

City of Garden Grove Public Works Department

Water Rate Study Presentation

Council Study Session August 22, 2017



Why are we here?

- “The **mission of the City of Garden Grove** is to provide responsible leadership and quality services as we promote safety, cultural harmony, and life enrichment.”
- The **vision of Garden Grove** is to be a safe, attractive, and economically vibrant city with an informed and involved public. We are a diverse community that promotes our unique attributes and preserves our residential character.
- “The **goal of the Water Services Section** is to provide sufficient and safe water at the lowest possible cost to the City’s residents.”

Tonight's Presentation

1. Revised Draft Five-Year Financial Plan
2. Rate Structure Alternatives
3. Low-Income Senior Discount
4. Public Engagement
5. Next Steps
6. Request for Council Feedback



Draft Five-Year Financial Plan: Key Assumptions

- Build Capital Improvement/Facilities Plan projects
- Meet financial performance targets:
 - Reserves > 2 months cash flow + 5% of system value + \$500K
 - Debt service coverage ratio > 1.75
- Includes costs to purchase water
 - Increases in wholesale costs
 - Water demand partially “rebounding” from drought levels
- Inflation included in calculations
- Issue debt of \$15.375M in FY 18/19



Capital Improvement/Facilities Plan: Review Water System Facilities

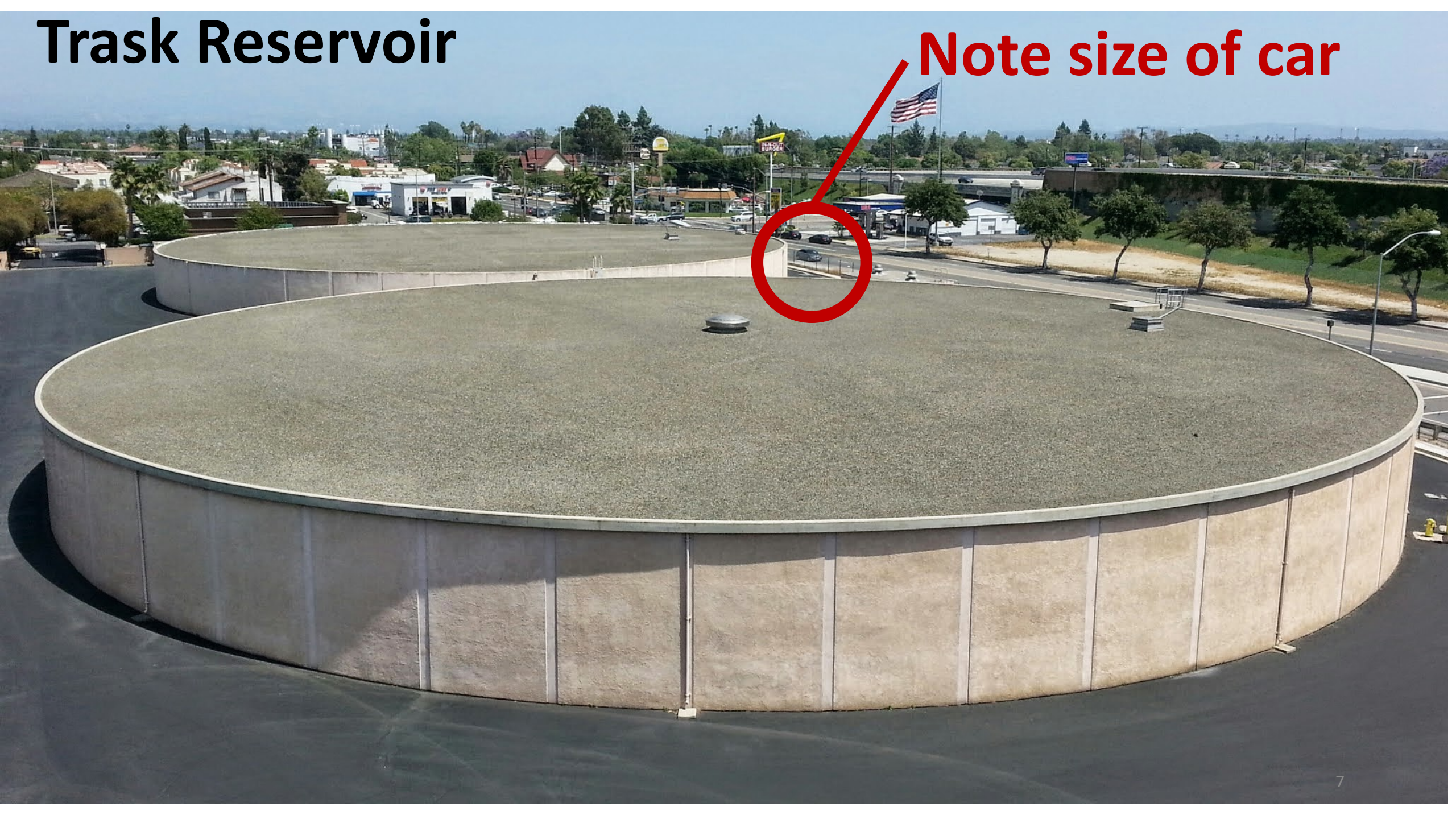
- 8 reservoirs holding 53 million gallons of water
- 433 miles of pipe
 - ~ distance from Garden Grove to San Francisco
 - 40% is over 60 years old
- 13 wells
- 5 pump stations

