

# PUBLIC HEARING ON PROPOSED WASTEWATER RATE ADJUSTMENTS

Municipal Utilities Department

Agenda Item No. 16.5

November 12, 2024

# Wastewater Rate Study

## ❖ Today's Actions

- ❖ Provide overview of the Cost-of-Service analysis and Rate Study preparation
- ❖ Summarize Proposition 218 requirements
- ❖ Hold public hearing (today)
  - Hear public comments and receive written protests
  - Review / count protests
  - Council may adopt rates if no majority protest (50% + 1)

## Purpose of a Rate Study

- ❖ Provide an adequate level of rate revenue to operate and maintain the City's wastewater utility
- ❖ Develop cost-based and proportional wastewater rates
  - Meet requirements of Proposition 218
- ❖ Reflect prudent financial planning criteria
  - Prudent rate funding of capital
  - Meet target reserve balances
- ❖ Developed using generally accepted methodologies tailored to the City's system and customer groups
  - Water Environment Federation Manual of Practice #27

## Proposition 218 – Establishing Cost Based Rates

- ❖ Prop. 218 – California constitutional amendment to protect taxpayers
  - Limits how taxes, fees and charges can be created
- ❖ Prop. 218 is not prescriptive in defining a “cost-based” rate
  - Fees shall not exceed the reasonable cost of providing the service
  - Fees shall not exceed the proportional cost of providing service
- ❖ Cost of service analysis results are the foundation of the proposed rates
  - Nexus between cost to provide service and rates charged

# Developing Cost-Based Wastewater Rates

## Revenue Requirement

*Compares the revenue of the utility to the expenses to evaluate the level of overall rates*



## Cost of Service

*Proportionally distribute the revenue requirement between the various customer classes of service*



## Rate Design

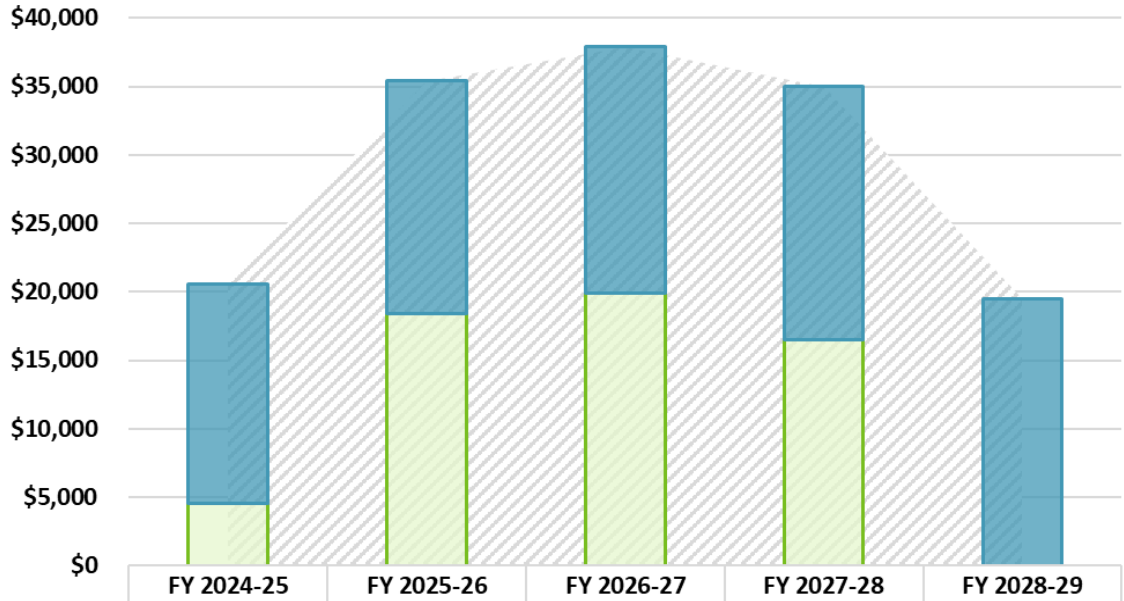
*Design rates for each class of service to reflect the prior two analyses, along with rate design goals and objectives*

