

# CITY OF SAN CLEMENTE

## Rate Workshop with City Council

March 20, 2012



**RFC**  
RAFTELIS FINANCIAL  
CONSULTANTS, INC.

# AGENDA

- Rates 101
- Reclaimed Water (RW)
  - Financial plan
  - RW rates
- Water
  - Financial plan
  - Water rate design
  - Customer impacts
- Sewer
  - Financial plan
  - Sewer rates



# Rates 101

# RATES 101:

## THREE STEPS IN DEVELOPING SOUND RATES

1. Development of financial plan
  - **Goal:** Develop a financial plan that meets the future obligations of the water and wastewater enterprises, while meeting the required coverage ratios and reserve requirements



# RATES 101:

## THREE STEPS IN DEVELOPING SOUND RATES

### 2. Cost of Service

- Due to Proposition 218 and Government Code Section 54999, there needs to be a nexus between costs and rates
  - Water: Rate components associated with different costs are tied to individual tiers
  - Wastewater: Industry standards associated with flows and strengths are used to estimate the wastewater flows and strengths of different customer classes and to develop the rates (Mass balance analysis)



# RATES 101:

## THREE STEPS IN DEVELOPING SOUND RATES

### 3. Rate Design

- Changing the rate structure can assist the City in achieving different goals and objectives, such as revenue stability, conservation or affordability for essential use



# Reclaimed Water (RW)

1. Background
2. Financial plan
3. RW rates

## RW: BACKGROUND

- Expanding the current reclaim facility from 2.2 mgd to 4.4 mgd by 2014
  - Estimated cost \$24.4 million
  - Major funding sources is State Revolving Loan – \$14.6 million





## RW: RECOMMENDATION

- Reclaimed water should only pay for tertiary treatment costs (Program 465)
  - To smooth out the impacts on the sewer enterprise, the effluent purchased water cost will be reduced to \$0 by FY 2014
    - FY 2012 – \$571 / AF
    - FY 2013 – \$286 / AF
    - FY 2014 – \$0 / AF
- Water subsidy will be continued at \$188,000/yr



# RW FINANCIAL PLAN

Chart 1 - RW Rev Adjustments

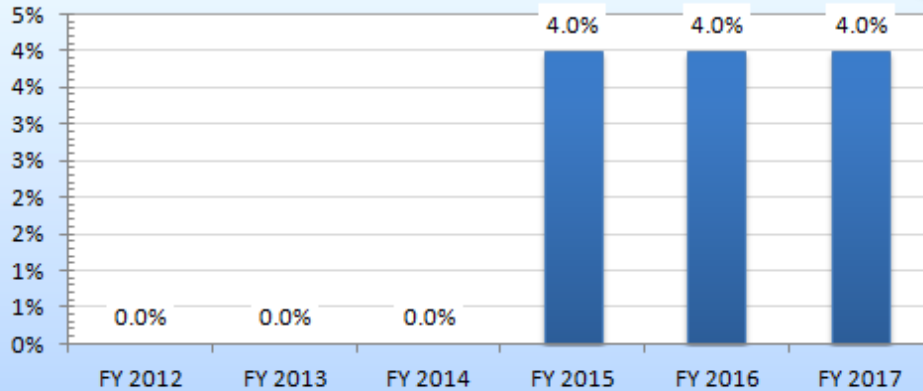


Chart 1 – Rev Adjustments

➤ Blue bar – Revenue adjustments

Chart 2 - RW CIP & Funding Sources

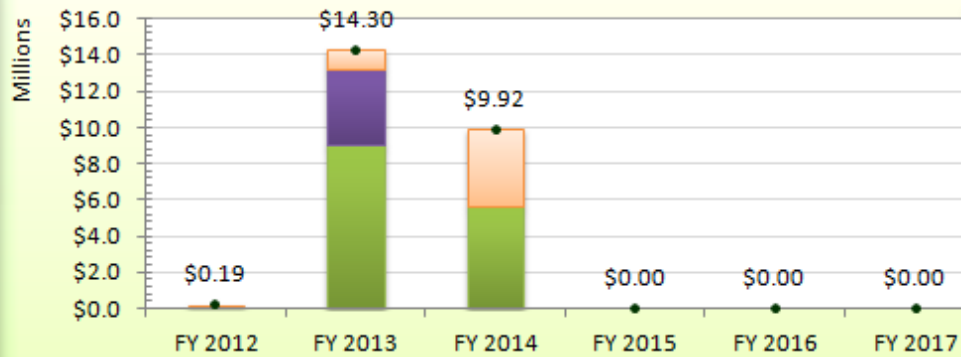
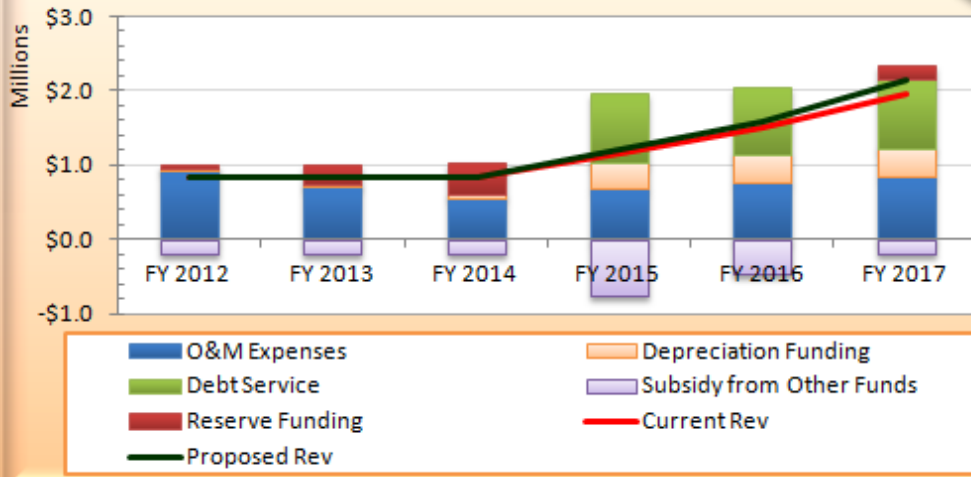


