

City of Brea

COUNCIL COMMUNICATION

TO: Honorable Mayor and City Council Members
FROM: City Manager
DATE: 11/17/2015
SUBJECT: PROPOSED WATER RATE STRUCTURE

RECOMMENDATION

Update the City's water rates to include "Conservation Rates", maintain the City's existing four-tier residential water rate structure, adjust fixed meter charges, and set the public hearing in accordance with mandated notification requirements.

BACKGROUND/DISCUSSION

The City of Brea operates and maintains its own water distribution system and has a growing population of more than 43,300 residents. The water system has approximately 162 miles of potable water pipeline serving more than 13,000 customers and delivers approximately 10,700 acre-feet of water per year. Brea imports 100% of its wholesale treated water from the California Domestic Water Company - CDWC (70%) and the Municipal Water District of Orange County - MWDOC (30%). Staff has worked over a year with its water rate consultant, Raffelis Financial Consultants, Inc. (RFC), gathering consumption history, water purchases, maintenance costs, etc., to determine the appropriate rate structure for Brea.

This will be the fourth public discussion City Council has had regarding water rates. The first meeting was took place on May 5, 2015 followed by August 25, 2015 and October 3, 2015.

October 3rd Council Meeting

At the October 3rd Council Meeting, Council was presented proposed water rates which included "Conservation Rates." During this meeting, staff recommended that the City continue with its four-tiered blended supply rate structure. Council agreed with this recommendation, but requested that staff continue to explore the option of recovering additional fixed costs. The presented water rate model showed that approximately 14% of the water fund revenue comes from fixed charges and the balance is from water sales. In addition, Council requested the Multi-family residential rates, as well as the Greenbelt rates be further reviewed.

LifeLine Rates

As discussed previously, Brea currently offers its low income customers the opportunity to apply for the LifeLine discount. This discount is granted to customers

that provide documentation that they qualify for the Southern California Edison Discount (D-Care) or Southern California Gas Company's Care Discount. The 20% discount is applied on the fixed meter charge as well as the consumption charges at the first and second tiers.

There are approximately 500 customers who receive this reduced rate, which includes approximately 100 customers from Lake Park Brea and Crestmont Mobile Estates. These two customer classes are technically billed at the multi-family residential rate. However, the associations work with City staff to obtain a credit for their low income residents. The approximate FY 2014-15 subsidy for the Lifeline program was \$45,650; \$9,930 is the cost related to subsidized meter or fixed charges and \$35,720 was attributed to discounted water usage at the first and second tiers.

To date, the Affordable Housing Fund (270) has received sufficient loan repayments to cover this expense for two years with \$98,000 available for use. As additional loan repayments are made, staff recommends setting aside these payments to cover future LifeLine subsidies as we are recommending that the Affordable Housing Fund become the permanent funding source for this expenditure. If approved, an adjustment for this subsidy will be presented with the next round of quarterly budget adjustments and staff will continue to budget this expense annually to this fund.

It is at Council's discretion to continue or modify the LifeLine program. With water rates anticipated to increase, it can be assumed that the subsidy levels will continue to rise consistent with those rates. For instance if rates rise 10%, the annual subsidy level will rise 10% provided the number of LifeLine customers and their consumption levels remain the same.

One option for consideration is to modify the current Lifeline program and provide a reduction of the fixed rate and first tier of water consumption only. As previously mentioned, Brea currently provides a reduction of tier one and two water consumption. Should Council elect to modify the Lifeline program to subsidize consumption only in the first tier, it is estimated to reduce the subsidy by \$20,000 annually to an annual cost of approximately \$25,000

Capital Improvement Projects

As mentioned in the previous staff report and presentation, capital improvement projects have been identified for the purpose of this rate study. Projects identified include foreseeable water main replacements as well as technological and environmental improvements. Some of these projects have been identified in the Capital Improvement Program (CIP) Budget for future years, but money has not been appropriated. During project identification, staff evaluates the projects and determines which projects need immediate implementation. In addition, project implementation is also determined by available funding. For instance, waterline improvements to the Glenbrook Tract were delayed for a number of years due to the need to accumulate available funding. Because of the lack of funding, in the interim staff had to make a number of fixes to areas of this waterline.

