ATTACHMENT A

WATER RATE STUDY POWERPOINT PRESENTATION PREPARED BY RAFTELIS FINANCIAL CONSULTANTS, INC., DATED JUNE 27, 2019

City of Newport Beach

Water Rate Study

June 27, 2019

RAFTELIS

Rate Study at a Glance

Rate Setting Framework

- Financial goals and policies
- Pricing objectives

Financial Plan

- Evaluation of CIP and financing options
- Cash flow analysis for financial sufficiency

Cost of Service & Rate Design

- Cost allocations
- Rate design
  - Rate calculations
  - Customer impact analyses

Final Rate Adoption

- Report
- Public Hearing

How do We Deal with Future Water Restriction?

3 Potential Approaches

1. Increase the fixed charge to reflect the fixed cost
   - Affordability / environmental concern
   - We can increase the fixed charge by a slight amount and still address other considerations
2. Develop a rate stabilization fund
   - Determine how much fixed cost is covered in the commodity rate and develop a proper reserve target
   - “Insurance premium” model
3. Develop drought rates that can be implemented during required cut back
   - Please cut back and yes your rates are increasing
     - Messaging challenge

Recommendations

- Increase the fixed charge by a small amount
  - Balancing out revenue stability with affordability / environmental concerns
- Develop a rate stabilization fund for 30% cut back in water use
  - Rate stabilization fund will be sufficient for temporary cut back
  - Long term cut back will require additional rate increase
- Use **drought penalties** as enforcement tool to reduce water use. This was effective during last drought
  - Policy consideration: Should we benchmark water use based on historical or water budget allocation?

Overview of Financial Policies

Goals of Financial/Reserve Policies:

- To mitigate financial risk
  - Rate / revenue instability
  - Emergency with asset failure
  - Volatility in working capital
- To achieve/maintain a certain credit rating
- To determine most opportune time to issue debt

Overview of Financial Policies

Importance of Financial Policies:

- To maintain financial solvency
  - Provide a basis for coping with fiscal emergencies (revenue short-falls, asset failure, emergency, etc ...)

- To provide guidelines for sound financial management with an overall long-range perspective

- To enhance financial management transparency
  - Improve public's confidence and elected officials' credibility

Financial Health Indicators

Healthy Reserves

- Operating Reserve – results from positive cash flow
- CIP Reserves – can award contracts quickly and speed up projects if necessary
- Rate Stabilization – funds used during periods of revenue shortages
  - Such as a drought
  - Can use probability analysis to determine reserve levels
- Emergency – funds available in case of asset failure
  - Critical asset replacement analysis used to set reserve level

Proposed Reserve Policy

- **O&M Reserve** – for Operating Cash Flow
  - 33% of operating expenses (or 4 months of expenses)
- **Capital Reserve** – for Capital Working Capital
  - 75% of 5-year average CIP
- **Rate Stabilization** – for unexpected water demand reduction or unexpected water supply cost increases, emergencies, and non-budgeted CIP capital projects
  - **Recommended Rate Stabilization Reserve Target Balance: $2.7M**
    - Future reserve target will be increased by projected water supply increases ~ 3.2% per year
    - See calculations on next slide

Rate Stabilization Fund of $2.7M

- $2.7M represents the net revenue short fall from a 30% cut back
  - 30% reduction is approximate cutback that occurred during the last drought
  - The City is expected to sell 5.9M units of water under normal conditions
  - The City purchases water from two wholesale water entities.
  - The City sells water through a commodity rate of $3.08 per unit
      - $1.54 of the commodity rate represents the price the City pays per unit to purchase the water wholesale
        - The City saves this cost when it purchases less water
      - The remaining balance of the per unit commodity rate ($3.08 - $1.54 = $1.54) represents the City's fixed costs that it recovers through the commodity rate
    - When the City sells less water, it does not generate enough revenue to cover these fixed costs
- $2.7M = $1.54 Fixed Costs x 30% Cutback x 5.9M units

