

Stormwater Rate Study

Council Water Committee

April 10, 2025

Agenda Item No. 25-0437

Stormwater Fee Background

- Current rate (\$2.10/ERU) established in 1992
- Commercial, Industrial and Institutional charged a calculated fee
- This fee was established to meet the National Pollutant Discharge Elimination System (NPDES) permit requirements, not Operations & Maintenance (O&M)
 - Stormwater monitoring, site inspections, reporting
- Since 1992, NPDES requirements have grown, the City has grown, and our infrastructure has aged

Current Rates

- **Residential**
 - Based on equivalent residential units (ERUs).
 - Single family residential is equal to one ERU (2,347 square feet of impervious area).
 - Multi-family and apartments are charged for each dwelling unit

Current Rates - continued

- **Non-Residential**
 - Commercial, Industrial and Institutional are based on a density of development factor, which results in the estimated amount of impervious surface area on a given parcel
 - Commercial – 90%
 - Institutional – 62%
 - Industrial – 79%
 - The amount of impervious area is then divided by the average amount of impervious area per ERU to determine the number of ERUs for non-residential customers, which are then multiplied by the rate per ERU

Purpose of a Rate Study

- Provide an adequate level of rate revenue to operate and maintain the City's stormwater utility
- Develop cost-based and proportional stormwater rates to meet intent and requirement of Proposition 218
 - Based on stormwater billing units (ERUs)
- 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 characteristics

Proposition 218 – Establishing Cost Based Rates

- Proposition 218 is a California constitutional amendment designed to protect taxpayers by limiting the methods by which local governments can create or increase taxes, fees and charges without taxpayer consent
- Proposition 218 is not prescriptive in defining a “cost-based” rate
- In part, Proposition 218 requires:
 - Fees shall not exceed the **reasonable cost** of providing the service
 - Fees shall not exceed the **proportional cost** of providing the service
- Cost of service analysis results (unit costs) are the foundation of the proposed rates

Developing Cost-Based Stormwater Rates

Revenue Requirement

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



Cost of Service

Equitably 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

Revenue Requirement Assumptions

- Stormwater O&M expenses based on recent adopted budgets
 - Projected based on annual inflationary factors
- Capital Funding Plan based on City's current stormwater Capital Improvement Plan (CIP)
- Target annual rate funding of capital
 - Target increasing rate funded capital annually to fund necessary capital improvement projects
- Annual debt service
 - No current debt service
- Reserve minimums
 - Target: 6 months of O&M expenses

Cost of Service Assumptions

- Provides the basis to meet Proposition 218 requirements
 - Proportional distribution of costs between customer classes of service
- Customer classes reviewed and current rate schedules were maintained
 - Level of rates were adjusted based on cost-of-service results
- Revenue requirement distributed on a cost per equivalent residential unit:
 - Cost divided by total number of ERUs
- Cost of service average unit costs provide basis for proposed rate designs

Next Steps

- Finalize technical analysis
- Present findings and proposed rates
 - WAG/CWC presentations
 - City Council briefing
 - Set Public Hearing
- Adoption/Implementation Process
 1. Hold Protest Hearing
 - If >50% protest, cannot move forward
 - If <50% protest, proceed to next step
 2. Hold Ballot Hearing
 - Review / count ballots
 - The City Council may adopt rates if a majority of returned votes are affirmative