



Proposition 218

Proposed Sewer and Water Rate Adjustments

City Council Meeting

January 16, 2024

Purpose

- Provide background for the proposed rate adjustments
- Request authorization to issue a Prop 218 Notice of Public Hearing for proposed adjustments for sewer and water
 - City Council is not approving rate adjustments tonight. City Council is only authorizing the Proposition 218 notice to property owners.
- Staff will return for approval after outreach has been performed and the community has had the opportunity to weigh in through the Proposition 218 process.

Background

- The City owns and operates its own sewer and water enterprises.
 - Sewer: 92 miles of sewer collection system.
 - Water: 111 miles of water pipelines, 12 reservoirs, 2 water treatment facilities, and 5 active wells.
- The City is responsible for setting user rates in compliance with California law, which requires that fees for sewer and water service do not exceed the proportional cost of service.
- The City's sewer and water rate structure should be based on generating sufficient user fee revenue to cover all costs for personnel, maintenance and operation costs, debt service (on bonds), capital improvements, and reserves. In short, operation, maintenance, and renewal of both systems should be entirely funded by user rates.
- Any rate adjustments for sewer and water are subject to Prop 218 majority protest proceedings. ³

Budgeting Principles

The City Council has been committed to strong fiscal management policies.

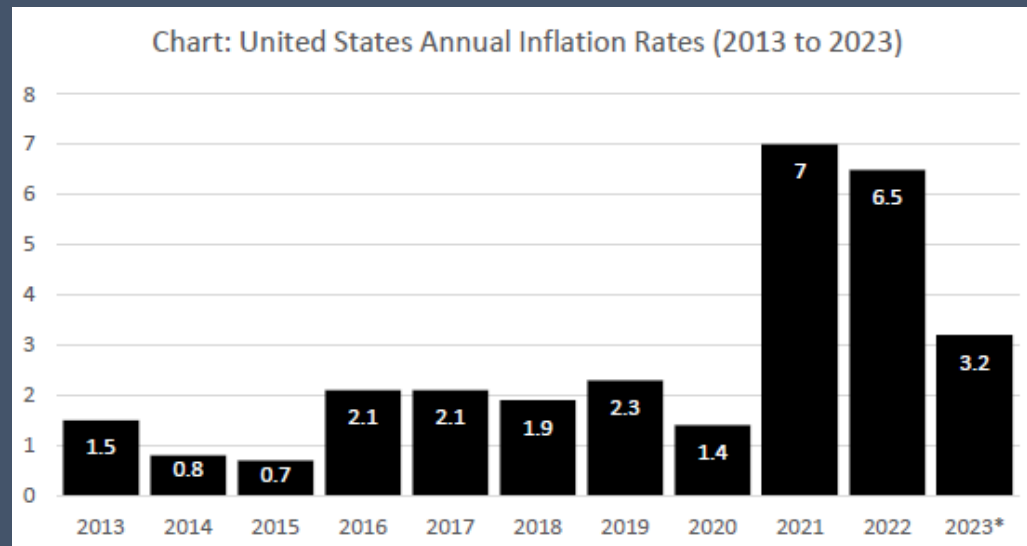
- The City's Budget incorporates the City's five Financial Resiliency Plan (FRP) Principles.
 - FRP Principle #1 seeks to minimize subsidies to funds that should be self-sustaining (e.g., Sewer and Water Funds), and seeks to ensure that user fees are appropriate to cover the cost of providing respective City services.
- City Council has also been committed to ensuring that the City is investing in maintaining and replacing the City's infrastructure and assets, including sewer and water infrastructure.
- City Council's commitment to good financial management practices has resulted in two bond rating upgrades over the last 2 years, including an S & P upgrade for the City's water and sewer bonds (from A- to A).

Ensuring Sustainable Sewer and Water Enterprises

- As a best practice and industry standard, it is recommended that rate studies be performed every 5 years to ensure the sustainability of the utility enterprises.
 - Regular rate studies are critical to the healthy operation of the City's utilities.
 - Utility systems must keep up with rising costs and necessary capital replacements to ensure reliable and sustainable systems for the community.
 - Based on the results of the study, rates should be adjusted accordingly.
- Monrovia has not adjusted rates for several years:
 - Sewer rates were last adjusted in 2020 (Based on a 2015 rate review)
 - Water rates were last adjusted in 2022 (Based on a 2017 rate review)
 - This excludes Excess Usage Penalties adopted in March 2022. City Council will be reviewing the City's Emergency Drought Program in February.