Capital Improvement/Facilities Plan: Immediate Priority Projects

- Reservoir Rehabilitations Required
 - Condition assessment identified necessary improvements to eight reservoirs
 - Seismic upgrades are needed as noted in condition assessment
 - Must maintain minimum fire flow storage
 - Runoff water from outside the reservoirs percolating into the ground and infiltrating into the reservoirs
- Reservoirs are of vital importance for maintaining reliable water service with the current storage capacity volume
- Storage is integral to the operation of the system, especially during emergencies

Trask Reservoir

Note size of car



Capital Improvement/Facilities Plan: Immediate Priority Projects

- Well Evaluation and SCADA Improvements Needed
 - Determine life expectancy and identify required improvements.
 - Supervisory Control and Data Acquisition (SCADA) System
 - Portable Back-up Power Generators
- Water Master Plan Update
- Asset Management Study
- Recurring Replacements
 - Service lines
 - Fire hydrants
 - Flow meters, valves, system appurtenances



Capital Improvement/Facilities Plan : Immediate Priority Cost Summary (2017-2022)

CATEGORY	PROJECT	COST \$
Reservoirs	Reservoir Rehabilitations	\$16,272,538
Recurring Replacements	Service lines, Fire Hydrants, Meters, Valves, Appurtenances	\$17,537,415
Boosters	Portable Back-up Generators	\$1,047,510
Wells	Well Condition Assessment	\$733,257
Studies	Master Plan Update	\$550,000
Studies	Asset Management Study	\$327,347
Studies	Cyber Security	\$175,000
TOTAL		\$36,643,067

Capital Improvement/Facilities Plan: Benefits of Immediate Priority Projects

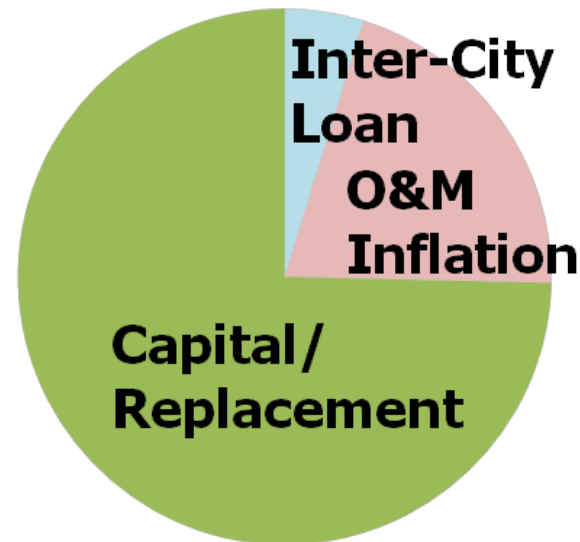
- **Reliable 24/7 Water Supply**
 - Reservoir Rehab: Seismic upgrades for continued water service after an earthquake
 - Hydrants and Reservoirs: Fire fighting capability and sufficient water in storage during fires
 - Meters: Accurate measurement of water use provides equity
 - Valves: Maintenance that disrupts service to as few customers as possible
 - Service Lines: Reduces water loss, saves \$ on purchased water

