



CITY OF PLACENTIA

SANITARY SEWER SERVICE FEE STUDY AND FIVE-YEAR FINANCING PLAN

MAY 2021
FINAL REPORT

PREPARED FOR:

**CITY COUNCIL
CITY OF PLACENTIA**

PREPARED BY:

SCI Consulting Group

4745 MANGELS BOULEVARD
FAIRFIELD, CALIFORNIA 94534
PHONE 707.430.4300
FAX 707.430.4319
www.sci-cg.com

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ACKNOWLEDGMENTS

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Golden State Water Company
Yorba Linda Water District

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EXECUTIVE SUMMARY

INTRODUCTION

The City of Placentia ("City") provides sanitary sewer collection to the majority of parcels within the City through approximately 84 miles of gravity sanitary sewer pipelines. All untreated sanitary waste collected by the City's sanitary sewer system is conveyed to the Orange County Sanitation District ("OCSD") for treatment. As a result, the City's primary focus is the cleaning, management, and maintenance of the collection lines within the City's sanitary service area.

The operation and maintenance of the City's sewer system is funded through the Sewer Enterprise Fund which is separate from the City's General Fund. The City's current sanitary sewer service fee is outdated and does not reflect the full cost to operation, maintain, and improve the system. The sanitary sewer service fees have not been adjusted since March 2005 when the existing rates, shown below, were first established.

FIGURE 1 - CURRENT SANITARY SEWER SERVICE RATES

| User Class | Unit ¹ | Fee per Unit ² |
|---------------------------|-------------------|---------------------------|
| Single-Family Residential | CCF | \$0.35 |
| Multi-Family Residential | CCF | \$0.39 |
| Commercial | CCF | \$0.37 |
| Industrial | CCF | \$0.37 |
| Institutional | CCF | \$0.25 |
| Government and Public | CCF | \$0.35 |

Notes:

¹ CCF is an abbreviation for 100 cubic feet which is a normal unit of measure for water consumption and is equal to 748 gallons.

² Established by the City Council on March 15, 2005 by Ordinance No. 2005-04.

The cost to operate and maintain the City's sewer system has increased over the past 16 years. Since March 2005, the cumulative annual price change has increased by a factor of 37.2% and revenues have not kept pace with the capital needs of the system. The current rates are insufficient to fund ongoing services and necessary capital improvements. Without a sanitary sewer system fee adjustment, the City's Sewer Enterprise Fund will not have

adequate revenues to cover operations and maintenance of the sewer system and conduct necessary capital improvements and repairs.

This *Sanitary Sewer Service Fee Study and Five-Year Financing Plan* ("Fee Study" and "Plan") was prepared pursuant to the California Constitution Article XIII D, Section 6 ("Proposition 218"), and Placentia Municipal Code Chapter 5.24. The purpose of the Fee Study is to update the City's sanitary sewer service fees to ensure they are sufficient to meet the City's service obligations for ongoing operation and maintenance and capital improvements while maintaining prudent reserves.

The proposed sanitary sewer service fee will raise an amount of revenue that does not exceed the amount required to operate and maintain the sanitary sewer system. The proposed rates are based on the cost of service, follows generally accepted rate design criteria, and adheres to the substantive requirements of Proposition 218. The City believes that the proposed rates are fair and reasonable to the City's customers.

SUMMARY OF KEY FINDINGS AND RECOMMENDATIONS

Based on the findings presented in this Study, the following recommendations are presented:

1. Beginning July 6, 2021, the sewer maintenance fee should be set at the rates below for every one hundred cubic feet of water consumption. Additionally, the City should establish a new sewer capital fee to fund necessary capital improvements to the sewer system.

FIGURE 2 – PROPOSED SANITARY SEWER SERVICE FEES, FY 21-22

| User Class | Unit ¹ | Fiscal Year 21-22 | | |
|---------------------------|-------------------|-----------------------|-------------------|--------------------------|
| | | Sewer Maintenance Fee | Sewer Capital Fee | Total Sewer Service Fees |
| Single-Family Residential | CCF | \$0.32 | \$0.40 | \$0.72 |
| Multi-Family Residential | CCF | \$0.36 | \$0.46 | \$0.82 |
| Commercial | CCF | \$0.42 | \$0.54 | \$0.96 |
| Industrial | CCF | \$0.42 | \$0.54 | \$0.96 |
| Institutional | CCF | \$0.23 | \$0.30 | \$0.53 |
| Government and Public | CCF | \$0.32 | \$0.40 | \$0.72 |

FIGURE 3 – PROPOSED FIVE-YEAR TOTAL SANITARY SEWER SERVICE FEES

| User Class | FY 2021-22 | FY 2022-23 | FY 2023-24 | FY 2024-25 | FY 2025-26 |
|---------------------------|------------|------------|------------|------------|------------|
| Single-Family Residential | \$0.72 | \$0.74 | \$0.76 | \$0.79 | \$0.81 |
| Multi-Family Residential | \$0.82 | \$0.84 | \$0.87 | \$0.89 | \$0.92 |
| Commercial | \$0.96 | \$0.99 | \$1.02 | \$1.05 | \$1.08 |
| Industrial | \$0.96 | \$0.99 | \$1.02 | \$1.05 | \$1.08 |
| Institutional | \$0.53 | \$0.54 | \$0.56 | \$0.58 | \$0.59 |
| Government and Public | \$0.72 | \$0.74 | \$0.76 | \$0.79 | \$0.81 |

Notes:

¹ Fees are per CCF unit and rounded to the nearest cent. Include both the sewer maintenance fee and the new sewer capital fee.

