

Water and Wastewater Rate Study

Santa Rosa Water – BPU Budget Subcommittee

November 6, 2024



Agenda

- 1) Project Objectives and General Rate Setting
- 2) Water Financial Plan
- 3) Water Rate Recommendations
- 4) Wastewater Financial Plan
- 5) Wastewater Recommendations
- 6) Value of Water Campaign
- 7) Next Steps

Project Objectives and General Rate Setting

Rate Setting Objectives

- ❖ Legal compliance
- ❖ Financial sufficiency and sustainability
- ❖ Minimize rate increases
- ❖ Public understanding
- ❖ Affordability
- ❖ Water conservation

Legal Requirements for Setting Water Rates In California

Proposition 218 (Article XIID, Section 6 of California Constitution)

- Revenues shall not exceed funds required to provide service; nor used for another purpose
- Amount shall not exceed the proportional cost of the service attributable to the parcel
- Service must be actually used or immediately available
- Approval process includes 45-day notice, public hearing, and written majority protest. Does not require a voting process (unlike taxes).

Rate Study Overview

Revenue Requirements



Cost-of-Service



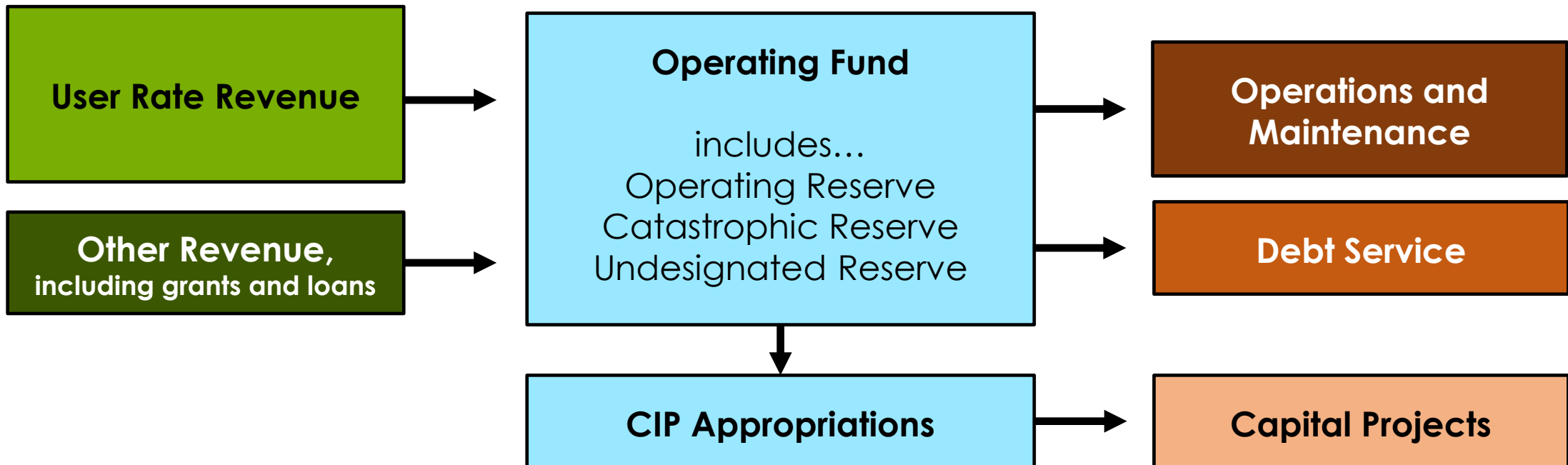
Rate Design

Compare the revenues of the water, wastewater, and regional utilities to their expenses in multi-year **financial plans** to determine the overall level of annual rate adjustments

Proportionately allocate revenue requirements between the various customer classes based on service and demand requirements

Design water and wastewater rates to recover the revenue requirement from each customer class and meet other rate setting objectives

Fund/Reserve Structure and Cash Flows



Project Highlights

1. Capital appropriation goals have been set based on recommendations from most recent Infrastructure Report Card
2. Water and wastewater cost of service analyses (COSA) have been updated (with no changes to basic rate structure)
... except for minor change to eliminate special classification for residential accounts with no outdoor water usage
3. Recommend re-instating the automatic pass-through of Sonoma Water rate changes

Water Utility

Primary Model Inputs

- ✓ Fund and reserve balances as of June 30, 2023
- ✓ FY 2024/25 budgeted revenues and expenses
- ✓ Existing debt service schedules
 - Plus estimates for FY2025/26 Regional bond issue
- ✓ FY 2023/24 utility billing data