The listing of projects is needed to ensure the Water Utility Fund has enough

resources to address such projects and any emergencies that may arise. The average annual anticipated CIP expenditures over the next three years is about \$4.7 million. The projects provided below total \$24.9 million; however, only \$14.2 million, or approximately \$5 million annually of project money have been applied to this study. Staff realizes it cannot implement all these projects in a three year time period. Again, City Council, through its CIP budget approval, will make final approval of specific projects and of appropriations of funds.

Project	Costs
Berry Street Booster Pump Station Upgrades	603,000
Glenbrook Tract Waterline Improvements	3,223,934
Gemini Avenue/Steele Drive Waterline Improvements	1,480,000
Walnut/Orange/Juniper Street Waterline Improvements	2,100,000
Pleasant Hill Tract Water Improvements	1,012,500
Napoli Tract Water Improvements	1,073,503
North Hills West Tract Water Improvements	844,000
North Hills East Tract Water Improvements	1,300,000
Cliffwood Tract Water Improvements	870,000
Enterprise Tract Water Improvements	1,200,000
Puente Street Water Main Replacements	550,000
Candlewood Tract Water Main Replacement	1,300,000
South Brea Neighborhood Water Main Replacement	1,260,000
Eagle Hills Tract Water Main Replacement	1,525,000
Buttonwood Drive Tract Water Main Replacement	2,100,000
Peppertree Tract Water Main Replacement	850,000
Pump Replacement at Booster Station No. 3	840,000
Oleander Street-catalpa Avenue Water Line Replacement	1,200,000
Valencia Reservoir Repainting	1,100,000
Pave Access Road to 830 Zone and Valencia Reservoirs	300,000
Total	\$24,956,937

Reserves

Per its fiscal policies, "The City will maintain adequate reserves in each of the enterprise funds to protect these essential City programs. Water reserves should equal a minimum of three months of fund expenditures." It is staff's goal to maintain this level of reserves in addition to creating capital reserves of at least one year's worth of CIP to address unexpected capital expenditures. It will take a number of years to build up this capital reserve, but it is nonetheless important to have funds available to avoid the need to borrow from other funds or issue bonds to finance these projects

Proposed Rates

Since the October 3 meeting, RFC completed the following tasks:

- Calculated water rates at different levels of fixed cost recovery.
- Allocated MWDOC water costs to Outside Brea water customers.
- Unified residential customer class peaking characteristics. (Multi-Family Residential customers have the same weighted average rate as Single Family Residential.)

- Greenbelt usage was found to be highly diverse. Therefore, there was no logical or easily identified patterns in consumption and no major changes were recommended.

Staff is proposing to increase fixed meter charges be implemented over the next three fiscal years. The revenue recovery will gradually increase, from 17% to 25% during this time frame. In other words, in FY 2015-16, a revenue recovery of 17% of fixed charges will be implemented; in FY 2016-17, a revenue recovery of 20% of fixed charges will be implemented; and in FY 2017-18, the revenue recovery of 25% of fixed charges will be implemented. Fixed meter charges are not affected by drought conditions; yet, it is important that the City stabilize its revenue source to avoid its dependence on water sales. As the fixed charges rise, the water consumption rates will decrease.

As mentioned in previous staff reports, the drought conditions remain uncertain and staff recommends addressing rates at proposed 10% and 24% conservation levels. To avoid confusion, the proposed (rates that would have been presented in the absence of a drought) and 10% conservation levels are not listed in this staff report. The rates presented are at the 24% conservation level (the worst case scenario).

For the first year (FY 2015-16), conservation rates would include a 24% conservation rate with a 10% conservation rate being an option beginning July 1, 2016. However, should current conditions continue, the City will retain the flexibility to continue with the 24% conservation level. Maintaining this flexibility allows the City to respond to the unpredictability of drought conditions and changes in State mandates. A 2.5% revenue adjustment is being proposed for future years for both fixed and consumption rates. The water consumption rates do not include any pass-through costs or price reductions that are generated as a result of an increased/decreased cost of wholesale water from either Cal Domestic or MWDOC.

