

Pasadena Water and Power

# Public Hearing to Approve Recommended Water Rate Adjustments

City Council

June 3, 2024

Item #11

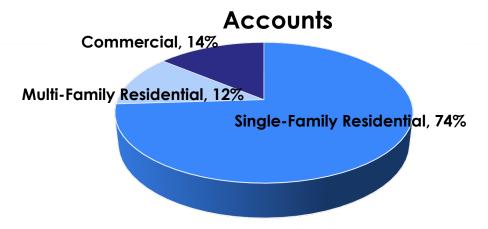


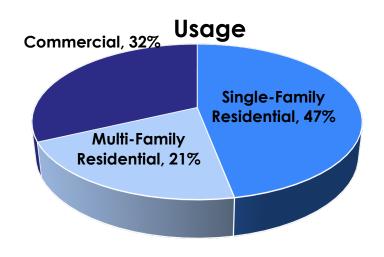
- Find that the proposed action is not a project subject to CEQA;
- Open a Public Hearing to receive public comment on the recommended water rate adjustments to be effective beginning July 1, 2024, or as soon as practicable thereafter (for five fiscal years);
- Close the Public Hearing and approve the recommended water rate structure and rate adjustments; and
- Direct the City Attorney to prepare an ordinance amending the Water Rate Ordinance implementing the changes to the water rates.

# 9

# Pasadena's **Community-Owned Water**System

- Formed in 1912 for reliable water service
- One of the founding members of the Metropolitan Water District, established in 1928
- Today, PWP provides approximately
   162,000 customers with water services
- Service area of approximately 26 square miles, including some areas outside of the City
- Delivered 9.8 million HCF (7.3 billion gallons; 22 thousand acre-feet) of water during FY 2023
- Water Sources: ~1/3 local, 2/3 imported







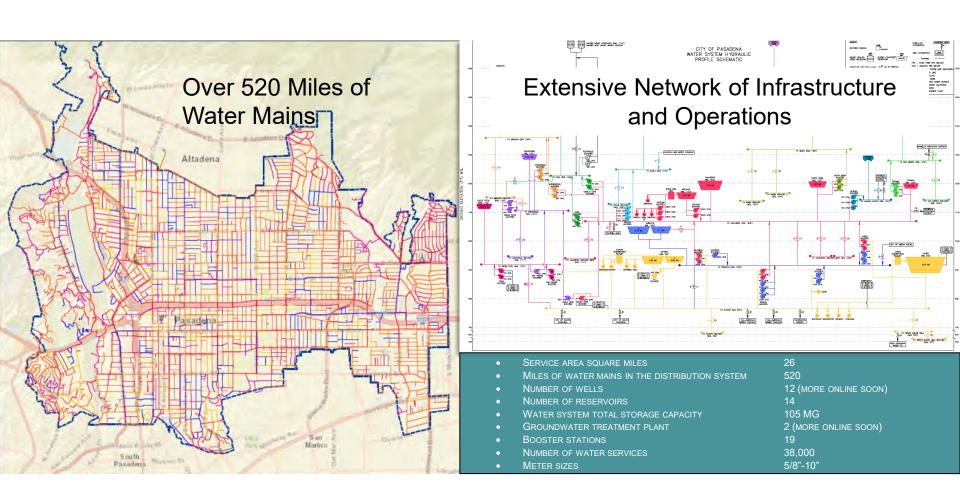


## Continue to Augment Supplies with Enhanced Stormwater Capture and Groundwater Replenishment





# Delivering Water to Homes and Businesses with a Resilient System







## Providing Safe, High Quality Drinking Water Meeting All Regulatory Standards

Continuing to Meet All Federal and State Drinking Water Standards





PWP's
Certified
Accredited
Water Quality
Laboratory

Enhancing Local Groundwater Quality



Informing Customers on Water Quality



#### Providing Safe, Reliable Drinking Water is Our Priority

As a community-owned utility, PWP has been serving Pasadena and parts of Altadena for more than a century. With the added benefit of having its own Water Quality Laboratory, PWPs team is state certified and monitors daily (including weekends and holidays), drawing samples from 300 locations to test for more than 170 elements to ensure the high standards are maintained. Through innovation, conservation and education, Pasadena plans to continue to provide a safe, reliable water supply for generations to come.









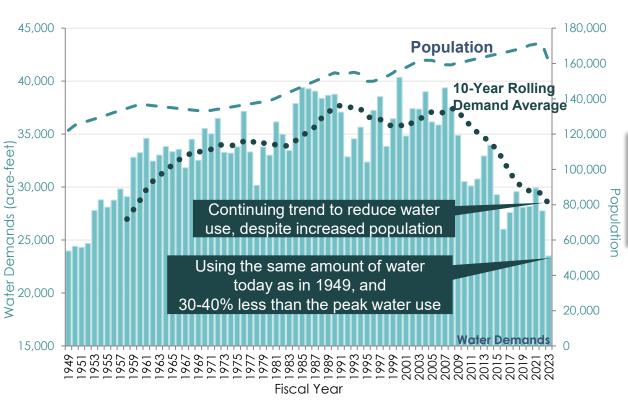
https://pwp.cityofpasadena. net/watersafetyquality/