2. The proposed five-year total sanitary sewer service fees should be adopted in accordance with the procedures for new or increased fees or charges outlined in Article XIID of the California Constitution ("Proposition 218").

3. Proposition 218 allows agencies to implement rates and charges lower than those approved via the Proposition 218 hearing process. If annual cost increases are less than projected, the City can increase rates and charges by less than the maximum rates stated in the Proposition 218 notice.
4. For the Sewer Enterprise Fund, the City should maintain a working capital reserve of at least three months of operating expenses and a capital improvement reserve equal to three percent of net depreciable capital assets.
5. The five-year financing plan and associated sanitary sewer services rates reflect assumptions and estimates that are believed reasonable at present. However, conditions change. It is recommended that the City review the financial condition of the Sewer Enterprise Fund annually as part of the budget process and perform a comprehensive financial plan and sewer fee update every five years, unless otherwise needed sooner.

FIVE-YEAR FINANCING PLAN (REVENUE REQUIREMENT)

This section describes the five-year financial plan (“Plan”) and related recommendations for the City’s Sewer Enterprise Fund. The Plan is used to determine annual sanitary sewer revenue requirements. The annual revenue requirement is the amount of revenue needed from sanitary sewer service fees to cover anticipated operating, maintenance, and capital improvement program costs while working to achieve the reserve goals by FY 2025-26.

PLAN ASSUMPTIONS / OBJECTIVES

Base Year. The Plan uses fiscal year 2020-21 as both the budget year and the base year. The base year is a term used to describe the fiscal year’s expenses with which the sanitary sewer rates are set. The planning period is FY 2021-22 through FY 2025-26.

Inflationary Assumption. The Plan includes a general cost and construction cost inflation adjustment of 3.0 percent per fiscal year. General inflation is currently about 3.0 percent per year, as reported by the Bureau of Labor Statistics for the Los Angeles-Long Beach-Anaheim area. Construction inflation, as indicated by the Engineering News Record’s 20-Cities Construction Cost Index, has ranged between 2.3 and 3.9 percent for the past five years. Each of these inflation assumptions has been reviewed with City staff and is reasonable for financial planning purposes.

Growth Assumption. The Plan assumes that the user base (number of active service connections) and associated water usage will grow by 2.0 percent per year throughout the planning period. This estimate is consistent with the prior sanitary sewer service fee study. The estimate is believed to be reasonable for financial planning purposes because it correlates well with the development proposals currently moving through the City’s approval process.

Working Capital Reserve Goal. The Plan incorporates a working capital reserve goal to help minimize the risk of unexpected operation costs or drops in operating revenues. As previously mentioned, the working capital reserve target should be 15 percent to 50 percent of operating costs. The financial model presented in this Fee Study uses a 25 percent working capital goal (approximately \$270,000) to be reached in fiscal year 2025-26. As the upgraded system becomes more reliable with time, the working capital reserve goal could be reduced to a lower level.

Capital Improvement Reserve Goal. The Plan incorporates a capital improvement reserve goal is equal to three percent of net depreciable capital assets (or approximately \$278,000) based on a total system asset value of approximately \$9.2 million. The capital improvement reserve will allow the City to absorb the peaks and valleys of annual capital improvement program expenditures. The reserve may also assist the City in the event of natural disasters or other events that cause significant damage to the sewer infrastructure. A reserve target of three percent of net depreciable capital assets is consistent with industry standards. However, the City plans to achieve this goal by the Fiscal Year 2025-26 to avoid a larger initial fee increase.

REVENUE REQUIREMENT

On the following page, Figure 4 details the City's five-year financing plan through 2025-26. The Plan depicts the projected operating revenues and expenses, along with the source and uses of capital improvement funds for the five-year period. The financing plan assumes the proposed new sewer rates (to be discussed in the next section) will become effective in July 2021.

To adequately fund the sanitary sewer system, each of the various cost centers was identified, and an analysis of the required revenue for an initial five-year period was performed. It is desired that the sanitary sewer fee raise enough revenue during this five-year period to cover all anticipated system costs, allowing the rates to remain constant during this initial period.

