



# City of Huntington Beach

File #: 24-217

MEETING DATE: 4/16/2024

## REQUEST FOR CITY COUNCIL ACTION

**SUBMITTED TO:** Honorable Mayor and City Council Members

**SUBMITTED BY:** Eric G. Parra, Interim City Manager

**VIA:** Chau Vu, Director of Public Works

**PREPARED BY:** Alvin Papa, Deputy Director of Public Works-Utilities

**Subject:**

**Public Hearing to Consider Water and Sewer Rate Adjustments**

**Statement of Issue:**

Huntington Beach Municipal Code (HBMC) Sections 14.22.040 and 14.54.040 state that the City is authorized to adopt rates and charges for the acquisition, construction, reconstruction, maintenance, and operation of water facilities and sewerage system. Rates shall be set via resolution adopted by a two-thirds vote of the members of the City Council.

Submitted for City Council consideration are proposed adjustments to the City's fixed water meter rate, capital charge, private service fire line (PSFL) charge, commodity rate, and sewer service charge. This topic was the subject of a Council Study Session held on January 16, 2024.

**Financial Impact:**

The proposed water and sewer rate adjustments will be effective over five fiscal years, beginning July 1, 2024. In the first fiscal year alone (FY 2024-25), total additional water revenue is estimated at \$4.57M and total additional sewer revenue is estimated at additional \$1.86M. Adoption of the proposed rate adjustments will help ensure the long-term sustainability and reliability of water and sewer services, as well as to comply with regulatory requirements and to cover the costs of maintaining the water and sewer infrastructure. Additionally, the proposed rate adjustments will make sure the City replenishes its water and sewer reserves to target levels by the end of the 5-year period.

**Recommended Action:**

A) Adopt Resolution No. 2024-18 "A Resolution of the City Council of the City of Huntington Beach Readopting and Revising the City's Water Commodity Rates";

B) Adopt Resolution No. 2024-20 "A Resolution of the City Council of the City of Huntington Beach Adopting Water Meter Rates, Including a Capital Surcharge, and Private Fire Line Service pursuant

to Section 14.12.040 of the Huntington Beach Municipal Code”; and,

C) Adopt Resolution No. 2024-19 “A Resolution of the City Council of the City of Huntington Beach Adopting Sewer Service User Charges, Pursuant to Section 14.54.040 of the Huntington Beach Municipal Code”

**Alternative Action(s):**

Do not adopt the proposed rate adjustments and direct staff accordingly.

**Analysis:**

**Background.** Water and sewer rate adjustments are often necessary to ensure the long-term sustainability and reliability of water and sewer services, as well as to comply with regulatory requirements and to cover the costs of maintaining our water and sewer infrastructure. Huntington Beach Municipal Code (HBMC) Section 14.22.040 states that the City is authorized to adopt rates and charges for the acquisition, construction, reconstruction, maintenance, and operation of water facilities. Rates shall be set via resolution adopted by a two-thirds vote of the members of the City Council. Similarly, HBMC Section 14.54.040 authorizes the City to adopt rates and charges for the acquisition, construction, reconstruction, maintenance, and operation of our sewerage system.

**Current Water Rate Information.** City Council last approved 5-year water and sewer rate resolutions on May 20, 2019. Our water rates are currently made up of four (4) main components: a Commodity Rate, a Fixed Meter Rate, a Capital Charge, and a PSFL Charge.

- **Commodity (Water Usage) Rate** - The City purchases water from wholesale water agencies, e.g. Orange County Water District (OCWD) and the Metropolitan Water District of Orange County (MWDOC) and has no control over the charges from these wholesale agencies. For each source, we take a weighted average and develop a “blended rate” that is “passed-through” directly to the customers.

The water usage, or “commodity rate”, is based on actual meter readings. The monthly billing statement shows current use in units of 100 cubic feet (CCF) of water, which equals 748 gallons. The current rate is \$2.4034 per CCF.

- **Fixed Meter Rate** - The fixed meter charge is based on the size of the meter to pay for the operations and maintenance of the water system.

For reference, the fixed meter charge for a typical single-family residence (SFR) with 3/4-inch meter is currently \$18.23 per month. The price increases to \$30.45 per month for the next size up (1-inch meter) and so forth up to the largest meter (10-inch meter) at \$2,674.09 per month. Larger meter sizes typically apply to customers with a need for greater water capacity and delivery (i.e. commercial buildings).

- **Capital Charge** - The capital charge pays for capital improvement projects as identified in the City’s Water Master Plan. Like the fixed meter charge all fees based on meter size.

For reference, the capital charge for a single-family residence with 3/4-inch meter is currently \$4.00 per month. The price increases to \$6.67 per month for the next size up (1-inch meter) and so forth up to the largest meter (10-inch meter) at \$586.67 per month.

- **Private Fire Service Line Charge** - This charge recovers the cost of providing private fire protection (i.e. fire lines for private structures with sprinkler systems for fire protection) and only applies to properties with a dedicated, private fire line service.