# Foundation of Water Conservation for Climate Resilience

#### Actively Advancing Water-Use Efficiency as a Community









# Building a More Resilient Water Future Continuing to Invest in the Community



Replace and upgrade aging infrastructure



Capture and store more water when available



Expand water supply



Maintain water quality



Modernize largescale regional water delivery systems



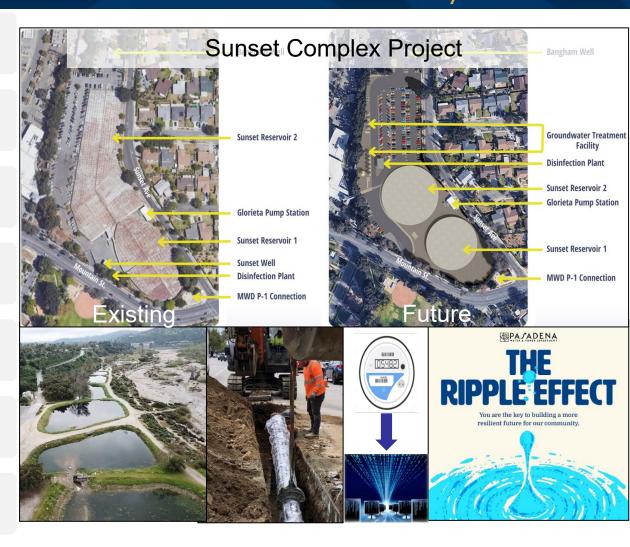
Modernize technology and optimize operations



Workforce development



Support customer conservation efforts



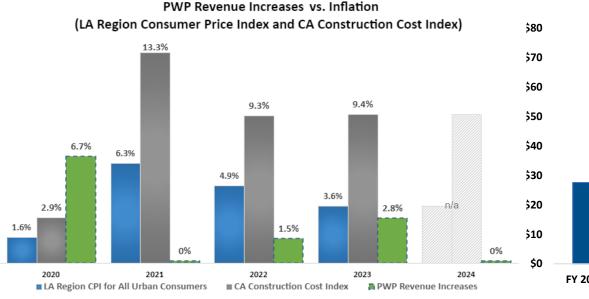


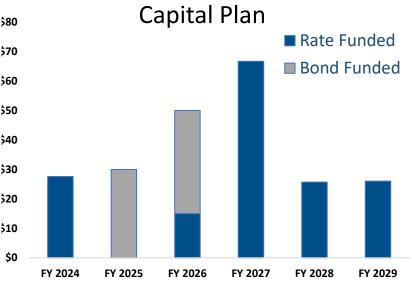




-\$4M FY 2023 Under Collection -18%
FY 2023 from FY
2022 Water Sales in
HCF

Less
Than1¢
per Gallon
with Delivery
Included



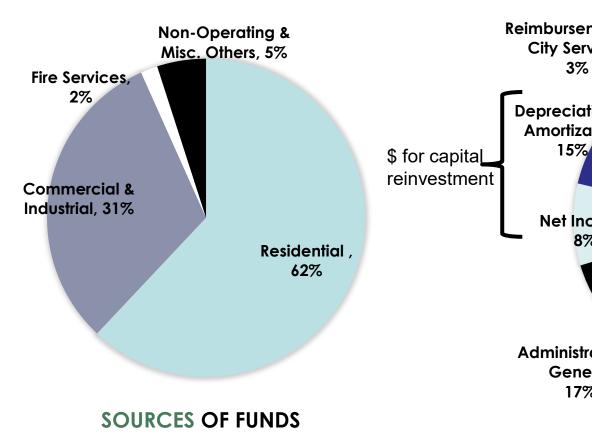


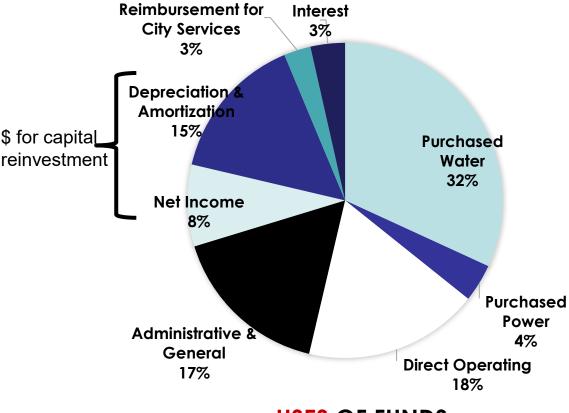




#### Sources & Uses of Funds (FY 2023)

\$68.7 Million in FY 2023



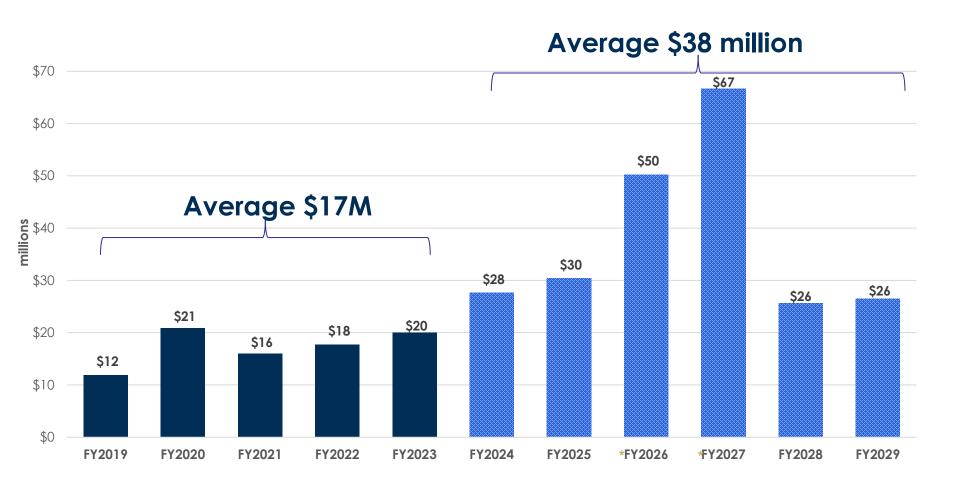


USES OF FUNDS





#### Historical and Planned Capital Spend







### Tap water - what a great deal!

- This is what one "billing unit" looks like – 748 gallons
- Less than 1¢ per gallon
- 25¢ for a 10-minute shower (with low flow shower head)
- Bottles of water at least
   100xs the cost, \$1.06/gallon