Primary Model Assumptions

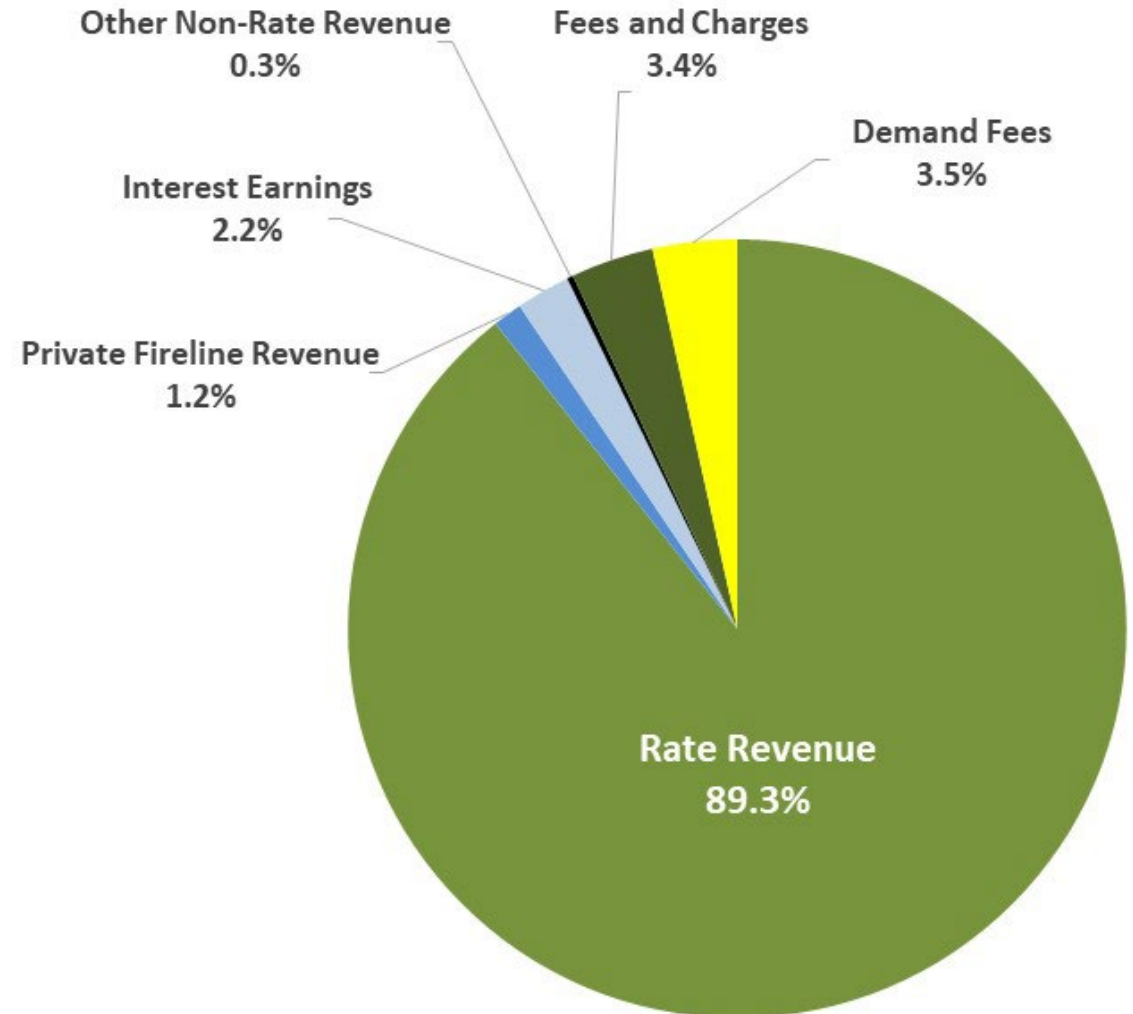
- ✓ Annual inflation factors:
 - Salary costs at 9%, 4% and then 3.5% thereafter
 - Benefit costs at 3.6%, 1.6% and then 2% thereafter
 - Utilities & chemicals at 4.5% per year
 - General and construction at 3.0% per year
 - Sonoma Water inflation not predicted (see pass-through)

- ✓ Interest earnings on reserve balances at 1.44% per year
- ✓ Growth in new connections at 0.96% per year
- ✓ Stable water demand