“The goal of the Water Services Section is to provide sufficient and safe water at the lowest possible cost to the City’s residents.”

Draft Five-Year Financial Plan: (Excluding Future Pass-Through of Increased Water Costs)

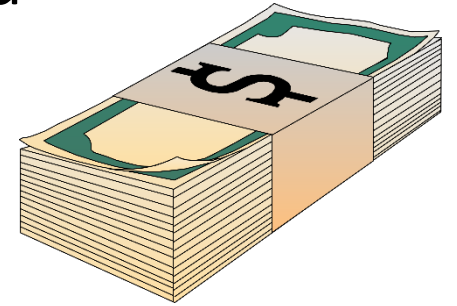
Current Annual Revenues (estimate, FY 17/18)	\$ 30 M
Funds Required, FY 21/22	\$ 38 M
Deficit	\$ 8 M

From the \$8 M:



Inter-City Loan

- Prior to annual payments beginning, a one-time retroactive charge for past street damages was assessed
- This retroactive charge is called the “Inter-City Loan”
 - Outstanding balance is \$13.4 million
 - Interest rate of 6.5%
- Currently: Interest-only payments, \$830,000 per year
- Repayment Alternatives



	15 years	20 years	No Principal
Annual Payment	\$1,420,000	\$1,210,000	\$830,000
Compared with 20 Year Repayment: Financial Impact to Typical Single-Family Residence	plus \$1/month		minus \$1.50/month

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Rate Structure Alternatives: Key Issues to Discuss

- How much should the Fixed Charges be?
- Commodity charges: Two Alternatives
 - Budget-Based alternative
 - Increasing Block alternative
- Effect on customers
 - Customer water use
 - Financial impacts



Current Fixed Charges: Average Single Family Residential Customer

	Monthly	Bi-Monthly
Minimum Charge	\$6.37	\$12.74
Capital Improvement Charge	\$0.73	\$1.47

- Only 15% of water rate revenue is from fixed charges

Fixed Charges: Effect of Low Fixed Charges



- Current Capital Improvement Charge
 - Current charge collects \$350,000 per year
 - Phase 1 CFP: Annual capital + replacement of \$7.3 million per year
- Unstable revenue for utility
 - Conservation: revenues decrease more than costs decrease
 - City has deferred capital upgrades and replacements since 2015
- Does not address fixed costs to maintain water system
- Keeps water bills low for customers that do not use much water

Proposed Fixed Charges:

- Increased Minimum Charge and Capital Improvement Charges
- Phased in over five-year period
- Provides funds to build reservoir improvements and ongoing system repairs
- Increased Costs for all water customers
 - Mitigated by proposed Low Income Senior Discount
- Specific proposed charges shown later

Budget-Based Rates: Introduction

- Encourages water conservation
- Three Tiers
 - Indoor allocation – least expensive
 - Outdoor allocation
 - Excessive tier – most expensive

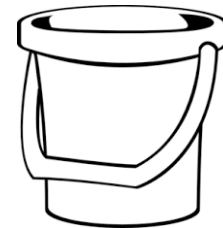
Budget-Based Rates: Residential Allocations

- Indoor allocation assumes four people per household
- Outdoor allocation: landscape and weather
- Excessive tier

