ¹		Asset Cost Less Depreciation	System Buy-In Cost Basis ²	System Buy in Cost Basis w/ General Assets ³
	Asset Cost	Depreciation to Date			
Building	\$ 206,544	\$ 203,740	\$ 2,804	\$ 5,801	\$ 5,801
Filtration	467,808	370,847	96,961	130,106	130,106
General	442,000	321,664	120,336	183,939	91,583
Hydrants	206,384	150,467	55,916	133,474	133,474
Land	59,241	-	59,241	59,241	59,241
Mains	1,925,836	769,079	1,156,757	2,692,228	2,692,228
Meter	217,256	121,197	96,059	107,304	107,304
Tank	689,449	431,302	258,146	1,308,166	1,308,166
Tools	104,868	82,302	22,567	29,269	29,269
Vehicles	61,702	37,825	23,877	24,664	24,664
Well	2,008,831	1,175,852	832,979	1,079,030	1,079,030
Total	\$ 6,389,920	\$ 3,664,276	\$ 2,725,644	\$ 5,753,222	\$ 5,660,867

1. Source: *Fixed Asset Template (NBS).xlsx*.

2. System Buy-in cost basis is calculated as replication value less accumulated depreciation. Replacement values are calculated by escalating the original values (from District's fixed asset report) from service date to 2018 values using historical cost inflation. Original cost is used for land value.

3. General assets are shared with sewer. Per District direction, Water owns 49.79% of these assets, the remaining 50.21% is the sewer's share of these assets. The Water Utility's share of these assets are shown here as the Total System Buy-In Cost Basis.

⁶ The RCNLD approach was used to estimate all existing asset values, except for land. The value of land reflects the replacement cost new (RCN) approach to estimating land value.

Most of the RCNLD costs were allocated to current customers based on the 64.3 percent allocation factor shown in Figure 5 (and the 35.7 percent allocation factor for future customers). Meters are allocated 100 percent to current customers, as meters do not benefit future customers and are for current connections. Figure 7 shows the allocation of the \$5,660,867 in existing assets to current and future customers. Future customers are allocated \$1,983,776 of the existing Water Utility assets.

Figure 7. Existing Asset Values Allocated to Current and Future Customers – Water Utility

Asset Category	Total System Buy-In Cost Basis	Allocation Basis (%)			Distribution of Cost Basis (\$)		
		Exclude from Analysis	Current Customers	Future Customers	Exclude from Analysis	Current Customers	Future Customers
Building	\$ 5,801	0.0%	64.3%	35.7%	\$ -	\$ 3,729	\$ 2,072
Filtration	130,106	0.0%	64.3%	35.7%	-	83,631	46,475
General	91,583	0.0%	64.3%	35.7%	-	58,869	32,714
Hydrants	133,474	0.0%	64.3%	35.7%	-	85,796	47,678
Land	59,241	0.0%	64.3%	35.7%	-	38,080	21,161
Mains	2,692,228	0.0%	64.3%	35.7%	-	1,730,543	961,685
Meter	107,304	0.0%	100.0%	0.0%	-	107,304	-
Tank	1,308,166	0.0%	64.3%	35.7%	-	840,879	467,287
Tools	29,269	0.0%	64.3%	35.7%	-	18,814	10,455
Vehicles	24,664	0.0%	64.3%	35.7%	-	15,854	8,810
Well	1,079,030	0.0%	64.3%	35.7%	-	693,592	385,438
Total	\$ 5,660,867	0.0%	65.0%	35.0%	\$ -	\$ 3,677,091	\$ 1,983,776

The District's capital improvement plans extend to 2023. Some of the cost estimates for planned future improvements used to calculate the system development component of the capacity charge are allocated using the same allocations found in Figure 5, as these projects benefit both current and future customers. However, the cost of two projects are allocated 100% to future customers: Storage Reservoir and Water Treatment Plant. These projects are only needed to serve future customers. The Meter Replacement Program is excluded from this analysis as it only benefits current customers. Figure 8 includes a list of future projects; future customers are allocated \$2,075,017 of planned asset costs.

Figure 8. Planned Assets Allocated to Current and Future Customers – Water Utility

Facility / Equipment ^{1,2}	System Development Cost Basis ¹	% Allocation ²		Distribution of Cost Basis (\$)	
		Current Customers	Future Customers	Current Customers	Future Customers
Distribution					
Valve Replacement Project	\$ 100,000	64.3%	35.7%	\$ 64,279	\$ 35,721
Upgrade Cla-Vais - Pressure Reducing Stations	120,000	64.3%	35.7%	77,135	42,865
Meter Replacement Program ³	35,000	100.0%	0.0%	35,000	-
Water Main Replacement	125,000	64.3%	35.7%	80,349	44,651
Equipment					
Backup Generator	400,000	64.3%	35.7%	257,117	142,883
Replace Dump Truck	50,000	64.3%	35.7%	32,140	17,860
Replace Vehicle #2 08 F-150	40,000	64.3%	35.7%	25,712	14,288
Replace Vehicle #1 (50% share)	12,500	64.3%	35.7%	8,035	4,465
Replace Electric Gate	7,000	64.3%	35.7%	4,500	2,500
Storage					
Rehabilitate Reservoir Tanks 1 & 2	325,000	64.3%	35.7%	208,907	116,093
Reservoir	500,000	0.0%	100.0%	-	500,000
Treatment					
Water Treatment Plant	500,000	0.0%	100.0%	-	500,000
Wells & Pumping					
New Well Installation - #8	1,500,000	64.3%	35.7%	964,188	535,812
Replace or Rebuild Waukesha Engine	150,000	64.3%	35.7%	96,419	53,581
Well #6 Rehabilitation	60,000	64.3%	35.7%	38,568	21,432
Well #7 Rehabilitation	60,000	64.3%	35.7%	38,568	21,432
Well #5 Rehabilitation	60,000	64.3%	35.7%	38,568	21,432
Total	\$ 4,044,500	48.7%	51.3%	\$ 1,969,483	\$ 2,075,017

1. FY 2018/19 - FY 2022/23 Capital projects are per source file: *Capital Improvement Plan v2 August 2018.xlsx* and Email from District sent September 4, 2018 and September 6, 2018. Updates provided by District January 7, 2019.
2. Most project costs are allocated to current and future customers based on projected growth in the system. See Demographics tab for detail. Storage Reservoir and Water Treatment Plant are allocated 100% to future customers. These projects will only serve future customers.
3. Meter replacement projects are excluded because they are for current customers.

The District may have additional capital projects that are needed to serve future developments, and the cost of such projects may be recovered through a development agreement. This will be evaluated on a case by case basis as part of the development review process.

C. ADJUSTMENTS TO THE COST BASIS

Before the capacity charges are developed, an adjustment is applied to the cost basis to account for existing cash reserves. Existing cash reserves are treated as an asset because they were funded by current customers and are available to pay for capital and/or operating costs of the Water Utility that future customers will benefit from, once connected. The cash reserves are, in a sense, no different than any other Water Utility asset. The existing cash reserves allocated to current and future customers are summarized in Figure 9. This calculation also uses the same 35.7 percent allocation factor from Figure 5. Future Customers are allocated \$579,441 of cash reserves.

Figure 9. Cash Reserves Allocated to Future Customers – Water Utility

Cash Reserves	Beginning Cash ¹	% Allocation		\$ - Allocation	
		Current Customers	Future Customers	Current Customers	Future Customers
Operating Reserve	\$ 184,013	64.3%	35.7%	\$ 118,282	\$ 65,731
Capital Replacement Reserve	1,129,627	64.3%	35.7%	726,116	403,512
Capital Contingency	308,500	64.3%	35.7%	198,301	110,199
Total Beginning Cash	\$ 1,622,141	64.3%	35.7%	\$ 1,042,699	\$ 579,441

1. Beginning cash balances at 3.31.18. Source: *Mission Hills CSD Cash Balances 3.31.18.xlsx*.

The Water Utility is not obligated to any outstanding debt; therefore, there is no adjustment to the cost basis in the capacity charge calculation to account for it.

D. CALCULATED CAPACITY CHARGES

The sum of the existing and planned asset values (that is, the system buy-in and system development costs), along with the adjustment for cash reserves, defines the total cost basis allocated to future customers. Figure 10 summarizes the above calculations.

Figure 10. Summary of Cost Basis Allocated to Future Customers – Water Utility⁷

System Asset Values Allocated to Future Customers	
<i>System Asset Values Allocated to Future Customers</i>	
Existing System Buy-In	\$ 1,983,776
Future System Development	2,075,017
Total: Existing & Future System Costs	\$ 4,058,793
<i>Adjustments to Cost Basis Allocated to Future Customers:</i>	
Cash Reserves	\$ 579,441
Outstanding Long-Term Debt (Principal)	-
Total: Adjustments to Cost Basis	\$ 579,441
Total Adjusted Cost Basis for Future Customers	\$ 4,638,235

The total adjusted cost basis is then divided by the number of future customers, measured in single-family home equivalents, expected to connect to the Water Utility (that is, the 535-meter equivalents shown in Figure 5) in order to determine the base capacity charge, for a 1-inch water meter. This calculation is shown in Figure 11.

Figure 11. Summary of New Base Capacity Charges – Water Utility

Summary of Maximum Base Capacity Charge Calculation	Adjusted System Cost Basis	Future SFR Equivalent Units	Maximum Base Capacity Charge
Maximum Water Capacity Charge Per 1" Meter Equivalent Unit	\$ 4,638,235	535	\$ 8,667

Based on the combined system buy-in and incremental capacity charge methodology, and the assumptions used in this analysis, NBS has calculated the new capacity charges for various water meter sizes, as shown in Figure 12. The updated capacity charges represent the maximum that the District can charge for new connections.

⁷ Details on Future Water Utility Expansion allocated to future customers can be found in Exhibit 5 of Appendix A.

