

**City of Brea**

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**COUNCIL COMMUNICATION**

**TO:** Honorable Mayor and City Council Members

**FROM:** City Manager

**DATE:** 02/02/2016

**SUBJECT:** PROPOSED WATER RATE STRUCTURE AND MODIFICATIONS TO  
THE CITY'S LIFELINE PROGRAM

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**RECOMMENDATION**

Adopt the attached resolution updating the City's existing four-tier residential water rate structure to include "Conservation Rates"; maintain the City's existing four-tier residential water rate structure; adjust fixed meter charges; and modify the City's LifeLine Program.

**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 197 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, Raftelis Financial Consultants, Inc. (RFC), gathering consumption history, water purchases, maintenance costs, etc., to determine the appropriate rate structure for Brea.

This will be the fifth public discussion City Council has had regarding water rates. The first meeting was took place on May 5, 2015 followed by August 25, 2015, October 3, 2015, and November 17, 2015.

**November 17 Council Meeting**

At the November 17th Council Meeting, Council instructed staff to move forward with the Proposition 218 public hearing notification. Staff was instructed to provide notifications of minimum and maximum charges for both fixed meter charges and tiered water. The fixed meter charges were modeled to include 14%/ 17% or 20% fixed meter charges and corresponding tiered rates. On December 15, 2015, Public Hearing notices were mailed to all Brea property owners presenting a range of corresponding rates given the potential revenue goal. As a courtesy, the public hearing notice was published in the Star Progress on December 11, 2015 and notices were later mailed to all water bill payers.

### **LifeLine Rates**

As discussed in previous water rate discussions, 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. Currently, 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. 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.

It was discussed at the November 17th meeting that the Affordable Housing Fund (270) will become the funding source for this expenditure. Also, the Public Hearing Notification gave notice of the City's intent to make LifeLine program modifications. It is proposed that the City continue to provide a 20% discount on the fixed meter charges as well as consumption charges that fall within Tier 1 (1-10 units). However, water consumption that falls within Tier 2 (11-20 units) would have a reduced subsidy of 10%. In addition, Tier 3 consumption (21-30 units and currently not offered a discount) would received a 5% subsidy. Using FY 2014-15 numbers, it is anticipated the subsidy level will decrease by \$7,000, from \$45,000 annually to approximately \$38,000.

### **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 total of projects listed below through FY 2018-19 is approximately \$18 million. The average annual anticipated CIP expenditures over these four years is about \$4.4 million. However, there have been over \$24.9 million worth of projects identified in previous water rate discussions and only \$14.2 million, or approximately \$5 million annually of project money has been applied to this study. The projects are listed by importance and need for repair. Projects are further separated by fiscal year but pending funding. City Council, through its CIP budget approval, will make final approval of specific

projects and of appropriations of funds.

<b>Fiscal Year</b>	<b>Project</b>	<b>Costs</b>
2015-16	Booster 2 & 3 Pump Replacement, Enclosure and Generator	1,000,000
2015-16	Glenbrook Tract Waterline Improvements	2,200,000
2015-16	Valencia Reservoir Painting	1,200,000
2016-17	Miscellaneous Tracts (Spruce St., Laurel Ave., Pine Ave., Magnolia Ave., etc.)	1,260,000
2016-17	Steele Drive Tract	1,200,000
2016-17	Pleasant Hills Tract	1,000,000
2016-17	Napoli Tract	1,000,000
2017-18	Walnut/Orange & Juniper	2,100,000
2017-18	North Hills West	800,000
2017-18	North Hills East	1,300,000
2017-18	Cliffwood Park Tract	870,000
2018-19	Candlewood Tract Water Main Replacement	1,300,000
2018-19	Eagle Hills Tract Water Main Replacement	1,525,000
	<b>Total</b>	<b>\$17,955,000</b>

Capital Improvement Projects are funded on a pay-as-you-go basis. Essentially, the City is using fund balance or reserves to pay for these projects. Therefore, enough money needs to be generated through water rates to pay for such projects.

