Agenda Item #16.1
For Council Meeting of: April 1, 2025

CITY OF SANTA ROSA
CITY COUNCIL

TO: MAYOR AND CITY COUNCIL
FROM: JENNIFER BURKE, DIRECTOR – SANTA ROSA WATER
SANTA ROSA WATER
SUBJECT: CONSIDERATION OF 2024 WATER AND WASTEWATER COST OF SERVICE STUDY, ADOPTION OF PROPOSED FY25/26 THROUGH FY29/30 RATE SCHEDULE, AND AMENDMENTS TO SANTA ROSA CITY CODE TITLE 14 POTABLE AND RECYCLED WATER

AGENDA ACTION: INTRODUCTION OF AN ORDINANCE, PUBLIC HEARING PURSUANT TO PROPOSITION 218, AND ADOPTION OF RESOLUTION

RECOMMENDATION

It is recommended by the Board of Public Utilities and Santa Rosa Water that the Council: 1) after conducting a protest hearing pursuant to Proposition 218, by resolution, approve 5 years of water, recycled water and wastewater fixed and usage charge rate increases to go into effect on July 1 of each year, 2025-2029; and 2) introduce an ordinance amending Title 14 of the Santa Rosa City Code by amending Chapter 14-04 and 14-08 to allow fixed monthly service charges, potable and recycled water service and delivery charges, and charges for City maintained meters on private systems to be established by resolution of the City Council as prescribed by the City Charter and amend Chapter 14-08 to establish potable and recycled water rates and charges policy, rules and standards.

EXECUTIVE SUMMARY

In 2023, Santa Rosa Water (SRW) hired Hildebrand Consulting, LLC (HC), to develop a ten-year long-range financial plan, followed by a thorough cost of service analysis and recommendation of a new water, recycled water and wastewater rate schedule. HC found SRW's financial health is such that at the end of the current rate schedule, set to conclude on June 30, 2025, moderate annual water, recycled water, and wastewater rate increases would be required. Proposed increases between 6-7% each year for water fixed and usage charges and 5% each year for wastewater fixed and usage charges are proposed to help ensure that SRW continues to meet all service and financial obligations. SRW is also proposing the re-introduction of the wholesale pass-through policy to water rates. This would ensure that the annual increase to wholesale water rates from Sonoma Water would be passed through to the usage portion of

customer water bills, ensuring that SRW is neither under- nor over-charging customers for the annual increase in the cost of wholesale water. In terms of the billing impacts, in years where Sonoma Water's increase to the wholesale rate is larger than SRW's increase to the usage rate, the customer would see an impact slightly larger than the rate proposal on the usage portion of their bills, and in years where Sonoma Water's increase to the wholesale rate is smaller than SRW's increase to the usage rate, the customer would see an impact slightly lower than SRW's increase to the usage rate. In addition, SRW is proposing amendments to Title 14 of the Santa Rosa City Code, Chapters 14-04 and 14-08 to allow water rates to be established by resolution of the City Council, as prescribed by the City Charter, as opposed to by ordinance as has been past practice.

BACKGROUND

SRW staff has worked with HC to develop a comprehensive and detailed financial model that will be utilized by SRW over the next ten years to track revenues and expenditures and to help inform future financial planning. The data used in this model includes but is not limited to: revenues; expenditures; debt service; capital improvement plans; development fees; and, various reserve balances. This model is the primary analytical tool for complying with Proposition 218, determining ongoing financial requirements for SRW, and providing the basis for our recommended water and wastewater rate schedule.

There are two rate setting objectives that are primary and fundamental to guiding the rate-setting process, (1) water and wastewater rates must be calculated consistent with the requirements of the California Constitution, Article XIIID, section 6 (Proposition 218) and relevant case law, and (2) water and wastewater rates must generate sufficient revenue to meet the utility's service and financial obligations for each enterprise. Other objectives include rates being viewed as fair and equitable by the public; rates being understandable and easy to administer; and rates striking an appropriate balance between fixed and usage-based charges.

After revenue needs are determined, a cost-of-service analysis is required to develop the rate schedule. This portion of the study analyzes SRW customer water and wastewater use data to determine the appropriate distribution of fixed, capacity and commodity costs between customer classes and the usage versus fixed charges. While there are changes based on customer data to the distribution of costs between customer classes, and between fixed and usage charges, the overall rate structure is not changing.