Figure 12. Updated Water Capacity Charges

Meter Size	Equivalency Factor		Maximum Unit Cost (Base Meter Size/1-inch)	Capacity Charge Per Meter
	Maximum Continuous Flow (gpm) ¹	Equivalency to 1-inch meter		
1 Inch	50	1.00	\$8,667	\$8,667
1 1/2 Inch	100	2.00	\$8,667	\$17,334
2 Inch	160	3.20	\$8,667	\$27,735
3 Inch	320	6.40	\$8,667	\$55,470
4 Inch	500	10.00	\$8,667	\$86,671
6 Inch	1,000	20.00	\$8,667	\$173,343
8 Inch	2,800	56.00	\$8,667	\$485,360

1. Source: AWWA M1, Table B-2. Assumes displacement meters for 5/8" through 2", Compound Class I for 3" through 6" and Turbine Type, Class II for 8" meter.

SECTION 3. SEWER CAPACITY CHARGE STUDY

A. EXISTING CONNECTIONS AND PROJECTED FUTURE GROWTH

There are currently 1,271 Equivalent Dwelling Units (EDUs) connected to the sewer utility. Figure 13 shows the number of current residential and commercial customers, and the estimated sewer flow produced by each. Individual customer impact on the Sewer Utility is measured in Equivalent Dwelling Units (EDU). Currently, the District utilizes EDU factors⁸ based on tenant types to calculate sewer capacity charges. One EDU is based on a single-family home generating 220 gallons per day of domestic wastewater.

Figure 13. Current Sewer Customers

Customer Class ¹	Number of SFR Homes	Number of Commercial Facilities	Wastewater Duty Factor (gpd/unit) ²	Total Wastewater (Gallons/Day)	Number of Wastewater EDUs
Existing Single Family Homes	1,262	0	220	278,080	1,264
Existing Commercial Facilities	0	7	155	1,085	7
Total	1,262	7		279,165	1,271

1. Source: *Mission Hills EDU Revision 5.21.18.pdf*

2. The Duty Factor is the estimated sewer flow each type of customer contributes to the sewer system.

The same developments that are expected to connect to the Water Utility, will also connect to the District's Sewer Utility. Figure 14 shows the number of units planned for each development, along with estimated sewer flow produced by each, which is used to determine the number of EDU's that will connect to the Sewer Utility. As shown, there are seven residential developments and one commercial kitchen planned, which is equivalent to 534 EDU's that are expected to connect in the next five years.

⁸ Also referred to as a "duty factor."

Figure 14. Wastewater Flow Summary for Future Development Projects

Project ¹	Number of Single Family Homes	Number of Commercial Facilities	Wastewater Duty Factor (gpd/unit)	Total Wastewater (Gallons/Day)	Future Sewer EDUs ²	Estimated Year of Construction
Summit Views	44	-	220	9,680	44	2019
Burton Ranch						
Multi-Family Residence	100	-	155	15,500	70	2020
Single Family Residence- Phase 1	55	-	220	12,100	55	2021
Single Family Residence- Phase 2	210	-	220	46,200	210	2022
Single Family Residence- Phase 3	74	-	220	16,280	74	2023
Supportive Housing Units	70	-	155	10,850	49	2019
Supportive Housing Commercial Kitchen (4,900 SF)	-	1	1400 gpd/acre	157	1	2019
Lots for Future Single Family Residences	30	-	220	6,600	30	2023
Total	583	1		117,367	534	

1. Source: Mission Hills EDU Revision 5.21.18.pdf

2. One Equivalent Dwelling Unit (EDU) is equal to 220 gpd of sewer flow.

Capacity in the District's Sewer Utility is allocated to current and future customers, as shown in Figure 15. The percentage of capacity assigned to current and future customers is based upon their assigned share of EDU's.

Figure 15. Allocation of Capacity to Current and Future Customers

Sewer Utility Capacity Allocation	Current Customers	Anticipated Future Connections ¹	Projected Service Total
Connections in EDU's	1,271	534	1,805
Percent of Total Capacity	70.4%	29.6%	100.0%

1. Customer growth is based on flow projections provided by District staff.

Source: Mission Hills EDU Revision 5.21.18.pdf

B. EXISTING AND PLANNED ASSETS

The same approach was used to estimate asset value for the Sewer Utility as was described previously in Section 2B for the Water Utility, as follows:

- The replacement-cost-new-less-depreciation (RCNLD) value of existing capital assets was used in this study to determine the system buy-in component of the sewer capacity charge.
- The ENR Construction Cost Index and Handy-Whitman Index of Public Utility Construction Costs were used to estimate the RCNLD value of the existing Sewer Utility assets.

- The cost of General Assets that are shared between the Water and Sewer, are separated based on the share of capital assets for each utility; the Water Utility owns 49.79 percent of these assets, and the Sewer Utility owns 50.21 percent of the assets.

The resulting RCNLD value of existing Sewer Utility assets are summarized in Figure 16, as the System Buy-In Cost Basis.

Figure 16. System Buy-in Cost Basis by Asset Category – Sewer Utility

Asset Category ¹	Original Values ¹		Asset Cost Less Depreciation	System Buy-In Cost Basis ²	System Buy in Cost Basis w/ General Assets ³
	Asset Cost	Depreciation to Date			
Building	\$ 280,105	\$ 225,271	\$ 54,834	\$ 130,973	\$ 130,973
General	442,000	321,664	120,336	183,939	92,356
Land	270,785	-	270,785	270,785	270,785
Large Equipment	2,673,544	779,586	1,893,957	2,714,032	2,714,032
Main	2,257,126	786,008	1,471,118	2,461,341	2,461,341
Small Equipment	28,554	25,464	3,091	3,312	3,312
Vehicle	89,039	80,294	8,746	12,184	12,184
Total	\$ 6,041,153	\$ 2,218,286	\$ 3,822,867	\$ 5,776,567	\$ 5,684,984

1. Source: *Fixed Asset Template (NBS).xlsx*.

2. System Buy-in Cost basis is calculated as replication value less accumulated depreciation. Replacement values are calculated by escalating the original values (from District's fixed asset report) from service date to 2018 values using historical cost inflation. Original cost is used for land value.

3. General assets are shared with sewer. Per District direction, Water owns 49.79% of these assets, Sewer owns 50.21% of these assets. The Sewer Utility's share of these assets is shown here as the Total System Buy-In Cost Basis.

All the RCNLD costs were allocated to current customers based on the 70.4 percent allocation factor shown in Figure 15 (and the 29.6 percent allocation factor for new future customers). Figure 17 shows the allocation of the \$5,684,984 in existing Sewer Utility assets to current and future customers. Future customers are allocated \$1,681,369 of the existing Sewer Utility assets.

Figure 17. Existing Asset Values Allocated to Current and Future Customers – Sewer Utility

Asset Category	Total System Buy-In Cost Basis	Allocation Basis (%)		Distribution of Cost Basis (\$)	
		Current Customers	Future Customers	Current Customers	Future Customers
Building	\$ 130,973	70.4%	29.6%	\$ 92,237	\$ 38,736
General	92,356	70.4%	29.6%	65,041	27,315
Land	270,785	70.4%	29.6%	190,699	80,086
Large Equipment	2,714,032	70.4%	29.6%	1,911,340	802,692
Main	2,461,341	70.4%	29.6%	1,733,384	727,957
Small Equipment	3,312	70.4%	29.6%	2,332	979
Vehicle	12,184	70.4%	29.6%	8,581	3,604
Total	\$ 5,684,984	70.4%	29.6%	\$ 4,003,615	\$ 1,681,369

The District's capital improvement plans extend to 2023. Some of the estimated cost of planned future improvements used to calculate the system development component of the capacity charge are allocated using the allocations found in Figure 15, as these projects benefit current and future customers. However, there are three projects that are allocated 100% to future customers: the Aeration System for New Developments, Pond 3 Liner and New Wastewater Treatment System for Additional Loads. These projects are only needed to serve future customers. Error! Reference source not found. shows a list of future capital projects the District is planning for, that will either expand capacity, or extend the useful life assets so that they will be available to serve current and future customers. Future customers are allocated \$2,088,626 of planned project costs.

Figure 18. Planned Asset Values Allocated to Current and Future Customers – Sewer Utility

Facility / Equipment ¹	System Development Cost Basis ¹	% Allocation ²		Current Customers	Future Customers
		Current Customers	Future Customers		
Collections					
Collection System Replacement (Slip Lining)	\$ 375,000	70.4%	29.6%	\$ 264,091	\$ 110,909
Equipment					
Replace Vehicle #3	40,000	70.4%	29.6%	28,170	11,830
Replace Vehicle #4	40,000	70.4%	29.6%	28,170	11,830
Replace Vehicle #1 (50% share)	12,500	70.4%	29.6%	8,803	3,697
Lift Station					
Lift Station Upgrades (limited scope)	70,000	70.4%	29.6%	49,297	20,703
Wastewater SCADA Install	35,000	70.4%	29.6%	24,649	10,351
Property Acquisition	195,900	70.4%	29.6%	137,961	57,939
Backup Generator	200,000	70.4%	29.6%	140,849	59,151
Sewer Treatment					
Pond Valve Replacement	160,000	70.4%	29.6%	112,679	47,321
Aeration System Replacement	250,000	70.4%	29.6%	176,061	73,939
Pond Rehabilitation	600,000	70.4%	29.6%	422,546	177,454
Aeration System - Developments	250,000	0.0%	100.0%	-	250,000
Treatment Capacity - Pond 3 Liner	500,000	0.0%	100.0%	-	500,000
New Wastewater Treatment System ³	1,060,000	70.4%	29.6%	746,498	313,502
New Wastewater Treatment System - Addtl. Loads ³	440,000	0.0%	100.0%	-	440,000
Total	\$ 4,228,400	50.6%	49.4%	\$ 2,139,774	\$ 2,088,626

1. FY 2018/19 - FY 2022/23 Capital projects are per source file: Capital Improvement Plan v2 August 2018.xlsx and Emails from District on 9/4/2018, 9/6/2018, 1/7/2019, 1/22/2019 and 2/4/2019.

2. Most project costs are allocated to current and future customers based on projected growth in the system. See Demographics tab for detail. Sewer Treatment Projects Additional Aeration- Development, Treatment Capacity- Pond 3 Liner, WDR Compliance- Additional Loads are allocated 100% to future customers. These projects will only serve future customers.