Table of Rates

The Proposed Fixed Charges are as follows:

Meter Size	Current Rate	14% Fixed Revenue	17% Fixed Revenue	20% Fixed Revenue	25% Fixed Revenue
5/8"	\$9.66	\$10.81	\$13.15	\$15.16	\$18.84
3/4"	\$9.66	\$10.81	\$13.15	\$15.16	\$18.84
1"	\$9.66	\$10.81	\$13.15	\$15.16	\$18.84
1 1/2"	\$42.99	\$34.66	\$46.38	\$56.42	\$74.83
2"	\$73.52	\$52.55	\$71.30	\$87.36	\$116.81
3"	\$160.77	\$109.20	\$150.20	\$185.34	\$249.77
4"	\$282.90	\$192.68	\$266.48	\$329.74	\$445.71
6"	\$631.81	\$392.45	\$544.73	\$675.26	\$914.57

8"	\$1,120.31	\$839.67	\$1,167.67	\$1,448.82	\$1,964.24
10"	\$1,748.38	\$1,257.09	\$1,749.09	\$2,170.80	\$2,943.94
12"	\$2,446.23	\$1,585.05	\$2,205.91	\$2,738.01	\$3,713.70

The proposed water consumption charges for **Single Family Residences** are as follows:

4-Tier Blended Supply with 24% Conservation

Tier	Units	Current	14% Fixed Revenue	17% Fixed Revenue	20% Fixed Revenue	25% Fixed Revenue
1	1-10	\$2.79	\$3.17	\$3.05	\$2.95	\$2.76
2	11-20	\$3.92	\$4.21	\$4.02	\$3.85	\$3.51
3	21-30	\$4.99	\$5.63	\$5.33	\$5.08	\$4.61
4	31+	\$6.36	\$6.63	\$6.26	\$5.95	\$5.37

The proposed **Non-Residential** Rates are as follows:

Class	Current	14% Fixed Revenue	17% Fixed Revenue	20% Fixed Revenue	25% Fixed Revenue
Multi-Family Residential	\$3.51	\$3.93	\$3.77	\$3.61	\$3.34
Non Residential	\$3.51	\$4.27	\$4.08	\$3.90	\$3.59
Greenbelt	\$3.51	\$4.70	\$4.47	\$4.27	\$3.91
Outside Brea	\$4.26	\$5.04	\$4.86	\$4.70	\$4.42
Brea Creek Golf Course	\$1.71	\$2.39	\$2.30	\$2.22	\$2.07
Construction	\$5.27	\$6.57	\$6.21	\$5.89	\$5.32

ANTICIPATED WATER BILL INCREASE

As anticipated, Brea's water customers will be paying slightly more for water. Water rate increases are being realized throughout the State due to the current drought conditions. The below chart represents the expected increase to a customer's TOTAL BILL at the applicable water consumption:

Water Usage	Increase in Total Bill with 14% Fixed Revenue	Increase in Total Bill with 17% Fixed Revenue	Increase in Total Bill with 20% Fixed Revenue	Increase in Total Bill with 25% Fixed Revenue
2 units	\$1.91	\$4.01	\$5.82	\$9.12
5 units	\$3.05	\$4.79	\$6.30	\$9.03
12 units	\$5.53	\$6.29	\$6.96	\$8.14

16 units (average)	\$6.69	\$6.69	\$6.68	\$6.66
25 units	\$11.05	\$8.79	\$6.85	\$3.28
45 units	\$18.30	\$8.99	\$1.15	-\$13.47

RECOMMENDATION

Staff is recommending the following:

- FY 2015-16: 17% Revenue from Fixed Meter Charges + Applicable Water Consumption Charges.
- FY 2016-17: 20% Revenue from Fixed Meter Charges + Applicable Water Consumption Charges + 2.5% Revenue Adjustment for both Fixed Meter and Water Consumption Charges.
- FY 2017-18: 25% Revenue from Fixed Meter Charges + Applicable Water Consumption Charges + 2.5% Revenue Adjustment for both Fixed Meter and Water Consumption Charges.
- Maintain the City adopted LifeLine program (20% discount on fixed meter charges and water consumption at the first and second tier).

If approved, staff will begin the Proposition 218 notification process. The water rate public hearing will be set for early next year.

SUMMARY/FISCAL IMPACT

This proposed rate structure incorporates a 24% conservation rate in the first year; the revenue generated through the conservation rates is expected to offset the revenue reduction due to lower sales. The rates allow for the continuance of water service to Brea water users along with maintaining necessary operating and capital reserve fund levels.

RESPECTFULLY SUBMITTED:

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