



October 19, 2021

CITY OF BREA

WATER AND SEWER RATE STUDY

WORK SESSION



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(EST. 10 MIN)

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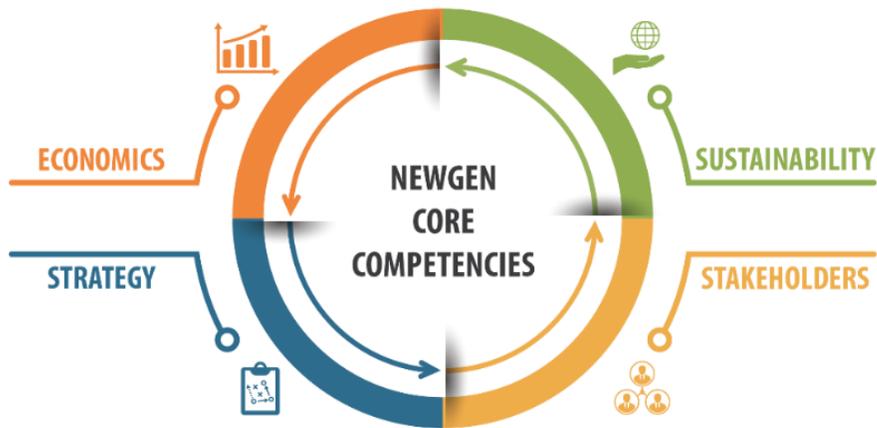
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A consulting company that makes a difference for our clients, for our employees, and in our communities.

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management and economic consulting firm created by consultants who are dedicated to our client's mission and recognized as experts in our fields of service