3. The Wastewater Treatment Upgrade Projects are for a new wastewater treatment system.

As noted previously, the District may have additional capital projects that are needed to serve future developments, and the cost of such projects may be recovered through a development agreement. This will be evaluated on a case by case basis as part of the development review process.

C. ADJUSTMENTS TO THE COST BASIS

Before the capacity charges are developed, an adjustment is applied to the cost basis to account for existing cash reserves. Existing cash is treated as an asset, since it was contributed by current customers and is available to pay for capital and/or operating costs of the Sewer Utility, which future customers will benefit from. The cash is, in a sense, no different from any other asset and therefore, are allocated to current and future customers as summarized in Figure 19. Cash is allocated according to the percentages in Figure 15. The allocation of cash reserves to future customers is \$260,274.

Figure 19. Cash Allocated to Existing and Future Customers

Cash Reserves	Beginning Cash ¹	% Allocation		\$ - Allocation	
		Current Customers	Future Customers	Current Customers	Future Customers
Operating Reserve	\$ 185,565	70.4%	29.6%	\$ 130,683	\$ 54,882
Capital Replacement Reserve	398,896	70.4%	29.6%	280,920	117,976
Capital Contingency	295,567	70.4%	29.6%	208,151	87,416
Total Beginning Cash	\$ 880,029	70.4%	29.6%	\$ 619,755	\$ 260,274

1. Beginning cash balances at 3.31.18. Source: *Mission Hills CSD Cash Balances 3.31.18.xlsx*.

The Sewer Utility is not obligated to any outstanding debt; therefore, there is no adjustment to the cost basis in the capacity charge calculation to account for it.

D. CALCULATED CAPACITY CHARGES

The sum of the existing asset values (that is, the system buy-in and system development components), along with the adjustments for existing cash reserves, defines the total cost basis allocated to future customers.

Figure 20. Summary of Costs Allocated to Future Customers – Sewer Utility

System Asset Values Allocated to Future Customers	
Existing and Future System Costs	
Existing System Buy-In ¹	\$ 1,681,369
Future System Development ²	2,088,626
Total: Existing & Future System Costs	\$ 3,769,995
Adjustments to Cost Basis	
Cash Reserves ³	\$ 260,274
Outstanding Long-Term Debt (Principal) Allocated to Future Users	-
Total: Adjustments to Cost Basis	\$ 260,274
Total: Cost Basis for Future Customers	\$ 4,030,269

The Total Adjusted Cost Basis for future customers is divided by the planned customer growth (measured in EDU's) through 2023. This represents the maximum that the District could charge per EDU for future customers.

Figure 21. Summary of New Base Capacity Charges – Sewer Utility

Capacity Charge Development	
Cost Basis for Future Customers	\$ 4,030,269
Projected Customer Growth (in EDU's)	534
Calculated Sewer Capacity Charge Per EDU	\$ 7,551

A connecting single-family residential customer represents one EDU. The EDUs assigned to a given customer is a measure of expected impact on the Sewer Utility relative to the average impact of a single-family residential (SFR) user. The measure is based upon a customer's expected flow and the strength of effluent (using BOD and TSS). For example, each single-family home is assigned one EDU, and a customer who puts twice the demand on the sewer system (in terms of collection and treatment) would be assigned two EDUs.

The EDU's for new non-SFR customers connecting to the District's Sewer Utility will be calculated to reflect the individual flow and strength characteristics of the new customer. Strength characteristics are based on the Revenue Program Guidelines of the State Water Resources Control Board, March 1998 Edition⁹. NBS has provided the District with a calculation template reflecting the formula used to calculate the fees for non-SFR customers, which is shown in Figure 22. The capacity fee for connecting non-SFR customers is proportional to the flow and strength characteristics for one EDU (i.e., one typical residential dwelling unit). In this formula, the proportional part of an EDU for each constituent (Flow, BOD and TSS) is developed and summed to get the total number of EDUs, which is then used to calculate the capacity fee. Figure 22 shows how the capacity fee is developed for a non-SFR customer with one EDU.

Figure 22. Sewer Capacity Charge Calculation for Non-SFR Customers

Calculation Factor		\$/EDU	Flow (gpd)	BOD (mg/l)	TSS (mg/l)
Capacity Charge (\$/EDU) ¹	A	\$ 7,551			
Standard EDU (per SFR) ²	B	220 gpd	220 gpd	250 Mg/l	250 Mg/l
Non-SFR Effluent Values ³	C	--	220 gpd	250 Mg/l	250 Mg/l
Single-Constituent EDU (= C / B)	D	--	1.00	1.00	1.00
Proportional EDU's ⁴	E	1.00	0.60	0.20	0.20
Non-SFR EDU's (= D * E * D (flow EDU)) ⁵	F	--	0.60	0.20	0.20
Total EDU's ⁶		--	1.00		
Charge/Constituent (= F * A)		--	\$4,530.32	\$1,510.11	\$1,510.11
Total Non-SFR Capacity Charge (Per EDU) ⁷			\$7,551		

1. Capacity Charge per EDU.
2. Standard flow and strength values per EDU. This determines the relationship of the connecting customer to a standard EDU.
3. Non-SFR Effluent flow and strength values are inputs that will be determined for connecting customers based on the Revenue Program Guidelines of the State Water Resources Control Board, March 1998 Edition.
4. Proportion of each constituent to an EDU factor. Standard proportion of 60% Flow, 20% BOD and 20% TSS is assumed.
5. Determination of the EDU's calculated for each constituent.
6. Total EDU's is the sum of the EDU's for each constituent, shown in the row above.
7. Total Charge is the sum of the Charge for each constituent, shown in the row above (rounded to nearest whole dollar.)

⁹ If the State's guidelines are updated, the City will utilize the new guidelines in the development of the sewer capacity fees for non-SFR customers.

SECTION 4. RECOMMENDATIONS AND NEXT STEPS

A. CONSULTANT RECOMMENDATIONS

NBS recommends the District take the following actions:

- **Approve and Accept this Study:** NBS recommends the Board of Directors formally approve and adopt this Study and its recommendations and proceed with the steps outlined below to implement the new capacity charges. This will provide documentation of the study and the basis for adopting the new capacity charges.
- **Implement New Water and Sewer Capacity Charges:** Based on the analysis presented in this report, the District's Board of Directors should implement the new capacity charge of \$8,667 per 1-inch water meter equivalent unit and \$7,551 per sewer EDU recommended in this report.
- **Annually Review Rates, Charges and Revenue:** Any time an Agency adopts new rates and charges, they should be periodically reviewed — even more so when new capital facilities are planned, and/or significant repair and replacements projects are undertaken. This will help ensure the revenue generated is enough to cover the cost of capital projects, the fiscal health of the District is maintained, and future customers bear their fair share of infrastructure costs.

B. PRINCIPAL ASSUMPTIONS AND CONSIDERATIONS

In preparing this report and the recommendations included herein, NBS has relied on a number of principal assumptions and considerations regarding financial matters, number of customer accounts, conditions and events that may occur in the future. This information and assumptions, including the District's asset records, financial information and customer billing data (provided by District staff), were provided by sources we believe to be reliable, although NBS has not independently verified this data.

While we believe NBS' use of such information and assumptions is reasonable for the purpose of this Study and its recommendations, some assumptions will invariably not materialize as stated herein or may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

APPENDIX A: TABLES FROM THE WATER CAPACITY CHARGE STUDY

Mission Hills Community Services District
 Water Capacity Charge Analysis
 Demographic Data and Projections

TABLE 1
 Existing Meter Equivalent Units

Meter Size	Existing Water Meters ¹	Meter Equivalence		Existing 1" Meter Equivalent Units
		Maximum Flow (gpm) ²	Equivalency to 1" Meter Size	
3/4 Inch	856	30	0.60	514
1 Inch	403	50	1.00	403
1 1/2 Inch	2	100	2.00	4
2 Inch	5	160	3.20	16
3 Inch	1	320	6.40	6
4 Inch	2	500	10.00	20
Total	1,269			963

1. Source: *Summary of Customer Information.xlsx*.

2. Source: *AWWA M1, Table B-1*. Assumes displacement meters for 5/8" - 2" and Compound Class I for 3" - 4".

Mission Hills Community Services District
Water Capacity Charge Analysis
Demographic Data and Projections

TABLE 2
Proposed New Developments

Project ¹	Number of Units	Number of Commercial Facilities	Estimated Year of Construction	Water Duty Factor (gpd/Unit)	Total Water Usage (Gallons/ Day)	Future Equivalent 1" Meter Units ²
Summit Views	44	0	2019	330	14,520	44
Burton Ranch Multi-Family Residence	100	0	2020	233	23,250	70
Burton Ranch Single Family Residence- Phase 1	55	0	2021	330	18,150	55
Burton Ranch Single Family Residence- Phase 2	210	0	2022	330	69,300	210
Burton Ranch Single Family Residence- Phase 3	74	0	2023	330	24,420	74
Supportive Housing Units	70	0	2019	233	16,275	49
Supportive Housing Commercial Kitchen (4,900 SF)	0	1	2019	1,400 gpd/acre	785	2
Lots for Future Single Family Residences	30	0	2023	330	9,900	30
Total	583	1			176,600	535

1. Source: *Mission Hills EDU Revision 5.21.18.pdf*

2. Total Water Use (Gallons/Day) divided by 330 gallons/day (estimated usage per single-family home).

TABLE 3
Existing and Projected Service Numbers

Demographic Statistics	Current Customers	Anticipated Future Connections ¹	Estimated Total Customers	Allocation %		
				Current Customers	Future Customers	Total
Equivalent Single-Family Homes	963	535	1,498	64.3%	35.7%	100.0%

1. Customer growth is based on flow projections provided by District staff. Source: *Mission Hills EDU Revision 5.21.18.pdf*.