### **Reserves**

Per the City's adopted 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 prudent to establish a capital reserve 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**

Staff is recommending to increase fixed meter charges using a phased approach over the next 2 1/2 years. The fixed revenue recovery will gradually increase, from 14% to 20% during this time frame. In other words, in FY 2015-16, a revenue recovery of 14% of fixed charges will be implemented; in FY 2016-17, a revenue recovery of 17% of fixed charges will be implemented; and in FY 2017-18, the revenue recovery of 20% of fixed charges will be implemented. Fixed meter charges are not affected by drought conditions and would not be subject to conservation restrictions. It is important that the City stabilize its revenue source to avoid its dependence on water sales. Per unit water costs will continue to rise as the cost of wholesale water rises. Although it is not fully practical to recuperate 100% of fixed costs through fixed revenue, it is important that the City recover as much as reasonably possible as not to excessively inflate the per unit cost of water to achieve the needed revenue to cover the cost of providing water service. As the fixed charges rise, the water consumption rates are proposed to decrease.

As indicated in the Public Hearing Notice, 63% of total water costs come from fixed costs; while only 14% of the revenues come from fixed meter charges. For the purpose of this study, variable costs include water purchases, chemicals, and power. Fixed costs include debt service payments, meter maintenance, customer service, distribution, etc. The City's Water Utility Fund is a lean operation. It has adjusted conservatively to the growing number of accounts, increased water restrictions, and on-going maintenance of its aging water infrastructure. Direct staffing has not changed since FY 2008-09. Staff has done its best to automate some of its operations such as automated meter reading and encouraging electronic payment processing.

Despite technological advancements, there are still a number of manual processes which are staff intensive such as routine maintenance checks, responses to water emergencies, physical customer service presence, leak detection services, etc. There are few processes that could possibly lower fixed costs in the long run such as real-time meter reading that could identify potential leaks and more advanced customer service portals but such improvements will require an initial capital outlay. Furthermore, the City has made big strides in stabilizing water rates by purchasing permanent water rights which provides lower per unit costs to help offset the increasing cost to purchase water.

All information and analysis of the proposed water rates represent the cost to deliver water services includes the required debt service coverage maintain adequate reserve levels, and adherence to the City's fiscal policy.

As mentioned in previous staff reports, initially, the first year (FY 2015-16), conservation rates included a 24% conservation rate with a 10% conservation rate being an option beginning July 1, 2016. However, the Governor has begun the process of recommending that the Emergency Drought Declaration be extended until October 16, 2016. Recently, the State Water Resource Control Board was prepared to recommend "some" relief to water users based on growth experienced and other external factors in those regions since 2013. The California Water Control Board is considering a credit for growth and climate factors that can lead to a decrease of not more than 4% for a water agency. Final numbers will not be released until after this public hearing.

Since June 2015, City of Brea has reduced its consumption on average by 22%. The City will continue to monitor the drought conditions and make the appropriate adjustments when the drought conditions have been lifted. Maintaining this flexibility allows the City to respond to the unpredictability of drought conditions and changes in State mandates. The Public Hearing Notification also included a 2.5% revenue adjustment proposed for future years (July 1, 2016 and July 1, 2017) 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 for FY 2015-16 through FY 2017-18 are as follows:

<b>Meter Size</b>	<b>Current Rate</b>	<b>FY 2015-16 with 14% Fixed Revenue</b>	<b>FY 2016-17 with 17% Fixed Revenue*</b>	<b>FY 2017-18 with 20% Fixed Revenue*</b>
5/8"	\$9.66	\$10.81	\$13.48	\$15.93
3/4"	\$9.66	\$10.81	\$13.48	\$15.93
1"	\$9.66	\$10.81	\$13.48	\$15.93
1 1/2"	\$42.99	\$34.66	\$46.54	\$59.28
2"	\$73.52	\$52.55	\$73.08	\$91.78
3"	\$160.77	\$109.20	\$153.96	\$194.72
4"	\$282.90	\$192.68	\$273.14	\$346.43
6"	\$631.81	\$392.45	\$558.35	\$709.45
8"	\$1,120.31	\$839.67	\$1,196.86	\$1,522.17
10"	\$1,748.38	\$1,257.09	\$1,792.82	\$2,280.70
12"	\$2,446.23	\$1,585.05	\$2,261.06	\$2,876.62

\* Rates are inclusive of the 2.5% revenue adjustment on July 1, 2016 and July 1, 2017.