The City proposes to fund capital improvement projects to rehabilitate the sewer system through a new capital improvement fee. The City proposes to fund up to \$1,000,000 of capital improvement projects in FY 2021-22 and approximately \$1,400,000 annually for the subsequent four fiscal years of the Plan. Appendix A shows the annual expenditures of all planned CIP projects from the current year through FY 2031-32.

FIGURE 4 – FIVE-YEAR FINANCING PLAN (REVENUE REQUIREMENT)

| Item | Amended FY 19-20 | Budget FY 20-21 | Projection FY 21-22 | Projection FY 22-23 | Projection FY 23-24 | Projection FY 24-25 | Projection FY 25-26 |
|-------------------------------|----------------------|--------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Beginning Fund Balance | \$1,427,400 | \$128,400 | (\$400) | \$251,560 | \$188,942 | \$213,159 | \$331,126 |
| Source of Funds | Amended | Budget | Projection | Projection | Projection | Projection | Projection |
| Sewer Maintenance Fee | \$720,000 | \$704,000 | \$969,000 | \$1,017,450 | \$1,068,323 | \$1,121,739 | \$1,177,826 |
| Sewer Capital Fee | - | - | \$1,242,000 | \$1,304,100 | \$1,369,305 | \$1,437,770 | \$1,509,659 |
| Interest Revenue | \$0 | \$30,000 | \$250 | \$3,900 | \$4,300 | \$6,700 | \$11,000 |
| Other Revenue | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 | \$0 |
| Total Source of Funds | \$720,000 | \$734,000 | \$2,211,250 | \$2,325,450 | \$2,441,928 | \$2,566,209 | \$2,698,484 |
| Use of Funds | | | | | | | |
| Salaries & Benefits | \$709,600 | \$430,900 | \$445,424 | \$458,787 | \$472,551 | \$486,727 | \$501,329 |
| Material, Supplies & Services | \$317,400 | \$327,300 | \$337,119 | \$347,233 | \$357,650 | \$368,379 | \$379,430 |
| Transfer Out to GF | \$192,000 | \$104,600 | \$176,746 | \$182,049 | \$187,510 | \$193,136 | \$198,930 |
| Capital Improvements | \$800,000 | \$0 | \$1,000,000 | \$1,400,000 | \$1,400,000 | \$1,400,000 | \$1,400,000 |
| Contribution to Reserves | \$0 | \$0 | \$242,000 | \$0 | \$0 | \$0 | \$0 |
| Total Use of Funds | \$2,019,000 | \$862,800 | \$2,201,290 | \$2,388,068 | \$2,417,711 | \$2,448,242 | \$2,479,689 |
| Surplus (Deficit) | (\$1,299,000) | (\$128,800) | \$9,960 | (\$62,618) | \$24,217 | \$117,967 | \$218,795 |
| Ending Fund Balance | \$128,400 | (\$400) | \$251,560 | \$188,942 | \$213,159 | \$331,126 | \$549,921 |

COST-OF-SERVICE ANALYSIS

The next step in the rate-setting process is to evaluate the cost of providing service. Sewer rate calculations contained herein are intended to generate the level of revenue commensurate with the revenue required from the City's sewer customers. The manner in which each customer is responsible for the sewer utility's costs is the subject of the cost-of-service analysis.

Under Proposition 218, the City's sewer service rates must be based on the cost of providing sewer collection and conveyance. Sewer service costs consist of the following:

- Operating costs including administration and maintenance
- Capital improvement costs including but not limited to replacements and improvements to gravity pipelines and connections
- Costs related to maintaining adequate reserves

The City's goal in defining sanitary sewer service rates is to establish a rate structure to equitably distribute the sanitary sewer system costs while ensuring that all customers contribute their fair share toward the financial obligation of the system. This goal allows customers to pay their proportionate share based upon individual use while allowing customers control over the amount of their bill and maintaining that all customers pay their fair share of the financial obligation of the system.

Since only water consumption is metered for the customers of the sanitary sewer system, the desired rate structure is based upon the return flow of the customers' water consumption. The return flow is established by defining the discharge factors that, when applied to water use, will accurately estimate the return flow for a given user class. Discharge factors were calculated in the City's 2005 Water Rate Study for each user class based upon the ratio of winter water use to non-winter water use. Winter water usage decreases due to lower irrigation and outdoor use. A customer's discharge factor is calculated according to the following formula:

$$\text{[Discharge Factor]} = \frac{\text{[Average Water Usage for December through March]}}{\text{[Average Water Usage for April through November]}}$$

The discharge factors are found to be generally accepted engineering ranges, except for the commercial and industrial user class. The commercial and industrial discharge factors are slightly lower than the generally accepted range of 90% to 100%. Although this factor is slightly lower, it is felt that the calculated discharge factors more accurately reflect the actual commercial/industrial consumers for the area.

Also, the discharge factors reveal that the return flow for the Government and Public user classes was the same. As a result, the sanitary sewer service rate for the Government and Public classes will be the same, and the rate model will have only five unique user rates.