Mission Hills Community Services District
Water Capacity Charge Analysis
Existing Capital Facilities and Equipment for Consideration (System Buy-In)

TABLE 4
Existing Assets

Asset Category ¹	Original Values ¹		Asset Cost Less Depreciation	System Buy-In Cost Basis ²	System Buy In Cost Basis w/ General Assets ³
	Asset Cost	Depreciation to Date			
Building	\$ 206,544	\$ 203,740	\$ 2,804	\$ 5,801	\$ 5,801
Filtration	467,808	370,847	96,961	130,106	130,106
General	442,000	321,664	120,336	183,939	91,583
Hydrants	206,384	150,467	55,916	133,474	133,474
Land	59,241	-	59,241	59,241	59,241
Mains	1,925,836	769,079	1,156,757	2,692,228	2,692,228
Meter	217,256	121,197	96,059	107,304	107,304
Tank	689,449	431,302	258,146	1,308,166	1,308,166
Tools	104,868	82,302	22,567	29,269	29,269
Vehicles	61,702	37,825	23,877	24,664	24,664
Well	2,008,831	1,175,852	832,979	1,079,030	1,079,030
Total	\$ 6,389,920	\$ 3,664,276	\$ 2,725,644	\$ 5,753,222	\$ 5,660,867

1. Source: Fixed Asset Template (NBS).xlsx.

2. System Buy-In cost basis is calculated as replacement value less accumulated depreciation. Replacement values are calculated by escalating the original values (from District's fixed asset report) from service date to 2018 values using historical cost inflation. Original cost is used for land value.

3. General assets are shared with sewer. Per District direction, Water owns 49.79% of these assets, the remaining 50.21% is the sewer's share of these assets. The Water Utility's share of these assets are shown here as the Total System Buy-In Cost Basis.

Mission Hills Community Services District
Water Capacity Charge Analysis
Existing Capital Facilities and Equipment for Consideration (System Buy-In)

TABLE 5
Existing Assets (cont.)

Asset Category	Total System Buy-In Cost Basis	Allocation Basis (%)			Distribution of Cost Basis (\$)		
		Exclude from Analysis	Current Customers	Future Customers	Exclude from Analysis	Current Customers	Future Customers
Building	\$ 5,801	0.0%	64.3%	35.7%	\$ -	\$ 3,729	\$ 2,072
Filtration	130,106	0.0%	64.3%	35.7%	-	83,631	46,475
General	91,583	0.0%	64.3%	35.7%	-	58,869	32,714
Hydrants	133,474	0.0%	64.3%	35.7%	-	85,796	47,678
Land	59,241	0.0%	64.3%	35.7%	-	38,080	21,161
Mains	2,692,228	0.0%	64.3%	35.7%	-	1,730,543	961,685
Meter	107,304	0.0%	100.0%	0.0%	-	107,304	-
Tank	1,308,166	0.0%	64.3%	35.7%	-	840,879	467,287
Tools	29,269	0.0%	64.3%	35.7%	-	18,814	10,455
Vehicles	24,664	0.0%	64.3%	35.7%	-	15,854	8,810
Well	1,079,030	0.0%	64.3%	35.7%	-	693,592	385,438
Total	\$ 5,660,867	0.0%	65.0%	35.0%	\$ -	\$ 3,677,091	\$ 1,983,776

Mission Hills Community Services District
Water Capacity Charge Analysis
Allocation of Cash Reserves

TABLE 6
Allocation of Cash Reserves to Current and Future Customers

Cash Reserves	Beginning Cash ¹	% Allocation		\$ - Allocation	
		Current Customers	Future Customers	Current Customers	Future Customers
Operating Reserve	\$ 184,013	64.3%	35.7%	\$ 118,282	\$ 65,731
Capital Replacement Reserve	1,129,627	64.3%	35.7%	726,116	403,512
Capital Contingency	308,500	64.3%	35.7%	198,301	110,199
Total Beginning Cash	\$ 1,622,141	64.3%	35.7%	\$ 1,042,699	\$ 579,441

1. Beginning cash balances at 3.31.18. Source: *Mission Hills CSD Cash Balances 3.31.18.xlsx*.

Mission Hills Community Services District
Water Capacity Charge Analysis
Water Planned Capital Facilities and Equipment for Consideration (System Development)

TABLE 7
Allocation of Future Projects to Current and Future Customers

Facility / Equipment ^{1,2}	System Development Cost Basis ¹	% Allocation ²		Distribution of Cost Basis (\$)	
		Current Customers	Future Customers	Current Customers	Future Customers
Distribution					
Valve Replacement Project	\$ 100,000	64.3%	35.7%	\$ 64,279	\$ 35,721
Upgrade Cla-Vals - Pressure Reducing Stations	120,000	64.3%	35.7%	77,135	42,865
Meter Replacement Program ³	35,000	100.0%	0.0%	35,000	-
Water Main Replacement	125,000	64.3%	35.7%	80,349	44,651
Equipment					
Backup Generator	400,000	64.3%	35.7%	257,117	142,883
Replace Dump Truck	50,000	64.3%	35.7%	32,140	17,860
Replace Vehicle #2 08 F-150	40,000	64.3%	35.7%	25,712	14,288
Replace Vehicle #1 (50% share)	12,500	64.3%	35.7%	8,035	4,465
Replace Electric Gate	7,000	64.3%	35.7%	4,500	2,500
Storage					
Rehabilitate Reservoir Tanks 1 & 2	325,000	64.3%	35.7%	208,907	116,093
Reservoir	500,000	0.0%	100.0%	-	500,000
Treatment					
Water Treatment Plant	500,000	0.0%	100.0%	-	500,000
Wells & Pumping					
New Well Installation - #8	1,500,000	64.3%	35.7%	964,188	535,812
Replace or Rebuild Waukesha Engine	150,000	64.3%	35.7%	96,419	53,581
Well #6 Rehabilitation	60,000	64.3%	35.7%	38,568	21,432
Well #7 Rehabilitation	60,000	64.3%	35.7%	38,568	21,432
Well #5 Rehabilitation	60,000	64.3%	35.7%	38,568	21,432
Total	\$ 4,044,500	48.7%	51.3%	\$ 1,969,483	\$ 2,075,017

1. FY 2018/19 - FY 2022/23 Capital projects are per source file: *Capital Improvement Plan v2 August 2018.xlsx* and Email from District sent September 4, 2018 and September 6, 2018. Updates provided by District January 7, 2019.
2. Most project costs are allocated to current and future customers based on projected growth in the system. See Demographics tab for detail. Storage Reservoir and Water Treatment Plant are allocated 100% to future customers. These projects will only serve future customers.
3. Meter replacement projects are excluded because they are for current customers.

Mission Hills Community Services District
Water Capacity Charge Analysis
Unit Cost Calculation

TABLE 8
Total Cost Basis for Capacity Charge Development

System Asset Values Allocated to Future Customers	
<i>System Asset Values Allocated to Future Customers</i>	
Existing System Buy-In ¹	\$ 1,983,776
Future System Development ²	2,075,017
Total: Existing & Future System Costs	\$ 4,058,793
<i>Adjustments to Cost Basis Allocated to Future Customers:</i>	
Cash Reserves ³	\$ 579,441
Outstanding Long-Term Debt (Principal)	-
Total: Adjustments to Cost Basis	\$ 579,441
Total Adjusted Cost Basis for Future Customers	\$ 4,638,235

TABLE 9
Development of Base Water Capacity Charge

Summary of Maximum Base Capacity Charge Calculation	Adjusted System Cost Basis	Future 1" Meter Equivalent Units ⁴	Maximum Base Capacity Charge
Maximum Water Capacity Charge Per SFR Equivalent Unit (1" meter)	\$ 4,638,235	535	\$ 8,667

1. Refer to Table 4 and Table 5, Existing Assets.
2. Refer to Table 7, Allocation of Future Projects to Current and Future Customers.
3. Refer to Table 6, Allocation of Cash Reserves to Current and Future Customers.
4. Refer to Table 3, Total Existing and Projected Service Numbers. 1-Inch meters will be the base meter size going forward.

Mission Hills Community Services District
Water Capacity Charge Analysis
Water Fee Classification and Calculation of Maximum Fee

TABLE 10
Development of the Maximum Capacity Charge for All Meter Sizes

Meter Size	Equivalency Factor		Maximum Unit Cost (Base Meter Size/1-inch)	Capacity Charge Per Meter
	Maximum Continuous Flow (gpm) ¹	Equivalency to 1-inch meter		
1 inch	50	1.00	\$8,667	\$8,667
1 1/2 inch	100	2.00	\$8,667	\$17,334
2 inch	160	3.20	\$8,667	\$27,735
3 inch	320	6.40	\$8,667	\$55,470
4 inch	500	10.00	\$8,667	\$86,671
6 inch	1,000	20.00	\$8,667	\$173,343
8 inch	2,800	56.00	\$8,667	\$485,360

1. Source: AWWA M1, Table B-2. Assumes displacement meters for 5/8" through 2", Compound Class I for 3" through 6" and Turbine Type, Class II for 8" meter.

APPENDIX B: TABLES FROM THE SEWER CAPACITY CHARGE STUDY

Mission Hills Community Services District
Sewer Capacity Charge Analysis
Demographic Data and Projections

TABLE 1
Existing Customers

Customer Class ¹	Number of SFR Homes	Number of Commercial Facilities	Wastewater Duty Factor (gpd/unit) ²	Total Wastewater (Gallons/Day)	Number of Wastewater r EDUs
Existing Single Family Homes	1,262	0	220	278,080	1,264
Existing Commercial Facilities	0	7	155	1,085	7
Total	1,262	7		279,165	1,271

1. Source: *Mission Hills EDU Revision 5.21.18.pdf*

2. The Duty Factor is the estimated sewer flow each type of customer contributes to the sewer system.

TABLE 2
Proposed Development Projects

Project ¹	Number of Single Family Homes	Number of Commercial Facilities	Wastewater Duty Factor (gpd/unit)	Total Wastewater (Gallons/Day)	Future Sewer EDUs ²	Estimated Year of Construction
Summit Views	44	-	220	9,680	44	2019
Burton Ranch						
<i>Multi-Family Residence</i>	100	-	155	15,500	70	2020
<i>Single Family Residence- Phase 1</i>	55	-	220	12,100	55	2021
<i>Single Family Residence- Phase 2</i>	210	-	220	46,200	210	2022
<i>Single Family Residence- Phase 3</i>	74	-	220	16,280	74	2023
Supportive Housing Units	70	-	155	10,850	49	2019
Supportive Housing Commercial Kitchen (4,900 SF)	-	1	1400 gpd/acre	157	1	2019
Lots for Future Single Family Residences	30	-	220	6,600	30	2023
Total	583	1		117,367	534	