Reserve Policy Discussion

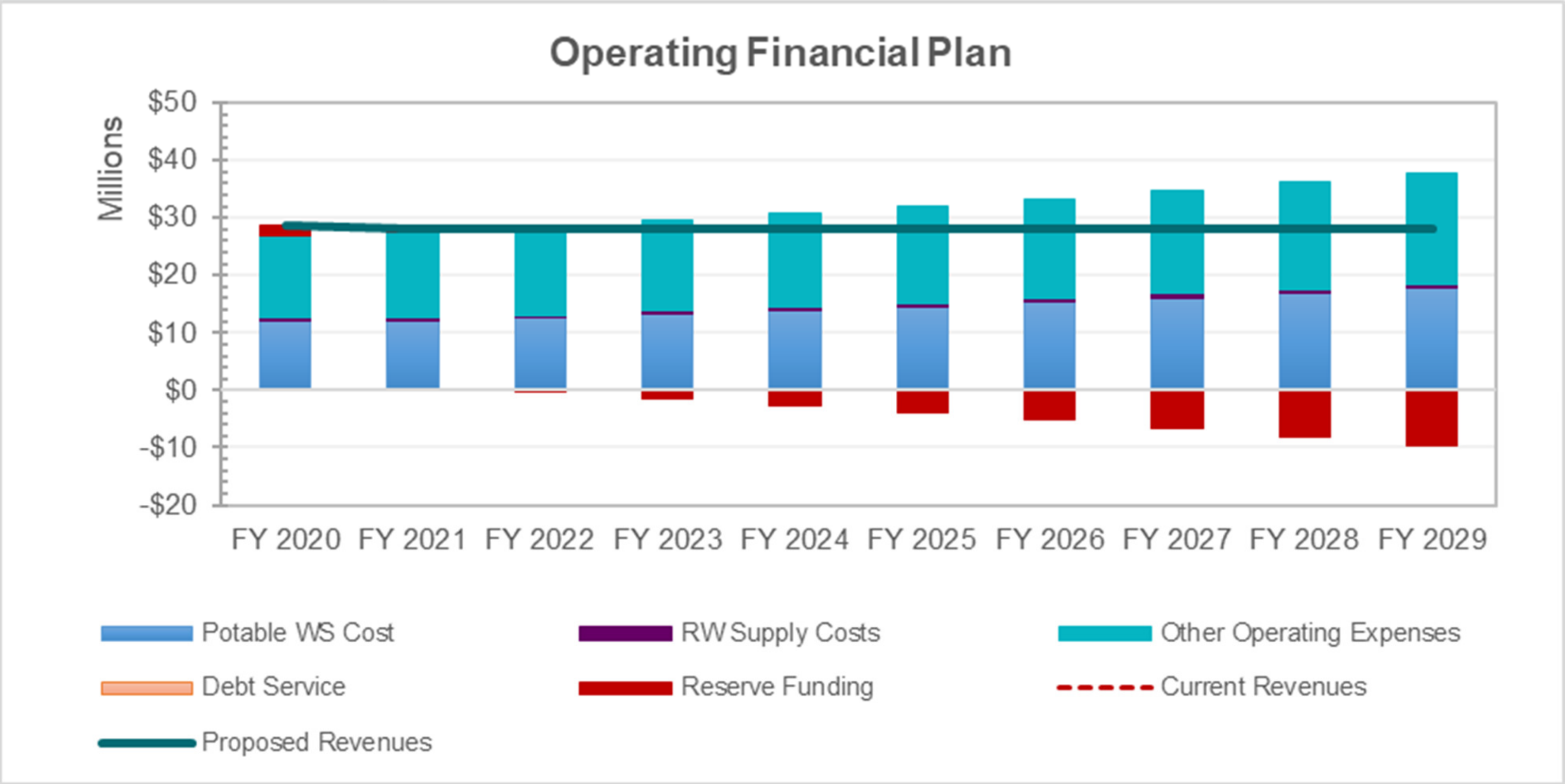
Reserves	Current Target Level		Proposed Target Level	
	Current Policy	FY 2020 Current Target	Proposed Policy	FY 2020 Proposed Target
O&M Reserve / Rate Stabilization Reserve	50% of O&M	$12.5M	33% of O&M	$8.9M
			Net revenue loss for 30% water usage reduction	$2.7M
Capital Reserve	Undefined Amount	N/A	75% of 5-yr average CIP	$5.4M
Total Target Reserve		**$12.5M +**		**$17.0M**
Current Ending Balance	**July 1, 2018 $33,924,564**		**July 1, 2019 $31,121,429**	

Reserve Targets

Target Reserves			FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
O&M	33%	of operating expenses	$8,326,572	$8,903,507	$9,043,914	$9,374,801	$9,756,232
Rate Stab.	$2,700,000		$2,700,000	$2,700,000	$2,786,914	$2,876,809	$2,969,795
Capital	75%	of 5-year average CIP	$5,708,400	$5,400,000	$5,400,000	$5,400,000	$5,400,000
Total Target Reserves			$16,734,972	$17,003,507	$17,230,828	$17,651,610	$18,126,027