#### Why Did We Do a Water Rate Study?

- PWP is a self-funding enterprise is not like other government services (Police, Fire, Parks) that are funded by tax dollars from the General Fund
  - > Funded by customer rate revenue
  - Non-profit business
- •Rate revenue pays for:
  - O&M expenses (labor, supplies, electricity)
  - Capital costs (projects to rehabilitate pipes, tanks, wells etc.)
  - Debt service to pay back loans
  - > Reserve funding
- Rates must keep up with costs to operate the water system
- To review the equity and fairness of the rate structure (who pays what)



#### A financial planning process to set rates that:





- Operations & Maintenance
- Infrastructure Investment
- Debt
- Reserves



#### **Considers Community Values**

- Conservation
- Affordability
- Fairness/Equity



#### **Must be Legally Defensible**

• Proposition 218



## Steps in Conducting a Rate Study

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STEP 1 Rate Setting Framework	STEP 3 Cost of Service & Rate Design	STER Fina	□ 4 I Rate Adoption	

- Pricing objectives
- · What is important?

- · Revenue Requirements
- How much \$ do you need
- Evaluation of operating and capital needs
- Cash flow analysis for financial sufficiency

- Rate design (evaluated 5 designs)
- Water use (who and how much)
- Rate calculations
- Customer impact analyses
- · Cost allocations

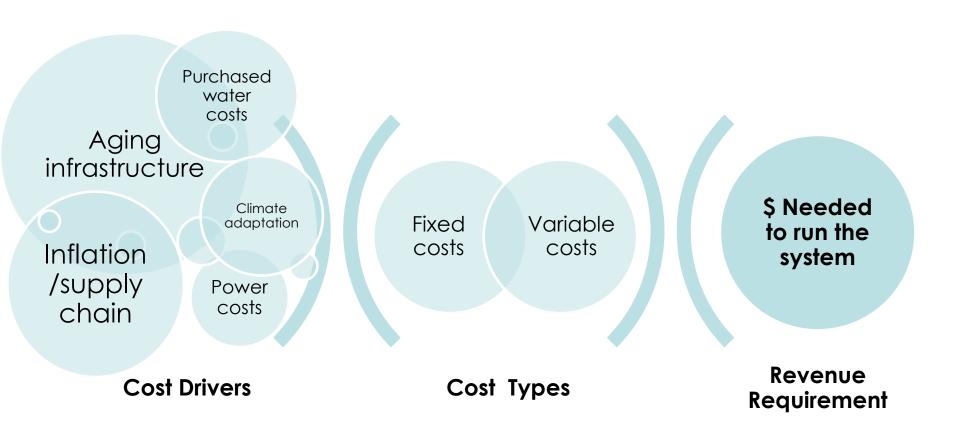
- Public Outreach
- Report
- Prop 218 Notice
- Public Hearing
  - June 3, 2024

We are here



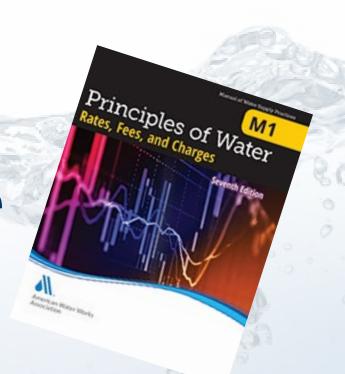


## Why Do Rates Need Adjustment?



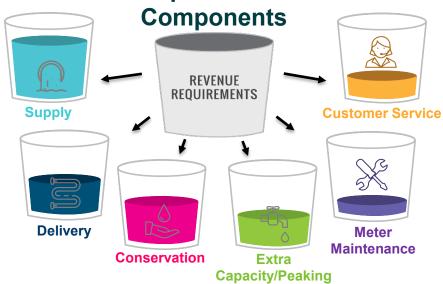
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## Cost-of-Service



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#### **Allocate Revenue Requirements to Cost Causation**

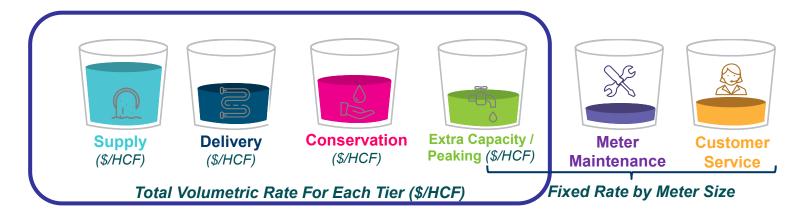


#### **Distribute Cost Components to Each Class = Cost to Serve Each Class**

(Single-Family, Multi-Family, Commercial)