Cost Increases in the City's Water and Sewer Utilities

- Although sewer and water rates have not been adjusted for several years, both utilities have experienced cost increases in all categories, including personnel, operating and maintenance costs, and capital. In fact, significant inflation occurred in 2021 and 2022.



- Given these increases, City Council approved a contract with NBS, an independent third-party consultant, to provide a rate study for sewer and an inflationary factor review for water in November 2022.
 - Staff spent significant time working closely with NBS, over the last year, to design rates that would be least impactful to the community.



Sewer Rate Study

Sewer Rate Study Objectives

- Rates should be designed to:
 - Be proportional to the cost of service (i.e., the cost to serve each customer or customer class)
 - Be equitable & non-discriminating
 - Provide ease of administration and understanding
 - Provide revenue stability
- Revenue from rates should cover all costs of operating the system, which includes:
 - Maintenance and operations costs
 - Capital costs
 - Annual debt service payment on bonds
 - Funding to maintain adequate reserve levels
- Non-rate revenues, such as interest income, are netted against costs

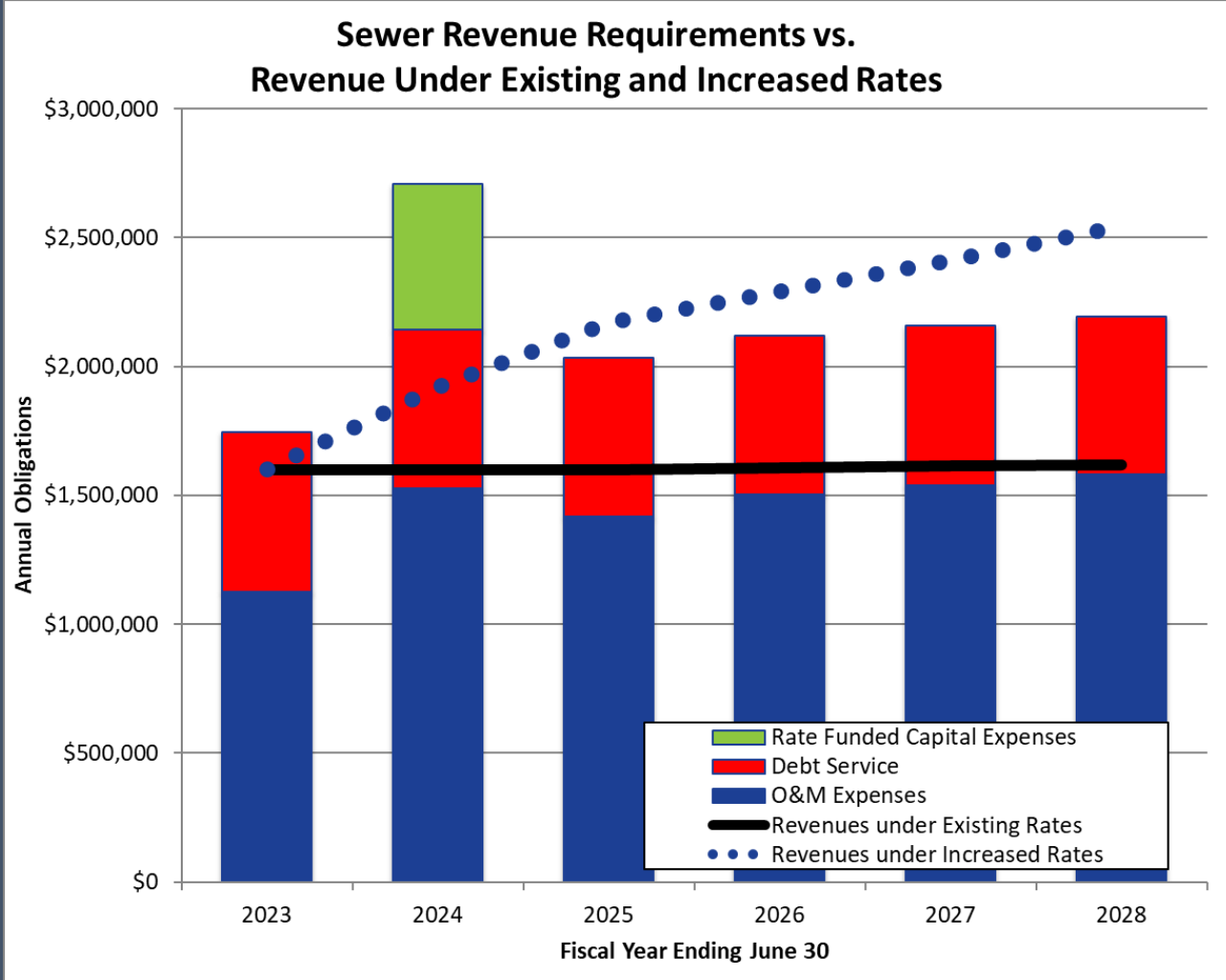
Sewer Rate Study

- Based on the sewer rate study prepared by NBS, the proposed rate adjustments take into consideration the City's ongoing operating costs and necessary capital improvements that will allow the City to continue to provide the community with safe and reliable sewer service.
- The proposed rate adjustment covers five fiscal years and includes funding for capital improvement projects identified as part of the Five-Year CIP Program, as follows:

Sewer System Capital Projects	Costs
Comprehensive Street Improvement Project (Sewer Portion)	\$568,500
Total Sewer System Capital Costs	\$568,500

- A copy of the Sewer Rate Study prepared by NBS is attached as Attachment C to the Agenda Report and includes detailed information regarding costs, revenue, and other pertinent information.

Sewer Rate Study Results



Recommended Sewer Rates