Since the return flow contributed to the sanitary sewer system varies greatly based upon the type of application for the users being served, there are separate for six major classes of sanitary users are defined below.

- **“Single-Family Residential”** means a single structure designed for and containing living, sleeping, cooking, and eating facilities. For an account to be considered a single-family residential, water must be provided to the dwelling unit through a dedicated meter for the exclusive water use of the residence within and around the residence
- **“Multi-Family Residential”** means a structure or set of structures containing multiple dwelling units designed for and containing living, sleeping, cooking, and eating facilities. The structures may be made up of one-family houses attached to one or more houses and buildings constructed for occupancy by two or more families (e.g., duplexes, apartments, townhouses, row-houses, condominiums, and boarding and rooming houses) and all residential mobile homes or trailers.
- **“Commercial”** means the use of the sanitary sewer system related to the operation of any business, commerce, or trade.
- **“Industrial”** means the use of the sanitary sewer system related to manufacturing or processing activities. Identified in the 1997 U.S. North American Industrial Classification System in the following categories: 11xx- Agriculture, Forestry, Fishing, and Hunting; 21xx- Mining; 22xx- Utilities; 31xx to 33xx- Manufacturing; 48xx to 49xx- Transportation and Warehousing and 562x- Waste Management and Remediation Services.
- **“Institutional”** means the use of the sanitary sewer system related to private/public schools, junior colleges, colleges/universities, cemeteries, hospitals, garden and agriculturally zoned property, and public land agencies.
- **“Governmental”** means the use of the sanitary sewer system by a city, county, state, federal government, or subdivision of any of the aforementioned.

- **“Public”** means the use of the sanitary sewer system related to predominantly general public use. Examples include museums, historical sites, religious organizations, charitable organizations, social advocacy organizations, civic and social organizations that are not operated for profit or operated under any governmental agency.

A rate model was developed using the established user classes. This model uses two-year consumption data to compute the total average annual water consumption for each user class. Water consumption data was provided by the Golden State Water Company, and Yorba Linda Water District for a two-year period was obtained for all customers within the City's sanitary service area. Applying the discharge factors previously calculated, we arrive at the estimated sanitary flow for all customers in the sanitary sewer system. A summary of the results is shown in Figure 5 below.

FIGURE 5 – SEWER FLOW CALCULATION (CCF)

| User Class | Projected | | Estimate |
|---------------------------|--------------------------|------------------|-------------------------|
| | Annual Water Usage (CCF) | Discharge Factor | Annual Sewer Flow (CCF) |
| | Calc | a | b |
| | | | c = a * b |
| Single-Family Residential | 1,574,175 | 75.0% | 1,180,631 |
| Multi-Family Residential | 407,723 | 85.0% | 346,565 |
| Commercial / Industrial | 697,252 | 100.0% | 697,252 |
| Institutional | 140,056 | 55.0% | 77,031 |
| Government and Public | 3,079 | 75.0% | 2,309 |
| Total | 2,822,286 | | 2,303,788 |

DETERMINATION OF THE SANITARY SEWER SERVICE FEE

Revenue derived from the sanitary sewer service fee and imposed upon customers connected to the City's sanitary sewer system ("system") is used to pay the costs of operation and maintenance and capital improvements. The proposed sewer rate service fee consists of two fees – Sewer Maintenance Fee and Sewer Capital Fee. The rates are formed in a manner that is proportionate to the customer's estimated sewer discharge and cost of providing the service.

COSTS PER UNIT (CCF)

The projected annual revenue requirement to collect and send sewage to the OCSD for treatment is \$969,000 for FY 2021-22. As determined in the prior section, estimated annual sanitary sewer flow for FY 2021-22 is 2,303,788 CCF. The operation and maintenance cost per unit is calculated by dividing annual revenue requirement by the estimated annual sanitary sewer flow. As shown below, each CCF of sanitary waste generated requires \$0.4206 of revenue from the user.

FIGURE 6 – MAINTENANCE COST PER UNIT (CCF)

| | |
|--|-----------------|
| Maintenance Revenue Requirement (FY 2021-22) | \$969,000 |
| Estimated Sewer Flow (FY 2021-22) | 2,303,788 |
| Maintenance Cost per Unit of Sewer Flow (CCF) | \$0.4206 |

The projected annual revenue requirement for FY 2021-2 to fund the \$6.6 million of capital improvements over the five-year plan is \$1,242,000. As determined in the prior section, estimated annual sanitary sewer flow for FY 2021-22 is 2,303,788 CCF. The capital improvement cost per unit is calculated by dividing the annual revenue requirement by the estimated annual sanitary flow for FY 2021. As shown in Figure 7 below, the capital improvement cost is \$0.5391 per CCF of sanitary sewer flow.

