

CITY OF PLACENTIA

**SANITARY SEWER SERVICE FEE
ANALYSIS AND SIX-YEAR FINANCING
PLAN**



Updated: July 15, 2025



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 has not adjusted the sanitary sewer fee rates since 2021. Since that time, the Sewer Enterprise Fund has provided sufficient budget for routine maintenance but not for critical capital improvements. Without a sanitary sewer service 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. The existing rates are shown in Figure 1 below.

FIGURE 1 - CURRENT SANITARY SEWER SERVICE RATES

User Class	Unit ¹	Fee per Unit
Single-Family Residential	CCF	\$0.81
Multi-Family Residential	CCF	\$0.92
Commercial	CCF	\$1.08
Industrial	CCF	\$0.59
Institutional	CCF	\$0.81
Government & Public	CCF	\$0.81

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.

The current rates are insufficient to fund ongoing services and necessary capital improvements.

This Sanitary Sewer Service Fee Analysis and Financing 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 Analysis 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, maintain and build out 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 analysis, the following recommendations are presented:

1. Beginning October 7, 2025, the sewer usage fee should be set at the rates below for every one hundred cubic feet of water consumption. Additionally, the City should establish a new CIP flat fee to fund necessary capital improvements to the sewer system.

Figure 2 - Proposed Sanitary Sewer Service Fees, FY25-26

User Class	Unit ¹	Usage Fee	CIP Fee
Single-Family Residential	CCF	\$0.55	\$10.00
Multi-Family Residential	CCF	\$0.89	\$10.00/unit
Commercial	CCF	\$1.05	\$30.00
Industrial	CCF	\$0.58	\$30.00
Institutional	CCF	\$0.55	\$30.00
Government and Public	CCF	\$0.55	\$30.00

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.



Figure 3 - Proposed Six-Year Sewer Rate Schedule (\$/ccf)

User Class	Current Rates FY 25-26	Proposed FY 25-26	Proposed FY 26-27	Proposed FY 27-28	Proposed FY 28-29	Proposed FY 29-30	Proposed FY 30-31
Single-Family Residential	\$0.81	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55
Multi-Family Residential	\$0.92	\$0.89	\$0.89	\$0.89	\$0.89	\$0.89	\$0.89
Commercial/Industrial	\$1.08	\$1.05	\$1.05	\$1.05	\$1.05	\$1.05	\$1.05
Institutional	\$0.59	\$0.58	\$0.58	\$0.58	\$0.58	\$0.58	\$0.58
Government & Public	\$0.81	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55	\$0.55
CIP Residential Fee		\$10.00	\$12.00	\$12.00	\$12.00	\$12.00	\$14.00
CIP Multi Family (per unit)		\$10.00/unit	\$12.00/unit	\$12.00/unit	\$12.00/unit	\$12.00/unit	\$14.00/unit
CIP Non-Residential Fee		\$30.00	\$30.00	\$30.00	\$30.00	\$30.00	\$30.00

2. The proposed six-year total sanitary sewer service fees should be adopted in accordance with the procedures for new or increased fees or charges outlined in Article XIIID 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 six-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 six years, unless otherwise needed sooner.



SIX YEAR FINANCING PLAN

This section describes the six-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 2030-31.

Plan Assumption/Objectives

Base Year - The Plan uses fiscal year 2025-26 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 2025-26 through FY 2030-31.

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.

Revenue Requirements

The following page details the City’s six-year financing plan through 2030-31. The Plan depicts the projected operating revenues and expenses, along with the source and uses of capital improvement funds for the six-year period. The financing plan assumes the proposed new sewer rates (to be discussed in the next section) will become effective in October 2025.

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 six-year period was performed. It is desired that the sanitary sewer fee raise enough revenue during this six-year period to cover all anticipated system costs.

The City proposes to fund capital improvement projects to rehabilitate the sewer system through a new CIP flat fee. The City proposes to fund approximately \$1,040,000 of capital improvement projects in FY 2025-26 and an average of approximately \$3,500,000 annually for the subsequent five fiscal years of the Plan.