**Current Sewer Rate Information.** Sewer rates charge customers connected to the wastewater system for the costs of collecting wastewater and conveyance to the Orange County Sanitation District (OCSD) for treatment. The current sewer bill includes a fixed monthly service charge based on each customer's class multiplied by the number of billing units (BU):

- **Single-Family Residential** - SFRs equal one equivalent dwelling unit (EDU) per residence. The current sewer charge for SFRs is \$10.98 per month.
- **Multi-Family Residential (MFR)** - Based on the number of units; for example, a four-plex is equal to 4 EDUs. The current sewer charge for MFRs is \$9.10 per month. As an example, a four-plex would be charged four (4) times this amount, which equals \$36.40 per month.
- **Commercial, Industrial, Institutional (CII)** - Billing units are based on meter size or the number of tenant units, whichever is higher. For example, a 2-inch meter is equal to 5 EDUs. The current sewer charge for CII is \$12.74 per month. As an example, a CII customer with a 2-inch meter would be charged five (5) times this amount, which equals \$63.70 per month.
- **Elementary and High Schools** - Based on average daily attendance, on a per-student basis. The current sewer charge for K-8 is \$2.26 per student, and \$3.51 per student for high schools.

**Proposed Water and Sewer Rates.** Staff retained Raftelis Financial Consultants (Raftelis) and Robert D. Neihaus (RDN) to develop financial plans that aim to ensure revenue sufficiency to meet the operations and maintenance (O&M) and capital needs of the City's water and sewer utilities, respectively. Each plan conducts a cost-of-service analysis to proportionally allocate the cost of water and sewer service at fair and equitable rates in accordance with Proposition 218 requirements.

On January 16, 2024, the City Council held a Study Session regarding the City's water and sewer rates. The Study Session focused on key infrastructure needs, rate studies, and an overview of current and proposed rates. Staff emphasized that the water and sewer infrastructure is 50-60 years old and needs replacement.

Inflation and rising construction costs have grown dramatically, prompting rate adjustments to ensure the financial sustainability of water and sewer operations. After completing a cost-of-service analysis, Raftelis developed the rate structure in accordance with the American Water Works Association (AWWA) M1 Manual that states, "the costs of water rates and charges should be recovered from

classes of customers in proportion to the cost of serving those customers.” Similarly, RDN also completed a cost-of-service analysis and developed rates per the Water Environment Federation (WEF) Financing and Charges for Wastewater System Manual 27.

- Fixed Meter Rate** - The table below shows the proposed meter rate structure to be effective July 1, 2024, up to and including June 30, 2029, as follows:

Meter Size	July 1, 2024	July 1, 2025	July 1, 2026	July 1, 2027	July 1, 2028
3/4"	\$19.31	\$21.14	\$22.94	\$24.43	\$25.53
1"	\$32.17	\$35.23	\$38.22	\$40.70	\$42.53
1 1/2"	\$64.34	\$70.45	\$76.44	\$81.41	\$85.07
2"	\$102.94	\$112.72	\$122.30	\$130.25	\$136.11
3"	\$225.19	\$246.58	\$267.54	\$284.93	\$397.75
4"	\$321.69	\$352.25	\$382.19	\$407.03	\$425.35
4" Fire Meter	\$450.37	\$493.16	\$535.08	\$569.86	\$595.50
6"	\$643.38	\$704.50	\$764.38	\$804.06	\$850.69
6" Fire Meter	\$1,029.40	\$1,127.19	\$1,223.00	\$1,302.50	\$1,361.11
8"	\$1,029.40	\$1,127.19	\$1,223.00	\$1,302.50	\$1,361.11
8" Fire Meter	\$1,801.45	\$1,972.59	\$2,140.26	\$2,279.38	\$2,381.95
10" Fire Meter	\$2,830.85	\$3,099.78	\$3,363.26	\$3,581.87	\$3,743.05

- Capital Charge** - The table below shows the proposed capital charge structure to be effective July 1, 2024 up to and including June 30, 2029, as follows:

Meter Size	July 1, 2024	July 1, 2025	July 1, 2026	July 1, 2027	July 1, 2028
3/4"	\$4.76	\$5.66	\$6.74	\$8.02	\$9.54
1"	\$7.94	\$9.45	\$11.25	\$13.39	\$15.93
1 1/2"	\$15.88	\$18.90	\$22.49	\$26.76	\$31.84
2"	\$25.40	\$30.23	\$35.97	\$42.80	\$50.93
3"	\$55.57	\$66.13	\$78.69	\$93.64	\$111.43
4"	\$79.38	\$94.46	\$112.41	\$133.77	\$159.19
4" Fire Meter	\$111.13	\$132.24	\$157.37	\$187.27	\$222.85
6"	\$158.76	\$188.92	\$224.81	\$267.52	\$318.35
6" Fire Meter	\$254.01	\$302.27	\$359.70	\$428.04	\$509.37
8"	\$254.01	\$302.27	\$359.70	\$428.04	\$509.37
8" Fire Meter	\$444.52	\$528.98	\$629.49	\$749.09	\$891.42
10" Fire Meter	\$698.54	\$831.26	\$989.20	\$1,177.15	\$1,400.81