CURRENT VS. PROJECTED SEWER RATES	Current	Recommended Rates				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Projected Annual Revenue Increase		20.00%	13.00%	5.00%	5.00%	5.00%
Residential	\$9.66	\$12.61	\$14.25	\$14.96	\$15.71	\$16.50
Multiple Dwelling						
for first unit	\$9.66	\$12.61	\$14.25	\$14.96	\$15.71	\$16.50
plus, for each additional unit	\$5.42	\$4.51	\$5.09	\$5.35	\$5.61	\$5.89
<i>Duplex</i>	<i>\$15.08</i>	<i>\$17.12</i>	<i>\$19.34</i>	<i>\$20.31</i>	<i>\$21.32</i>	<i>\$22.39</i>
<i>Triplex</i>	<i>\$20.50</i>	<i>\$21.62</i>	<i>\$24.43</i>	<i>\$25.65</i>	<i>\$26.93</i>	<i>\$28.28</i>
<i>Quadplex</i>	<i>\$25.92</i>	<i>\$26.13</i>	<i>\$29.52</i>	<i>\$31.00</i>	<i>\$32.55</i>	<i>\$34.17</i>
Trailer Park						
for first space	\$9.66	\$12.61	\$14.25	\$14.96	\$15.71	\$16.50
plus, for each additional space	\$5.42	\$4.51	\$5.09	\$5.35	\$5.61	\$5.89
Lifeline	\$3.62	\$4.74	\$5.36	\$5.63	\$5.91	\$6.20
Cemetary/Horticultural Facilities	\$9.66	\$12.61	\$14.25	\$14.96	\$15.71	\$16.50
Government/Public Facilities	\$156.10	\$210.65	\$238.04	\$249.94	\$262.44	\$275.56
Commercial/Industrial (inc. motels, hotels, churches)						
for first 1,000 cubic feet of water used	\$21.03	\$23.89	\$26.99	\$28.34	\$29.76	\$31.25
plus, for additional 100 cubic feet of water used	\$0.23	\$0.24	\$0.27	\$0.28	\$0.30	\$0.31

Single-Family Residential Rate

- Overall, single-family residential customers constitute 73 percent of customers.
- The sewer rate proposal would result in the following increases for a single-family residential customer each month:

Fiscal Year	Increase Over Prior Year
FY 2023-24 (Effective 5/2/24)	\$2.95
FY 2024-25 (Effective 7/1/24)	\$1.64
FY 2025-26 (Effective 7/1/25)	\$0.71
FY 2026-27 (Effective 7/1/26)	\$0.75
FY 2027-28 (Effective 7/1/27)	\$0.78
Total 5-Year Increase	\$6.83

- Over the five-year period, the monthly cost for sewer for a single-family residential customer will increase by a cumulative total of \$6.83 over the five-year period.

Sewer Rates - Survey Data

As part of the overall fee analysis, staff also evaluated survey data from neighboring communities for a single-family residential customer. Monrovia has the third lowest rate in the region (before and after the proposed adjustment).