1. Source: *Mission Hills EDU Revision 5.21.18.pdf*

2. One Equivalent Dwelling Unit (EDU) is equal to 220 gpd of sewer flow.

Mission Hills Community Services District
Sewer Capacity Charge Analysis
Demographic Data and Projections

TABLE 3
Current and Future Customers

Demographic Statistics	Existing vs. Future Connections			Existing vs. Future Connections (%)		
	Current Customers ¹	Future Customers ²	Total	Current Customers	Future Customers	Total
Connections In Equivalent Dwelling Units (EDU's)	1,271	534	1,805	70.4%	29.6%	100.0%

1. Based on calculation in Table 3.

2. Source: *Mission Hills CSD Project Estimates.pdf*

Mission Hills Community Services District
Sewer Capacity Charge Analysis
Existing Capital Facilities and Equipment for Consideration (System Buy-In)

TABLE 4
Existing Assets

Asset Category ¹	Original Values ¹		Asset Cost Less Depreciation	System Buy-In Cost Basis ²	System Buy In Cost Basis w/ General Assets ³
	Asset Cost	Depreciation to Date			
Building	\$ 280,105	\$ 225,271	\$ 54,834	\$ 130,973	\$ 130,973
General	442,000	321,664	120,336	183,939	92,356
Land	270,785	-	270,785	270,785	270,785
Large Equipment	2,673,544	779,586	1,893,957	2,714,032	2,714,032
Main	2,257,126	786,008	1,471,118	2,461,341	2,461,341
Small Equipment	28,554	25,464	3,091	3,312	3,312
Vehicle	89,039	80,294	8,746	12,184	12,184
Total	\$ 6,041,153	\$ 2,218,286	\$ 3,822,867	\$ 5,776,567	\$ 5,684,984

1. Source: *Fixed Asset Template (NBS).xlsx*.

2. System Buy-In Cost basis is calculated as replication value less accumulated depreciation. Replacement values are calculated by escalating the original values (from District's fixed asset report) from service date to 2018 values using historical cost inflation. Original cost is used for land values.

3. General assets are shared with sewer. Per District direction, Water owns 49.79% of these assets, Sewer owns 50.21% of these assets. The Sewer Utility's share of these assets is shown here as the Total System Buy-In

Mission Hills Community Services District
Sewer Capacity Charge Analysis
Existing Capital Facilities and Equipment for Consideration (System Buy-In)
Cost Basis.

TABLE 5
Existing Assets (cont.)

Asset Category	Total System Buy-In Cost Basis	Allocation Basis (%)			Distribution of Cost Basis (\$)		
		Exclude from Analysis	Current Customers	Future Customers	Exclude from Analysis	Current Customers	Future Customers
Building	\$ 130,973	0.0%	70.4%	29.6%	\$ -	\$ 92,237	\$ 38,736
General	92,356	0.0%	70.4%	29.6%	-	65,041	27,315
Land	270,785	0.0%	70.4%	29.6%	-	190,699	80,086
Large Equipment	2,714,032	0.0%	70.4%	29.6%	-	1,911,340	802,692
Main	2,461,341	0.0%	70.4%	29.6%	-	1,733,384	727,957
Small Equipment	3,312	0.0%	70.4%	29.6%	-	2,332	979
Vehicle	12,184	0.0%	70.4%	29.6%	-	8,581	3,604
Total	\$ 5,684,984	0.0%	70.4%	29.6%	\$ -	\$ 4,003,615	\$ 1,681,369

Mission Hills Community Services District
Sewer Capacity Charge Analysis
Allocation of Cash Reserves

TABLE 6
Allocation of Cash Reserves to Current and Future Customers

Cash Reserves	Beginning Cash ¹	% Allocation		\$ - Allocation	
		Current Customers	Future Customers	Current Customers	Future Customers
Operating Reserve	\$ 185,565	70.4%	29.6%	\$ 130,683	\$ 54,882
Capital Replacement Reserve	398,896	70.4%	29.6%	280,920	117,976
Capital Contingency	295,567	70.4%	29.6%	208,151	87,416
Total Beginning Cash	\$ 880,029	70.4%	29.6%	\$ 619,755	\$ 260,274

1. Beginning cash balances at 3.31.18. Source: Mission Hills CSD Cash Balances 3.31.18.xlsx.

Mission Hills Community Services District
Sewer Capacity Charge Analysis
Planned Capital Facilities and Equipment for Consideration (System Development)

TABLE 7
Planned Capital Projects

Facility / Equipment ¹	System Development Cost Basis ¹	% Allocation ²		Current Customers	Future Customers
		Current Customers	Future Customers		
Collections					
Collection System Replacement (Slip Lining)	\$ 375,000	70.4%	29.6%	\$ 264,091	\$ 110,909
Equipment					
Replace Vehicle #3	40,000	70.4%	29.6%	28,170	11,830
Replace Vehicle #4	40,000	70.4%	29.6%	28,170	11,830
Replace Vehicle #1 (50% share)	12,500	70.4%	29.6%	8,803	3,697
Lift Station					
Lift Station Upgrades (limited scope)	70,000	70.4%	29.6%	49,297	20,703
Wastewater SCADA Install	35,000	70.4%	29.6%	24,649	10,351
Property Acquisition	195,900	70.4%	29.6%	137,961	57,939
Backup Generator	200,000	70.4%	29.6%	140,849	59,151
Sewer Treatment					
Pond Valve Replacement	160,000	70.4%	29.6%	112,679	47,321
Aeration System Replacement	250,000	70.4%	29.6%	176,061	73,939
Pond Rehabilitation	600,000	70.4%	29.6%	422,546	177,454
Aeration System - Developments	250,000	0.0%	100.0%	-	250,000
Treatment Capacity - Pond 3 Liner	500,000	0.0%	100.0%	-	500,000
New Wastewater Treatment System ³	1,060,000	70.4%	29.6%	746,498	313,502
New Wastewater Treatment System - Addtl. Loads ³	440,000	0.0%	100.0%	-	440,000
Total	\$ 4,228,400	50.6%	49.4%	\$ 2,139,774	\$ 2,088,626

1. FY 2018/19 - FY 2022/23 Capital projects are per source file: Capital Improvement Plan v2 August 2018.xlsx and Emails from District on 9/4/2018, 9/6/2018, 1/7/2019, 1/22/2019 and 2/4/2019.
2. Most project costs are allocated to current and future customers based on projected growth in the system. See Demographics tab for detail. Sewer Treatment Projects Additional Aeration- Development, Treatment Capacity- Pond 3 Liner, WDR Compliance- Additional Loads are allocated 100% to future customers. These projects will only serve future customers.
3. The Wastewater Treatment Upgrade Projects are for a new wastewater treatment system.

Mission Hills Community Services District
Sewer Capacity Charge Analysis
Unit Cost Calculation

TABLE 8
Development of Cost Basis for Future Customers

System Asset Values Allocated to Future Customers	
Existing and Future System Costs	
Existing System Buy-In ¹	\$ 1,681,369
Future System Development ²	2,088,626
Total: Existing & Future System Costs	\$ 3,769,995
Adjustments to Cost Basis	
Cash Reserves ³	\$ 260,274
Outstanding Long-Term Debt (Principal) Allocated to Future Users	-
Total: Adjustments to Cost Basis	\$ 260,274
Total: Cost Basis for Future Customers	\$ 4,030,269

TABLE 9
Development of Sewer Capacity Charge Per EDU

Capacity Charge Development	
Cost Basis for Future Customers	\$ 4,030,269
Projected Customer Growth (in EDU's) ⁴	534
Calculated Sewer Capacity Charge Per EDU	\$ 7,551

1. Refer to TABLE 4 and TABLE 5 Existing Assets
2. Refer to TABLE 7 Planned Capital Projects
3. Refer to TABLE 6 Allocation of Cash Reserves to Current and Future Customers
4. Refer to TABLE 3 Current and Future Customers

Mission Hills Community Services District
Sewer Capacity Charge Analysis
Water Charge Classification and Calculation of Maximum Charge

TABLE 10
Sewer Capacity Charge

Sewer Capacity Charge Per EDU	\$7,551
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* One (1) EDU is a Single Family Residential unit.

TABLE 11
Per EDU Charge Breakdown

Calculation Factor	\$/EDU	Flow (gpd) ²	BOD (mg/l) ³	TSS (mg/l) ³
Capacity Charge (\$/EDU)	\$ 7,551			
Standard EDU (per SFR)	--	220 gpd	250 Mg/l	250 Mg/l
Proportional EDU's ¹	1.00	0.60	0.20	0.20
Charge/Constituent	\$ 7,551	\$ 4,530	\$ 1,510	\$ 1,510
Total Capacity Charge per EDU			\$7,551	

1. Proportional EDU breakdown assumes 60% Flow, 20% BOD and 20% TSS.

2. Flow is based on estimate from city. Source: *Mission Hills CSD Project Estimates.pdf*

3. Residential Standard Classification, Source: SWRCB Revenue Program Guidelines, Appendix G.

Mission Hills Community Services District
Sewer Capacity Charge Analysis
Water Charge Classification and Calculation of Maximum Charge

TABLE 12
Calculation of Capacity Charge for Non-SFR Customers

Calculation Factor		\$/EDU	Flow (gpd)	BOD (mg/l)	TSS (mg/l)
Capacity Charge (\$/EDU) ¹	A	\$ 7,551			
Standard EDU (per SFR) ²	B	220 gpd	220 gpd	250 Mg/l	250 Mg/l
Non-SFR Effluent Values ³	C	--	220 gpd	250 Mg/l	250 Mg/l
Single-Constituent EDU (= C / B)	D	--	1.00	1.00	1.00
Proportional EDU's ⁴	E	1.00	0.60	0.20	0.20
Non-SFR EDU's (= D * E * D (flow EDU)) ⁵	F	--	0.60	0.20	0.20
Total EDU's ⁶		--		1.00	
Charge/Constituent (= F * A)		--	\$4,530.32	\$1,510.11	\$1,510.11
Total Non-SFR Capacity Charge (Per EDU) ⁷				\$7,551	

1. Capacity Charge per EDU.
2. Standard flow and strength values per EDU. This determines the relationship of the connecting customer to a standard EDU.
3. Non-SFR Effluent flow and strength values are inputs that will be determined for connecting customers based on the Revenue Program Guidelines of the State Water Resources Control Board, March 1998 Edition.
4. Proportion of each constituent to an EDU factor. Standard proportion of 60% Flow, 20% BOD and 20% TSS is assumed.
5. Determination of the EDU's calculated for each constituent.
6. Total EDU's is the sum of the EDU's for each constituent, shown in the row above.
7. Total Charge is the sum of the Charge for each constituent, shown in the row above (rounded to nearest whole dollar.)