12

Locations nationwide



52

employees

OUR CLIENTS

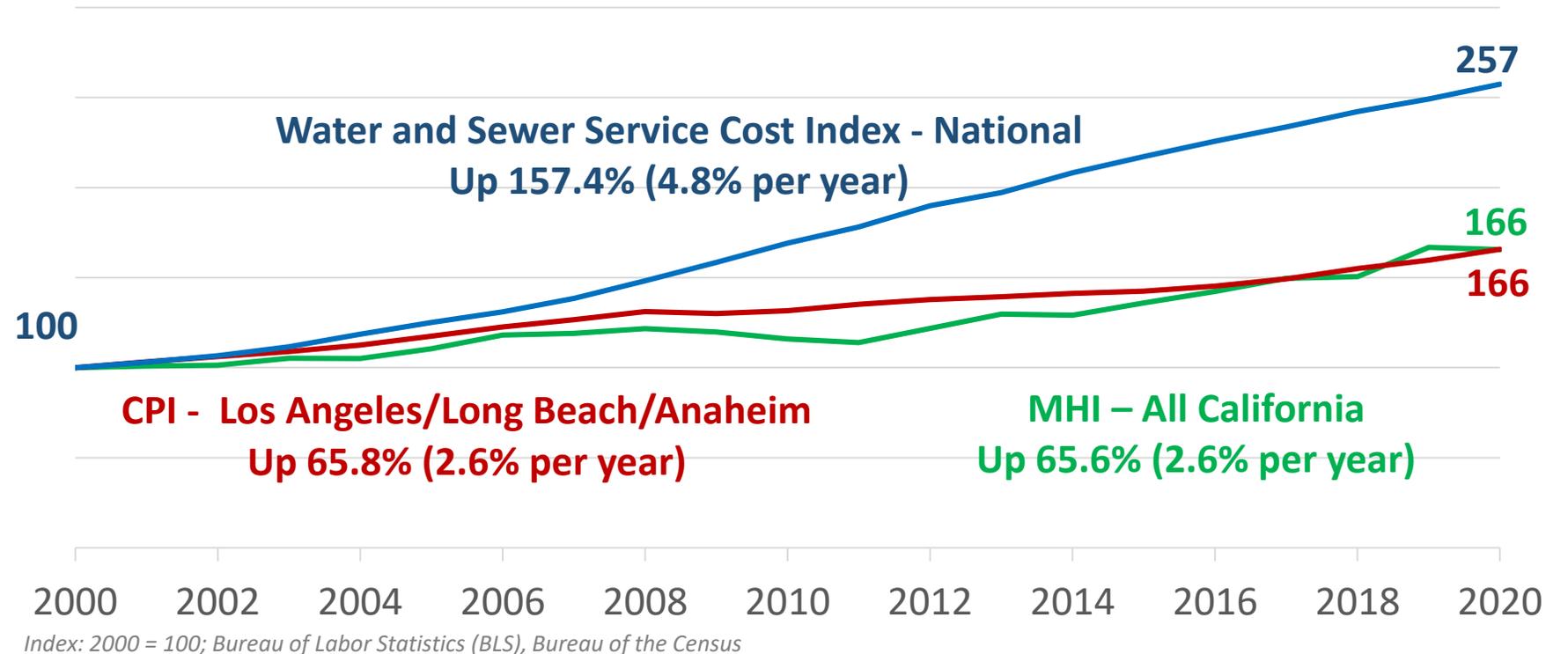


AWWA 2021 STATE OF