## Wastewater Revenue Requirement - Key Assumptions

- ❖ Revenues independently calculated by customer group
- ❖ O&M expenses based on FY 2023-24 and FY 2024-25 budgets
- ❖ Capital Funding Plan based on current CIP
- ❖ Annual debt service
  - Existing debt service is levelized
  - No new debt
- ❖ Target annual rate funding of capital
  - Increases from \$15 million in FY 2023-24 to \$19.5 million in FY 2028-29
- ❖ Reserve minimums
  - Target: 6 months of O&M expenses

# Capital Improvement Plan

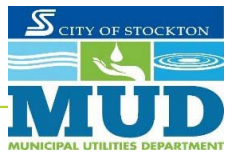
Capital Improvement Plan Summary (\$000s)



	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Total CIP	\$20,579	\$35,416	\$37,900	\$35,000	\$19,500
Rate Funded Capital	\$16,000	\$17,000	\$18,000	\$18,500	\$19,500
Reserves	\$4,579	\$18,416	\$19,900	\$16,500	\$0

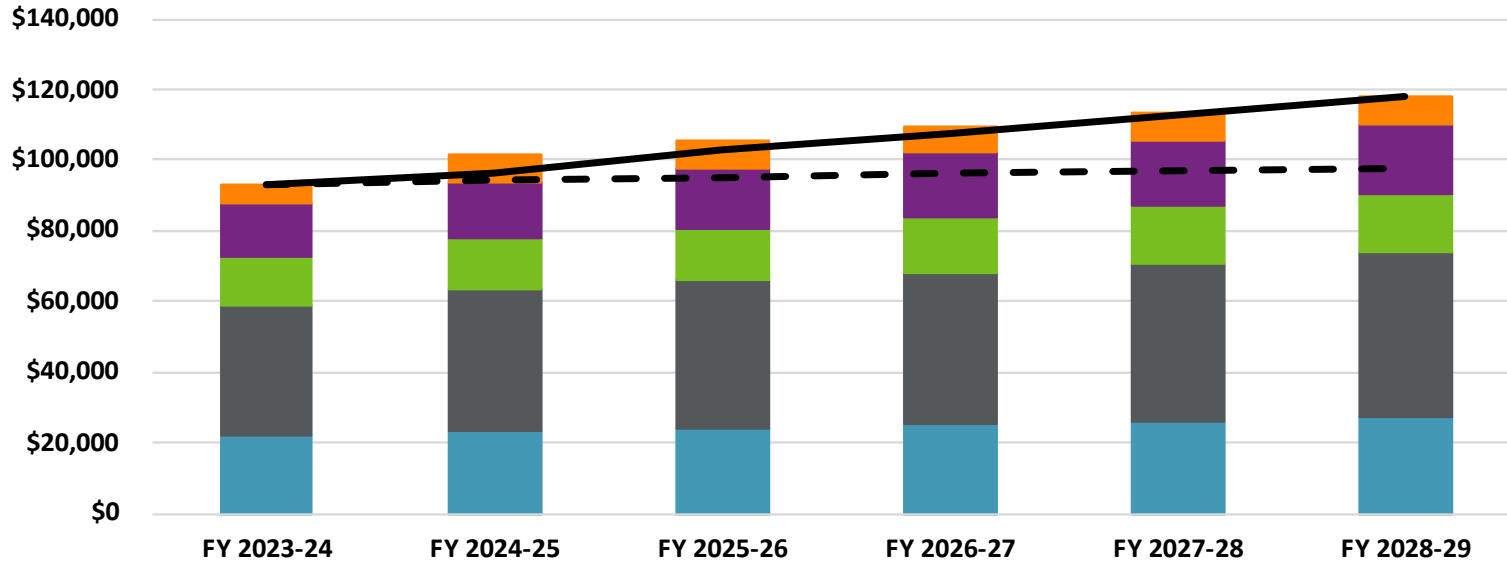
## Capital Summary

- ❖ Annual R&R
- ❖ Complete RWCF Upgrades
- ❖ Sewer Line Replacements
- ❖ 14-Mile Slough
- ❖ Westside Interceptor