Chart 2 – CIP & Funding Sources

- Green bar – RW Depreciation & SRF loans
- Purple bar – Grants
- Orange bar – Other city's funds

# RW FINANCIAL PLAN

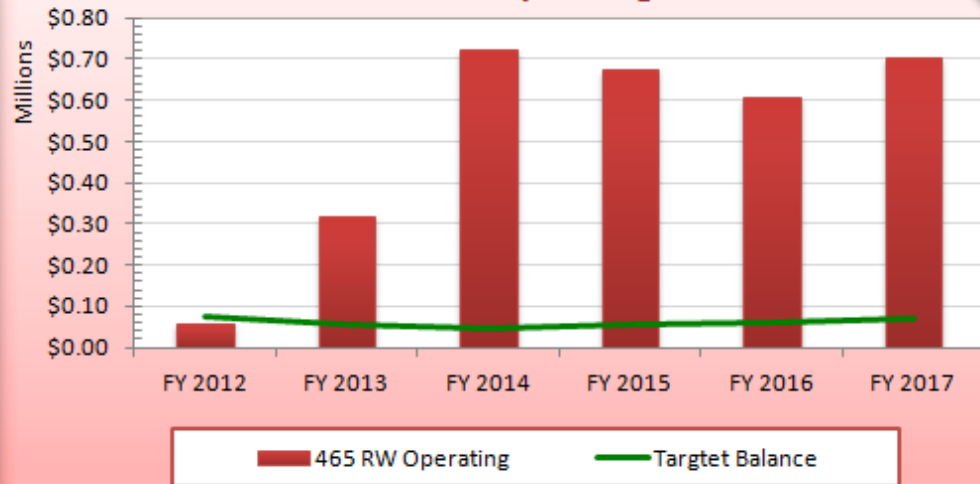
**Chart 3 - RW Operating Financial Plan**



**Chart 3 – Operating Financial Plan**

- Lines – Revenues
  - Red – Current rates
  - Green – Proposed rates
- Stacked bars – Expenses & Subsidy

**Chart 4 -465 RW Operating Balance**



**Chart 4 – Operating Fund Balances**

- Projected ending balances
- Green – Target balances (8% O&M)

# RECLAIMED WATER RATES

	Current Rates	Aug 1, 2012	Aug 1, 2013
Non Contract / Expanded	\$2.550	\$2.550	\$2.550
Contract Tier 1	\$2.066	\$2.066	\$2.066
Contract Tier 2	\$1.837	\$1.837	\$2.066



# Water

1. Financial plan
2. Rate design
3. Customer impacts

# WATER FINANCIAL PLAN

Chart 1 - Potable Water Rev Adjustments

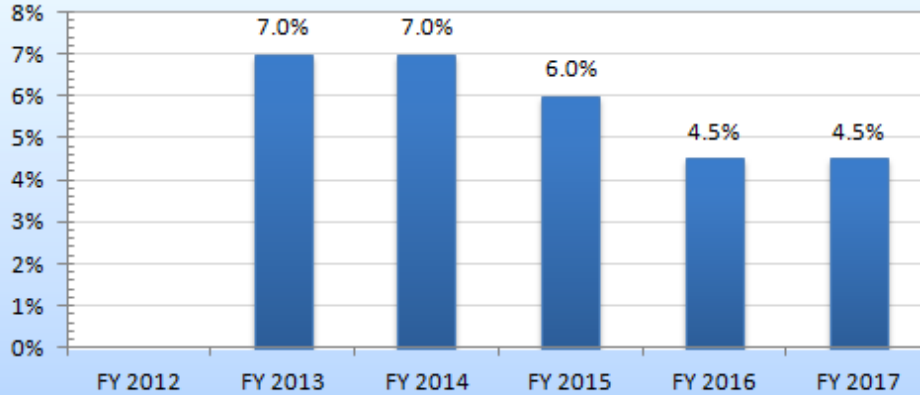
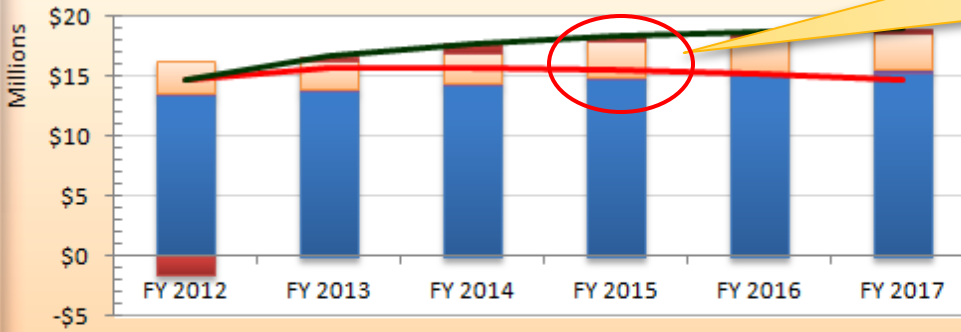
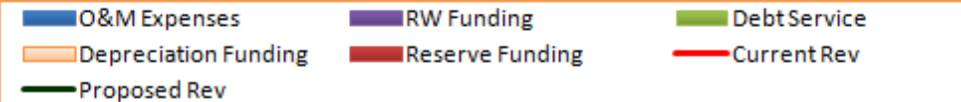


