

# 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