



**CITY OF**

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# **NEWPORT BEACH**

## **City Council Staff Report**

November 14, 2017  
Agenda Item No. 3

**TO:** HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

**FROM:** George Murdoch, Municipal Operations Director - 949-644-3011,  
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**TITLE:** Resolution to Amend Recycled Water Commodity Charge

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**ABSTRACT:**

The City of Newport Beach (City) provides non-potable (recycled) water for irrigation of parks, schools, center medians, and golf courses. The City purchases recycled water from the Orange County Water District (OCWD) through the Green Acres Project.

The Commodity charge is one component of the recycled water rate the City charges its customers. The Commodity charge (price per HCF or billing unit) is a direct reflection of what the City pays OCWD for recycled water.

Municipal Code NBMC 14.13.010 states that if the City's cost of recycled water increases by more than the projected rate to purchase water from OCWD, the commodity charge will be adjusted annually to reflect the City's cost to purchase water from OCWD.

OCWD has increased the rate higher than the established rates projected. In compliance with our municipal code, staff recommends the City's recycled commodity charge be adjusted to cover the actual cost the City pays OCWD. The proposed rates are described in the discussion section below.

**RECOMMENDATION:**

- a) Determine this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because this action will not result in a physical change to the environment, directly or indirectly; and
- b) Adopt Resolution No. 2017-69, *A Resolution of the City Council of the City of Newport Beach, California, Amending the Recycled Water Commodity Charge Effective January 1, 2018.*

### **FUNDING REQUIREMENTS:**

There are no funding requirements to implement the adjusted recycled water rate; however, this action will change the recycled water commodity charge currently assessed to users of recycled water.

### **DISCUSSION:**

The City of Newport Beach (City) provides non-potable (recycled) water for irrigation of parks, schools, center medians, and golf courses. The City purchases recycled water from the Orange County Water District (OCWD) through the Green Acres Project.

The City retained the services of HF&H Consultants (HF&H) to conduct a recycled water rate study in 2013 and presented the findings to the Finance Committee and City Council in 2014. Following a Proposition 218 notice period and public hearing on August 12, 2014, the City Council introduced Ordinance No. 2014-13 amending the NBMC adding Section 14.13 *Recycled Water Rates Established*.

On September 9, 2014, the City Council conducted a second reading of the ordinance and adopted Resolution No. 2014-78 setting new recycled water rates over a five-year period. The rates are a combination of fixed charges to cover operations and maintenance costs of the system, a pump station charge for operations and maintenance of the City owned pump stations and a commodity (price per HCF or billing unit) charge that is the actual cost the City pays OCWD for recycled water.

The rates were first adjusted in 2015 and scheduled to increase every year for a five-year period ending with in 2019. Table 1 below is the current rates established by Resolution 2014-78.

***Table 1 Current Monthly Recycled Water Charges***

#### **Fixed Charge**

Meter Size	2014	2015	2016	2017	2018	2019
5/8" or 3/4"	\$13.82	\$18.91	\$19.29	\$19.68	\$20.07	\$20.47
1"	\$23.03	\$31.53	\$32.16	\$32.80	\$33.46	\$34.13
1 1/2"	\$46.06	\$63.05	\$64.32	\$65.60	\$66.91	\$68.25
2"	\$73.70	\$100.88	\$102.90	\$104.95	\$107.05	\$109.19
3"	\$138.18	\$189.15	\$192.94	\$196.80	\$200.73	\$204.75
4"	\$230.30	\$315.25	\$321.56	\$327.99	\$334.55	\$341.24
6"	\$460.61	\$630.50	\$643.11	\$655.98	\$669.10	\$682.48
8"	\$736.98	\$1,008.81	\$1,028.99	\$1,049.57	\$1,070.56	\$1,091.97

#### **Commodity Charge**

Per HCF	\$2.46	\$0.86	\$0.87	\$0.89	\$0.91	\$0.93
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#### **Pump Station Charge**

Per HCF	none	\$0.36	\$0.37	\$0.38	\$0.38	\$0.39
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On June 27, 2017, the City and OCWD entered into a new Agreement related to the City's purchase and distribution of recycled water from OCWD. This Agreement establishes the distribution, purchase price, water quality, operating obligations, and rules related to the purchase and distribution of recycled water from OCWD. Furthermore, the Agreement allows OCWD to establish fees in accordance to their true cost to provide reclaimed/recycled water.

Municipal Code NBMC 14.13.010 states that if the City's cost of recycled water increases by more than the projected rate to purchase water from OCWD, the commodity charge will be adjusted annually to reflect the City's cost to purchase water from OCWD. Currently, the City collects from our customers \$0.89 per HCF (1 HCF = 748 gallons) which equals \$387.71 dollars per Acre-Foot (AF) of revenue. Prior to July 1, 2017, OCWD set its rate to \$478.40 per AF. This is higher than the anticipated \$387.71 per AF used in our rate study.

On May 31, 2017, the City, as well as all GAP recycled water retailers, received a letter from OCWD notifying us that the wholesale rate would be increasing from \$478.40 per Acre-Foot (AF) to \$738.00 per AF effective July 1, 2017. In order to pay for this significant increase, the City will need to increase the commodity rate to \$1.69 per HCF. This number is established by the following conversions and equation: 1 Acre-Foot (AF) = 43,560 Cubic Feet (FT<sup>3</sup>), 100 FT<sup>3</sup> = 1 Hundred Cubic Feet (HCF) therefore:  $\$738 / 43,560 \text{ FT}^3 \times 100 = \$1.69/\text{HCF}$ .

The fixed charges as well as the pump station charge are proposed to remain the same. Table 2 reflects the proposed changes which recovers 100 percent of the actual cost the City pays OCWD for recycled water for the calendar year 2018. It is anticipated that OCWD may increase their rates again in 2019 at which time staff will bring the item back to Council for a recommended change if needed.

**Table 2 Proposed Monthly Recycled Water Charges**

**Fixed Charge**

Meter Size	2014	2015	2016	2017	2018	2019
5/8" or 3/4"	\$13.82	\$18.91	\$19.29	\$19.68	\$20.07	\$20.47
1"	\$23.03	\$31.53	\$32.16	\$32.80	\$33.46	\$34.13
1 1/2"	\$46.06	\$63.05	\$64.32	\$65.60	\$66.91	\$68.25
2"	\$73.70	\$100.88	\$102.90	\$104.95	\$107.05	\$109.19
3"	\$138.18	\$189.15	\$192.94	\$196.80	\$200.73	\$204.75
4"	\$230.30	\$315.25	\$321.56	\$327.99	\$334.55	\$341.24
6"	\$460.61	\$630.50	\$643.11	\$655.98	\$669.10	\$682.48
8"	\$736.98	\$1,008.81	\$1,028.99	\$1,049.57	\$1,070.56	\$1,091.97

**Commodity Charge**

Per HCF	\$2.46	\$0.86	\$0.87	\$1.69	\$1.69	\$1.69
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**Pump Station Charge**

Per HCF	none	\$0.36	\$0.37	\$0.38	\$0.38	\$0.39
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If City Council approves of the increase, then staff will provide thirty days' notice of the increase to the recycled water rate payers in compliance with California Government Code Section 53756. Rates will be effective January 1, 2018.

**ENVIRONMENTAL REVIEW:**

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

**NOTICING:**

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

**ATTACHMENTS:**

Attachment A – Resolution No. 2017-69

Attachment B – OCWD Letter to the City – Intent to Increase Recycled Water Charges