MISSION HILLS COMMUNITY SERVICES DISTRICT

MEMORANDUM

TO: Board of Directors

FROM: Loch A Dreizler, General Manager
Casey Fowler, Administrative Assistant

DATE: February 20, 2019

SUBJECT: Ordinance Introduction Water and Wastewater Facility Development Agreement with Summit View Homes, LLC

Recommendation / Proposed Motion

- Recommendation: Introduction Ordinance No. 19-84, approving water and wastewater facility development agreement with Summit View Homes, LLC

Policy Reference

- Public Utilities Code - DIVISION 6. CHAPTER 3. ARTICLE 5. 11910.
 - (a) No ordinance shall be passed by the board within five days of the day of its introduction or at any time other than a regular or adjourned regular meeting. All ordinances or summaries of ordinances shall be published after passage.
- The Board President shall introduce the Ordinance to begin the public noticing process

Budget Resource

none

Alternatives Considered

none

Background

On November 14, 2019, The Board of Directors approved the following motions with 5-0 votes:

1. Development costs included in the attached Development Agreement.
2. That authorized the General Manager to approve the Development Agreement for McCarthy Companies / Summit View Homes after the Development

Agreement has been approved by Mission Hills CSD legal counsel to include an 18-month expiration date on established rates.

3. Approved modifications to the Water Conservation Retrofit/Rebate Program

Discussion

McCarthy / Summit View Homes' legal counsel preferred an ordinance approving the water and wastewater facility development agreement with Summit View Homes, LLC

Date of Ordinance

- Board President introduce the Ordinance at the February 20, 2019, regular meeting
- Board of Directors approve the Ordinance at the March 20, 2019, regular meeting
- Publication of Ordinance summary within 1 day after approval
- The ordinance will not take effect until 30 days after approval (April 20, 2019)

Attachment(s):

1. Ordinance No. 19-84
2. DRAFT Development Agreement, FINAL distributed at the board meeting.

ORDINANCE NO. 19-84

AN ORDINANCE OF MISSION HILLS COMMUNITY SERVICES DISTRICT APPROVING A WATER AND WASTEWATER FACILITY DEVELOPMENT AGREEMENT

WHEREAS, the Mission Hills Community Services District ("District") was established pursuant to Government Code sections 61000 et seq. to provide water and wastewater services to properties within its boundaries; and

WHEREAS, Summit View Homes, LLC ("Developer") is the owner of real property in Santa Barbara County, identified as Assessor's Parcel Number 097-250-034 ("Property"); and

WHEREAS, although the Property is located in the City of Lompoc, the Santa Barbara County Local Agency Formation Commission determined that the District would provide water and wastewater services to the Property; and

WHEREAS, the Developer and District desire to facilitate the construction of a residential development on the Property; and

WHEREAS, the Water and Wastewater Facility Development Agreement attached hereto as Exhibit "A" and incorporated herein by reference is intended to provide an enhanced degree of certainty in the utility development process for both the Developer and the District.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE MISSION HILLS COMMUNITY SERVICES DISTRICT DOES ORDAIN AS FOLLOWS:

SECTION ONE: The above recitals and findings are true and correct and are incorporated herein by this reference.

SECTION TWO: The Board of Directors hereby approves and authorizes the Board President to execute the Water and Wastewater Facility Development Agreement with Summit View Homes, LLC as set forth in Exhibit A.

SECTION THREE: A summary of this Ordinance shall be published in a newspaper published and circulated in the District at least five (5) days prior to the Board of Directors meeting at which the proposed Ordinance is to be adopted. A copy of the full text of the proposed Ordinance shall be posted in the office of the District. Within fifteen (15) days after adoption of the Ordinance, the summary with the names of those Board members voting for and against the Ordinance shall be published again, and the District shall post a copy of the full text of such adopted Ordinance for one week.

SECTION FOUR: This Ordinance shall take effect and be in full force and effect thirty (30) days after its passage.

SECTION FIVE: If any section, subsection, sentence, clause, or phrase of this Ordinance is for any reason held to be invalid or unconstitutional by a decision of any court of competent jurisdiction, such decision shall not affect the validity of the remaining portions of this Ordinance. The Board of Directors hereby declares that it would have passed this Ordinance and each and every section, subsection, sentence, clause, or phrase not declared invalid or unconstitutional without regard to whether any portion of this Ordinance would be subsequently declaration invalid or unconstitutional.

Introduced at a meeting on February 20, 2019 and passed and adopted by the Board of Directors of the Mission Hills Community Services District on _____ by the following roll call vote:

On motion of Director _____, seconded by Director _____, and on the following roll call vote, to wit:

AYES: Directors

NAYS:

ABSENT:

Walter Fasold, Board President

ATTEST:

Casey Fowler, District Secretary

APPROVED AS TO FORM:

Timothy Carmel, District Counsel



MISSION HILLS COMMUNITY SERVICES DISTRICT

WATER AND WASTEWATER FACILITY DEVELOPMENT AGREEMENT

between

Mission Hills Community Services District

and

Summit View Homes, LLC, Developer of the
Summit View Homes Residential Project

Through this Development Agreement ("Agreement"), Mission Hills Community Services District ("MHCS D") agrees to provide water and wastewater utility services to the Summit View Homes Residential Project (the "Project") proposed by Summit View Homes, LLC, and its successors and assigns ("Developer") as permitted by the County of Santa Barbara within the MHCS D boundaries and service area. Said water and wastewater utility services are to be provided as conditioned and agreed by the parties as set forth below, and subject to the MHCS D rules and regulations and Developer's payment of MHCS D's water and wastewater connection fees as set forth below.

RECITALS

1. Name(s) of developer and/or project sponsor(s), and owner(s) of subject property: Summit View Homes, LLC (Pat McCarthy, President).

2. Assessor's parcel number(s) of subject property: Santa Barbara County APN: 097-250-034 (the "Property").

3. Type and purpose of Project: A residential development.

4. Narrative and/or graphic description of the Project: A residential development consisting of 44 single-family homes, a retention basin, and an open space lot more particularly described in the Project permitting actions of the City of Lompoc City Council hearing of July 19, 2016 for the Summit View Estates Vesting Tentative Tract Map, LOM 594.

NOW THEREFORE, for valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

I. TECHNICAL CONDITIONS

A. Water System Design and Construction: Developer's proposed water distribution system

layout has been approved by MHCSO based upon its review of Preliminary Tentative Tract Map ("TM") 14,629. Developer shall submit Project plans to MHCSO that have been prepared by a California Registered Professional Engineer and approved by the City of Lompoc for the final water system layout, including mains and laterals, and construction details, which shall comply with American Water Works Association (AWWA) potable water system standards and MHCSO Standards, whichever is more stringent.

B. Pressure Study and Water Distribution System Modification: The MHCSO standard is to maintain normal water operating pressures between 40 pounds per square inch (psi) and 120 psi. However, MHCSO is developing a water pressure study, and construction drawings for any water distribution system modifications resulting from the pressure study will likely be approved by MHCSO prior to installation of the first permanent water service meter for the Project. MHCSO will assure normal water operating pressures are 40 psi minimum after the study is completed. MHCSO will have sole discretion to approve and specify necessary modifications to the existing water distribution system. All costs associated with the pressure study and water distribution system modifications, including, but not limited to, the study itself and any project design, permitting, inspection and construction shall be the responsibility of MHCSO.

C. Water Conservation: Developer agrees to participate in the MHCSO In-Lieu of Water Conservation fee to ensure that the Project will minimize the impact on groundwater.

II. GENERAL CONDITIONS

A. STANDARDS FOR WATER AND/OR WASTEWATER SYSTEMS: Plans have been, or will be, designed and prepared, at no cost to the MHCSO, for the Project's on-site and off-site water and wastewater systems (the "Facilities"). Developer, at its sole cost and expense, agrees to accomplish the following:

- i. Construct the Facilities in conformance with the approved plans therefore; and
- ii. Obtain an encroachment permit from the Department of Public Works of the County of Santa Barbara and comply with all requirements thereof, including trench restoration and street resurfacing requirements for any portion of the Project situated within existing or proposed future public rights of way.

B. ACCEPTANCE OF PLANS AND SPECIFICATIONS: The completed Facilities plans as described above must be prepared in conformance with MHCSO Improvement Standards and requirements and must be approved and accepted by MHCSO's General Manager, which approval shall not be unreasonably withheld.

C. DRAWINGS: Developer shall provide MHCSO with one set of 24"x 36" reproducible "as built" digital drawings files in pdf, and one copy of the completed Project plans.

D. REVISION OF PLANS: Any changes in the accepted Facilities plans shall require written approval of Developer and MHCSO's General Manager.

E. RIGHTS OF WAY: Developer will provide to MHCS D, at no cost to MHCS D and in a form acceptable to MHCS D's General Manager and Legal Counsel, appropriate easements and rights of way for the operation, maintenance, repair, and replacement of all the Facilities not within existing public rights of way, public utility easements, and/or water and/or wastewater system easements.

F. CONSTRUCTION: Developer shall, at no cost to MHCS D, construct the Facilities pursuant to the accepted plans or any approved modifications thereof. Developer shall provide in any contract for construction of the Facilities that any contractor's materials supplier's guarantees thereunder, including a one (1) year warranty on the completed improvements, shall inure to the benefit of MHCS D after the works constructed thereunder have been conveyed to MHCS D as provided below. Developer shall also provide in any contract for construction of the Facilities that the contractor's public liability and property damage insurance shall be extended to cover Developer and MHCS D and their agents, officers and employees as additional insureds, with liability and bodily injury limits of not less than MHCS D's standard contractor insurance requirements.