- Private Fire Service Line (PFSL) Charge** - The table below shows the proposed PFSL charge structure to be effective July 1, 2024 up to and including June 30, 2029, as follows:

Meter Size July 1, 2024 July 1, 2025 July 1, 2026 July 1, 2028					
3 /4"	\$0.29	\$0.32	\$0.35	\$0.37	\$0.39
1"	\$0.29	\$0.32	\$0.35	\$0.37	\$0.39
1 1/2"	\$0.82	\$0.90	\$0.98	\$1.04	\$1.09
2"	\$1.74	\$1.91	\$2.07	\$2.20	\$2.30
3"	\$5.05	\$5.53	\$6.00	\$6.39	\$6.68
4"	\$10.75	\$11.77	\$12.77	\$13.60	\$14.21
6"	\$31.21	\$34.17	\$37.07	\$39.48	\$41.26
8"	\$66.51	\$72.83	\$79.02	\$84.16	\$87.95

- **Commodity (Water Usage) Rate** - The table below shows the proposed commodity rate structure to be effective July 1, 2024 up to and including June 30, 2029, as follows:

Unit July 1, 2024 July 1, 2025 July 1, 2026 July 1, 2028					
Per 100 CF	\$2.6870	\$3.0551	\$3.5494	\$3.8852	\$4.2024

Raftelis has estimated future wholesale rates; however, if wholesale rates are higher than predicted, the City will pass through the increase in wholesale water purchase costs. The pass-through amount will not exceed the increase in cost. The pass-through will be calculated as the increase in the wholesale water purchase costs divided by annual water use.

- **Sewer Charge** - The table below shows the proposed sewer charge structure to be effective July 1, 2024 up to and including June 30, 2029, as follows:

Customer Class	July 1, 2024	July 1, 2025	July 1, 2026	July 1, 2027	July 1, 2028
Single-Family Residential (SFR)	\$12.43	\$14.48	\$16.87	\$19.57	\$22.70
Multi-Family Residential (MFR) per EDU	\$9.15	\$10.66	\$12.41	\$14.40	\$16.70
Commercial, Industrial, Institutional (CII) per EDU	\$23.05	\$26.85	\$31.29	\$36.29	\$42.10
K-8 (per Average Daily Attendance)	\$2.48	\$2.89	\$3.36	\$3.90	\$4.52
High School (per Average Daily Attendance)	\$3.72	\$4.33	\$5.04	\$5.85	\$6.78

**Impact on Residential Rates.** The table below shows the impact on a typical SFR. This table

assumes the average use of 9 CCF per month and a standard 3/4-inch water meter:

Category	Current	July 1, 2024	July 1, 2025	July 1, 2026	July 1, 2027	July 1, 2028
Consumption Rate	\$21.63	\$24.18	\$27.50	\$31.94	\$34.97	\$27.82
Fixed Meter Charge	\$18.23	\$19.31	\$21.14	\$22.94	\$24.43	\$25.53
Capital Charge	\$4.00	\$4.76	\$5.66	\$6.74	\$8.02	\$9.54
Sewer Charge	\$10.98	\$12.43	\$14.48	\$16.87	\$19.57	\$22.70
<b>TOTAL</b>	<b>\$54.84</b>	<b>\$60.68</b>	<b>\$68.78</b>	<b>\$78.49</b>	<b>\$86.99</b>	<b>\$95.69</b>

Of this amount, the consumption rate accounts for 40% of the increase in costs, which are merely “passed-through” from OCWD and MWDOC directly to the customers.

The City conducted the following public outreach efforts to help inform the public: City website, articles on Surf City Break, two (2) public open houses, numerous social media (e.g. Instagram and Facebook) posts, a Water Rate 101 video running on HBTv Channel 3 since November 2023, and articles in the City Manager’s Weekly Report.

**Proposition (Prop) 218 Requirements.** Prop 218 regulates how local governments can impose fees and charges for utilities such as water and sewer. It requires that these charges be proportional to the cost of providing the service and that they not exceed the cost of providing the service. It also requires local governments to notify property owners of proposed water and sewer rate increases and allows property owners to protest.

Prop 218 mailers contain the public hearing information, proposed rates, and protest instructions were mailed to property owners and tenants on February 29, 2024. Property owners are given until the conclusion of this hearing to protest the proposed adjustments. The City cannot modify the fees if a majority of property owners protest the proposed adjustments. A final tally of all valid protests received will be reported by staff at the public hearing.

This evening’s recommended action will ratify the proposed water and sewer rate adjustments.

**Environmental Status:**

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.

**Strategic Plan Goal:**

Goal 2 - Fiscal Stability, Strategy A - Consider new revenue sources and opportunities to support the City’s priority initiatives and projects.

**Attachment(s):**

1. Resolution No. 2024-18 to set municipal utility rates for the Water Meter Rate, Capital

Surcharge, and Private Fire Line Service Charge

2. Resolution No. 2024-20 to set municipal utility rates for the Water Commodity Rate
3. Resolution No. 2024-19 to set municipal utility rates for the Sewer Service User Charge
4. PowerPoint Presentation