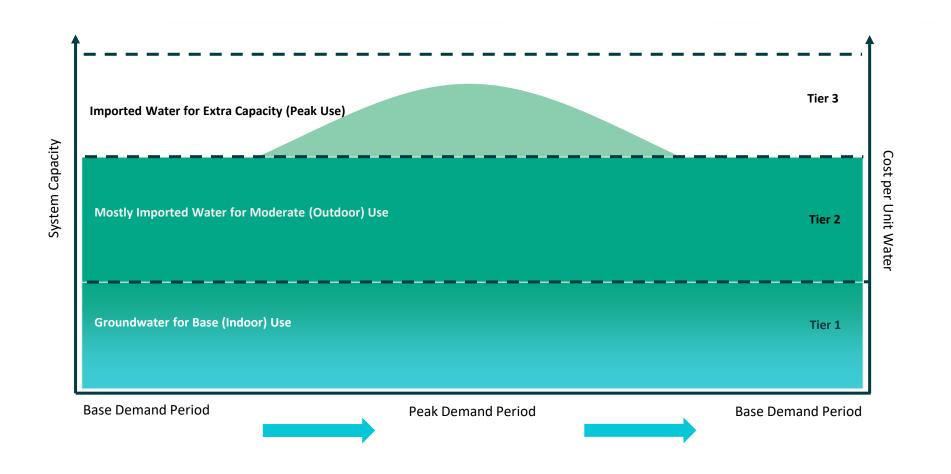
#### Calculate Commodity Rate (Volumetric Rate)

- Combine the unit (\$/HCF) rate of supply, delivery, conservation costs, extra capacity/peaking
- Must develop a nexus between tiered rates and costs to serve those tiers by adding unit rates for each cost component





## Volumetric Cost Allocation to Tiers





# Rate Design PASADENA

# Recommended Rate Design Adjustments

### Created Customer Classes/Type

- Single family residential (1 dwelling unit); 77% of customers
- Multi-family residential (2+ dwelling units); 12% of customers
- Commercial customers; 11% of customers

## Adjusted Block/Tier Breakpoints

(formerly tier breakpoints were by meter size)

- Single family (HCF): tier 1 @ 7, tier 2 @ 29, tier 3 @ 29+
- Multi-family (HCF per dwelling unit): tier 1 @ 5, tier 2 @ 10, tier 3 @ 10+
- Commercial (Small/Medium/Large): The % of water sold in each tier is the same as SFR for each meter size (small, med, large)

#### Capital Improvement Charge Incorporated into Fixed and Variable Rates

- More consistent with base extra capacity standard methodology
- Recovery is based on capital needs and reinvestments of the system
- Simplifies rate structure

#### Drought Charges

- An optional charge to recover lost revenue to pay for fixed costs during a drought
- Pricing developed to accommodate the various drought stages





### Customer Classes/Type

All rates are currently based on meter-size only

**Proposed** rates will create customer classes based on distinctive use patterns









Single Family Residential 77% of all customers

Residential 12% of all customers

**Multifamily** 

(Small, Medium and Large) 11% of all customers

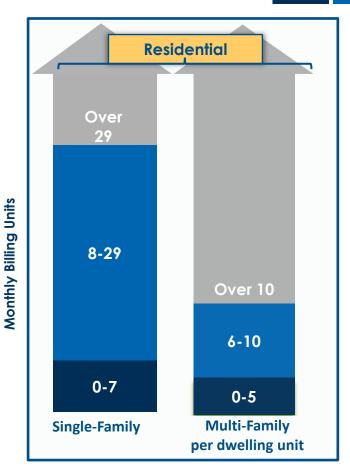
Commercial

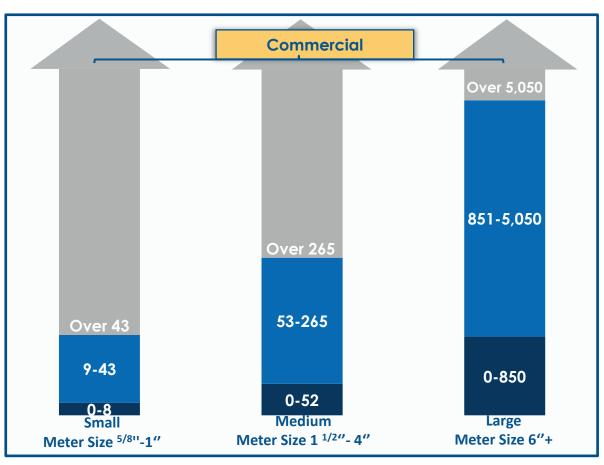




#### Adjusted Block/Tier Break Points

Tier 1 Tier 2 Tier 3

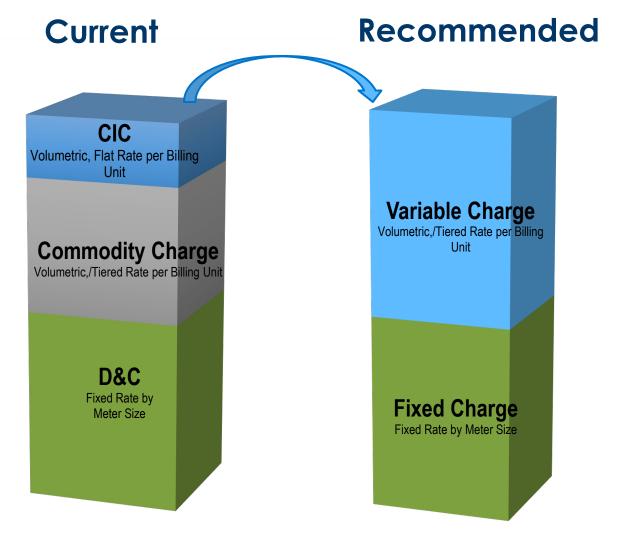








## Rate Components



## Drought Rates

- % increase to variable charges portion of a customer's bill IF enacted
- Recovers revenue to cover fixed costs and costs associated with drought
- Once Council declares a drought level, the General Manager has the **option** to implement drought rates to the variable charge for the different drought stages as defined in the "2020 Urban Water Management Plan"
- Drought rates send a stronger price signal when water is in short supply in addition to other programmatic measures