THE WATER INDUSTRY REPORT SURVEY

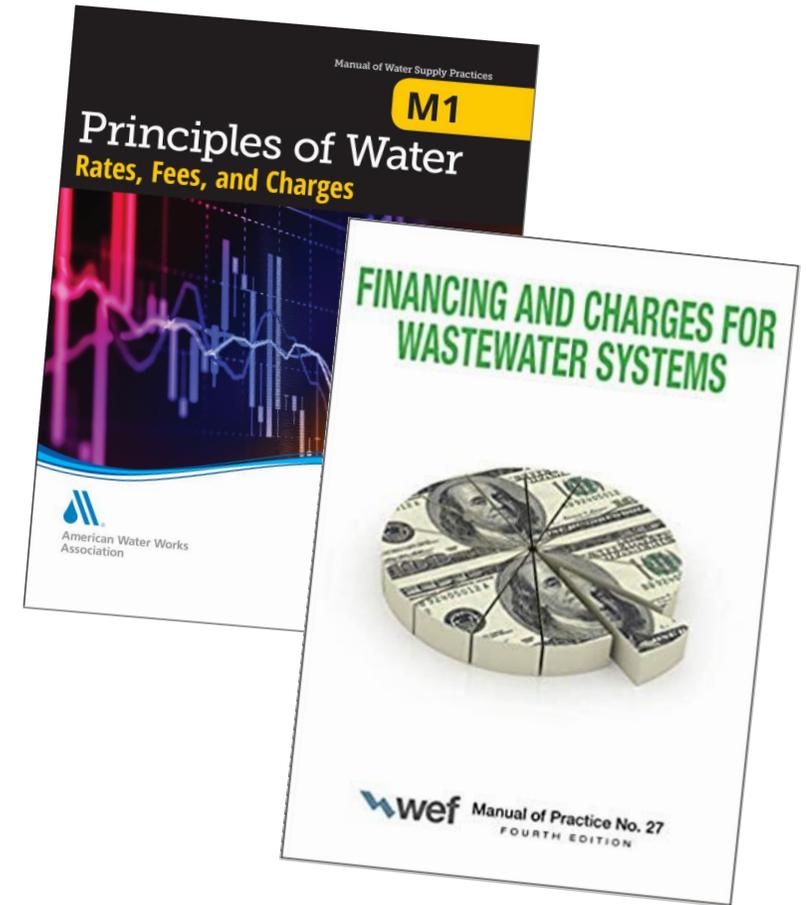
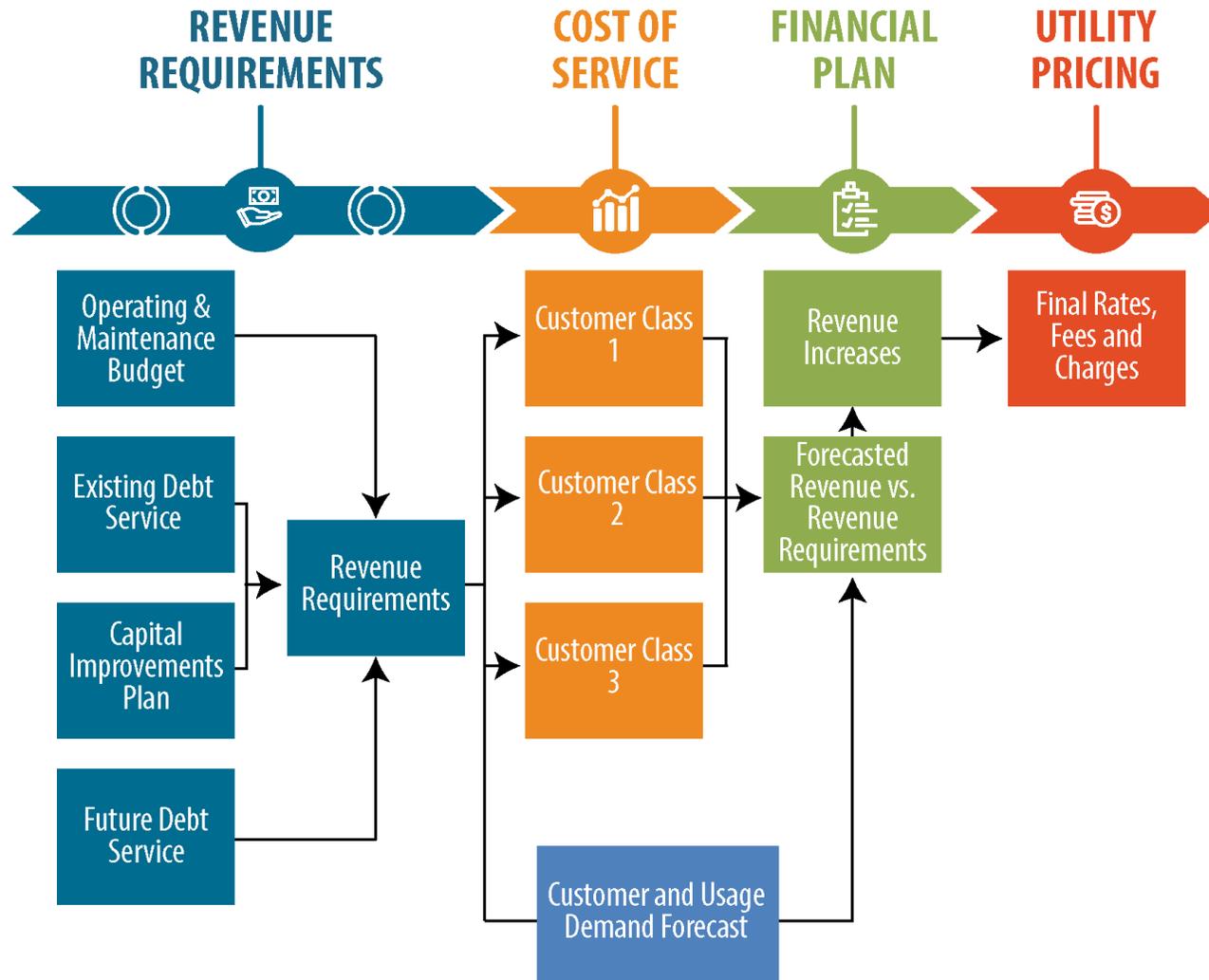