Indoor Allocation = 55
gallons/day X people
per household



Outdoor Allocation =
Irrigable Area X
Evapotranspiration X
80%



Budget-Based Rates: Proposed Rate Structure, Average SFR Customer

	Existing Rates	Proposed Rates January 2018	Proposed Rates January 2022
Minimum Charge	\$12.74	\$17.88	\$33.31
Capital Improvement Charge	\$1.47	\$3.00	\$7.00
Current Commodity Charge \$/ccf	\$3.07		
Indoor Tier, \$/ccf		\$2.89	\$2.89
Outdoor Tier, \$/ccf		\$3.45	\$3.91
Excessive Tier, \$/ccf		\$3.66	\$4.44

Excludes Future Pass-Through of Increased Water Supply Costs;
Future Pass-Throughs will be Developed on an Annual Basis by
City Staff

Budget-Based Rates: Pros and Cons for Other Agencies That Have Implemented Budget-Based Rates

- Pros
 - Customers see Budget-Based Rates as fair and easy to understand
 - Encourages Conservation
 - Price signal is customized to each customer
- Cons
 - Takes more time and resources to implement and administer
 - Customers may seek lower water rates through appeal process

Budget-Based Rates: Pros and Cons for Garden Grove

- Pros

- Customers see Budget-Based Rates as fair and easy to understand
- Encourages Conservation
- Price signal is customized to each customer

- Cons

- Takes more time and resources to implement and administer
- Residents more apt to contest data used for calculation
- Garden Grove residents use less outdoor water than in other jurisdictions with Budget-Based Rates
- Most summer water use falls within Indoor and Outdoor Allocations
- Excessive water use peaks in winter

Increasing Block Alternative

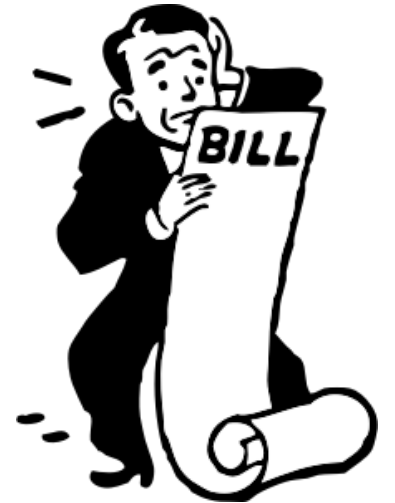
Comparison with current rate structure

- Similarities
 - Tiered Commodity Charge
 - Higher Tier is more expensive
- Differences
 - Two tiers instead of four
 - \$/ccf between tiers is greater
 - Sends conservation signal
 - Amount of water in the first tier varies with meter size

Increasing Block Alternative

Pros and Cons

- Pros
 - Similar to existing rate structure, easy for customers to understand
 - Encourages Conservation
 - Easy for City to implement and administer
- Cons
 - Price signal is not customized to each customer