The variable rates in place at the time would be increased by the percentages shown

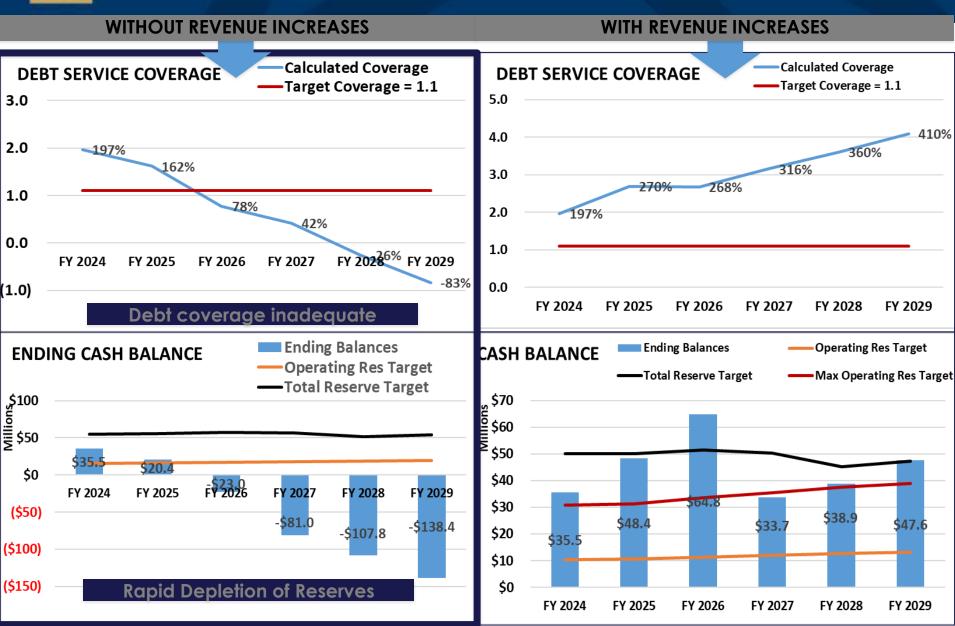
Pasadena's Water Shortage Plan Levels	Level 1	1 Level 2		Level 3	Level 4	
California's Water Shortage Contingency Plan Stages	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6
Tier 1	0%	0%	10%	35%	58%	125%
Tier 2	11%	29%	52%	89%	152%	178%
Tier 3	17%	51%	77%	127%	175%	225%