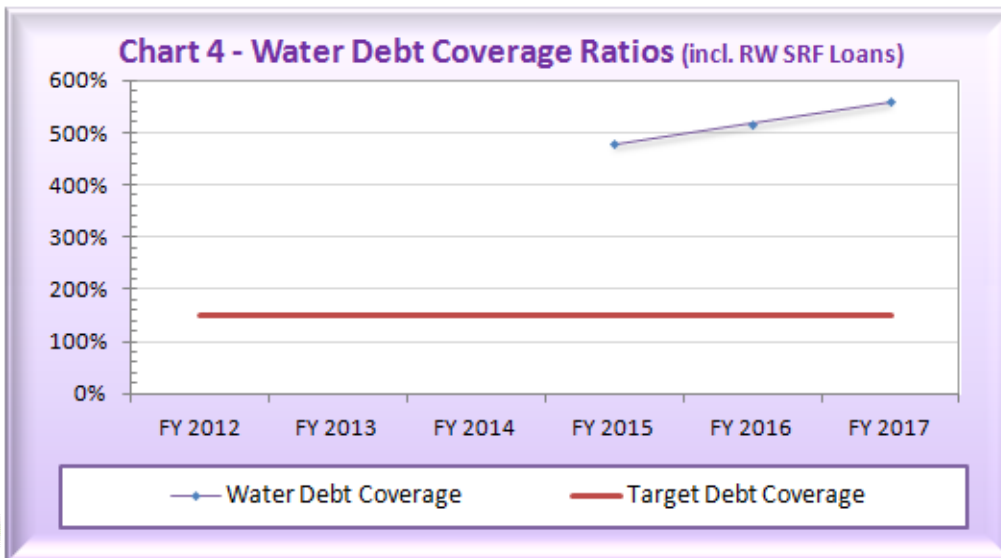
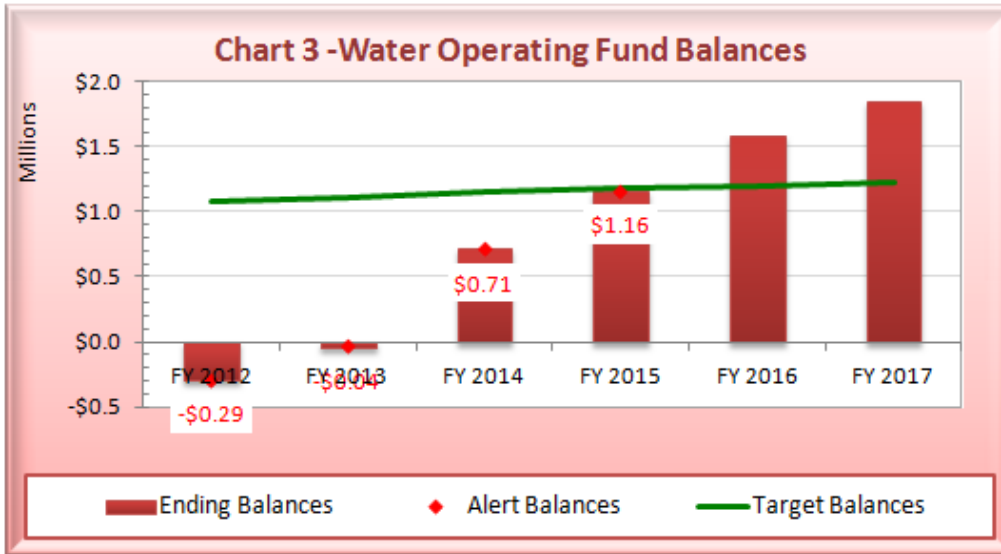
Chart 2 - Water Operating FPlan (excl. RW)



Increased to full depreciation funding by FY 2015



# WATER FINANCIAL PLAN



# WATER RATE OPTIONS

- Option 1 – Water budget tiers
  - Tier definitions
  - Landscape area definitions
  
- Option 2 – Revised current tiers
  - Revise season definitions
  - Revise tier widths
    - Tier 1 = Indoor
    - Tier 2 = Estimated outdoor