G. PAYMENT OF PREVAILING WAGES: The State of California Attorney General has determined that the construction of facilities for provision of public utility services, with the understanding and agreement that such facilities will be turned over to a community services district for ownership, operation and maintenance at the end of construction, are subject to the prevailing wage laws of the State of California and all reporting requirements. Developer shall pay prevailing wages for the work to be performed in accordance with this Agreement, which obligation shall be continuing and shall bind the heirs, successors and assigns of Developer. MHCS D's obligation to operate and maintain the Facilities, and to provide water and wastewater service therethrough, shall be dependent upon Developer's continuing compliance with this provision.

H. INSPECTION OF CONSTRUCTION: MHCS D's General Manager, or his/her agent(s), shall inspect the construction of the Facilities to assure that they are installed in accordance with the accepted plans. Said inspection shall be funded by an inspection fee paid by Developer. Construction of the Facilities shall not commence until said inspection fee is paid. MHCS D's General Manager shall notify Developer of any deviation or failure to construct the Facilities pursuant to the accepted plans as soon as such deviation or failure is brought to his/her attention, and Developer shall promptly correct such deviation or failure.

I. CONVEYANCE: Within ninety (90) days after completion of construction of the Facilities in accordance with the accepted plans therefore and MHCS D's Improvement Standards:

- i. Developer shall convey title of the completed Facilities to MHCS D at no cost to MHCS D, free and clear of all liens and encumbrances, by appropriate conveying documents, acceptable in form and content to MHCS D's General Manager and Legal Counsel.
- ii. Developer shall provide MHCS D with one set of 24"x 36" reproducible "as built" drawings on matte mylar (5 mil minimum), electronic drawing files, and four copies of the

completed Project plans.

iii. Developer shall provide easements as specified above and the following special conditions:

1. MHCS D agrees to quitclaim existing easements held in MHCS D's name encumbering the Property in the form attached hereto as Exhibit B. Developer agrees to convey to MHCS D and record utility easements, in the form attached hereto as Exhibit C, for all existing and proposed water and wastewater lines, over and across all of the proposed streets as identified in TM 14,629, and in specified lots where water or wastewater lines exist or are proposed outside of the proposed streets. Said easements granted by the Developer shall be recorded prior to the conveyance of streets/public rights-of-way/common areas to the Project's homeowner's association (the "Homeowner's Association") and shall be first in right over any other easements, including roadway easements or public rights of way. Developer shall, at its own cost, provide to MHCS D a standard policy of title insurance (CLTA) for all the easements recorded by Developer. MHCS D shall record quitclaim deeds following recordation of Developer easements.
2. Developer further agrees to grant to MHCS D all rights to underground waters lying beneath the Property and all of the remainder of TM 14,629 for the purpose of producing water and to do so by conveying and recording a Grant Deed in the form attached hereto as Exhibit D. Said recording shall be accomplished prior to conveyance of streets/public rights-of-way/common areas to the Homeowner's Association.
3. Upon satisfaction of all conditions imposed by MHCS D herein, MHCS D shall accept conveyance of title of the completed Facilities, or phases thereof, by resolution and include them as part of its system and shall thereafter operate and maintain said system.

J. ACCOUNTING: Developer shall furnish an accounting, satisfactory to MHCS D in its reasonable discretion, of the amounts expended for the construction and installation of the Facilities, with values applicable to the various components of the work, together with a list of any other materials and equipment being transferred, and their corresponding values.

Developer shall furnish to MHCS D a bond, irrevocable letter of credit, cash deposit, or other form of surety meeting MHCS D's approval, in an amount equal to 25% of the cost of the Facilities, as estimated by Developer's engineer and approved by MHCS D's General Manager, protecting MHCS D against any failure of the Facilities due to natural phenomenon or catastrophe, faulty materials, poor workmanship, or defective equipment, within a period of one (1) year after acceptance of the Facilities by the MHCS D Board of Directors. Said surety shall name Developer as Principal and MHCS D as Obligee.

Developer agrees to reimburse MHCS D for any and all staff and consulting costs for engineering, legal, and administrative services in connection with study and investigation of the Facilities, plan review, inspection of construction, testing of improvements, and any other costs

incurred by MHCS D in the performance of its duties under this Agreement and otherwise in connection with providing water and wastewater service to the Project.

K. MHCS D SERVICES: Water service will be provided by MHCS D based on its available water supply. Wastewater service will be provided by MHCS D based on its available collection and treatment capacity. MHCS D shall not provide any services to the Project until MHCS D accepts the Facilities, which acceptance shall not be unreasonably withheld. Developer shall not allow any person to use or commence operation of any part of the Facilities prior to MHCS D's acceptance without the express written consent of MHCS D. Except for the connection fees and related charges set forth in Exhibit A attached hereto, water and wastewater utility services shall be supplied in accordance with applicable MHCS D rates, ordinances, rules, and regulations as the same may be amended from time-to-time.

L. DEVELOPER'S RESPONSIBILITIES AFTER CONVEYANCE: After MHCS D's acceptance of the Facilities or phases thereof, Developer shall have no obligation for the operation, maintenance, repair or replacement thereof.

M. APPLICATION FOR WATER & SEWERAGE SERVICE: The Project's water and wastewater systems shall not be operated, other than for testing purposes, until the Facilities are conveyed to MHCS D and formally accepted by MHCS D as specified above and proper applications for service have been filed with MHCS D and accepted.

N. OBLIGATION FOR PIPELINE AND/OR FACILITIES: MHCS D shall be under no obligation to provide additional facilities in order to serve the Project. Upon acceptance of the Facilities by MHCS D, it shall become the sole property of MHCS D and shall be used and operated at MHCS D's sole discretion.

O. RATES AND CHARGES FOR SERVICE: Except for those connection fees and related charges specified in Exhibit A attached hereto and incorporated in full herein by this reference, all other services made available by MHCS D to users within the Project shall be at the established rates and charges as fixed by MHCS D's Board of Directors from time to time. MHCS D acknowledges and agrees that MHCS D intends to be bound by the connection fees and related charges set forth in Exhibit A for a period of eighteen months following the execution of this Agreement, and notwithstanding any subsequent MHCS D ordinance adopted during that eighteen-month period establishing different connection fees and related charges for MHCS D users, MHCS D shall impose on Developer only such agreed upon connection fees and related charges. Any MHCS D ordinance enacted prior to the expiration of that eighteen-month period subsequent to the execution of this Agreement which changes MHCS D connection fees and related charges shall include a provision explicitly excluding the Project from such fees and charges until expiration of the eighteen-month period, and shall specifically reference this Agreement and its adopting ordinance. Developer shall have the option, prior to the expiration of the aforementioned eighteen-month period, to prepay for the connection fees at the rates set forth in Exhibit A.

P. ADOPTION BY ORDINANCE: The MHCS D Board of Directors has approved this Agreement pursuant to Ordinance No. _____ and authorized its execution by the Board President.

III. RISK TRANSFER REQUIREMENTS

To allocate risks equitably between both parties and to place responsibility for risks on the entity controlling the risk, the parties agree as follows:

A. Hold Harmless: MHCSD is not, by inspection of the construction or installation of the Facilities, representing Developer or providing a substitute for inspection and control of such work by Developer. Any inspections and observations of the Facilities by MHCSD are for the sole purpose of providing notice of the stage and character of such work. Any failure of MHCSD to note variances in the Facilities from the plans does not excuse or exempt Developer from complying with all terms of the plans. The fact that MHCSD inspects the construction of the Facilities and fails to notify Developer of deviations or failures to construct the Facilities pursuant to the accepted plans shall not be deemed to constitute a guarantee by MHCSD that the Facilities have been built in accordance with the accepted plans. During construction and prior to conveyance thereof to MHCSD and acceptance thereof by MHCSD, Developer shall hold harmless and indemnify MHCSD against all claims, demands and charges by third parties arising out of alleged deviations or failures to construct the Facilities pursuant to the accepted plans. Developer's obligations under this section are comprehensive, except for MHCSD's proven sole or active negligence or willful misconduct.

B. Minimum Scope and Limit of Insurance: Developer shall procure and maintain for the duration of this Agreement, and for X Years thereafter, insurance against any and all claims for injuries to persons or damages to property which may arise from, or in connection with, the performance of the work hereunder by Developer, its agents, representatives, employees, or subcontractors.

i. Coverage shall be at least as broad as:

- 1. Commercial General Liability (CGL):** Insurance Services Office (ISO) Form CG 00 01 covering CGL on an "occurrence" basis, including products and completed operations, property damage, bodily injury and personal & advertising injury with limits no less than **\$2,000,000** per occurrence. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location (ISO CG 25 03 or 25 04) or the general aggregate limit shall be twice the required occurrence limit.
- 2. Automobile Liability:** Insurance Services Office Form CA 0001 covering Code 1 (any auto), with limits no less than **\$1,000,000** per accident for bodily injury and property damage.
- 3. Workers' Compensation** insurance as required by the State of California, with Statutory Limits, and Employers' Liability insurance with a limit of no less than **\$1,000,000** per accident for bodily injury or disease.
- 4. Builder's Risk** (Course of Construction) insurance utilizing an "All Risk" (Special Perils) coverage form, with limits equal to the completed value of the project and no coinsurance penalty provisions.
- 5. Surety Bonds** as described below.

6. **Professional Liability** (if Design/Build), with limits no less than \$2,000,000 per occurrence or claim, and \$2,000,000 policy aggregate.

If Developer maintains broader coverage and/or higher limits than the minimums shown above, MHCSO requires and shall be entitled to the broader coverage and/or the higher limits maintained by Developer. Any available insurance proceeds in excess of the specified minimum limits of insurance and coverage shall be available to MHCSO.

