

ATTACHMENT A

2023 Water & Wastewater Rate Study Presentation

*City Council
August 22, 2023*



Presented by Mark Vukojevic, Utilities Director

Summary from May 11 and July 26th Finance Committee:

- Water and wastewater is a 24/7 community service, asset, and commodity
- The systems operate as independent/segregated Enterprise Funds
- The balance between fixed and variable costs
- Current and future capital improvement projects are necessary
- Operational & Capital costs continue to go up
 - Buying water, construction, materials, equipment, insurance, conservation, regulatory compliance
- Rates need to recover costs, especially with inflation
 - * Operations * Capital Improvements * Reserves/Emergencies
- Rate increases are needed to keep up with inflation

Goals of the Study:



01

Maintain similar rate structure –

(maintain simplified customer understanding)

02

Develop a financial plan that corrects the structural deficit; and sufficiently funds operations, capital and reserves

03

Move rates to recover more fixed business costs

Current Water Rates:

- Monthly and Bimonthly Billing
- Fixed Charge and Use Charge
- Use Charge incentivizes conservation

FIXED

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

VARIABLE

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

\$64/month is the typical home water bill

Rate revenue: vs.

~40 % Fixed Charges

~60% Variable Charges

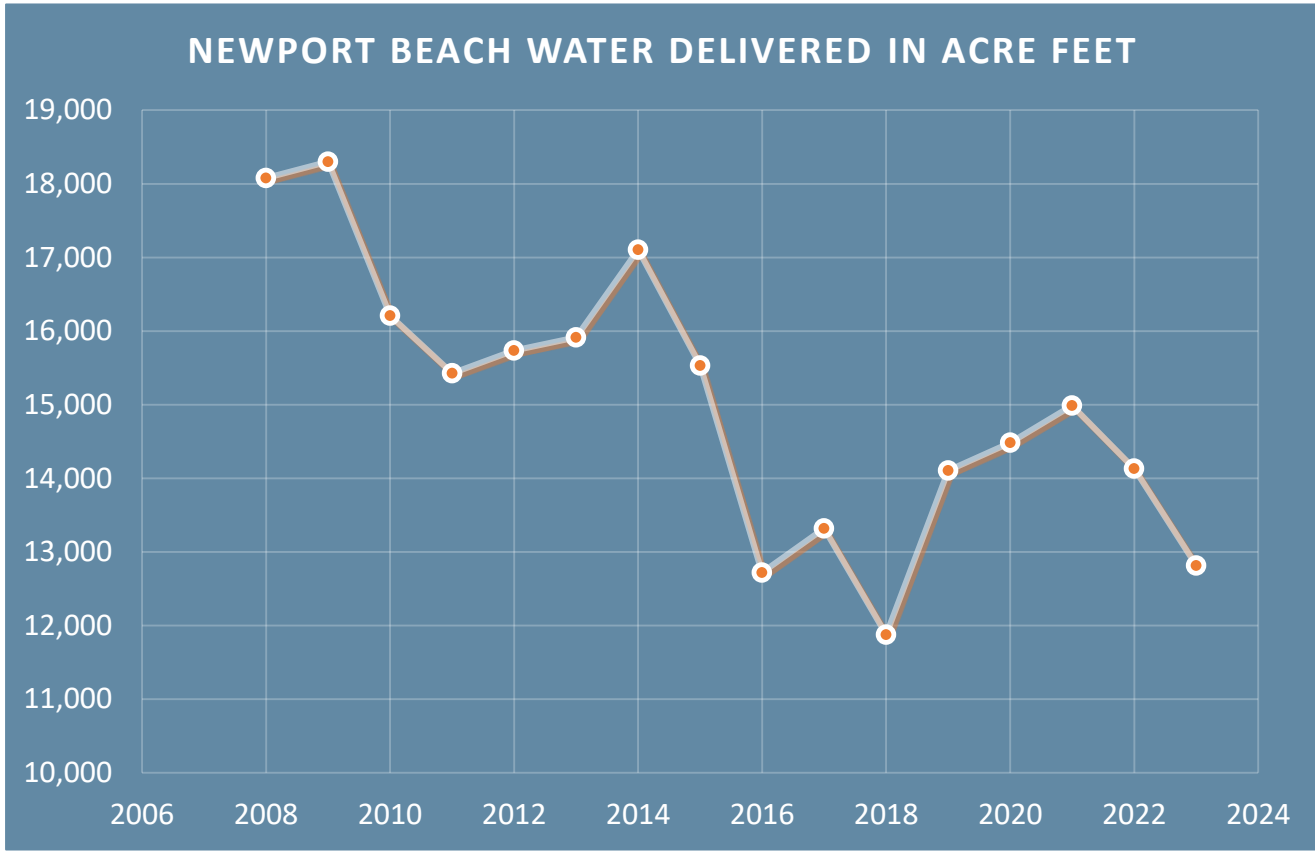
Business costs:

~65 % Fixed Costs

~ 35% Variable Costs

Goal: Gradually adjust revenue % to better match business costs

Water Use over the years (conservation and weather variables)



Current Revenues & Expenditures:

Water: ~\$1+mil *Structural deficit*

~\$35million Revenues

~\$36mil Expenses

* Water purchases	\$13 million
* Operations	\$17 million
* Capital	\$6 million

Escalation/Inflation Factors

>5% over next years

- * Water purchases
- * Contracts
- * CIP, labor & materials
- * Electricity & Equipment
- * Insurance



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**



NEWPORT BEACH Aging Infrastructure



NEWPORT BEACH

2019 Water Master Plan / 30-year Capital Improvements Plan

Increased capital
projects:

**ESCALATING
ANNUALLY**



Capital projects
annual total:

**\$7.8
MILLION**



Pipe renewal
or replacement
projects



**FACILITIES
PROJECTS**



Pressure reducing
stations projects



**NO TAXES.
NO DEBT FUNDING.**



Reserve Targets for Water:

Type	Description	2024 /2028 Target
O&M Reserve*	120 days of O&M	\$10.0/\$11.5 Mil
Capital Reserve	75% of annual CIP	\$5.6/\$6.8 Mil
Drought/ Stabilization	30% water use reduction	\$3.0/\$3.3 Mil
		\$18.6/\$21.6 Mil

* this reserve is also a emergency water purchase reserve



Water Reserve Comparisons With Rate Increases:

	2024	2025	2026	2027	2028
<i>Target</i>	\$18.6 M	\$19.3 M	\$20.0 M	\$20.8 M	\$21.6 M
<i>Proposed</i>	\$17.9 M	\$17.6 M	\$18.9 M	\$19.8 M	\$19.9 M
<i>Status Quo</i>	\$17.9 M	\$15.5 M	\$11.4 M	\$5.4 M	-\$2.4 M

Estimated 2028 Rate Revenue = 48% fixed & 52% variable

Typical Water Customer Impacts: *monthly increase*



- **2024 - \$4.77** (previously approved rate study)
(\$1.87 fixed plus \$2.90 variable)
- **2025 - \$5.50** Year 2, new rate study
(\$4.50 fixed plus \$1.00 variable)
- **2026 - \$6.00** Year 3, new rate study
(\$5.00 fixed plus \$1.00 variable)
- **2027 - \$6.00** Year 4, new rate study
(\$5.00 fixed plus \$1.00 variable)
- **2028 - \$6.00** Year 5, new rate study
(\$5.00 fixed plus \$1.00 variable)

Proposed Water Rates:

\$64/month is the typical home water bill



Monthly Fixed Charge	Approved 2023	Approved 2024	Proposed 2025	Proposed 2026	Proposed 2027	Proposed 2028
5/8" Meter *	\$25.22	\$27.09	\$ 31.59	\$ 36.59	\$41.59	\$46.59
Use Charge	\$3.87	\$4.16	\$4.26	\$4.36	\$4.46	\$4.56
Net Increase (most common)	<u>\$4.44</u>	<u>\$4.77</u>	<u>\$5.50</u>	<u>\$6.00</u>	<u>\$6.00</u>	<u>\$6.00</u>

** 5/8" meters represent 64% of accounts*

Proposed Water Rates:

Monthly Fixed Charge	Approved 2023	Approved 2024	Proposed 2025	Proposed 2026	Proposed 2027	Proposed 2028
5/8"	25.22	27.09	31.59	36.59	41.59	46.59
1"	39.09	41.99	50.07	58.31	66.53	74.75
1-1/2"	73.69	79.15	96.28	112.60	128.88	145.17
2"	115.23	123.76	151.73	177.74	203.71	229.66
3"	305.61	328.23	405.88	476.34	546.65	616.92
4"	523.69	562.45	697.00	818.37	939.48	1,060.51
6"	1,112.15	1,194.45	1,482.55	1,741.30	1,999.50	2,257.50
8"	1,942.91	2,086.69	2,591.56	3,044.27	3,495.99	3,947.37
Use Charge	\$3.87	\$4.16	\$4.26	\$4.36	\$4.46	\$4.56
Net Increase (most common)	\$4.44	\$4.77	\$5.50	\$6.00	\$6.00	\$6.00



Current Wastewater Rates:

- Monthly and Bimonthly Billing
- Fixed Charge and Use Charge

\$14/month is the typical home wastewater bill

Rate revenue: vs.