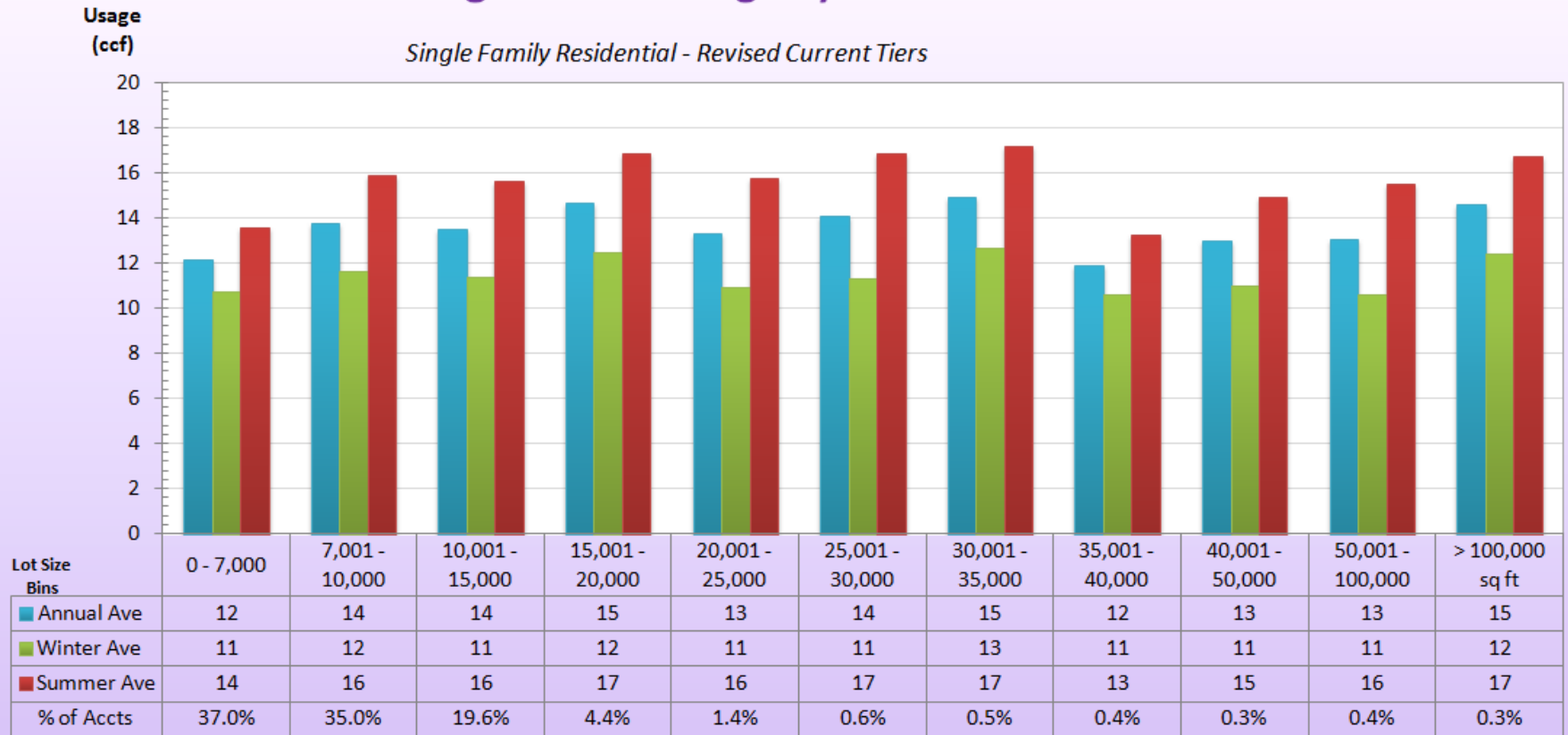




# RESULTS OF WATER BUDGET ANALYSIS

## Average Month Usage by Lot Size

Single Family Residential - Revised Current Tiers



# RECOMMENDATIONS

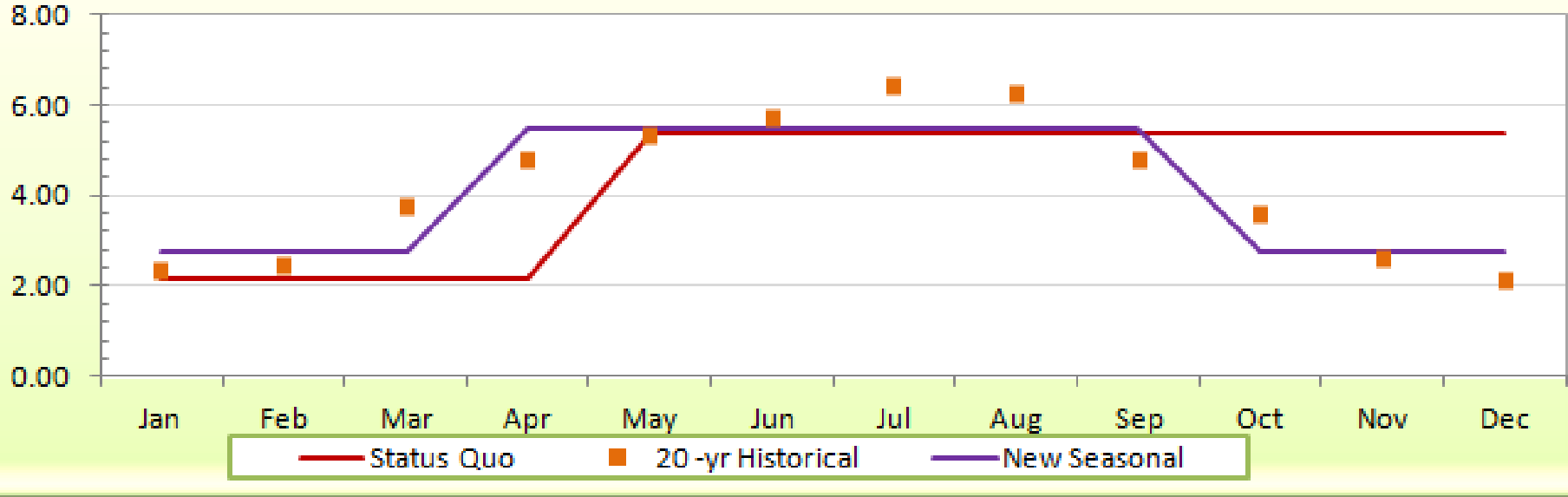
- The results indicate that water budget rates would not benefit the City
  - There are implementation costs and increased administrative costs associated with water budget rates
  - The water savings provided by water budget rates are not substantial enough to offset the increased cost
- Focus on fine-tuning the current rate structure
  - Adjust season definitions
  - Redefine tier definitions