- ii. **Self-Insured Retentions** Self-insured retentions must be declared to and approved by MHCSO. At the option of MHCSO, either: (i) Developer shall cause the insurer to reduce or eliminate such self-insured retentions with respect to MHCSO, its officers, officials, employees, and volunteers; or (ii) Developer shall provide a financial guarantee satisfactory to MHCSO ensuring payment of losses and related investigations, claim administration, and defense expenses. The policy language shall provide, or be endorsed to provide, that the self-insured retention may be satisfied by either the named insured or MHCSO.
- iii. **Other Insurance Provisions:** The insurance policies are to contain, or be endorsed to contain, the following provisions:
1. **MHCSO, its officers, officials, employees, and volunteers are to be covered as additional insureds** on the CGL policy with respect to liability arising out of work or operations performed by or on behalf of the Developer including materials, parts, or equipment furnished in connection with such work or operations and automobiles owned, leased, hired, or borrowed by or on behalf of Developer. General liability coverage can be provided in the form of an endorsement to Developer's insurance (at least as broad as ISO Form CG 20 10, CG 11 85 or both CG 20 10, CG 20 26, CG 20 33, or CG 20 38; and CG 20 37 forms if later revisions used).
 2. For any claims related to this project, **Developer's insurance coverage shall be primary** insurance coverage at least as broad as ISO CG 20 01 04 13 with respect to MHCSO, its officers, officials, employees, and volunteers. Any insurance or self-insurance maintained by MHCSO, its officers, officials, employees, or volunteers shall be in excess of Developer's insurance and shall not contribute with it.
 3. Each insurance policy required by this clause shall provide that coverage shall not be canceled, except with thirty (30) days written notice to MHCSO.

C. Builder's Risk (Course of Construction) Insurance: Developer may submit evidence of Builder's Risk insurance in the form of Course of Construction coverage. Such coverage shall name MHCSO as a loss payee as their interest may appear. If the Project does not involve new or major reconstruction, at the option of MHCSO, an Installation Floater may be acceptable. For such projects, a Property Installation Floater shall be obtained that provides for the improvement, remodel, modification, alteration, conversion or adjustment to existing buildings, structures, processes, machinery and equipment. The Property Installation Floater shall provide property damage coverage for any building, structure, machinery or equipment damaged,

impaired, broken, or destroyed during the performance of the Work, including during transit, installation, and testing at MHCS D's site.

D. Acceptability of Insurers: Insurance is to be placed with insurers authorized to conduct business in the State of California with a current A.M. Best rating of no less than A: VII, unless otherwise acceptable to MHCS D.

E. Waiver of Subrogation: Developer hereby agrees to waive rights of subrogation which any insurer of Developer may acquire from Developer by virtue of the payment of any loss. Developer agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation. The Workers' Compensation policy shall be endorsed with a waiver of subrogation in favor of MHCS D for all work performed by Developer, its employees, agents and subcontractors.

F. Verification of Coverage: Developer shall furnish MHCS D with original Certificates of Insurance, including all required amendatory endorsements (or copies of the applicable policy language effecting coverage required by this clause), and a copy of the Declarations and Endorsement Page of the CGL policy listing all policy endorsements before work begins. Failure to obtain the required insurance documents prior to beginning work on the Facilities shall not waive Developer's obligation to provide them. MHCS D reserves the right to require complete, certified copies of all compulsory insurance policies, including endorsements, at any time.

G. Subcontractors: Developer shall require and verify that all subcontractors maintain insurance meeting all requirements stated herein, and Developer shall ensure that MHCS D is an additional insured on insurance required from subcontractors. For CGL coverage, subcontractors shall provide coverage with a form at least as broad as CG 20 38 04 13.

H. Surety Bonds: Developer shall provide the following Surety Bonds:

- i. Bid Bond
- ii. Performance Bond
- iii. Payment Bond
- iv. Maintenance Bond

The Payment Bond and the Performance Bond shall be in a sum equal to the contract price. If the Performance Bond provides for a one-year warranty, a separate Maintenance Bond is not necessary. If the warranty period specified in the contract is for longer than one year, a Maintenance Bond equal to 10% of the contract price is required. Bonds shall be duly executed by a responsible corporate surety, authorized to issue such bonds in the State of California and secured through an authorized agent with an office in California.

I. Special Risks or Circumstances: MHCS D reserves the right to modify these requirements, including limits, based on the nature of the risk, prior experience, insurer, coverage, or other circumstances. Such modifications shall not be effective without the prior written agreement of Developer, which shall not be unreasonably withheld.

IV. MISCELLANEOUS

A. NOTICES: Notices or requests from any party to this Agreement to the remaining parties thereof shall be in writing and delivered or mailed, postage prepaid, to the following addresses:

If to MHCS D:

General Manager
Mission Hills Community Services District
1550 Burton Mesa Boulevard
Lompoc, California 93436

If to Developer:

Project Manager
Summit View Homes
Address
County, State, Zip

B. SUCCESSORS AND ASSIGNS: This Agreement shall run with the land and shall be binding upon and inure to the benefit of the successors and assigns of all parties. A Memorandum of this Agreement shall be duly recorded in the Official Records in the County of Santa Barbara.

C. MHCS D POWERS: Nothing herein contained shall be deemed to limit, restrict, or modify any right, duty, or obligation given, granted, or imposed upon MHCS D by the laws of the State of California now in effect, or hereafter adopted, nor to limit or restrict the power or authority of MHCS D, including the enactment of any rules, regulations, policies, resolutions or ordinances and in the event that any part of provisions contained in this Agreement or incorporated herein, are found to be illegal or unconstitutional by a court of competent jurisdiction, such findings shall not affect the remaining parts, portions, or provisions hereof.

D. ATTORNEYS' FEES: Should any party be required to institute legal action to either compel performance of this Agreement or recover damages for nonperformance, the prevailing party shall be entitled to reasonable attorneys' fees, cost of suit, and all other expenses of litigation incurred in connection therewith.

E. TERMINATION: This Agreement shall terminate and be of no further force and effect at MHCS D's discretion if MHCS D determines that construction of the Project has not commenced within twelve (12) months from the date of this Agreement, and Developer has not submitted the plans and specifications for acceptance as provided for above.

F. MODIFICATION: This Agreement may not be modified, amended, or terminated, nor may any term or provision hereof be waived or discharged, except in writing signed by the party against whom such amendment, modification, termination, waiver, or discharge is sought to be enforced.

G. ENTIRE AGREEMENT: This Agreement, including all exhibits attached hereto, contains the entire agreement of the parties hereto with respect to the matters covered thereby, and no other

agreement, statement or promise made by any party hereto or to any employee, officer or agent of any party hereto, which is not contained herein, shall be binding or valid. All prior or contemporaneous agreements or writings between or among the parties are specifically merged into this Agreement.

H. COUNTERPARTS: This Agreement may be executed in any number of counterparts, each of which is an original and all of which taken together form one single document.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the dates written below.

DATED: _____

DEVELOPER

SUMMIT HOMES, LLC,
a California limited liability corporation

By: _____

Name: _____

Title: Summit View Homes Representative

DATED: _____

MHCSD

MISSION HILLS COMMUNITY SERVICES
DISTRICT

By: _____

Name: _____

Title: Board President

By: _____

Name: _____

Title: Legal Counsel

By: _____

Name: _____

Title: Board Secretary

EXHIBIT A

CONNECTION FEES AND RELATED CHARGES

ASSIGNED FEES:

Capacity Charges

- MHCSD Ordinance #xxx-xxx
- Summit View Homes will pay the ¾" Meter rate, but MHCSD will install 1" Meters
- Water Capacity Charge for ¾" Meter \$8,294 each Single-Family Residence (44)
- Sewer Capacity Charge \$3,435 per unit each Single-Family Residence (44)

Current Published Rates		
	3/4" Meter	1" Meter
Water	\$ 8,294	\$ 10,369
Sewer	\$ 3,435	\$ 3,435
Capacity Charge	\$ 11,729	\$ 13,804
44	\$ 516,076	\$ 607,376

Planned Assets of NBS Study

- Reference the September 2018 Draft NBS Study for Capacity Charges
- Reference 8%
- Reference NBS 100%
- Reassesses Planned Assets

100% Planned Assets (NBS Study)	
New Reservoir	\$ 500,000
Water Treatment Plant	\$ 500,000
Additional Aeration	\$ 100,000
Line Pond #3	\$ 500,000
WDR Compliance	\$ 360,000
	\$ 1,960,000
Summit View Homes % of Build Out	8.0%
	\$ 156,800

Water Conservation Fee

- The current Ordinance #02-68 has a water conservation fee of \$310
- Modified Ordinance

Water Meter Install

- The district will set water meter(s) upon request, after the district has accepted improvements to be dedicated to the district, if applicable.

Inspection Fee:

- MHCSD will hire a Professional Engineer to inspect underground infrastructure at a cost of \$205 per Single-Family Residence to be paid by Summit View Homes.

Other Fees (Single Family Residence)			
Water Conservation	\$310	44	\$ 13,640
Water Meters Single Family	\$450	44	\$ 19,800
2" Water Meter - Irrigations	\$36,246	1	\$ 36,246
Inspections	\$205	44	\$ 9,020
Totals			\$ 78,706

Current Retainer:

- The current retainer as of 10.30.18 is \$5,500, however MHCSD may have incurred additional costs for plan check.

Total Fees	
Capacity Charges	\$516,076
100% Planned Assets	\$156,800
Other Fees	\$78,706
Totals	\$751,582

GENERAL CONDITIONS:**Pay Structure:**

- 25% of the planned assets, paid when permits are approved, and development agreement signed.
- Water Conservation Fees, Meter Install and Inspections, paid when permits are approved, and development agreement signed.
- Water and Wastewater Capacity Charges paid when a meter is installed.
- Balance of reassessed planned assets up to \$156,800. MHCSD to reassess planned assets by June 2019 with qualified estimates or based on a revised NBS Study. If the reassess goes down, the balance due will be reassessed.

Capacity Charge and Pay Structure				
25% current estimated planned assets	meters, inspection	capacity charges + conservation fee	reassessed planned assets up to \$156,800	Total
\$ 39,200	\$ 65,066	\$ 529,716	\$ 117,600	\$ 751,582
Paid when permits approved	Paid when permits approved	Paid per meter as installed	Paid 12 months after permits approved	

EXHIBIT B

QUIT CLAIM DEED

EXHIBIT C

EASEMENT DEED



EXHIBIT D

GRANT DEED