# Revenue Requirement

## Revenue Requirement (\$000s)



- All Other O&M Expenses
- Treatment Expenses
- Collection Expenses
- Rate Funded Capital
- Net Debt Service
- Present Revenue
- Proposed Revenue





## Revenue Requirement Summary

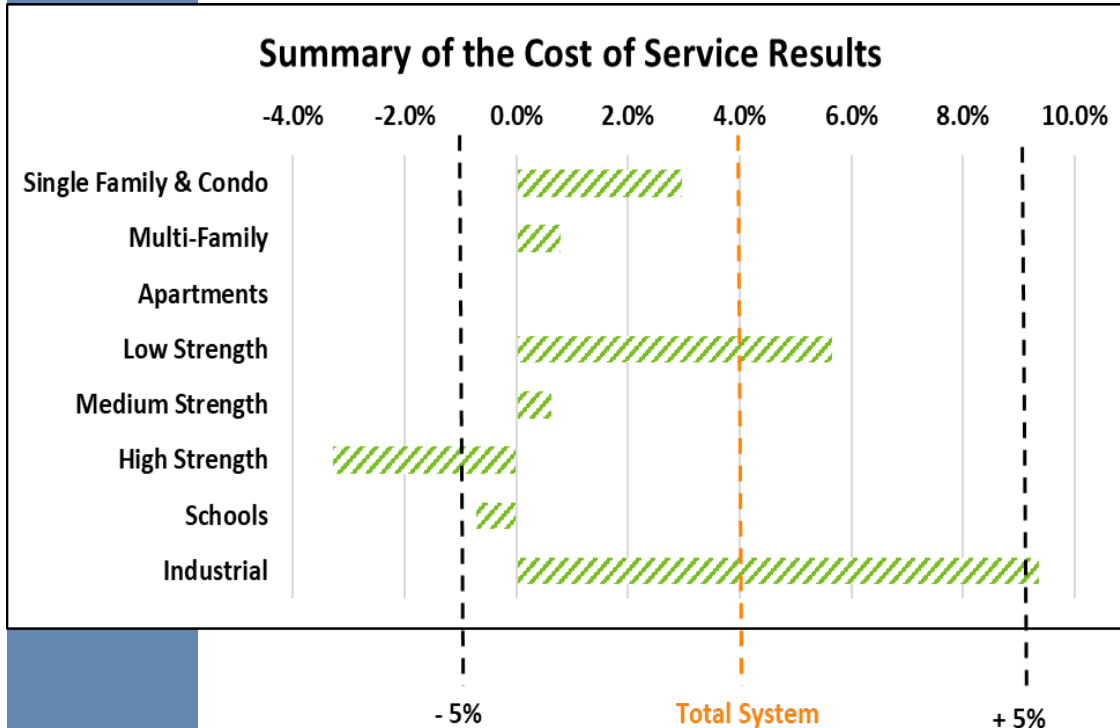
- ❖ Proposed rate revenue adjustments are necessary to prudently fund the utility
  - Fund essential capital improvement projects
  - Maintain strong, legally required, debt service coverage ratios
  - Reflect inflationary increases in annual O&M expenses
  - Overall revenue adjustment may not reflect individual bill impacts developed in the cost of service and rate design analyses