# Revenue Recovery Analysis

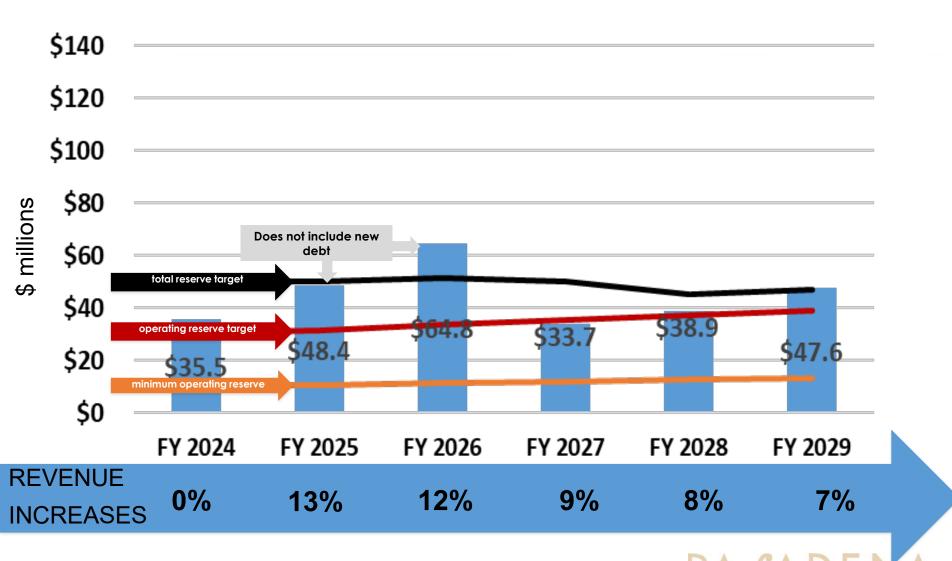


#### Revenue Increase Development



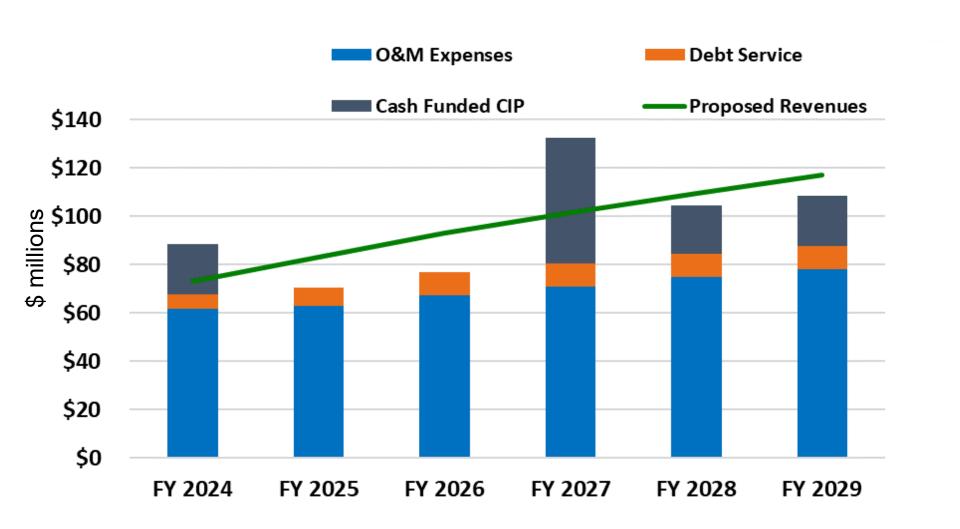


#### Recommended Revenue Increases





#### Revenues and Expenses





## Customer Bill Impacts



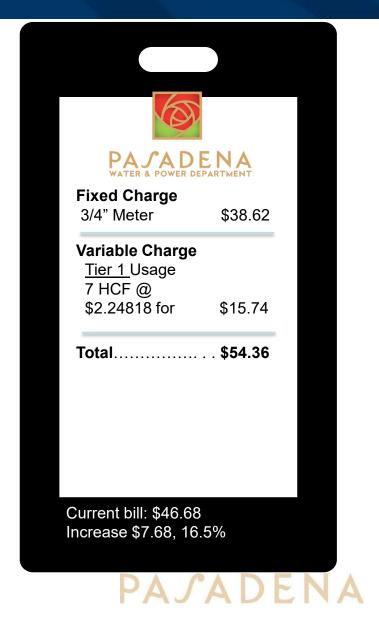
## User Case: The "Small" Family



Use **7** HCF monthly

Has mainly indoor plants & cat "Stella"

The Small Family is in the 30% percentile for Single Family Residential customers





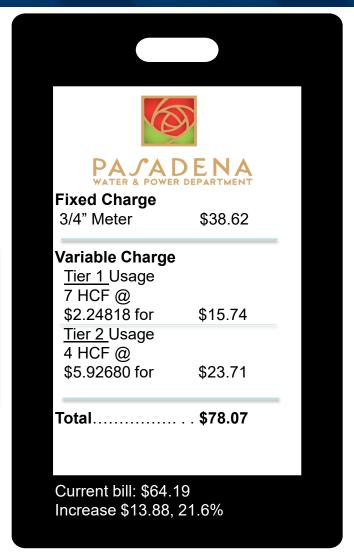
## User Case: The "Medium" Family



Use 11 HCF monthly

Has a small garden & dog "Muffin"

The Medium Family is in the 47% percentile for Single Family Residential customers







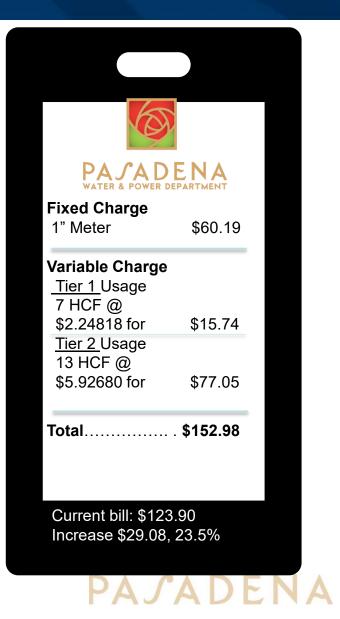
## User Case: The "Large" Family



Use **20** HCF monthly

Has a lawn and garden, dog "Lucky" and cat "Leo"