Although the rate structure is not changing, SRW is recommending the re-implementation of the wholesale pass-through rate increase for the cost of purchasing wholesale water from Sonoma Water via the Santa Rosa aqueduct. This proposal would affect the approach to determine water rates, but not wastewater rates. In 2021, after several years of steady, predictable increases to the wholesale rate, SRW decided to

remove the wholesale rate pass-through policy and built the cost of purchasing wholesale water into our water rates. As such, there was no wholesale rate pass-through as part of our water rates effective Fiscal Year (FY) 21/22 through FY24/25. The budget cycle for FY 2023/24 and FY 2024/25 brought a significant shift in Sonoma Water's wholesale rate increases, being 10.6% and 9.9% in those years, respectively. As a result, SRW's water budget absorbed approximately 4.6% and 3.9% in each of those years. Given the difficulty in anticipating Sonoma Water's future wholesale rate increases, re-introduction of the wholesale rate pass-through policy is the most prudent option for SRW, ensuring that water rates neither over- nor under-collect the wholesale cost of water. Public notification of the actual wholesale water rates begin passed through will be provided at least 30 days prior to becoming effective each July 1.

Fixed monthly service charges for potable and recycled water, potable and recycled water service and delivery charges, and charges for City maintained meters on private systems have previously been approved by the City Council adopting an ordinance to make changes to Santa Rosa City Code Title 14. Fixed monthly service charges, general user charges and surcharges for sewer have previously been approved by the City Council adopting a resolution. The City Charter provides for water and sewer rates and charges to be set by resolution of the City Council. For consistency, SRW is recommending setting both water and sewer rates and charges by resolution going forward.

PRIOR CITY COUNCIL REVIEW

On January 7, 2025, the City Council conducted a study session to review the proposed changes to the water, recycled water and wastewater fixed and usage charges and the proposed 5-year water, recycled water, and wastewater fixed and usage charges rate increases proposed to go into effect on July 1 of each year, 2025-2029.

ANALYSIS

Proposed Rate Schedule Factors

The ten-year financial model is the tool used to determine the appropriate rate schedule for covering Operation and Maintenance (O&M), Capital Improvement Projects (CIP), and Debt Service costs.

The main drivers for the proposed rate schedule include:

- The most significant cost assumptions that affect rates include: O&M Expenditure increases at 3%; increase in general and construction inflation; salary and benefit increases of 9% in year 1 of the financial model, 4% in year 2 and 3.5% thereafter, incorporating the estimated impacts of the recently adopted Memorandum of Understandings between the City of Santa Rosa and employees (MOUs) and anticipated impacts of the classification and compensation study currently in process; 4% increases in chemicals and utility costs.

- Due to the proposed re-introduction of the wholesale rate pass-through policy for escalating wholesale water costs, our financial model is not currently predicting annual increases to the costs of wholesale water supply.
- Interest earnings are expected to remain at 1%.
- Growth rates, which produce connection fee revenue, are expected to increase at 1.1% which is consistent with recent historical trends.
- Water demand is expected to remain stable. Water use has been consistent over the last 10 years and is being projected, for the purpose of rates, to remain within a stable range.
- Investment in the CIP Program will continue to increase at 3% for the Water and Wastewater enterprises through FY 2028. In FYs 2029-35, infrastructure investments will see a sharp increase for both water and wastewater, culminating in reaching target infrastructure investment levels of $34 million per year and $42 million per year by 2035, respectively. These amounts represent the current target CIP Program investment levels as identified in the 2022 Water Infrastructure report. After consideration of these amounts, and discussion with our consultant, it was decided that SRW should take a measured approach to reaching these target investment levels over the next 10 years, giving SRW the opportunity to address CIP project delivery efficiency while protecting its customers from sharp rate increases over the next 10 years. For the Regional Reuse Enterprise, SRW is assuming that the Regional partner agencies, including SRW, will continue to increase the annual cash CIP investments by $1 million per year over the next 10 years.
- Existing debt service has been included in the model based on the existing repayment schedules.
- The model also assumes that the Regional Reuse enterprise will pursue the issuance of approximately $35 million of revenue bonds at an assumed interest rate of 5.5% in FY 2026. This debt issuance will primarily be used to execute the electrical infrastructure replacement project at the Laguna Treatment Plant, which is key in improving safety and reliability at the plant.