FIGURE 7 – CAPITAL IMPROVEMENT COST PER UNIT (CCF)

| | |
|--|-----------------|
| Capital Revenue Requirement (FY 2021-22) | \$1,242,000 |
| Estimated Sewer Flow (FY 2021-22) | 2,303,788 |
| Capital Cost per Unit of Sewer Flow (CCF) | \$0.5391 |

SEWER MAINTENANCE FEE AND SEWER CAPITAL FEE

Using the discharge factors and cost per unit of sanitary flow, the rate for each user class is determined by multiplying the discharge factor against the rate per unit of flow. This rate is the cost of the return flow per unit of water consumed.

FIGURE 8 – MAINTENANCE & OPERATION (M&O) COST TO SERVE EACH USER CLASS

| User Class | Unit | M&O Cost per Unit ¹ | Discharge Factor ² | Sewer |
|---------------------------|------|--------------------------------|-------------------------------|------------------------------|
| | | | | Maintenance Fee ³ |
| Calc | a | b | c = a * b | |
| Single-Family Residential | CCF | \$0.4206 | 75% | \$0.3155 |
| Multi-Family Residential | CCF | \$0.4206 | 85% | \$0.3575 |
| Commercial | CCF | \$0.4206 | 100% | \$0.4206 |
| Industrial | CCF | \$0.4206 | 100% | \$0.4206 |
| Institutional | CCF | \$0.4206 | 55% | \$0.2313 |
| Government and Public | CCF | \$0.4206 | 75% | \$0.3155 |

Notes:

¹ See Figure 5.

² See Figure 4.

³ Fee per 100 cubic feet (CCF) of water usage.

FIGURE 9 – CAPITAL IMPROVEMENT PROGRAM (CIP) COST TO SERVE EACH USER CLASS

| User Class | Unit | CIP Cost per Unit ¹ | Discharge Factor ² | Sewer Capital |
|---------------------------|------|--------------------------------|-------------------------------|------------------|
| | | | | Fee ³ |
| Calc | a | b | c = a * b | |
| Single-Family Residential | CCF | \$0.5391 | 75% | \$0.4043 |
| Multi-Family Residential | CCF | \$0.5391 | 85% | \$0.4582 |
| Commercial | CCF | \$0.5391 | 100% | \$0.5391 |
| Industrial | CCF | \$0.5391 | 100% | \$0.5391 |
| Institutional | CCF | \$0.5391 | 55% | \$0.2965 |
| Government and Public | CCF | \$0.5391 | 75% | \$0.4043 |

Notes:

¹ See Figure 6.

² See Figure 4.

³ Fee per 100 cubic feet (CCF) of water usage.

FIGURE 10 – COMPARISON OF CURRENT AND FY 2021-2022 SANITARY SEWER SERVICE FEES

| User Class | Current Sanitary Service Fee (CCF) | Fiscal Year 21-22 | | |
|---------------------------|------------------------------------|-----------------------------|-------------------------|--|
| | | Sewer Maintenance Fee (CCF) | Sewer Capital Fee (CCF) | Total Sanitary Sewer Service Fee (CCF) |
| Single-Family Residential | \$0.3500 | \$0.32 | \$0.40 | \$0.72 |
| Multi-Family Residential | \$0.3900 | \$0.36 | \$0.46 | \$0.82 |
| Commercial | \$0.3700 | \$0.42 | \$0.54 | \$0.96 |
| Industrial | \$0.3700 | \$0.42 | \$0.54 | \$0.96 |
| Institutional | \$0.2500 | \$0.23 | \$0.30 | \$0.53 |
| Government and Public | \$0.3500 | \$0.32 | \$0.40 | \$0.72 |

Figure 11 below presents the current and proposed total sanitary sewer service rates through FY 2025-26 for all user classes. The new rates shown are the total of the sewer maintenance fee and the new sewer capital fee. The new sanitary sewer service rates would be effective for sewer system collection services provided on or after July 6, 2021. Beginning in FY 2022-23, the sanitary sewer service rates are assumed to increase by 3.0% each fiscal year through FY 2025-26.

FIGURE 11 – TOTAL SANITARY SEWER SERVICE RATES (CCF) THRU FY 2025-26

| User Class | Current | FY 2021-22 | FY 2022-23 | FY 2023-24 | FY 2024-25 | FY 2025-26 |
|---------------------------|---------|------------|------------|------------|------------|------------|
| Single-Family Residential | \$0.35 | \$0.72 | \$0.74 | \$0.76 | \$0.79 | \$0.81 |
| Multi-Family Residential | \$0.39 | \$0.82 | \$0.84 | \$0.87 | \$0.89 | \$0.92 |
| Commercial | \$0.37 | \$0.96 | \$0.99 | \$1.02 | \$1.05 | \$1.08 |
| Industrial | \$0.37 | \$0.96 | \$0.99 | \$1.02 | \$1.05 | \$1.08 |
| Institutional | \$0.25 | \$0.53 | \$0.54 | \$0.56 | \$0.58 | \$0.59 |
| Government and Public | \$0.35 | \$0.72 | \$0.74 | \$0.76 | \$0.79 | \$0.81 |

Notes:

¹ Fees are per 100 cubic feet (CCF) of water usage and rounded to the nearest cent. Fees are the total of the sewer maintenance fee and the new sewer capital fee.