# SEASON DEFINITIONS

Monthly  $ET_0$   
(inch water)

## Weather Data Options



# REVISE SEASON DEFINITIONS

	Winter	Summer
Current	Jan – April	May – Dec
Revised	Oct - Mar	Apr - Sep



# REVISED CURRENT TIERS – SFR

Current Tiers	SFR		SFR-LL	
	Winter	Summer	Winter	Summer
Tier 1	9	13	11	17
Tier 2	15	21	17	31
Tier 3	above Tier 2		above Tier 2	

Revised Current Tiers	SFR Default Irrigation area ( 2,600 sq ft)		SFR-LL Default Irrigation area ( 5,000 sq ft)	
	Winter	Summer	Winter	Summer
Tier 1	9	9	9	9
Tier 2	14	19	19	28
Tier 3	above Tier 2		above Tier 2	



# REVISED CURRENT TIERS – IRR

Current Tiers	IRR ( per 100 sq ft irrigated area)	
	Winter	Summer
Tier 1	0.0714	0.143
Tier 2	0.143	0.357
Tier 3	above Tier 2	

Revised Current Tiers	IRR ( per 100 sq ft irrigated area)	
	Winter	Summer
Tier 1	0.0463	0.0918
Tier 2	0.1853	0.3673
Tier 3	above Tier 2	



# GOALS OF THE WATER RATE STRUCTURE

- Increase revenue stability, while maintaining affordability
  - Currently the City collects 22% of revenue from monthly service charge
- This is accomplished by:
  - Increasing the monthly fixed charge
  - Decreasing tier 1
- Challenge:
  - Need to have a rate structure that is justifiable under Prop 218



# WATER RATES SHOULD REFLECT WATER SUPPLY COSTS

Tiers		Water Supply Sources
Tier 1	Essential Use	Groundwater + Imported Water
Tier 2	Efficient Use	Imported Water
Tier 3	Inefficient Use	Supplemental Water or Expanded Reclaimed Water





# PROPOSED RATES

## COMMODITY TIERED RATES

Tiers	Current Aug 1, 2011	FY 2013 Aug 1, 2012	FY 2014 Aug 1, 2013
Tier 1	\$2.40	\$2.36	\$2.53
Tier 2	\$3.59	\$3.86	\$4.13
Tier 3	\$8.35	\$8.30	\$8.88
Uniform	\$3.19	\$3.31	\$3.54