American Water Works Association Top 5 Issues Facing the Water Industry:

1. Renewal and replacement of aging water and sewer infrastructure
2. Financing for capital improvements
3. Long-term water supply availability
4. Emergency preparedness
5. Public understanding of value of water systems and services

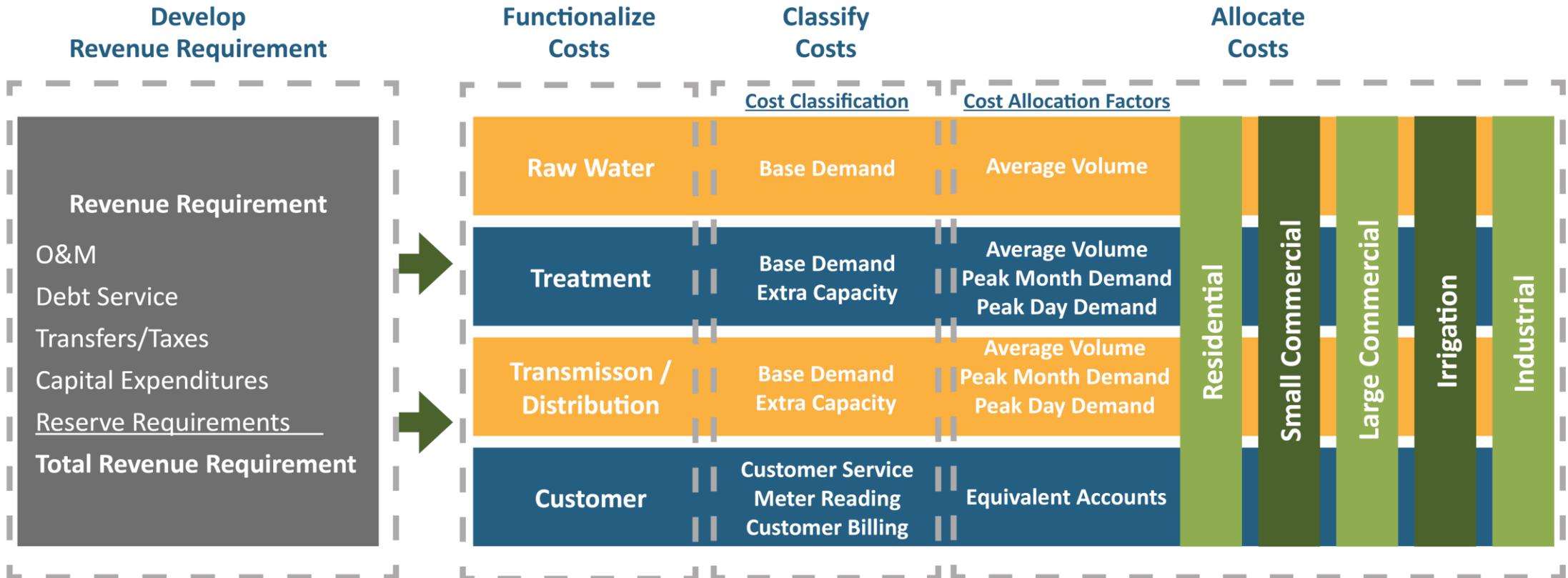


COST OF SERVICE / RATE STUDY PROCESS



COST OF SERVICE – WHAT DOES THAT MEAN?

Alignment of system costs with customers who incur them.