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Average SF Customer Bill	\$55.68	\$57.91	\$60.22	\$62.63	\$65.14	\$67.74
Annual Monthly Change	--	\$2.23	\$2.32	\$2.41	\$2.51	\$2.61
Cumulative Bill Difference	--	\$2.23	\$4.54	\$6.95	\$9.46	\$12.06
System Average Rate Adj.	--	4.0%	4.0%	4.0%	4.0%	4.0%

# Cost of Service Assumptions

- ❖ Provides the basis to meet Proposition 218 requirements
  - Proportional distribution of costs between customer classes
- ❖ Customer classes of service were reviewed
  - Rates were adjusted based on cost-of-service results
- ❖ Revenue requirement distributed proportionally to the customer classes based on:
  - Volume – average annual flow
  - Strength – CBOD and SS
  - Customer – number of customers
- ❖ Cost of service average unit costs provide basis for proposed rate designs

# Cost of Service – Results Summary



- ❖ Cost of service provides the basis for the proposed rates
- ❖ Majority of customer classes are within a reasonable range
- ❖ Exception is high strength and industrial customers
  - ❖ Reflects changes in customer characteristics

\* Cost of service results are implemented in Year 1 only \*

# Rate Design – Current Rates

## ❖ Residential

- Flat fixed charge
  - Different charge for each subcategory

## ❖ Non-Residential

- Flat fixed charge with volumetric charge (\$/CCF)
  - Different volumetric charge for each subcategory