# PROPOSED RATES

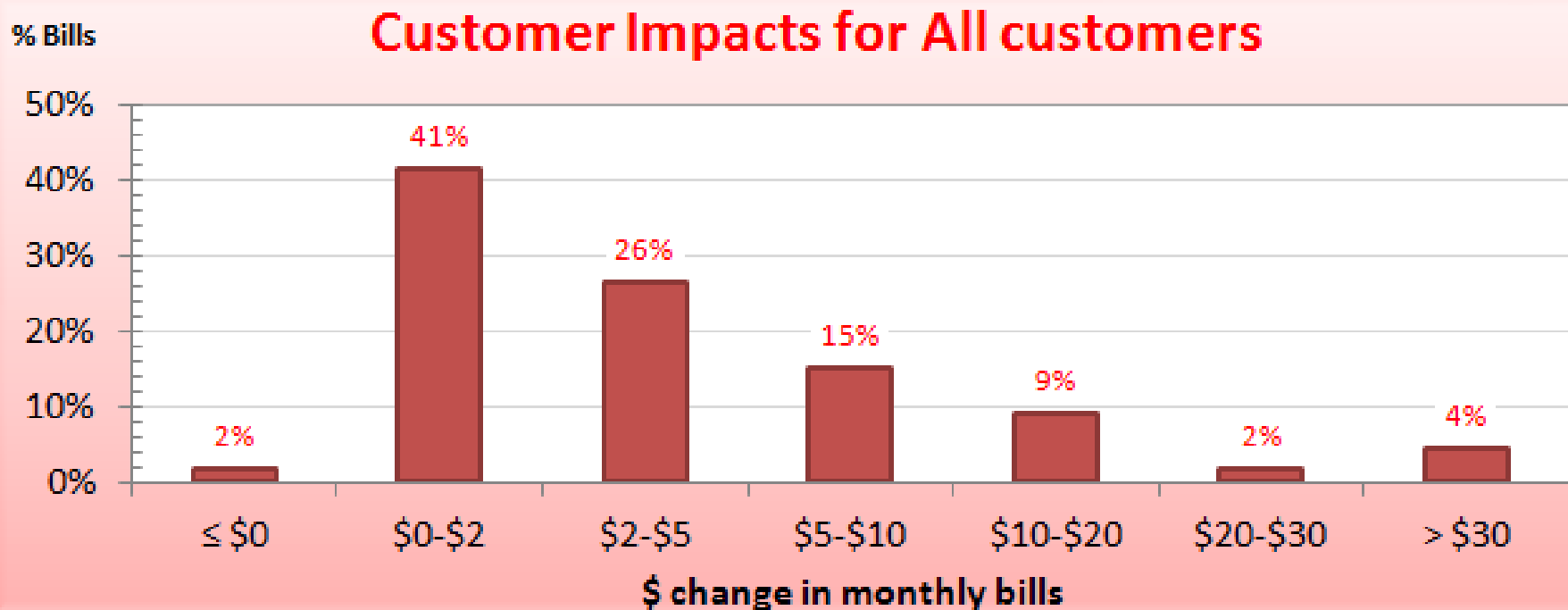
## MONTHLY FIXED SERVICE CHARGES

Meter Size	Current Aug 1, 2011	FY 2013 Aug 1, 2012	FY 2014 Aug 1, 2013
5/8	\$12.30	\$14.40	\$15.41
3/4	\$12.30	\$14.40	\$15.41
1	\$12.30	\$14.40	\$15.41
1 1/2	\$27.63	\$32.36	\$34.63
2	\$41.28	\$48.34	\$51.72
3	\$80.23	\$93.95	\$100.53
4	\$121.21	\$141.92	\$151.85
6	\$232.59	\$272.32	\$291.38



# CUSTOMER IMPACTS

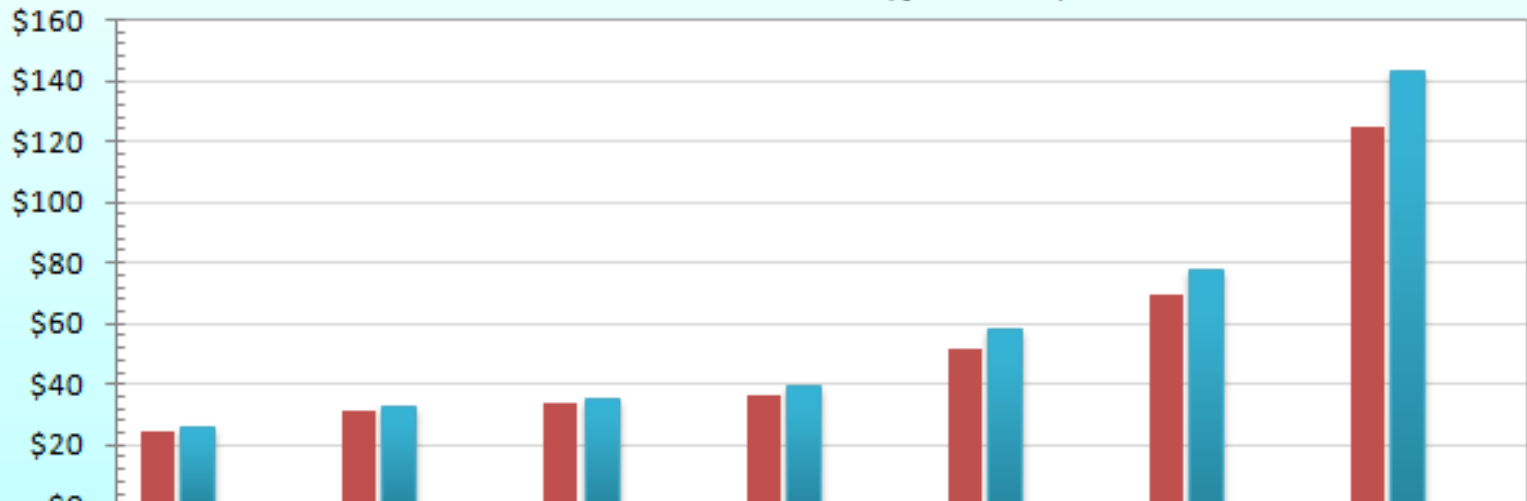
## INCLUDES MODIFY RATE STRUCTURE & 7% RATE INCREASE



# CUSTOMER IMPACTS

## Average Sample Bills at Different Usage Levels

SFR: 1-in meter, 2,600 sq ft landscape



Monthly Usage	5 ccf	8 ccf	9 ccf	10 ccf	15 ccf	20 ccf	30 ccf
Current Bills	\$24.30	\$31.50	\$33.90	\$36.30	\$51.87	\$69.82	\$124.76
Proposed Bills	\$26.20	\$33.28	\$35.64	\$39.50	\$58.80	\$78.10	\$143.34
\$ Impacts	\$1.90	\$1.78	\$1.74	\$3.20	\$6.93	\$8.28	\$18.58
% Impacts	7.8%	5.7%	5.1%	8.8%	13.4%	11.9%	14.9%

