

ITEM NO. 4D UTILITY RATE PRIMER
ATTACHMENT A
STAFF PRESENTATION

2023 Water & Wastewater Rate Study Primer

Finance Committee
May 11, 2023



Executive Summary:

- Water and wastewater is a 24/7 community service, asset, and commodity
- Water/wastewater is critical to public health and the environment
- The systems operate as independent enterprise funds
- Current and future capital improvement projects are necessary
- Operational & Capital costs continue to go up
 - Buying water, construction, materials, equipment, insurance, conservation, regulatory compliance
- The value of water and wastewater are seemingly undervalued
- Rate increases will be needed to keep up with inflation



NEWPORT BEACH

Water System

302



**MILES OF POTABLE
WATER PIPELINE**

202



Million gallons
storage capacity

42



**PRESSURE
REDUCING STATIONS**

26,550

Service
connections



17

**BOOSTER
PUMPS**



8,172

**DISTRIBUTION
VALVES**



Wastewater



- 203 miles of sewer pipe
- 120 miles of sewer laterals
- Plus 5,000 manholes
- 21 pump stations
- 5 miles of force mains



Enterprise Funds:

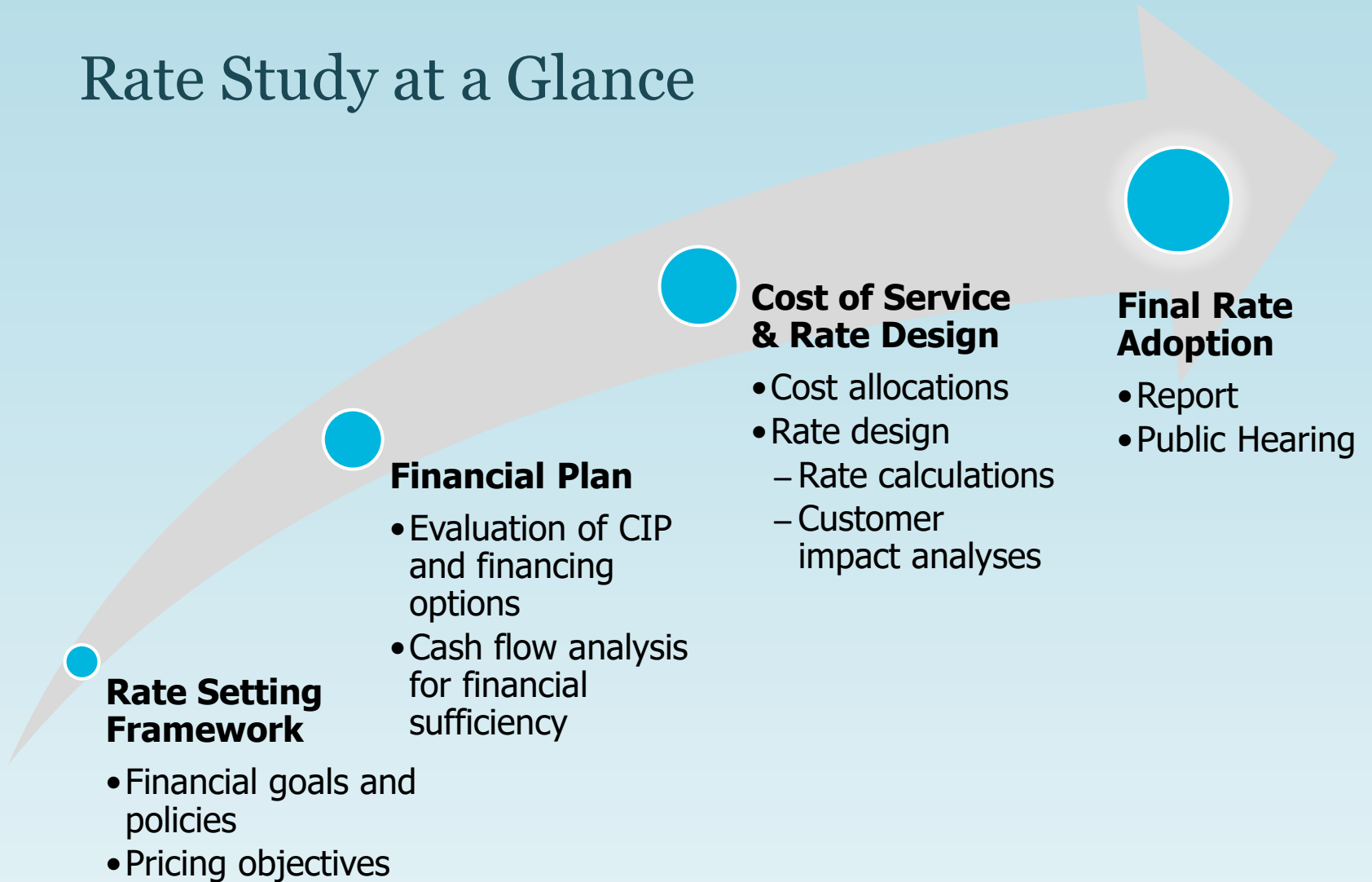
- Best Practice
- Segregated fund
- Similar intent to a private business enterprise
- Can only be spent for the specific purpose of water
- Separate accounting and financial reporting
- Not a part of the General Fund