Municipality	Monthly Fee *
Burbank	\$27.22
Glendale	\$24.00
Sierra Madre	\$20.67
La Verne	\$15.42
South Pasadena	\$15.23
West Covina	\$15.00
Covina	\$15.00
Glendora	\$15.00
Duarte	\$14.25
Alhambra	\$13.33
Monrovia (Proposed)	\$12.61
Monrovia (Current)	\$9.66
Arcadia	\$9.64
Pasadena	\$2.80






Water Rate Adjustments

Water Enterprise Costs

- The water enterprise has approximately 9,500 customers that rely on the City to provide them clean water every day.
- It costs approximately \$14 million/year to operate our system.
- Over the last several years, like the sewer enterprise, the City has also experienced cost increases in the water enterprise.
- The proposed adjustments would provide approximately \$962,000 in additional funding for maintenance and operations costs and capital projects that have been approved as part of the City's Five-Year CIP. (list provided on next slide)


Water CIP Projects

Water System Capital Projects	5-Year CIP FY 2023-28	FY 2023-24 Budget
Citywide Pump & Motor Replacement Program	\$503,007	\$278,007
Citywide Water Main Replacement Program FY24-FY26	\$1,373,921	-
Emerson Reservoir Improvements	\$425,795	\$425,795
Meter Replacement Program	\$1,449,078	\$799,078
 PFAS Treatment	\$458,841	\$458,841
SCADA System Reconstruction	\$692,500	\$452,500
Station Square Booster Pump Construction	\$1,765,555	\$1,256,555
Treatment Towers 1 & 2 Redesign	\$50,000	\$50,000
Treatment Towers 3 & 4 Rehabilitation	\$400,000	\$400,000
Valve Replacement Program FY23-FY26	\$500,000	\$100,000
Compressor Replacement and CMS Board	\$110,000	\$55,000
Well No. 3 Rehabilitation	\$357,627	\$357,627
Well No. 6 Rehabilitation	\$350,000	\$350,000
 Wellfield Electrical Project *	\$3,798,658	\$1,884,903
CIP-Lower Cloverleaf Reservoir	\$34,275	\$34,275
CIP-Pipeline Survey	\$136,685	\$136,685
CIP-Reservoir Maint/Replace Program	\$252,202	\$252,202
Upper Cloverleaf Reservoir Improvements	\$95,800	-
 Comprehensive Streets Improvement *	\$6,042,206	\$800,000
Vehicle Replacement - Utilities Fleet	\$1,375,000	\$335,000
TOTAL	\$20,171,150	\$8,426,468

Water Rate Adjustments

- A comprehensive water rate study was completed in 2017. For this review, staff verified that the cost categories evaluated in 2017 are still accurate for current operations and maintenance.
- For this proposed adjustment, the City retained NBS to calculate and propose water rate adjustments based on an applicable inflation factor to help keep up with escalating costs in the water utility.
- NBS utilized the Construction Cost Index (CCI) as the basis for the proposed water rate adjustment of 7.2%.
 - It should be noted that total US inflationary growth for 2021 and 2022 was 13.5%; however, a rate adjustment of only 7.2%, based on CCI, is being proposed.

Recommended Water Rates (Most Common Rates)

- This slide includes a list of the most common customer rates. 
- A full listing of all rates is attached as Attachment B (Summary of Proposed Water Rates)
- Rates are proposed to be effective May 2, 2024.
- An annual CCI adjustment is proposed for an additional four years based on the March CCI each year. Additional increases will begin July 1, 2025 through July 1, 2028.

Water Fee Description	Current Rate	Recommended Rate Effective 5/2/24
Projected Annual Revenue Increase		7.20%
Fixed Rates (Standby Charge)		
Single-Family Residential/Multi-Family Residential (MFR)		
Meter Size		
5/8 inch	\$41.10	\$44.06
3/4 inch	\$41.10	\$44.06
1 inch	\$52.08	\$55.83
Commercial/Industrial/Landscape		
Meter Size		
5/8 inch	\$41.10	\$44.06
3/4 inch	\$41.10	\$44.06
1 inch	\$52.08	\$55.83
1.5 inch	\$82.13	\$88.04
2 inch	\$103.94	\$111.43
Consumption Rates (Per Unit Charge)		
Consumption charges for all classes and meter size, except new construction	\$2.44	\$2.62
Consumption charges for New Construction Developments of 5+ units	\$3.27	\$3.50
Each Multi-Family Residential & Hotel Is Currently Charged a Fixed + an Additional Unit Charge for Each Additional MFR or Hotel Dwelling Unit	\$23.05	\$24.71

Single-Family Residential Rate

- Overall, single-family residential customers constitute more than 70 percent of customers.
- The water rate proposal would result in the estimated increases of \$4.76 for a single-family residential customer using 10 units of consumption per month.