Figure 4 – Six Year Financing Plan

Revenue	Current FY 25-26	Proposed FY 25-26	Proposed FY 26-27	Proposed FY 27-28	Proposed FY 28-29	Proposed FY 29-30	Proposed FY 30-31
Usage Fee	\$2,323,116.89	\$1,979,159.55	\$1,973,434.88	\$1,973,434.88	\$1,973,434.88	\$1,973,434.88	\$1,973,434.88
CIP Fee	\$0.00	\$2,435,760.00	\$2,788,560.00	\$2,788,560.00	\$2,788,560.00	\$2,788,560.00	\$3,141,360.00
Total	\$2,323,116.89	\$4,414,919.55	\$4,761,994.88	\$4,761,994.88	\$4,761,994.88	\$4,761,994.88	\$5,114,794.88
Expenses							
CIP Fund	\$ -	\$1,396,710.00	\$385,019.00	\$8,474,113.00	\$3,888,618.00	\$1,232,652.00	\$3,533,898.00
Maintenance	\$311,250.00	\$326,812.50	\$343,153.13	\$360,310.78	\$378,326.32	\$397,242.64	\$417,104.77
Operations	\$468,798.80	\$492,238.74	\$516,850.68	\$542,693.21	\$569,827.87	\$598,319.26	\$628,235.23
Total	\$780,048.80	\$2,215,761.24	\$1,245,022.81	\$9,377,116.99	\$4,836,772.19	\$2,228,213.90	\$4,579,238.00
7 Year Plan Balance							
CIP Fund	\$0.00	\$1,039,050.00	\$3,442,591.00	-\$2,242,962.00	-\$3,343,020.00	-\$1,787,112.00	-\$2,179,650.00
Maintenance and Operations	\$1,543,068.09	\$1,160,108.31	\$2,273,539.38	\$3,343,970.27	\$4,369,250.95	\$5,347,123.93	\$6,275,218.81
Total	\$1,543,068.09	\$2,199,158.31	\$5,716,130.38	\$1,101,008.27	\$1,026,230.95	\$3,560,011.93	\$4,095,568.81



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 way 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 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.

SANITARY SEWER SERVICE FEE DETERMINATION

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 – the Usage Fee and the CIP Fee. The rates are formed in a manner that is proportionate to the customer’s estimated sewer discharge and cost of providing the service.

Cost per Unit

Based on existing revenue and expenditure data previously discussed. Revenues produced from the current usage fee structure are sufficient to support ongoing maintenance and operations costs for the next six fiscal years. According to projected maintenance and operation expenses over the next six fiscal years the usage fee will be reduced for all users.

To support existing capital project needs, \$19 million is necessary over the next 6 years. This cost was split between multi-family residential, single family residential and non-residential users based on how many services currently exist. This data was provided by the water agencies that



currently assess sewer service fees to the customer. It was determined that non-residential customers currently use approximately three times more water than residential users. The CIP fee assessed to non-residential users was then proportionality applied.

Residential and Non-Residential Usage				
User Class	Usage ¹	Service Count	Annual Usage per Service	Proportionate Usage
Residential	1,715,671	14,342	120	1
Non-Residential	861,842.33	1,866	462	3.85

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.

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 the figure below. The average monthly bill for the same user classes under the proposed total sanitary sewer service fees are shown, effective October 7, 2025. For a typical single-family residential customer using 16 CCF of water per month, the monthly sewer fee will increase by \$5.84. For a typical multi-family residential customer using 8 CCF of water per month, the monthly sewer fee will increase by \$9.76 per unit.

AVERAGE MONTHLY SEWER FEE BY USER			
User Class	Average Monthly Water Consumption in CCF	Current Average Monthly Sewer Fee	Proposed Average Monthly Sewer Fee
Single-Family Residential	16 ccf	\$12.96	\$18.80
Multi-Family Residential	8 ccf	\$7.36	\$17.12
Commercial	66 ccf	\$71.28	\$99.30
Industrial	63 ccf	\$68.04	\$96.15
Institutional	430 ccf	\$253.70	\$279.40
Government & Public	42 ccf	\$34.02	\$53.10



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.

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.