SEWER BILL IMPACTS

A summary of the current sanitary sewer services rates by user class and an average bill for a customer within that user class is provided in Figure 12 below. In Figure 13, average monthly bill for the same user classes under the proposed total sanitary sewer service fees, effective July 6, 2021, are shown. The proposed average charge for a single family home will be approximately \$11.31 per month, a 105.7% increase from the average sewer bill of \$5.50 for the same customer.

FIGURE 12 – CURRENT AVERAGE SEWER SERVICE CHARGE BY USER CLASS

| User Class | Typical Billing Period | Current Sanitary Sewer Service Fee per CCF | Average Monthly Water Consumption (CCF) | Average Monthly Charge per Account |
|---------------------------|------------------------|--|---|------------------------------------|
| | Calc | a | b | c = a * b |
| Single-Family Residential | Two-Months | \$0.3500 | 16 | \$5.50 |
| Multi-Family Residential | Two-Months | \$0.3900 | 153 | \$59.81 |
| Commercial | One Month | \$0.3700 | 66 | \$24.48 |
| Industrial | One Month | \$0.3700 | 64 | \$23.57 |
| Institutional | One Month | \$0.2500 | 407 | \$101.67 |
| Government and Public | One Month | \$0.3500 | 42 | \$14.66 |

FIGURE 13 – PROPOSED AVERAGE TOTAL SEWER SERVICE CHARGE BY USER CLASS

| User Class | Typical Billing Period | Proposed Total Sanitary Sewer Service Fee per CCF | Average Monthly Water Consumption (CCF) | Average Monthly Charge per Account |
|---------------------------|------------------------|---|---|------------------------------------|
| | Calc | a | b | c = a * b |
| Single-Family Residential | Two-Months | \$0.7198 | 16 | \$11.31 |
| Multi-Family Residential | Two-Months | \$0.8157 | 153 | \$125.10 |
| Commercial | One Month | \$0.9597 | 66 | \$63.50 |
| Industrial | One Month | \$0.9597 | 64 | \$61.13 |
| Institutional | One Month | \$0.5278 | 407 | \$214.65 |
| Government and Public | One Month | \$0.7198 | 42 | \$30.16 |

IMPLEMENTATION

PROCEDURAL REQUIREMENTS FOR FEE ADOPTION

In order to adopt the proposed five-year sanitary sewer service rates, the City will need to follow the procedural requirements contained in Article XIII D of the California Constitution ("Proposition 218"). These requirements include a notice of public hearing to be mailed to all affected property owners and customers at least 45 days prior to a public hearing. It is recommended that the City combine the adoption of both five-year rate schedules into a single public notice and rate hearing process.

ANNUAL REVIEW OF REVENUE AND RATES

Whenever a public agency adopts new utility rates, those new rates should be closely monitored over the next several years to ensure the revenue generated is sufficient to meet the annual revenue requirements. Changing economic and drought-related water consumption patterns underscore the need for this review, as well as potential and unseen changing revenue requirements, particularly those related to environmental regulations that can significantly affect capital improvements and repair and replacement costs.

APPENDICES

Appendix A – Sewer System Capital Improvement Plan

Appendix B – Notice of Public Hearing for Proposed Sewer System Rates

APPENDIX A – SEWER SYSTEM CAPITAL IMPROVEMENT PLAN

Old Town Sewer Rehab Project (Project B3): FY 2021-22 \$1,000,000

Project A2 Phase 1: FY 2022-23: \$2,313,000

Project B1: FY 2023-24: \$456,000

Project A2 Phase 2: FY 2024-25: \$2,313,000

Project B2: FY 2025-26: \$561,000

Project A3: FY 2026-27: \$1,677,000

Project A4: FY 2027-28: \$834,000

Project A5 Phase 1: FY 2028-29: \$1,195,500

Project A5 Phase 2: FY 2029-30: \$1,195,500

Project A6: FY 2030-31: \$634,000

Project A7: FY 2031-32: \$393,000

Total Capital Need over 11 years: \$12,572,000

APPENDIX B – NOTICE OF PUBLIC HEARING FOR SANITARY SEWER SERVICE RATES



City of Placentia
401 East Chapman Avenue
Placentia, CA 92870

PRESORTED STD.
US POSTAGE
PAID
PERMIT #26
ANAHEIM, CA

**CITY OF PLACENTIA
NOTICE OF PUBLIC HEARING FOR
PROPOSED SEWER SYSTEM RATES**

To Property Owner:

NOTICE IS HEREBY GIVEN that on **Tuesday, July 6, 2021, at 7:00 p.m.**, at or as soon thereafter as may be heard, the City Council of the City of Placentia will hold a Public Hearing in the Council Chambers of the Placentia City Hall located at 401 E. Chapman Avenue to consider proposed increases to the City's sewer system rates. If approved by the City Council, the proposed rate increases will be effective for sewer system collection services provided on or after July 6, 2021.