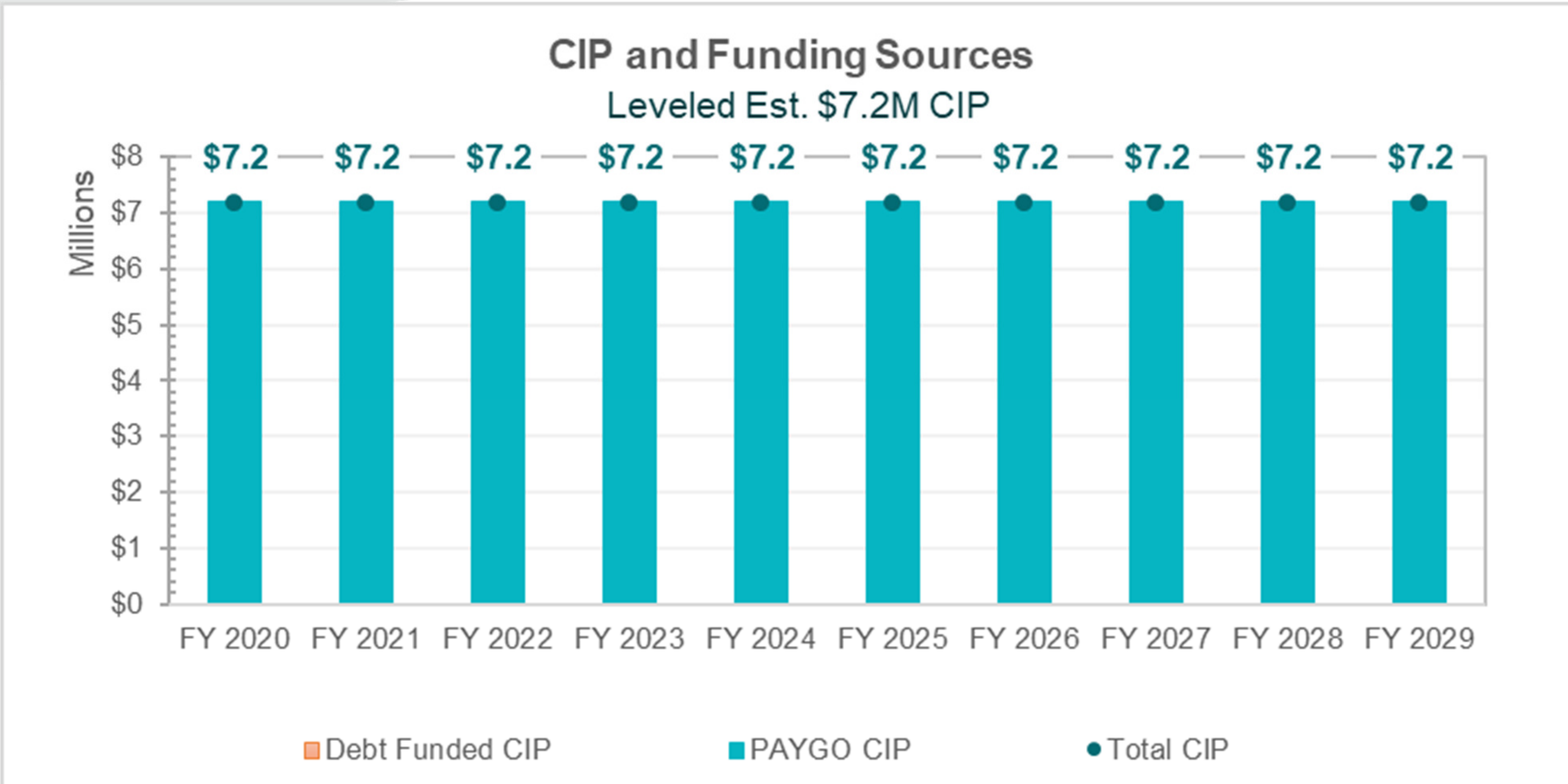
Status Quo Financial Plan

No Rev Adjustments



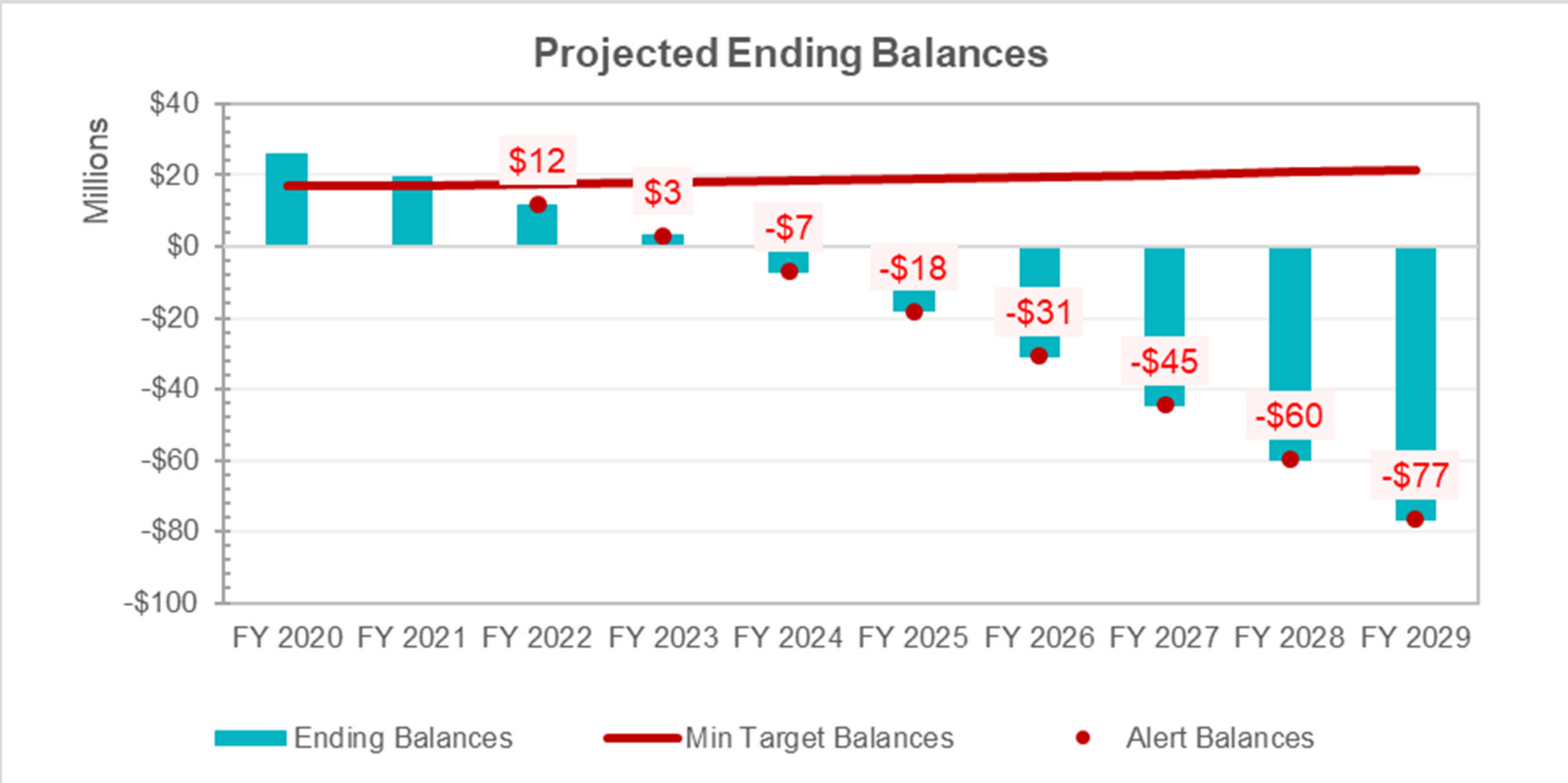
Status Quo Financial Plan

No Rev Adjustments



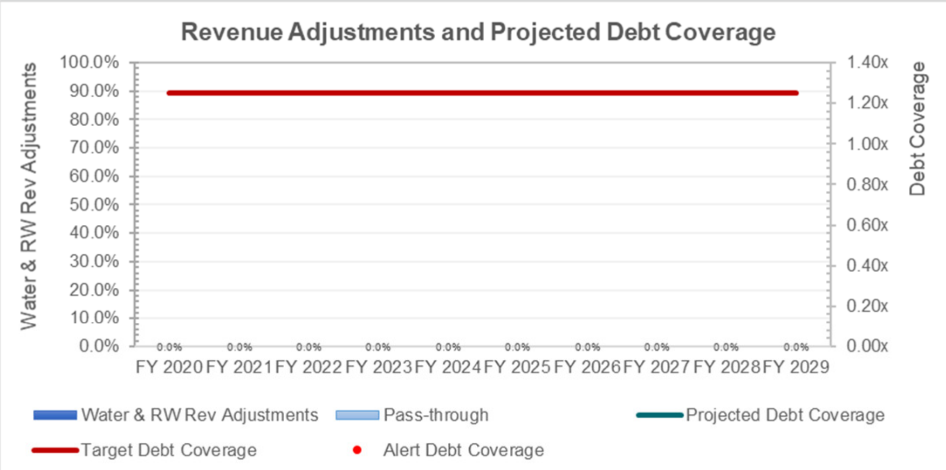
Status Quo Financial Plan