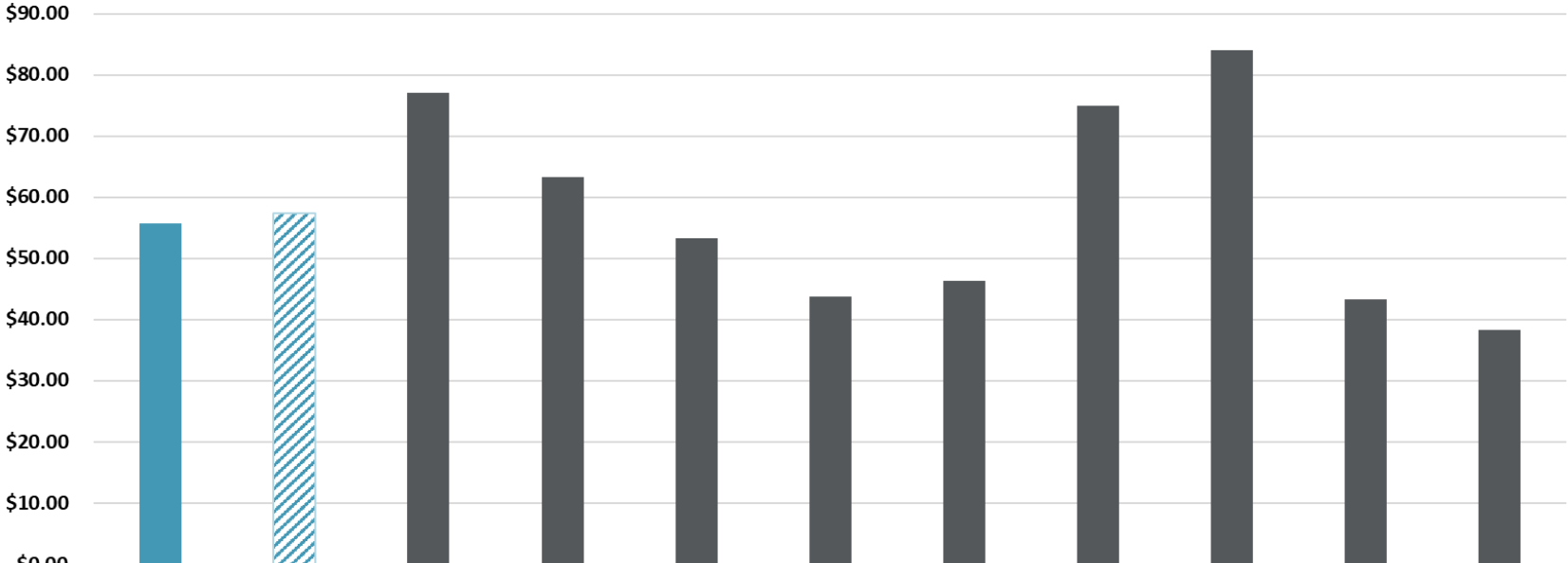
## ❖ Industrial

- Administration / Stand-by Charge
  - Flow (\$/MG), BOD (\$/1,000 lbs.), and SS (\$/1,000 lbs.)
- O&M Charge
  - Flow (\$/MG), BOD (\$/1,000 lbs.), and SS (\$/1,000 lbs.)

*\* Non-City Customers have ≈ 10% discount on the fixed charge per agreement \**

# Comparative Wastewater Rate Survey

Local Utility Comparison



■ 5,000 gallons

Stockton - Present	Stockton - Proposed	City of Sacramento	Sac Sewer District	City of Tracy	City of Pleasanton	City of Modesto	City of Lathrop - East	City of Lathrop - West	City of Manteca	City of Brentwood
\$55.68	\$57.36	\$77.06	\$63.35	\$53.34	\$43.67	\$46.26	\$75.00	\$84.00	\$43.30	\$38.36

## Recommended Actions

- ❖ Adopt the Draft Wastewater Rate Study, dated August 2024, as prepared by HDR Engineering, Inc.
- ❖ Approve the Wastewater Utility rate adjustments as identified in the Study if less than a majority of the affected record owners or affected sewer utility customers directly responsible for the payment of sewer service charges have submitted written protests.
- ❖ Authorize the City Manager to take appropriate and necessary actions to carry out the purpose and intent of the Resolution.

**QUESTIONS?**

# Present and Proposed Residential Rates

Monthly Fixed Charge	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
<b>Single Family &amp; Condo</b>						
City Customer	\$55.68	\$57.36	\$59.65	\$62.04	\$64.52	\$67.10
Non-City Customer	50.77	52.30	54.39	56.57	58.83	61.18
<b>Multi-Family</b>						
City Customer	\$52.45	\$52.86	\$54.97	\$57.17	\$59.46	\$61.84
Non-City Customer	47.05	47.42	49.32	51.29	53.34	55.47
<b>Apartments</b>						
City Customer	\$47.57	\$47.57	\$49.47	\$51.45	\$53.51	\$55.65
Non-City Customer	41.75	41.75	43.42	45.16	46.97	48.85



# Present and Proposed Non-Residential Rates

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
<b>Base Charge</b>						
City Customer	\$26.83	\$26.91	\$27.99	\$29.11	\$30.27	\$31.48
Non-City Customer	23.56	23.63	24.58	25.56	26.58	27.64
<b>Consumption Charge</b>						
Com / Inst - Low Strength	\$2.22	\$2.40	\$2.50	\$2.60	\$2.70	\$2.81
Com / Inst – Medium Strength	2.70	2.75	2.86	2.97	3.09	3.21
Com / Inst - High Strength	4.54	4.42	4.60	4.78	4.97	5.17
Schools (\$ / ADA)	1.30	1.29	1.34	1.39	1.45	1.51

# Present and Proposed Industrial Rates

	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
<b>Admin / Stand-by Charges</b>						
Base Charge	\$26.83	\$26.91	\$27.99	\$29.11	\$30.27	\$31.48
Flow	864.80	945.76	983.59	1,022.93	1,063.85	1,106.40
BOD	140.13	153.25	159.38	165.76	172.39	179.29
SS	102.88	112.51	117.01	121.69	126.56	131.62
<b>O&amp;M (Consumption) Charges</b>						
Flow	\$748.52	\$818.59	\$851.33	\$885.38	\$920.80	\$957.63
BOD	52.14	57.02	59.30	61.67	64.14	66.71
SS	83.45	91.26	94.91	98.71	102.66	106.77