This notice is being provided to you pursuant to Article XIID, Section 6 of the California Constitution (Proposition 218), adopted by the electorate in 1996 as part of Proposition 218 which requires that notification be sent 45 days in advance of the public hearing to all affected property owners with respect to the proposed increases to the City's sewer system rates and to inform you of opportunity to protest the rate increase by submitting a written protest prior or during this public hearing.

The public also receives wastewater treatment services from Orange County Sanitation District's (OCSD), which is responsible for setting its own rates, sending separate notices of public hearings, and holding a separate public hearing.

WHY ARE RATE CHANGES BEING CONSIDERED?

The City of Placentia provides wastewater collection services to the majority of parcels within the 6.6 square mile City limits through approximately 84 miles of gravity sanitary sewer pipelines. The City's wastewater collection system conveys untreated wastewater to OCSD's trunk sewer mainlines via 35 separate connections. OCSD conveys, treats, and disposes of the City's wastewater flows via OCSD Plants.

The operation and maintenance of the City's sewer system is funded through the Sewer Enterprise Fund which is separate from the City's General Fund. The City has not adjusted the sanitary sewer fee rates since March 2005 when the existing rates were first established. The cost to operate and maintain the City's sewer system has increased over the past 16 years. Since March 2005, the cumulative annual price change has increased by a factor of 37.2% and revenues have not kept pace with the capital needs of the system. The current rates are insufficient to fund ongoing services. Without a sanitary sewer service adjustment, the City's Sewer Enterprise Fund will not have adequate revenues to cover operations and maintenance of the sewer system and conduct necessary capital improvements and repairs.

BASIS OF PROPOSED RATES

The City is required by State Law, City standards and practices, and Enterprise Fund requirements, to collect revenues sufficient to fund current and future costs of operating, maintaining, and administering the existing sewer facilities, and fund capital improvements and infrastructure replacement programs. These revenues allow the City to protect public health and safely and reliably collect and convey wastewater for treatment. By State law, the City may not collect more revenue than is necessary to recover the total costs of providing services. The proposed rates were developed through a comprehensive Sewer Cost Recovery Fee Rate Study designed to meet all legal requirements and fairly and equitably recover the required revenue from all customer classes. The 2020 Sewer Cost Recovery Fee Rate Study is available for review at www.placentia.org/sewerrates.

2020 SEWER COST RECOVERY FEE RATE STUDY

During the last two (2) fiscal year reviews of the City's Comprehensive Annual Financial Report (CAFR), the City's Financial Audit Oversight Committee (Committee) has noted that the Sewer Enterprise Fund has a structural deficit. The Committee also noted that actions should be taken by the City to ensure there are sufficient funds to properly administer the City's sewer system. In 2018, the City completed a Sewer Master Plan (Master Plan) which identified \$15.9 million in needed sewer system rehabilitation and capacity improvement projects. The City recently completed the 2020 Sewer Cost Rate Study and develop a financial plan that guides investment in the City's sewer system over the next five years. The Study recommends the implementation of an updated sewer service fee structure that includes two (2) separate fees: maintenance fee and capital fee. The maintenance fee will fund operating and maintenance costs of the sewer system. The capital fee will fund sewer replacement, rehabilitation, and capacity enhancement improvements through a series of capital projects that are necessary to replace and upgrade an aging sewer collection system.

The proposed rate changes are needed to continue the safe operation of the City's sewer system and will 1) fully fund operations and maintenance costs and 2) support necessary capital improvement projects to upgrade the City's aging sewer system and meet the future system capacity needs of the City.

PROPOSED SEWER RATES:

Currently, the City currently charges a per hundred cubic feet (ccf) volumetric fee for all customers. This fee is based on a customer’s water usage and it is included in your monthly water bill from Golden State Water Company or Yorba Linda Water District. The proposed rates will continue to be a volumetric fee for all customers based on how much water is used and how it is used. For example, in a multi-family residential property, a greater percentage of the water consumed on the property goes down the drain than in a single-family residential property where more of the water is used on outdoor uses such as landscape and swimming pools. The following tables show the proposed sewer service rates for the next five fiscal years. The rates reflect the sewer discharge rate for each user. The total proposed sewer rate will consist of two components: a sewer maintenance fee and a capital fee.