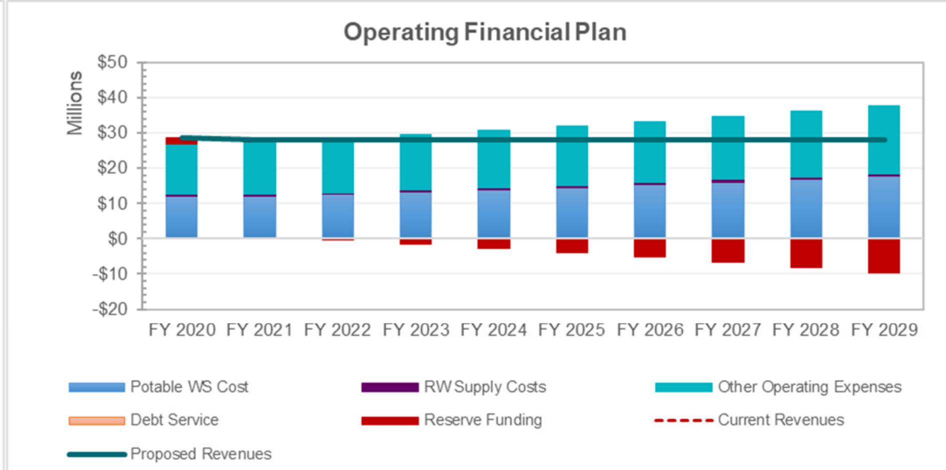
No Rev Adjustments

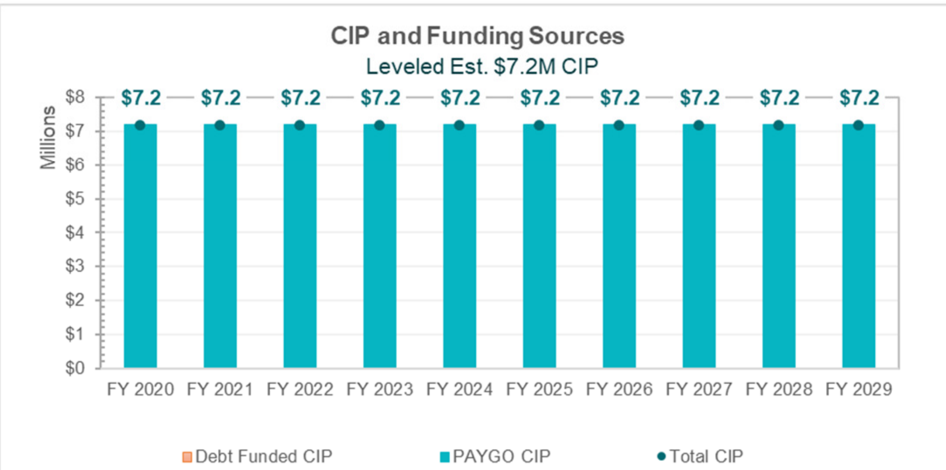


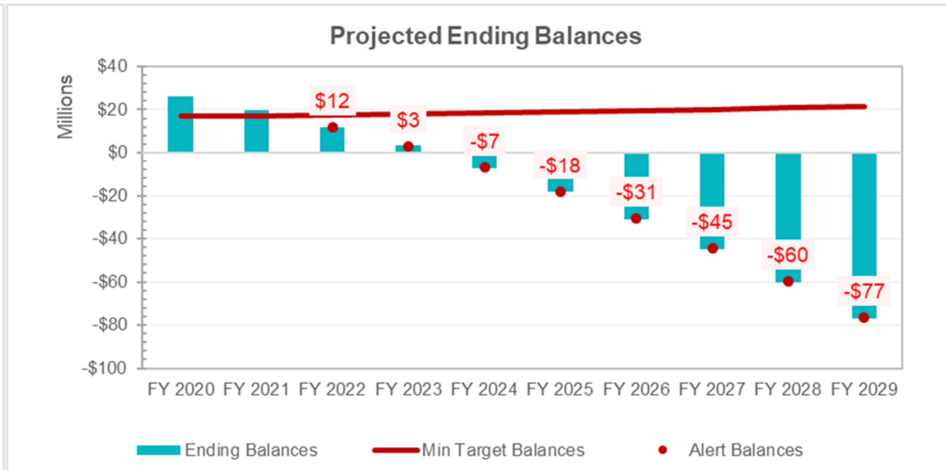
Status Quo Financial Plan

No Rev Adjustments, Leveled Estimated $7.2M CIP