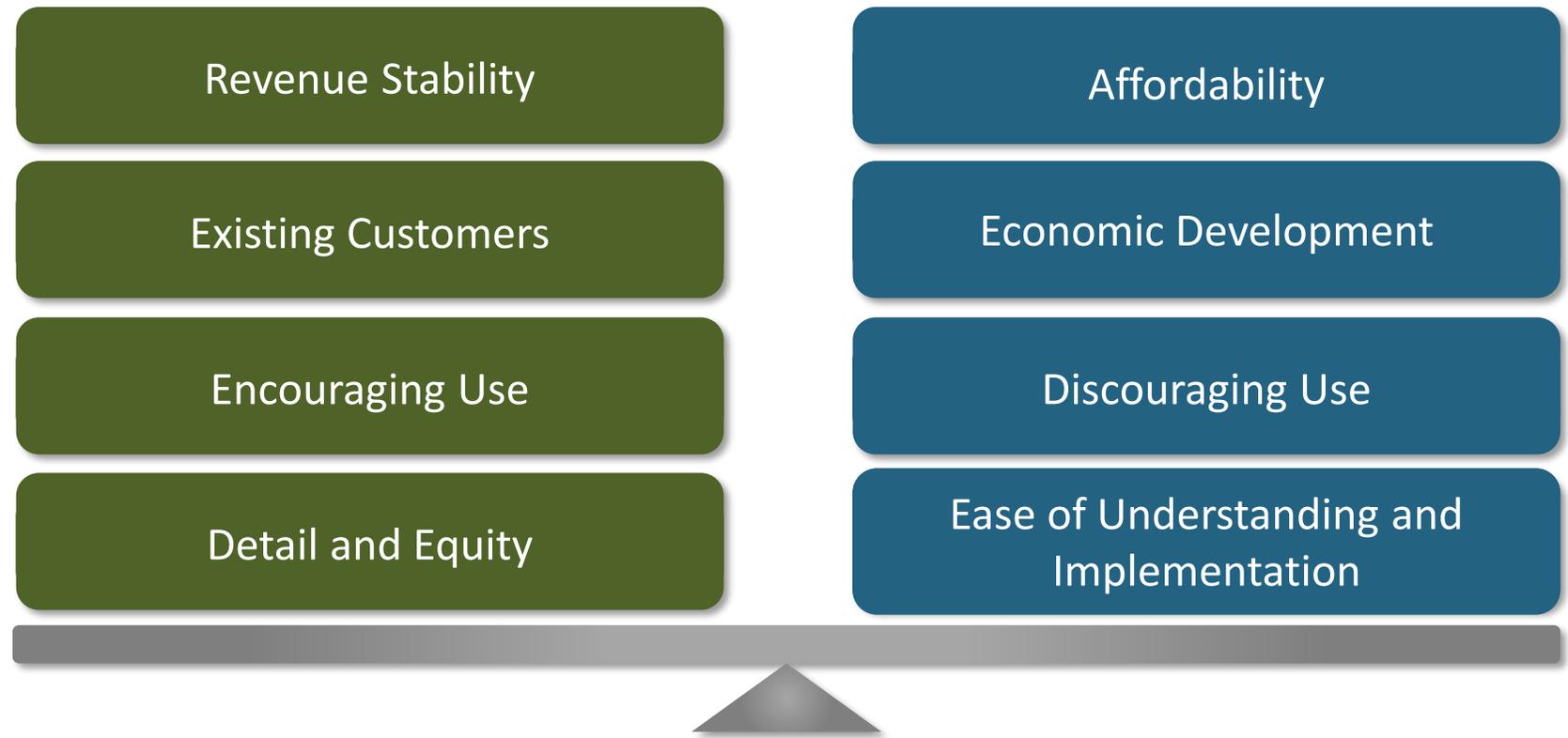
Note: For illustrative purposes only. Functions and allocators may change to align with utility operations/services.

PRICING OBJECTIVES – WHAT SHOULD A RATE STRUCTURE CONSIDER?

- **Legal and Regulatory Compliance** is a prime consideration because rate structures must incorporate applicable local, state, and federal statutes, specifically Prop 218.
- **Equity** requires that rates and charges result in no undue discrimination among customers, i.e., conforms to Cost of Service.
- **Efficiency/Conservation** refers to the ability of the rate schedule to encourage wise use of the resources.
- **Revenue Adequacy** recognizes that rates and fees are cost driven and must cover expenses.
- **Revenue Stability** means that the City's revenue from water rates does not fluctuate significantly based on demand in order to maintain a predictable financial outlook
- **Affordability** means the rates must result in bills that are realistically within the ability of customers to pay.
- **Rate Stability** means the objective to keep rates low over time and ensuring that customers are not subject to large, one-time rate changes.
- **Administrative Simplicity** requires that customers must be able to understand the rate structure and how their use of water impacts their bill. Also, that City staff can maintain and update the rates in future years using the City's billing system.