The Large Family is in the 74% percentile of single family residential customers



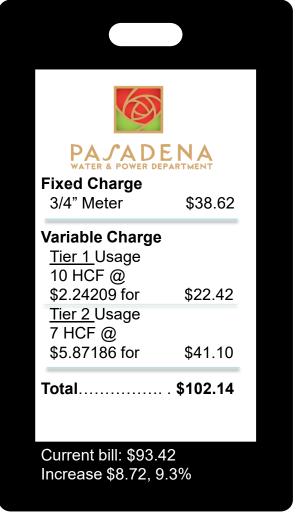


Use 17 HCF monthly

Duplex maintains outdoor space

Per Unit is \$51.07

PWP does not control water payments via property owner





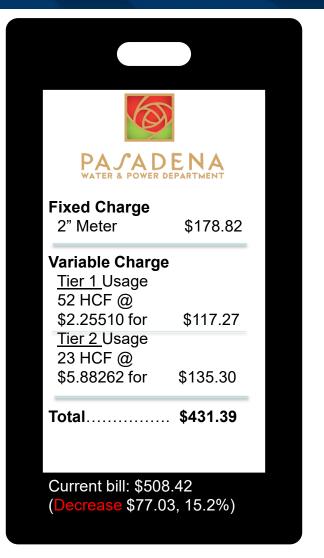


# User Case: Medium Commercial Coffee Shop



Use **75** HCF monthly

No outdoor watering

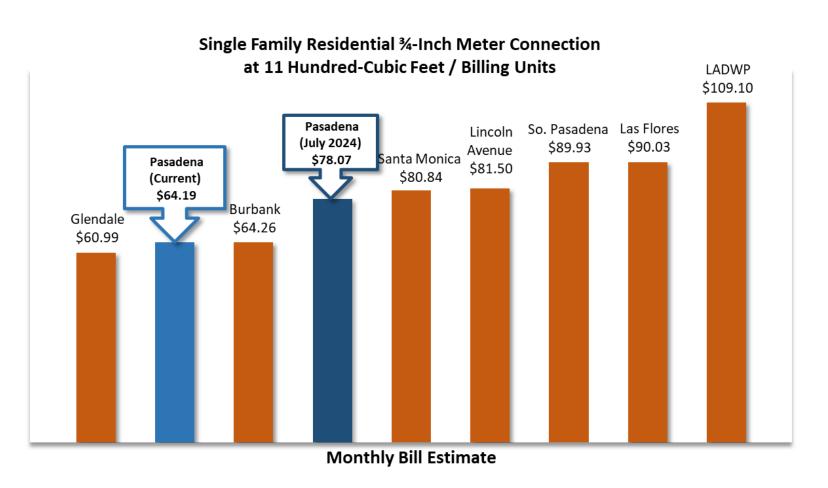




# Comparison with Neighboring Agencies



## Surrounding Agency Water Bill Survey



Note: Information provided is based on publicly available information as of January 2024. Other organization's rates may be different at the time of rate adoption.



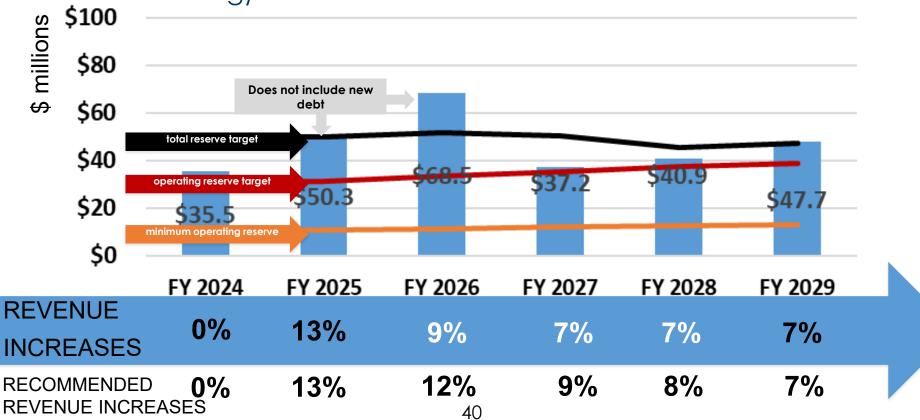
# Alternative Scenario and Option



## The W(IF)IA Scenario

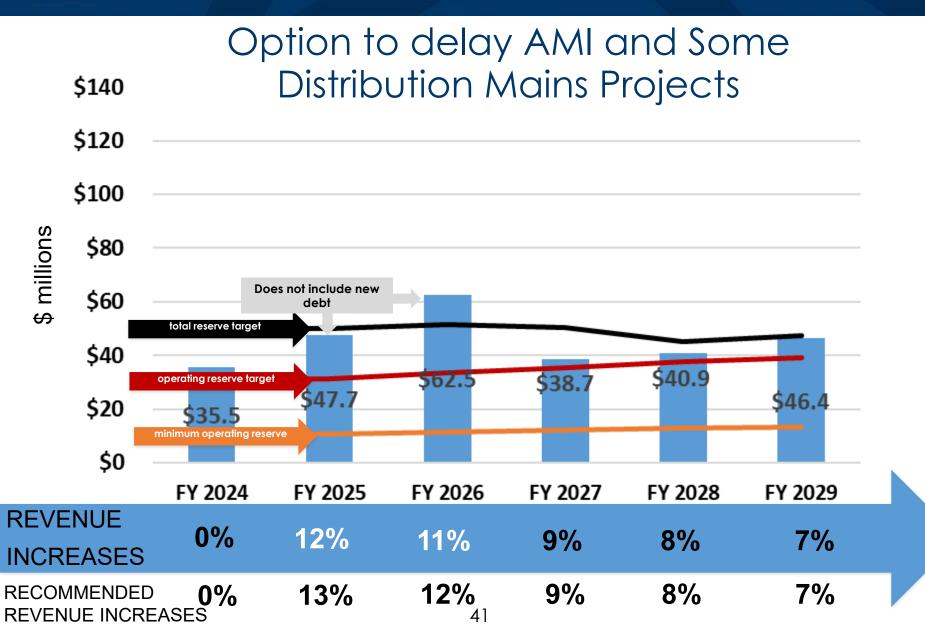
Water Infrastructure Finance and Innovation Act (WIFIA)

- Competitive loan process therefore not included in recommended financial plan
- To return to City Council upon WIFIA loan closing ~ FY 2026 with a reduced rate plan (cannot reduce in FY25 due to timing)





## Delay CIP: Not Recommended





#### COMBINED IMPACT OF PROPOSED AND APPROVED UTILITY RATE INCREASES EFFECTIVE JULY 1, 2024

Draw and SED Water Date In average	Current	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	
Proposed SFR Water Rate Increases  Avg. Monthly SFR Water Service	\$64.19	\$78.06	\$87.43	\$95.30	\$102.92	\$110.13	
Approved SFR Solid Waste Rate Increases							
Residential Cart @ 60 gallon	\$26.44	\$35.19	\$37.65	\$40.29	\$43.11	\$46.13	
Approved SFR Sewer Rate Increases							
Avg. Monthly SFR Water Service	\$4.55	\$11.05	\$12.81	\$13.33	\$13.86	\$14.41	
Total SFR Rate Increases July 1, 2024 (Water + Solid Waste + Sewer )							
TOTAL COMMINIST SER DATES	<b>Current</b> \$95.18	<b>FY 2025</b> \$124.30	<b>FY 2026</b> \$137.89	<b>FY 2027</b> \$148.92	<b>FY 2028</b> \$159.89	<b>FY 2029</b> \$170.67	
TOTAL COMBINED SFR RATES  Annual Combined Increase	Ψ, σσ	31%	11%	8%	7%	7%	
Total 5-year Combined Increase						79%	