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Rate Study at a Glance



BALANCING COMPETING PRICING OBJECTIVES



Common Pricing Objectives:

Enhance revenue stability while maintaining affordability and communicating intention of conservation

Conservation	Funding Mechanism	Affordability	Equity and Allocation Methodologies	Administration
<ul style="list-style-type: none">• Reducing total annual demand• Reducing water waste• Reducing peak demand• Reducing outdoor water usage	<ul style="list-style-type: none">• Enhancing revenue stability• Ensuring financial sufficiency• Providing funding mechanisms for alternative water supply, conservation program	<ul style="list-style-type: none">• Minimizing customer impacts• Maintaining low average customer bills• Crafting rates that provide affordable water for essential uses	<ul style="list-style-type: none">• Allocating water supply equitably• Providing a drought management tool• Allocating capital costs equitably• Complying with government regulations and guidelines	<ul style="list-style-type: none">• Allowing cost-effective administration• Allowing easy implementation• Enhancing customer understanding

From Water and Wastewater Finance and Pricing: The Changing Landscape, 4th Edition



Water & Wastewater System Cost Structure

FIXED

- Does not vary with production
- Salaries, maintenance, equipment, insurance construction, etc.

VARIABLE

- Varies with water production
- Wholesale water cost, electricity, chemicals, etc.

2023 Rate Studies



Water Reserves Goal

- **O&M Reserve** – for Operating Cash Flow
 - 33% of operating expenses (or 4 months of expenses)
- **Capital Reserve** – for Capital Working Capital
 - 75% of average annual CIP
- **Rate Stabilization Reserve** – i.e. drought reserve - for unexpected water demand reduction or unexpected water supply cost increases, emergencies, and non-budgeted CIP capital projects, causing net revenue loss for the Water Fund
 - 1 year at 30%, or 3 years at 10%
 - \$3 million

Wastewater Reserves Goal

- **O&M Reserve** – for Operating Cash Flow
 - 25% of operating expenses (or 3 months of expenses)
- **Capital Reserve** – for Capital Working Capital
 - 25% of operating expenses
 - Fund emergency pipeline replacements or accelerated projects
 - Fund one pump station replacement

Rates History

- **Water** – studied in 2009 and 2019
 - Rate increases: 2010, 2011, 2012, 2013, & 2014
2020, 2021, 2022, 2023, & 2024
- **Wastewater** – studied in 2004 and 2015, & 2017
 - Rate increases: 1996, 2004, 2005
2018, 2019, 2020, 2021, & 2022



Next Steps

- Finance Committee meeting May 25, 2023
- Financial Review
- Discussion/recommendation of proposed rates
- Community outreach
- City Council
- Public Notice and Public Hearing
- Proposed Rates Effective, January 2024