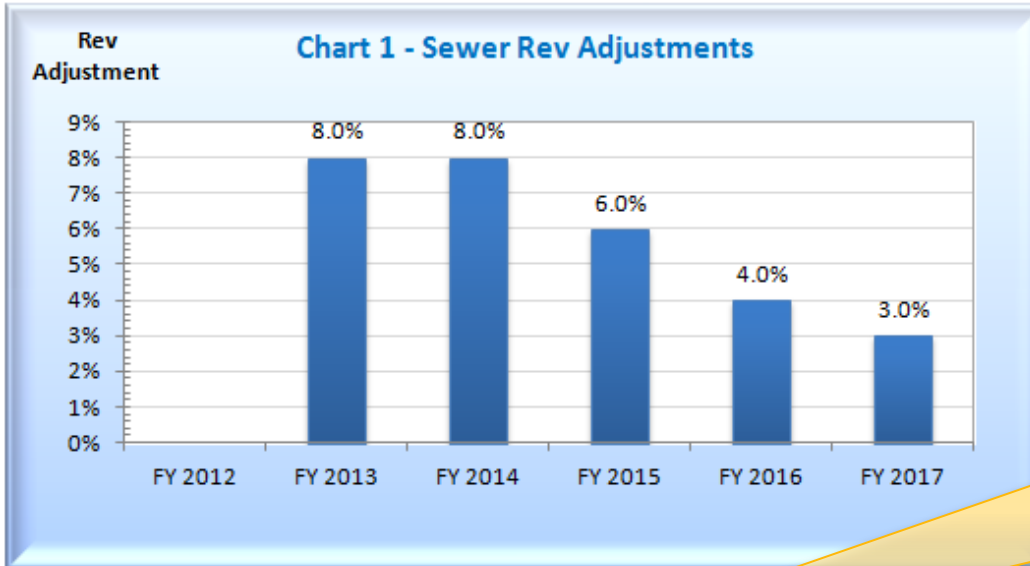
The average usage is 13 ccf



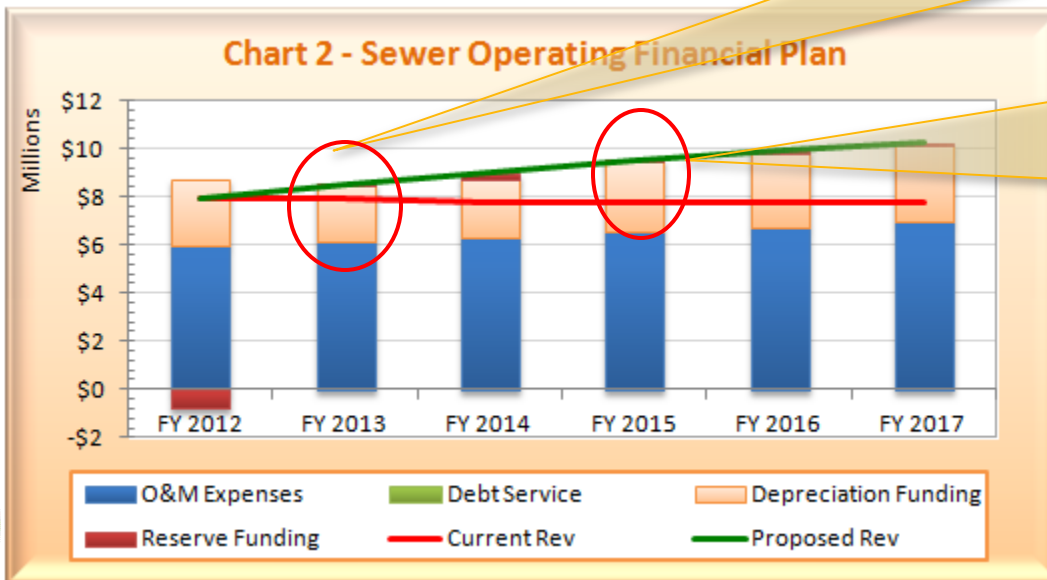
# Sewer

1. Financial plan
2. Sewer rates

# SEWER FINANCIAL PLAN



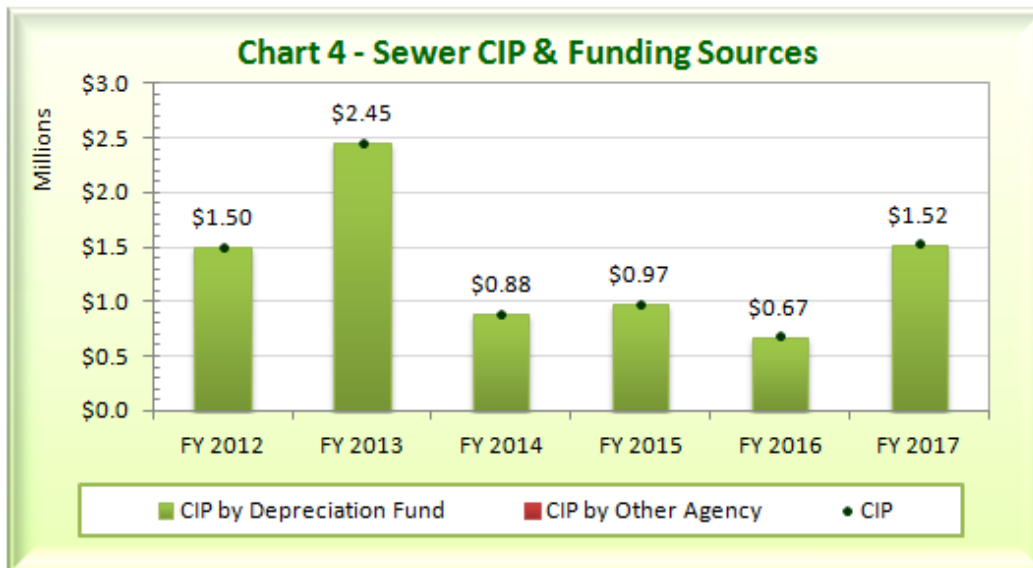
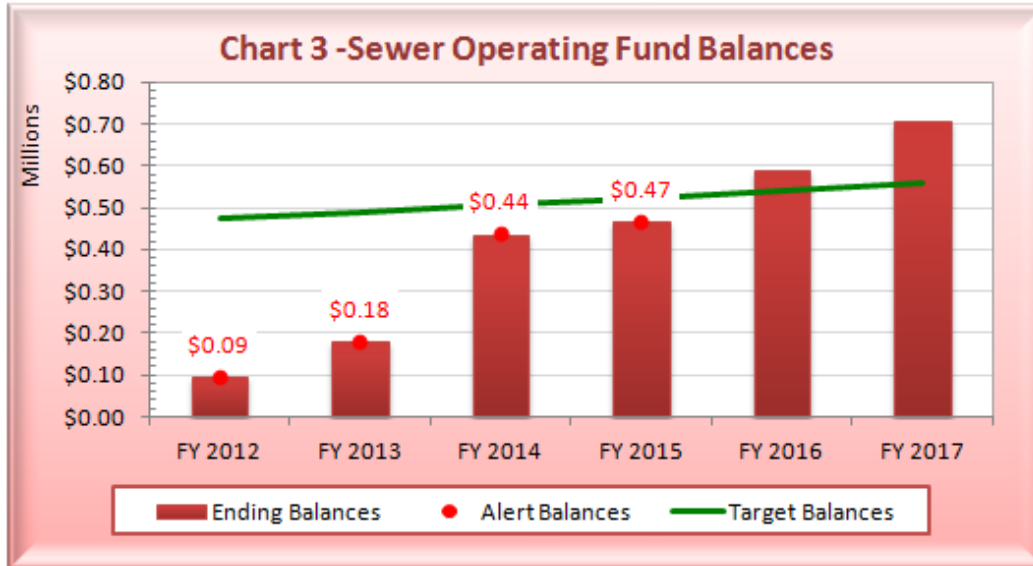
Decrease \$500K in depreciation funding in FY 2013



Return to full depreciation funding in FY 2015



# SEWER FINANCIAL PLAN



# SEWER RATE RECOMMENDATION

- Mass balance analysis was conducted
- RFC recommends that a uniform adjustment is applied to rates
  - Pros: Simple to explain, mass balance analysis is not required since it was conducted in 2008
  - Pros: Given the potential changes in water, further changes in sewer rates may cause customer confusion
- Mass balance analysis should be conducted 2015 to comply with Government Code Section 54999





# PROPOSED SEWER RATES

EFFECTIVE AUGUST 1<sup>ST</sup> 2013 AND 2014

Monthly Fixed Fees	FY 2012	FY 2013	FY 2014
Meter Sizes	Current	Proposed	Proposed