Business costs:

~50 % Fixed Charges

100 % Fixed Costs

~50% Variable Charges

Goal: Gradually adjust revenue % to better match business costs



Current Revenues & Expenditures:

Wastewater: ~\$1 mil Structural deficit

~\$4.7mil Revenues

~\$5.7mil Expenses

- * Pump Stations
- * Operations
- * Capital

\$5.1 mil operations
\$600k CIP



Escalation/Inflation Factors

~ 5% over next years

- * Contracts
- * CIP, labor and materials
- * Equipment
- * Insurance



Wastewater Capital needs:

200+ miles of pipelines

25,000 Laterals

21 Pump Stations

\$1.1 Million Annual
Escalating Investment



Reserve Targets for Wastewater:

Type	Description	2024/2028 Target
O&M Reserve	90 days of O&M	\$1.2/1.5 Mil
Capital Reserve	1-Year of CIP	\$1.1/1.3 Mil
		\$2.3/2.8 Mil



Wastewater Reserve Comparisons With Rate Increases:

	2024	2025	2026	2027	2028
Target	\$2.3 M	\$2.4 M	\$2.5 M	\$2.7 M	\$2.8 Mil
Proposed	\$800k	\$200k	\$150k	\$800k	\$2.1 Mil
Status Quo	\$500k	-\$1.2 Mil	-\$3.3 Mil	-\$5.6 Mil	-\$8.3 Mil

Estimated 2028 Rate Revenue = 70% fixed & 30% variable



Proposed Wastewater Rates:

\$14/month is the typical home wastewater bill



Monthly Fixed Charge	Existing	Proposed 2024	Proposed 2025	Proposed 2026	Proposed 2027	Proposed 2028
Up to 1" Meter *	\$8.55	\$10.55	\$12.85	\$15.65	\$18.95	\$22.25
Use Charge	\$0.51	\$0.53	\$0.55	\$0.57	\$0.59	\$0.61
Net Increase (most common)		<u>\$2.20</u>	<u>\$2.50</u>	<u>\$3.00</u>	<u>\$3.50</u>	<u>\$3.50</u>

* Up to 1" meters represent 92% of accounts

Proposed Wastewater Rates:

Monthly Fixed Charge	Existing	2024	2025	2026	2027	2028
5/8"	8.55	10.55	12.85	15.65	18.95	22.25
1"	8.55	10.55	12.85	15.65	18.95	22.25
1-1/2"	9.41	15.82	19.27	23.48	28.42	33.38
2"	12.83	21.09	25.69	31.31	37.90	44.50
3"	14.54	26.37	32.12	39.13	47.37	55.63
4"	17.11	31.64	38.54	46.96	56.85	66.76
6"	19.25	36.91	44.96	54.79	66.32	77.88
8"	21.39	42.18	51.39	62.62	75.80	89.01
Use Charge	\$0.51	\$0.53	\$0.55	\$0.57	\$0.59	\$0.61
Net Increase (most common)		\$2.20	\$2.50	\$3.00	\$3.50	\$3.50



Recommendation:

- Review the Water and Wastewater Rate Study Information provided
- Provide Input to Staff regarding the rate structure and proposed rates
- Approve in concept the proposed rate structures
- Direct staff return with the final studies and setting of the public hearing



Tentative Schedule:

- August 22, 2023, City Council Study Session
 - Proposed Water and Sewer Rate Studies
- September 26th, City Council Meeting
 - Approve Water & Wastewater Rate Study Reports
 - Set Public Hearing for Rates Change for November 14th
 - Authorize Mailed Public Notice (Prop 218 Compliance)
- Public Information and Outreach
 - Public notices, direct mailings, utility bill messages & inserts, community meetings, City website
- November 14th, Public Hearing to amend Rates
- November 28th, 2nd Reading to amend Rates
- January 1st, 2024, Implement Water and Wastewater Rate Changes