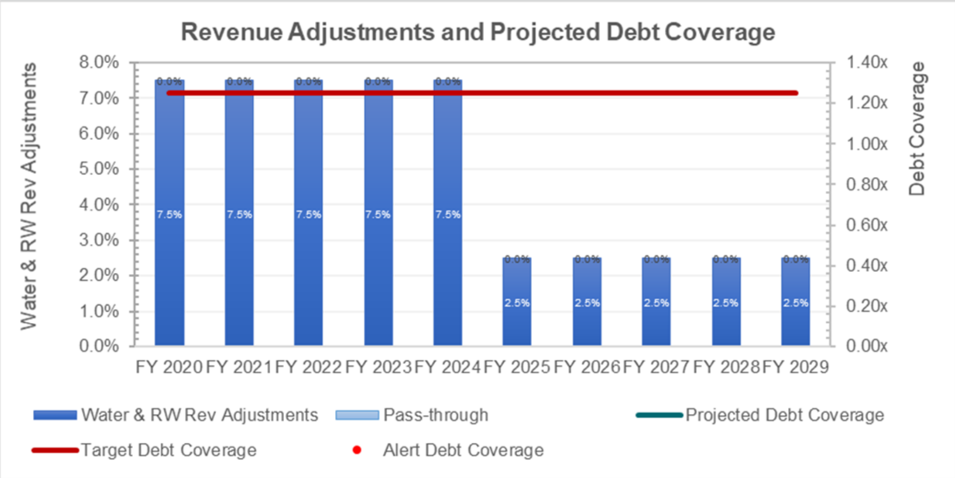


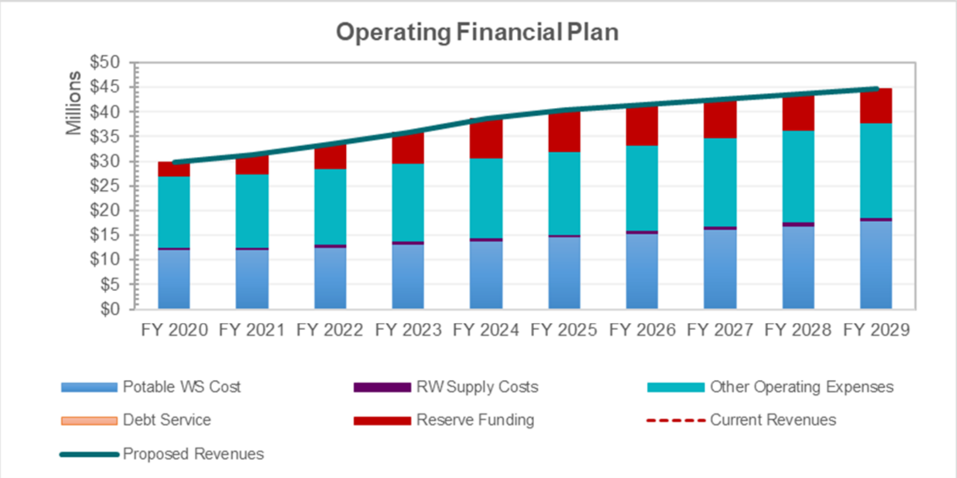


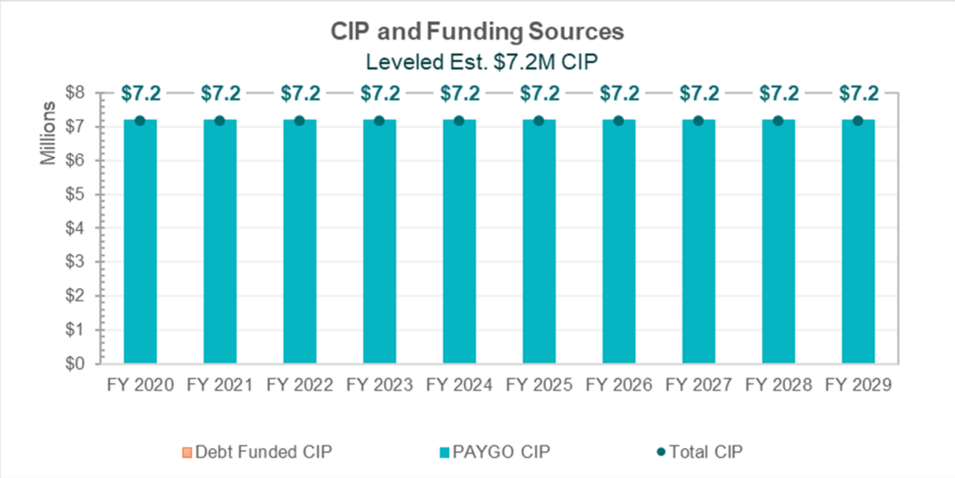


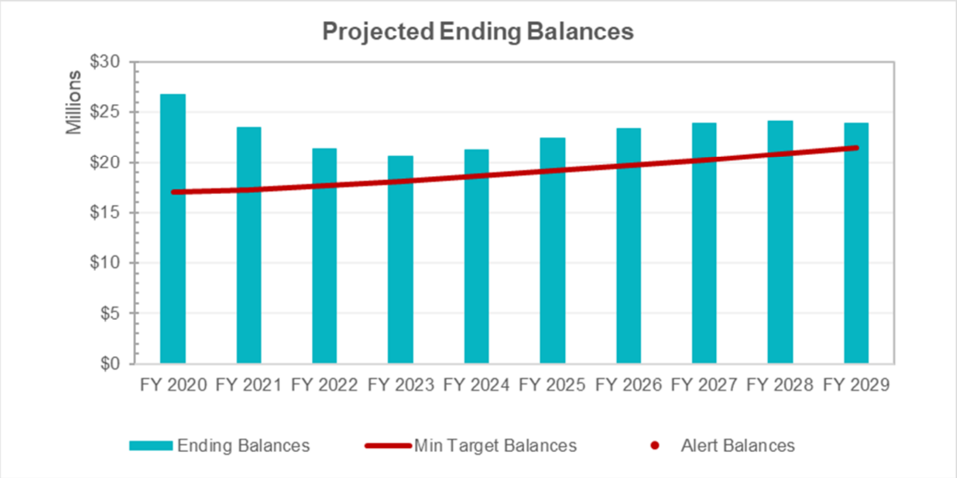
Proposed Financial Plan

~7.5% per year for the next 5 years









Proposed Water Rate Design

Fixed Charges Components

- Billing & Customer Services – uniform with meter sizes
- Meter Related Costs – increasing with meter capacity ratios
- Capacity Costs – increasing with meter capacity ratios