Based on the Cost-of-Service study and financial assumption built into the 10-year financial model, the proposed 5-year Water and Wastewater Rate Increases are as follows in Table 1, with increases applying equally to both fixed and usage rates:

Table 1: Summary of Recommended Water/Wastewater Rate Adjustments

	Baseline Water Rate Adjustments [2]	Wastewater Rates Adjustment	Change in a Typical Single Family Utility Bill [3]
July 2025 [1]	**6.0%**	**5.0%**	6.5%
July 2026	**6.0%**	**5.0%**	5.4%
July 2027	**6.0%**	**5.0%**	5.4%
July 2028	**7.0%**	**5.0%**	5.8%
July 2029	**7.0%**	**5.0%**	5.8%

[1] While the overall rate revenue adjustment for FY 2025/26 are reflected in the table above, actual changes to individual customers' utility bills may vary in FY 2025/26 due to adjustments to the rate structure.
[2] The final adjustment to Water rates will be dictated by the pass-through of Sonoma Water wholesale water costs.
[3] Typical single family bill includes a 5/8" water meter, 7,000 gallons of monthly water use, and 4,500 gallons of wastewater.

Customer Impacts

The cost-of-service analysis determines how the costs are distributed between each component of the water and wastewater fixed and usage rates. The distribution to each component is based on actual customer usage data and adjusted with each update to rates.

Due to the redistribution of the costs, the first year of increase affects customer classes at varied percentages, as shown in Table 2 below.

Table 2: FY 2025/26 Bill Impact Analysis

	Meter Size	Water Use (TGAL)	WW Use (TGAL)	Bills With Current Water/WW Rates			Bills With Proposed Water/WW Rates			Change in Total Bill	
				Water	Wastewater	Total	Water	Wastewater	Total	$	%
Single Family Residential											
Low Water Use	5/8"	4	4	$41.99	$91.81	**$133.80**	$44.22	$96.53	**$140.75**	**$6.95**	**5.2%**
Median Water Use	5/8"	7	4.5	$64.02	$99.83	**$163.85**	$68.90	$104.88	**$173.78**	**$9.93**	**6.1%**
High Water Use	5/8"	12	6	$100.15	$123.89	**$224.04**	$109.22	$129.91	**$239.13**	**$15.09**	**6.7%**
Very High Water Use	5/8"	20	7	$159.19	$139.93	**$299.12**	$175.44	$146.60	**$322.04**	**$22.92**	**7.7%**
Duplex	5/8"	8	6	$70.19	$123.89	**$194.08**	$75.50	$129.91	**$205.41**	**$11.33**	**5.8%**
Small Apartment (4 DUs)	1"	15	12	$139.60	$256.31	**$395.91**	$150.68	$270.08	**$420.76**	**$24.85**	**6.3%**
Large Apartment (24 DUs)	2"	80	80	$664.27	$1,479.67	**$2,143.94**	$723.38	$1,551.80	**$2,275.18**	**$131.24**	**6.1%**
Very Lrg. Apart. (100 DUs)	4"	320	320	$2,558.82	$5,739.26	**$8,298.08**	$2,792.98	$6,011.12	**$8,804.10**	**$506.02**	**6.1%**
Small Retail	5/8"	6	6	$57.43	$106.73	**$164.16**	$61.34	$112.99	**$174.33**	**$10.17**	**6.2%**
Large Retail	2"	80	80	$664.27	$1,250.87	**$1,915.14**	$723.38	$1,326.20	**$2,049.58**	**$134.44**	**7.0%**
Office Building	1 1/2"	40	40	$346.35	$651.32	**$997.67**	$376.18	$691.33	**$1,067.51**	**$69.84**	**7.0%**
Car Wash	2"	60	60	$524.67	$987.27	**$1,511.94**	$570.18	$1,048.80	**$1,618.98**	**$107.04**	**7.1%**
Mixed Comm. w/ Food	1"	35	35	$279.20	$844.33	**$1,123.53**	$303.88	$888.45	**$1,192.33**	**$68.80**	**6.1%**
Hotel w/ Restaurant	3"	200	200	$1,592.18	$4,825.28	**$6,417.46**	$1,737.78	$5,081.42	**$6,819.20**	**$401.74**	**6.3%**
Restaurant	1 1/2"	50	50	$416.15	$1,239.12	**$1,655.27**	$452.78	$1,306.03	**$1,758.81**	**$103.54**	**6.3%**
Supermarket	2"	160	160	$1,222.67	$3,057.27	**$4,279.94**	$1,336.18	$3,219.80	**$4,555.98**	**$276.04**	**6.4%**
Mortuary	1"	20	20	$174.50	$509.83	**$684.33**	$188.98	$537.60	**$726.58**	**$42.25**	**6.2%**
Small Winery	1"	10	10	$104.70	$286.83	**$391.53**	$112.38	$303.70	**$416.08**	**$24.55**	**6.3%**
Sm. Irrig. (Wtr Budg.=18 tg)	1"	20		$172.50	(na)	**$172.50**	$186.44	(na)	**$186.44**	**$13.94**	**8.1%**
Lrg. Irrig. (Wtr. Budg.=250 tg)	4"	300		$2,421.22	(na)	**$2,421.22**	$2,540.78	(na)	**$2,540.78**	**$119.56**	**4.9%**