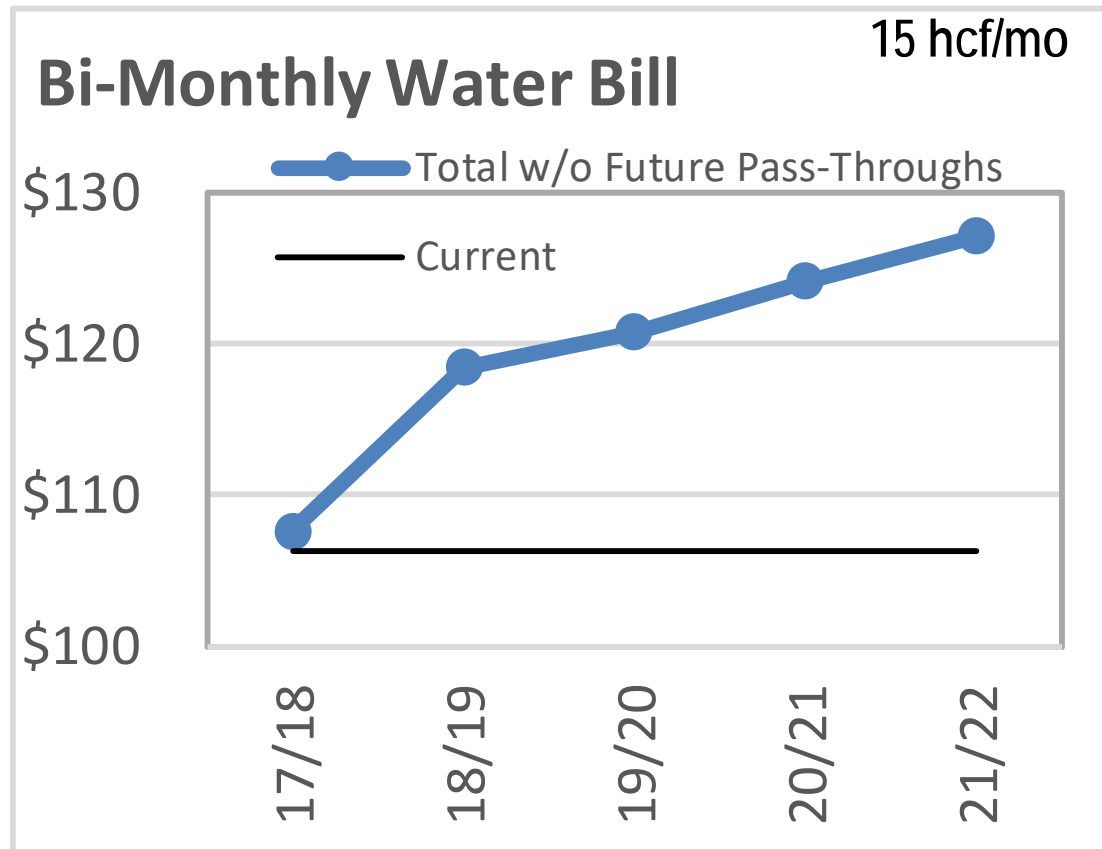
Increasing Block Alternative Proposed Rate Structure, Average SFR Customer

	Existing Rates	Proposed Rates January 2018	Proposed Rates January 2022
Minimum Charge	\$12.74	\$17.88	\$33.31
Capital Improvement Charge	\$1.47	\$3.00	\$7.00
Current Commodity Charge \$/ccf	\$3.07		
Tier 1, \$/ccf		\$2.89	\$2.89
Tier 2, \$/ccf		\$3.66	\$4.44

- Tier 1 includes 33 ccf per billing period
- Excludes Future Pass-Through of Increased Water Supply Costs; Future Pass-Throughs will be Developed on an Annual Basis by City Staff

Increasing Block Alternative

Example Bi-Monthly Bill, Average SFR Customer



Current Bi-Monthly Water Bill is \$106.31

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Proposed Low-Income Senior Discount

- Proposed Eligibility Criteria:
 - Resident that lives at the billing address
 - 65 years or older
 - Qualifies for SCE's CARE Program
- Why Low-Income and Senior?
 - 33,000 out of 44,000 Garden Grove SCE Customers qualify for CARE

Low-Income Senior Discount Proposed Implementation

- Use Water Utility Non-Rate Revenues
 - Estimated at \$350,000 per year from late fees
- Initially offer \$2/month, (\$4/billing period) discount
- Evaluate during first year:
 - How many customers sign up
 - Whether discount can be increased in subsequent years

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Public Engagement

- Public Workshop
- Rate Study Hotline
- Contact Most Affected Customers
- Contact Top Water Users
- Website / Water Bill Inserts
- Presentation to Community Groups

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Next Steps:

- Develop Final Draft Rate Structure Alternatives
 - Based on Your Feedback
 - Additional Study Sessions as Requested by Council
- Public Engagement
- Billing System Software Modifications
- Schedule to be developed based on tonight's Council feedback

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Request for Council Feedback:

- Rate structure alternatives
 - Budget-Based Rates
 - Increasing Block Rate
- Inter-City Loan Repayment
 - Begin making payments to principal?
 - Repayment schedule: 15 or 20 years

Feedback, Questions, Comments?

Thank you for your time.