Water Usage Rates

- Supply Rate
- Unrecovered fixed costs
- Pass-through Rate

RW Usage Rates

- RW Supply Rate

Meter Sizes and Customer Class

Meter Size	Single Family	Multi Family	Commercial	Irrigation	City	Others	Total
5/8	12,785	3,192	394	97	53	24	**16,545**
3/4	3	0	0	0	1	0	**4**
1	6,590	554	229	97	86	29	**7,585**
1 1/2	176	91	161	95	22	6	**551**
2	281	110	404	427	173	35	**1,430**
3	0	6	17	1	8	0	**32**
4	0	11	29	4	5	2	**51**
6	0	5	7	0	3	0	**15**
8	0	0	4	2	2	0	**8**
10	0	0	0	0	0	0	**0**
12	0	0	0	0	1	0	**1**
Total	**19,835**	**3,969**	**1,245**	**723**	**354**	**96**	**26,222**

Rate Options

- Option 1: Maintain current 31% fixed revenues
- Option 2: Increase to 34% fixed revenues

- Other Recommendations:
  - Remove the $1 per extra unit charge for Multi Family

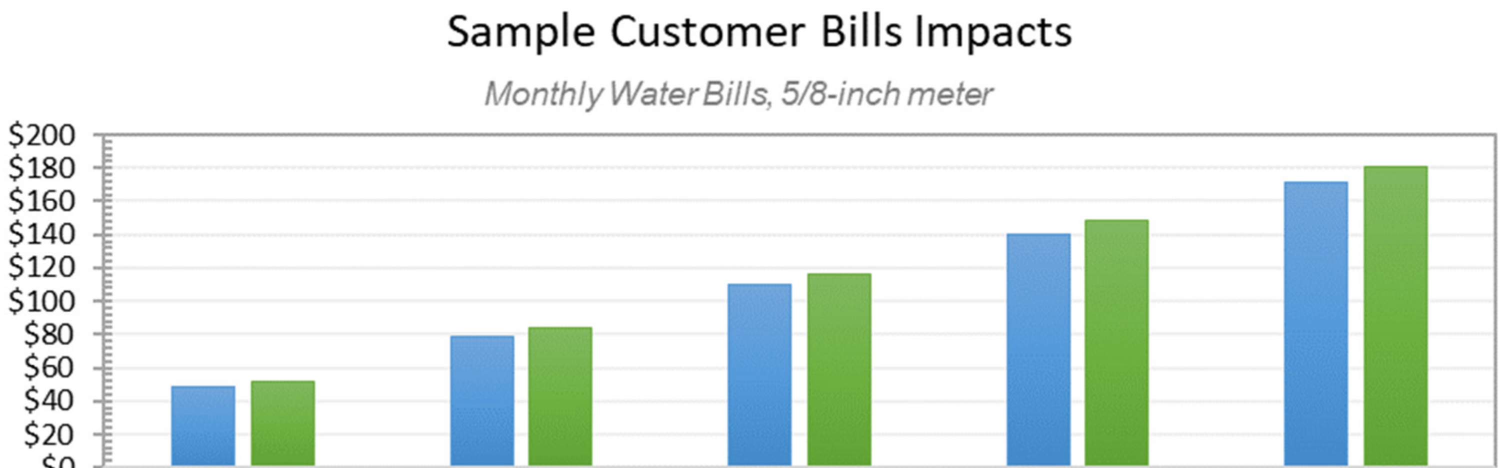
Option 1 Rates: 31% Fixed Rev

Water Fixed Charges	Current	Proposed FY 2020	Impact $
5/8-inch	$17.27	**$19.04**	$1.77
3/4-inch	$17.27	**$19.04**	$1.77
1-inch	$28.79	**$29.28**	$0.49
1 ½-inch	$57.58	**$54.86**	-$2.72
2-inch	$92.12	**$85.56**	-$6.56
3-inch	$172.73	**$226.28**	$53.55
4-inch	$287.88	**$387.47**	$99.59
6-inch	$575.76	**$822.41**	$246.65
8-inch	$921.22	**$1,436.45**	$515.23
10-inch	$1,655.90	**$2,152.83**	$496.93
12-inch	$2,663.48	**$2,715.70**	$52.22
Per Dwelling Unit Charge	$1.00	N/A	