Online Bill Estimator: https://egov1.cityofpasadena.net/BillEstimator





# Public Outreach and Education

## MSC

- July 25, 2023 Update/Workshop
- February 13, 2024 Update/Workshop
- March 26, 2024 Recommend to Set Public Hearing

## City Council

- April 8, 2024 Set Public Hearing
- June 3, 2024 Public Hearing Today

## EAC

- ♦ April 1, 2024
- May 14, 2024

# Community Meetings

- April 8, 2024 Virtual
- April 23, 2024 Key Accounts Meeting
- May 1 & 23, 2024 Victory & Robinson Parks

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## Public Outreach and Education



## PWPweb.com/WaterRateDesign



**NEWS RELEASE** 

**Pasadena Water and Power Issues** 

Notice of Public Hearing for Water Rate Structure and Adjustments

@cityofpasadena

**⊘** FULL NEWS RELEASE



Social Media and Local **Media Coverage** 





SERVING THE COMMUNITY SINCE 1906



## Backup Slides



#### COMBINED IMPACT OF PROPOSED AND APPROVED UTILITY RATE INCREASES EFFECTIVE JULY 1, 2024

	Current	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Proposed SFR Water Rate Increases  Avg. Monthly SFR Water Service	\$64.19	\$78.06	\$87.43	\$95.30	\$102.92	\$110.13
Approved SFR Solid Waste Rate Increases						
Residential Cart @ 60 gallons	\$26.44	\$35.19	\$37.65	\$40.29	\$43.11	\$46.13
Approved SFR Sewer Rate Increases						
Avg. Monthly SFR Water Service	\$4.55	\$11.05	\$12.81	\$13.33	\$13.86	\$14.41
Current SFR Electric Rates						
Residential Electric Service @ 500 kWh *Electric Rate Study efforts underway	\$124.64	\$124.64	\$124.64	\$124.64	\$124.64	\$124.64

Total SFR Rate Increases July 1, 2024 (Water + Solid Waste + Sewer + Electric)

	Current	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
TOTAL COMBINED SFR RATES	\$219.82	\$248.94	\$262.53	\$273.56	\$284.53	\$295.31
Annual Combined Increase		13%	5%	4%	4%	4%
Total 5-year Combined Increase						34%

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# PWP Projects Identified for W(IF)IA

Approximately one year process

Letter of Interest



Application



Closing

PWP Projects Identified

Project	5-Year Project Cost	49% Loan Amount
Sunset Complex	\$73 million	\$36 million
Distribution Mains	\$39 million	\$19 million
AMI	\$9 million	\$4 million
Total	\$121 million	\$59 million

### Loan Features

- > Deferred 5-year repayment
- Interest does not accrue until loan is drawn
- Customized repayment schedule





# Utility Bill Impact Example

Monthly Bill Estimates for Average Single-Family Residential Customer

Rate Adjustments	Current	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Approved <u>Sewer</u>	\$4.55	\$11.05	\$12.81	\$13.33	\$13.86	\$14.41
Approved <u>Solid</u> Waste Residential Cart @ 60 gallons	\$26.44	\$35.19	\$37.65	\$40.29	\$43.11	\$46.13
Recommended <u>Water</u> 11 HCF with 3/4" meter	\$64.19	\$78.06	\$87.43	\$95.30	\$102.93	\$110.13
Current <b>Electric</b> (500 kWh-summer rates)*	\$124.64	\$124.64	\$124.64	\$124.64	\$124.64	\$124.64
Combined Bill Estimate	\$219.82	\$248.94	\$262.53	\$273.56	\$284.54	\$295.31
Annual Increase %		13%	5%	4%	4%	4%
5-Year Increase %						34%

<sup>\*</sup>Electric Rate Design Study efforts underway: no proposed electric rate adjustments have been developed at this time



PWPweb.com/WaterRateDesign
Online Bill Estimator:
https://egov1.cityofpasadena.net/BillEstimator





# Today's Presenters

Stacie Takeguchi is a leader with more than 23 years of experience in the water industry. Prior to joining PWP, she worked for The Metropolitan Water District of Southern California for 15 years, serving in various capacities including leading regional drought action planning efforts. Ms. Takeguchi has a bachelor's degree from Tulane University and is a licensed engineer in the State of California.

Lynne Chaimowitz was most recently with the Mojave Water Agency where she served as the Chief Financial Officer (CFO). Prior to becoming CFO, Ms. Chaimowitz served the City of Ann Arbor, Public Services. She is a Certified Public Finance Officer (CPFO). She earned an Environmental Program undergraduate degree from the University of Michigan, and a graduate degree in Accounting from Eastern Michigan University.

Steve Gagnon has conducted water and wastewater rate studies in Southern California for over 15 years out of his 26 years as an engineering consultant. He is a registered environmental engineer, a Municipal Advisor with the U.S. Securities and Exchange Commission, and the former chair of the California/Nevada American Water Works Association Financial Management Committee.



Stacie Takeguchi Assistant General Manager - Water



Lynne Chaimowitz
Assistant General Manager –
Finance & Administration



Steve Gagnon Vice President-Raftelis Financial Consultants, Inc.