<u>Current Monthly Water Cost</u>			
	10 Units (7,480 Gallons)	15 Units (11,220 Gallons)	20 Units (14,960 Gallons)
Meter Charge	\$41.10	\$41.10	\$41.10
Cost Per Unit (\$2.44/Unit)	\$24.40	\$36.60	\$48.80
Total Estimated Cost	\$65.50	\$77.70	\$89.90

<u>Recommended Monthly Water Cost</u>			
	10 Units (7,480 Gallons)	15 Units (11,220 Gallons)	20 Units (14,960 Gallons)
Meter Charge	\$44.06	\$44.06	\$44.06
Cost Per Unit (\$2.62/Unit)	\$26.20	\$39.30	\$52.40
Total Estimated Cost	\$70.26	\$83.36	\$96.46

Recommended Increase	\$ 4.76	\$ 5.66	\$ 6.56
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Water Rates - Survey Data

As part of the overall fee analysis, staff also evaluated survey data from neighboring communities for a single-family residential customer. After the proposed increase, Monrovia would be the eleventh lowest in the region.

Municipality	Estimated Monthly Fee (Meter and 10 Unit Consumption)
Sierra Madre	\$103.20
Los Angeles DWP	\$97.82
Golden State Water Company	\$91.93
South Pasadena	\$84.64
San Gabriel Valley Water Company	\$83.76
Glendora	\$79.69
Walnut Valley Water Company	\$73.04
Monrovia (Proposed)	\$70.26
Duarte	\$69.53
Monrovia (Current)	\$65.50
Glendale	\$62.93
West Covina	\$60.81
Covina	\$60.81
Burbank	\$59.00
Pasadena	\$55.35
La Verne	\$51.49
Alhambra	\$44.75
Arcadia	\$42.65

Estimated Monthly Increase—Sewer & Water

- Overall, sewer and water rate adjustments propose modest increases.
- The combined estimated monthly increase for a single-family residential customer with sewer and water (based on 10 units of water usage) is \$7.71 per month, effective 5/2/24, as follows:

Description	Estimated Monthly Increase \$
Sewer Increase	\$2.95
Water Increase	\$4.76
Total Estimated Monthly Increase – Sewer and Water	\$7.71

- It is also important to note that discount programs will still be offered to seniors, veterans, low-income, and Lifeline customers.

How Can Customers Obtain More Information?

- A Prop 218 notice will be mailed to all customers and will include information detailing the proposed rate adjustments, petition process, and the City Council Public Hearing date.
- Informational inserts will also be included in the monthly utility bills.
- A webpage with information on the rate adjustments, FAQ's, and the Prop 218 process will be available on the City's website.

Proposition 218 Process and Next Steps

As this sewer and water rate proposal is subject to the Proposition 218 process, below is a timeline of the steps necessary to complete the process:

Step	Scheduled Date
Adoption/Rejection of Resolution to Schedule the Public Hearing with the Presented Fees	January 16, 2024
Staff Conducts Additional Research and Prepares the Public Notice	January 17, 2024 – February 3, 2024
Notice of Public Hearing Issued a Minimum of 45 days in Advance of the Hearing Date	No later than Saturday, February 3, 2024
Public Hearing	March 19, 2024
Adoption/Rejection by the City Council	March 19, 2024

Summary

- Overall, sewer and water rate adjustments propose modest adjustments.
- A rate adjustment has not been proposed since 2020 for sewer rates, and for water rates, an increase has not been proposed since 2022.
- However, to keep up with the cost of providing service, and to ensure a well-managed and sustainable utility, these rate adjustments are necessary to ensure the long-term sustainability of the sewer and water operations.
- The combined estimated monthly increase for sewer and water for a single-family residential customer (based on 10 units of water usage) is \$7.71 per month, effective 5/2/24.
- A comprehensive list of proposed adjustments is attached to the Agenda Report as Attachment A (Summary of Proposed Sewer Rates) and Attachment B (Summary of Proposed Water Rates).

Staff Recommendation

Staff recommends that the City Council authorize the Proposition 218 process and set a Public Hearing to take place on March 19, 2024, to consider proposed sewer and water fee adjustments.

Thank you for your time!

Questions?