| PROPOSED SEWER RATE SCHEDULE FOR FY 2021-22 (\$/ccf) | | | | |
|--|----------------------------|-----------------------|-------------------|------------------|
| User Class | Current Rates (FY 2020-21) | Sewer Maintenance Fee | Sewer Capital Fee | Total Sewer Fees |
| Single-Family Residential | \$0.35 | \$0.32 | \$0.42 | \$0.72 |
| Multi-Family Residential | \$0.39 | \$0.36 | \$0.46 | \$0.82 |
| Commercial | \$0.37 | \$0.42 | \$0.54 | \$0.96 |
| Industrial | \$0.37 | \$0.42 | \$0.54 | \$0.96 |
| Institutional | \$0.25 | \$0.23 | \$0.30 | \$0.53 |
| Government & Public | \$0.35 | \$0.23 | \$0.40 | \$0.72 |

| PROPOSED FIVE-YEAR SEWER RATE SCHEDULE (\$/ccf) | | | | | | |
|---|----------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| User Class | Current Rates (FY 2020-21) | Proposed FY 2021-22 | Proposed FY 2022-23 | Proposed FY 2023-24 | Proposed FY 2024-25 | Proposed FY 2025-26 |
| Single-Family Residential | \$0.35 | \$0.72 | \$0.74 | \$0.76 | \$0.79 | \$0.81 |
| Multi-Family Residential | \$0.39 | \$0.82 | \$0.84 | \$0.87 | \$0.89 | \$0.92 |
| Commercial | \$0.37 | \$0.96 | \$0.99 | \$1.02 | \$1.05 | \$1.08 |
| Industrial | \$0.37 | \$0.96 | \$0.99 | \$1.02 | \$1.05 | \$1.08 |
| Institutional | \$0.25 | \$0.53 | \$0.54 | \$0.56 | \$0.58 | \$0.59 |
| Government & Public | \$0.35 | \$0.72 | \$0.74 | \$0.76 | \$0.79 | \$0.81 |

HOW WILL THE PROPOSED RATES IMPACT PROPERTY OWNERS?

The City estimates that for a typical single-family residential customer using 16 ccf of water per month, their monthly sewer fee will increase by \$5.81. For a typical multi-family residential customer using 152 ccf of water per month, their monthly sewer fee will increase by \$65.29. Below is a table that summarizes the monthly bill impact for the various customers based on average water consumption.

| AVERAGE MONTHLY SEWER FEE (\$/CCF) | | | |
|------------------------------------|--|-----------------------------------|------------------------------------|
| User Class | Average Monthly Water Consumption in CCF | Current Average Monthly Sewer Fee | Proposed Average Monthly Sewer Fee |
| Single-Family Residential | 16 ccf | \$5.50 | \$11.31 |
| Multi-Family Residential | 152 ccf | \$59.81 | \$125.10 |
| Commercial | 66 ccf | \$24.48 | \$63.50 |
| Industrial | 63 ccf | \$23.57 | \$61.13 |
| Institutional | 430 ccf | \$101.67 | \$214.65 |
| Government & Public | 42 ccf | \$14.66 | \$30.16 |

HOW CAN I PROTEST?

Proposition 218 allows **property owners** to respond to the proposed fees prior to or during the public hearing. Consistent with Proposition 218 and California Government Code § 53755, this notice has been mailed to all property owners within the service area based on the most current information published by the Orange County Assessor. Any record owner of a parcel upon which the Sewer Rates are proposed for imposition and any tenant directly liable for the payment of Sewer Rates (i.e., a customer of record) may submit a written protest to the proposed rate increases; provided, however, only one written protest will be counted per identified parcel. If you object to the proposed fees as described in this Notice you may file a written protest with the City Clerk at or before the time set for the public hearing. Written protest may be hand delivered or mailed to the City Clerk at 401 East Chapman Avenue, Placentia, CA 92870. To be valid, written protests must include the following:

1. The name of the record owner or owners of the property
2. Service address and assessor’s parcel number (APN)
3. A statement of protest/opposition to the proposed increase (“I protest” will suffice); and
4. The original signature of the protesting owner or owners (photocopies will not be accepted).

If the City receives timely written protests in excess of 50 percent of the parcels receiving sewer service from the City, the City will not adopt the proposed rates. Please note that each property will be counted as a single vote, regardless of the number of owners. If there are two record owners, both must sign the written protest. If there are more than two owners, the protest must be signed by a majority of the owners. Multiple protests returned for a single property will be disallowed and the City Clerk will only accept one protest per property. Email, fax, telephone, or oral protests of any kind will not be counted. Mailed protests received after the close of the public hearing will not be counted, even if they were postmarked earlier.

WHERE DO I FIND ADDITIONAL INFORMATION REGARDING THE PROPOSED RATES?

Additional information regarding the basis for the public hearing, proposed rate increase are set forth in the Study, staff reports, and supporting documents provided to the City Council for its meetings on March 16, April 20, and May 4, 2021 is available for public review at the City’s website at: www.placentia.org/sewerrates.

For further information about the proposed rate increase, please contact the Public Works Department at (714) 993-8189.

EN ESPAÑOL: Para recibir una copia de este aviso en español sobre los aumentos propuestos a la tarifa de servicio de alcantarillado, llame al (714) 993-8189, de lunes a jueves de 7:30 a.m. a 6:00 p.m.

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