BALANCING IMPACTS

There are competing objectives and considerations



The Systems Must Be Financially Self-Sufficient

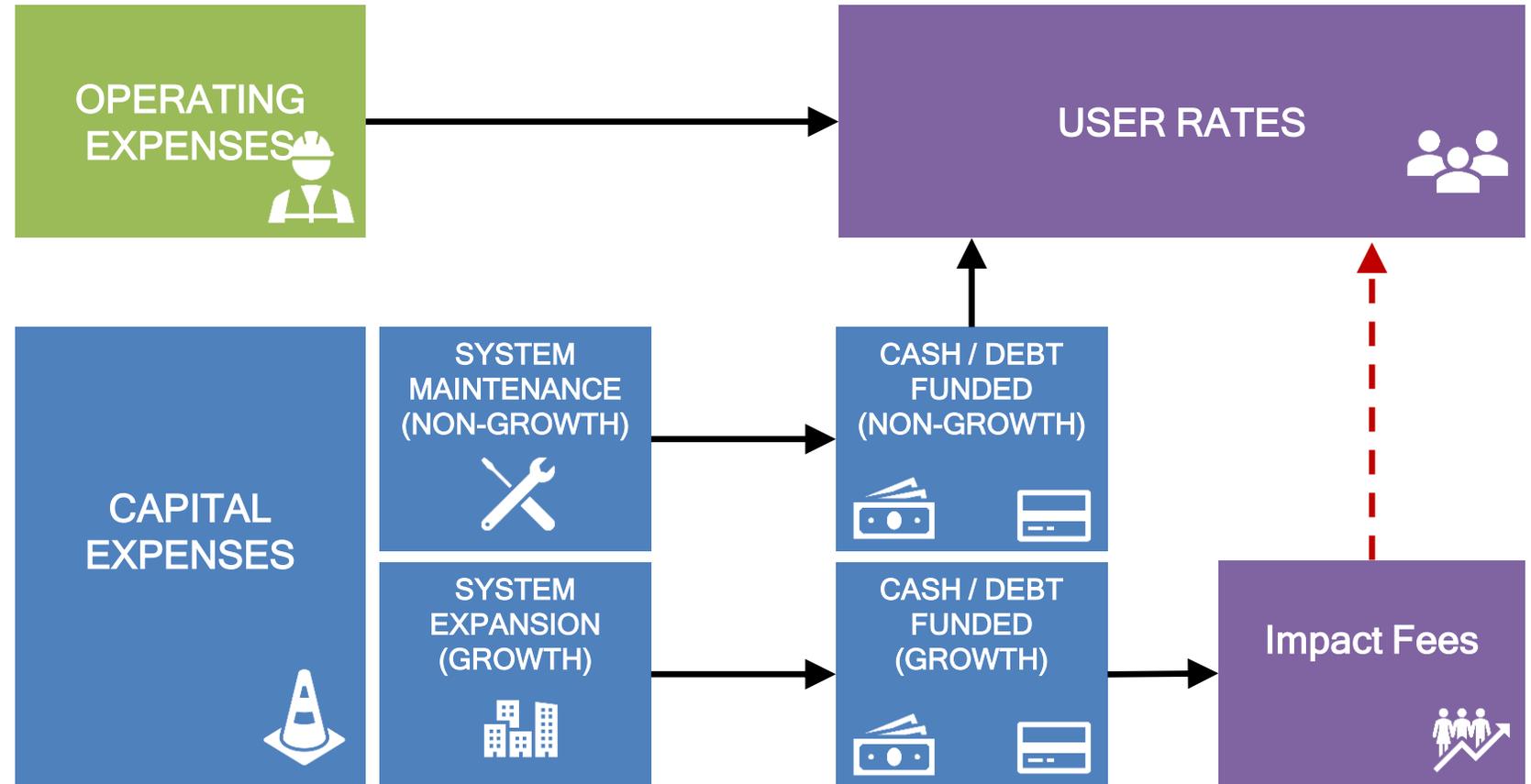
- Those who cause the expenses pay for the expenses
- Customers (or customer classes) pay costs of systems on basis of capacity/usage

Objective is to Keep Rates and Fees Low Over Time

- Adequate funding to keep facilities in good condition to prolong useful life
- Maintenance of reserves and debt coverage

IMPACT FEES

There is a link between anticipated system growth and rates for existing users.



If Impact Fees are set at less than cost or anticipated growth does not occur, existing customers will have to make up the difference via higher user rates.

BREA RATE STUDY KEY ISSUES

What needs to be considered during this rate study?

- How are Brea customers using water, and what is the best way to identify/classify them?
 - What data is available to segregate customers into classes?
 - Land use (single-family residential, multi-family residential, commercial, etc.)
 - Demand (average vs. peak demand)
 - Customers (or customer classes) pay costs of systems on basis of capacity/usage
- Fixed vs. Variable revenues
 - How aligned should fixed costs and fixed revenues be?
 - How does increasing fixed revenues impact the City's desire to incentivize water conservation?
- City's demand for water and sewer service
 - What services does the City itself use from the water and sewer utilities?
 - What water and sewer related costs are incurred by the City that are not currently accounted for in the Enterprise funds?
 - What is the appropriate way to capture costs and revenues consistent with the City's use of the water and sewer utilities?



DISCUSSION

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