Following the first year, percent increases will be consistent for all customers and components of the rate at the percentages shown in in Table 1. Given the proposed

wholesale rate pass-through policy, the ultimate water rate increases will vary from the amounts shown in Table 1, contingent upon the actual wholesale rate increases adopted by Sonoma Water for FY 26/27 through FY 29/30.

FISCAL IMPACT

The proposed rate increases will ensure that Santa Rosa Water's Water, Wastewater, and Regional enterprise funds continue to meet all service and financial obligations.

ENVIRONMENTAL IMPACT

Pursuant to Public Resources Code section 21080, subdivision (b)(8) and CEQA Guidelines Section 15378, the proposed action is not a "project" subject to the California Environmental Quality Act (CEQA) because it does not have a potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. In the alternative, the proposed action is exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3) because it can be seen with certainty that there is no possibility that the project may have a significant effect on the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On November 6, 2024, the Budget Subcommittee of the Board of Public Utilities met to review the proposed rates and the cost-of-service study and recommended approval by the Board of Public Utilities.

On December 5, 2024, the Board of Public Utilities held a study session on the recommended rates and the cost-of-service study.

On December 19, 2024, the Board of Public Utilities heard a report item on the proposed rates and passed a resolution recommending that City Council, after compliance with Proposition 218 and successful conclusion of a protest hearing 1.) enact increased rates for water services and 2.) enact increased rates for wastewater services.

NOTIFICATION

Proposition 218, also known as the "Right to Vote on Taxes Act" was approved by California voters in 1996. The proposition establishes a process for public notification when increasing property related fees or charges, including water and wastewater rates. The notification requires a minimum 45-day period for review and protest prior to the public hearing. On January 15, 2025 the City mailed written notices, including detailed information on the proposed rate increases, outlining how to timely provide a written protest and written objection, and specified the date, time and location of the public hearing by which written protests to the proposed rate change must be submitted, to

approximately 58,470 customers and property owners and has published notice of the public hearing in the Press Democrat.

ATTACHMENTS

- Attachment 1 –2024 Santa Rosa Water and Wastewater Rate Study
- Attachment 2 – Amendments to City of Santa Rosa City Code Chapter 14-04 and City Code Chapter 14-08 - Redline
- Attachment 3 – Amendments to City of Santa Rosa City Code Chapter 14-04 and City Code Chapter 14-08 – Changes Accepted
- Ordinance – Amending Section 14-04.090 of Chapter 14-04 and Amending Chapter 14-08 of the Santa Rosa City Code
- Resolution – Levying and Assessing Water and Wastewater Rates charged for Service and Repealing Resolution No. RES-2021-087

PRESENTER

Jennifer Burke, Director – Santa Rosa Water