5/8 in.	\$20.80	\$22.47	\$24.27
3/4 in.	\$20.80	\$22.47	\$24.27
1 in.	\$20.80	\$22.47	\$24.27
1½ in.	\$68.61	\$74.10	\$80.03
2 in.	\$110.19	\$119.01	\$128.54
2½ in.	\$228.71	\$247.01	\$266.78
3 in.	\$228.71	\$247.01	\$266.78
4 in.	\$353.45	\$381.73	\$412.27
5 in.	\$522.90	\$564.74	\$609.92
6 in.	\$692.34	\$747.73	\$807.55



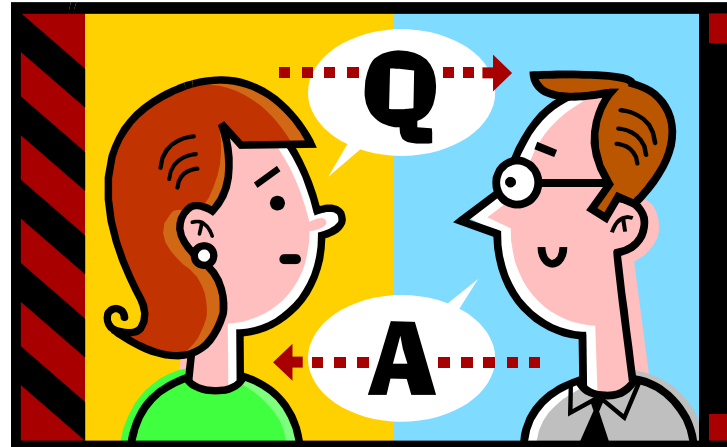
# PROPOSED SEWER RATES

EFFECTIVE AUGUST 1<sup>ST</sup> 2013 AND 2014

Commodity Charges (\$/ccf) Customer Classes	Strength (mg/ L)	FY 2012 Current	FY 2013 Proposed	FY 2014 Proposed
Single-family residential		\$1.27	\$1.38	\$1.50
Multi-family residential/Mobile Home		\$1.27	\$1.38	\$1.50
Low strength commercial/Schools/Religious Institutions	149	\$1.73	\$1.87	\$2.02
Medium strength commercial	290	\$2.26	\$2.45	\$2.65
Commercial/residential	290	\$2.29	\$2.48	\$2.68
Medium high strength commercial	500	\$4.00	\$4.32	\$4.67
High strength commercial	900	\$5.57	\$6.02	\$6.51



# DISCUSSION



THANK YOU