Option 1 Rates: 31% Fixed Rev

Water Usage Charges	Current	Proposed FY 2020	Impact $
Potable Water	$3.08	**$3.23**	$0.15

Monthly Customer Impact for Rate Option 1



	10 HCF	20 HCF	30 HCF	40 HCF	50 HCF
Current Bills	$48.07	$78.87	$109.67	$140.47	$171.27
Proposed Bills	$51.34	$83.64	$115.94	$148.24	$180.54
Impact $	$3.27	$4.77	$6.27	$7.77	$9.27
Impact %	6.8%	6.0%	5.7%	5.5%	5.4%

The average Single Family use is 11 hcf, which will see an annual increase of $41.04

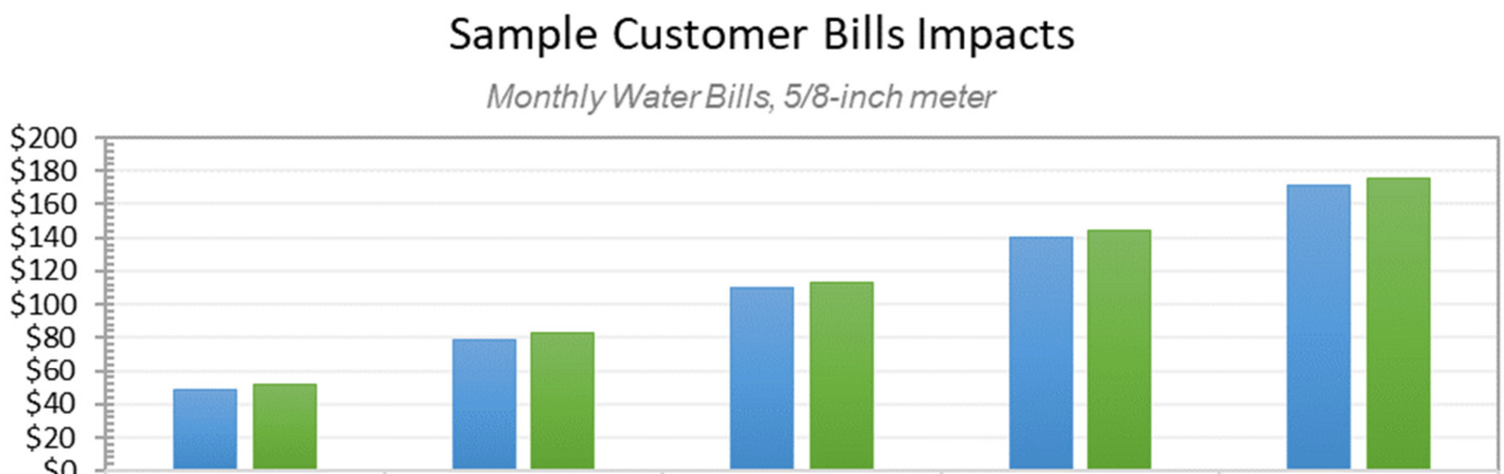
Option 2 Rates: 34% Fixed Rev

Water Fixed Charges	Current	Proposed FY 2020	Impact $
5/8-inch	$17.27	**$20.57**	$3.30
3/4-inch	$17.27	**$20.57**	$3.30
1-inch	$28.79	**$31.82**	$3.03
1 ½-inch	$57.58	**$59.96**	$2.38
2-inch	$92.12	**$93.71**	$1.59
3-inch	$172.73	**$248.42**	$75.69
4-inch	$287.88	**$425.63**	$137.75
6-inch	$575.76	**$903.83**	$328.07
8-inch	$921.22	**$1,578.93**	$657.71
10-inch	$1,655.90	**$2,366.54**	$710.64
12-inch	$2,663.48	**$2,985.39**	$321.91
Per Dwelling Unit Charge	$1.00	N/A	-$1.00

Option 2 Rates: 34% Fixed Rev

Water Usage Charges	Current	Proposed FY 2020	Impact $
Potable Water	$3.08	**$3.10**	$0.02

Monthly Customer Impact for Rate Option 2



	10 HCF	20 HCF	30 HCF	40 HCF	50 HCF
Current Bills	$48.07	$78.87	$109.67	$140.47	$171.27
Proposed Bills	$51.57	$82.57	$113.57	$144.57	$175.57
Impact $	$3.50	$3.70	$3.90	$4.10	$4.30
Impact %	7.3%	4.7%	3.6%	2.9%	2.5%

The average Single Family use is 11 hcf, which will see an annual increase of $42.00

Next Steps

- City Council Study Session on August 13
- Public Outreach
- City Council meeting on Sept 10, Water Rate Study and Proposition 218 notice
- Notice Mailing to all Customers
- Public Hearing on November 5