The proposed water consumption charges for **Single Family Residences** (4-Tier Blended Supply with 24% Conservation) over the next 2-1/2 years are as follows:

<b>Tier</b>	<b>Units</b>	<b>Current</b>	<b>FY 2015-16 with 14% Fixed Revenue</b>	<b>FY 2016-17 with 17% Fixed Revenue*</b>	<b>FY 2017-18 with 20% Fixed Revenue*</b>
1	1-10	\$2.79	\$3.17	\$3.13	\$3.10
2	11-20	\$3.92	\$4.21	\$4.12	\$4.04
3	21-30	\$4.99	\$5.63	\$5.46	\$5.34
4	31+	\$6.36	\$6.63	\$6.42	\$6.25

\*Rates are inclusive of the 2.5% revenue adjustment on July 1, 2016 and July 1, 2017 but exclusive of rate adjustments due to wholesale water costs.

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

<b>Class</b>	<b>Current</b>	<b>FY 2015-16 with 14% Fixed Revenue</b>	<b>FY 2016-17 with 17% Fixed Revenue*</b>	<b>FY 2017-18 with 20% Fixed Revenue*</b>
Multi-Family Residential	\$3.51	\$3.93	\$3.86	\$3.79
Non Residential Greenbelt	\$3.51	\$4.27	\$4.18	\$4.10
Outside Brea	\$3.51	\$4.70	\$4.58	\$4.49
Brea Creek Golf Course**	\$4.26	\$5.04	\$4.98	\$4.94
Construction	\$1.71	\$2.39	\$2.36	\$2.33
	\$5.27	\$6.57	\$6.37	\$6.19

\*Rates are inclusive of the 2.5% revenue adjustment on July 1, 2016 and July 1, 2017 but exclusive of rate adjustments due to wholesale water costs.

\*\*Non-potable well water.

### **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 monthly TOTAL BILL at the applicable water consumption:

<b>Water Usage</b>	<b>FY 2015-16 Monthly Increase in Total Bill</b>	<b>FY 2016-17 Monthly Increase in Total Bill*</b>	<b>FY 2017-18 Monthly Increase in Total Bill*</b>
2 units	\$1.91	\$2.59	\$2.39
5 units	\$3.05	\$2.47	\$2.30
12 units (average)	\$5.53	\$2.09	\$1.99
16 units	\$6.69	\$1.73	\$1.67
25 units	\$11.05	\$0.52	\$0.75
45 units	\$18.30	\$-3.48	\$-2.40

\*Inclusive of the anticipated 2.5% revenue adjustment and adjustment of revenue from fixed charges but exclusive of rate adjustments due to wholesale water costs.

### **RECOMMENDATION**

Staff is recommending the following:

- FY 2015-16: 14% Revenue from Fixed Meter Charges + Applicable Water Consumption Charges.
- FY 2016-17: 17% Revenue from Fixed Meter Charges + Applicable Water

Consumption Charges + 2.5% Revenue Adjustment for both Fixed Meter and Water Consumption Charges.

- FY 2017-18: 20% Revenue from Fixed Meter Charges + Applicable Water Consumption Charges + 2.5% Revenue Adjustment for both Fixed Meter and Water Consumption Charges.
- Implement the LifeLine Program Modifications as presented in the Public Hearing Notification (20% discount on fixed meter charges and water consumption at the first tier; a 10% discount on water consumption at the second tier; and a 5% discount at the third tier)

### **FISCAL IMPACT/SUMMARY**

This proposed rate structure incorporates a 24% conservation rate and the revenue generated through the conservation rates is expected to offset the revenue reduction due to lower sales. With the reduced consumption due to the current drought and mandated water use restrictions, the City's Water Utility Fund has been averaging \$150,000 less per month. 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:**

William Gallardo, City Manager

Prepared by: Faith Madrazo, Revenue & Budget Manager

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### **Attachments**

Resolution

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