Water Revenue

FY2024/25 Budget

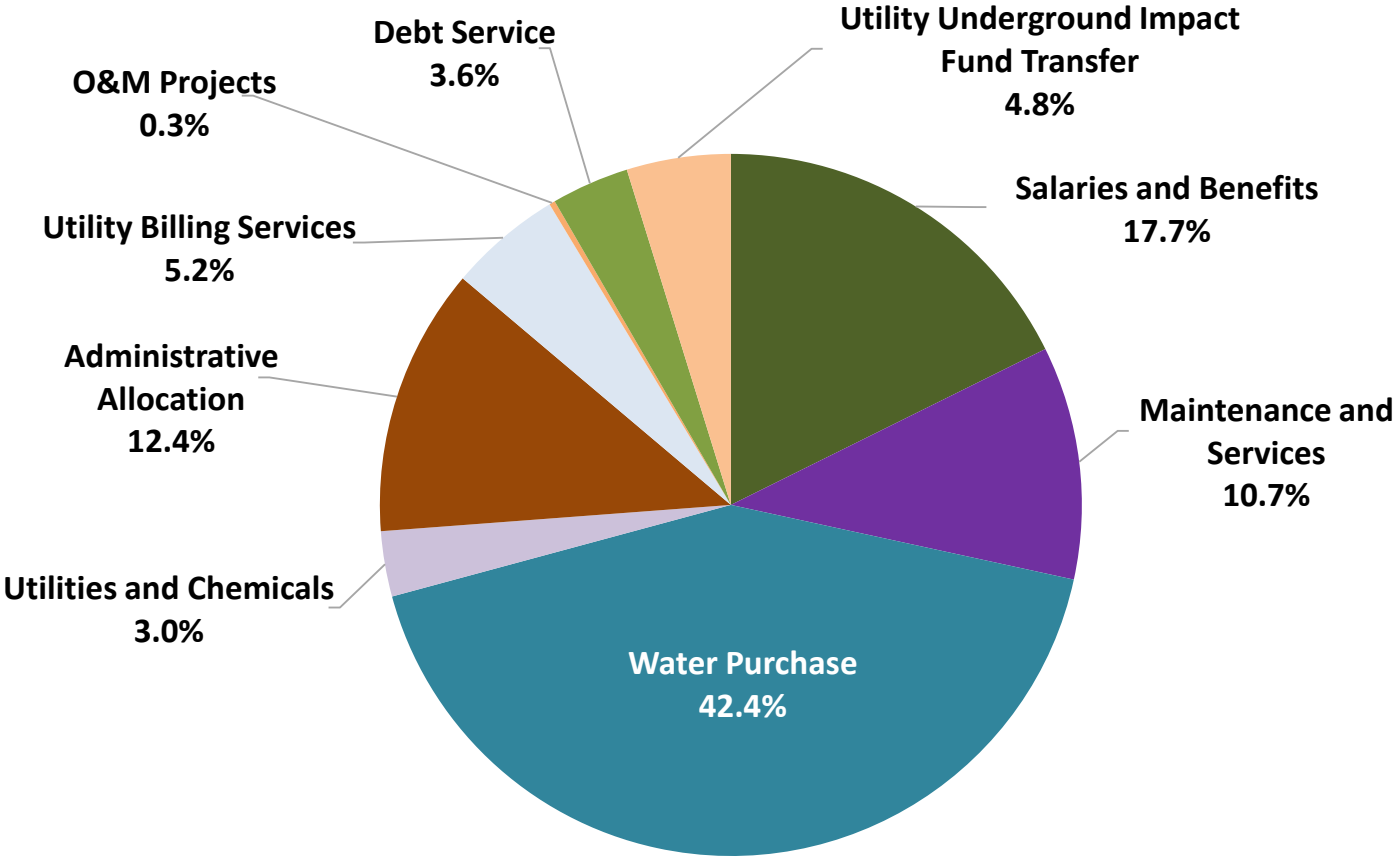
Rate Revenue	\$50,985,000
Non-Rate Revenue	
Private Fireline Revenue	\$700,000
Interest Earnings	\$1,284,000
Other Non-Rate Revenue	\$151,000
Fees and Charges	\$1,957,000
Demand Fees	\$2,000,000
Total:	\$57,077,000



Water Operating and Debt Expenses

FY2024/25 Budget

Salaries and Benefits	\$8,226,000
Maintenance and Services	\$4,996,000
Water Purchase	\$19,724,000
Utilities and Chemicals	\$1,400,000
Administrative Allocation	\$5,751,000
Utility Billing Services	\$2,419,000
O&M Projects	\$125,000
Debt Service	\$1,665,582
Utility Underground Impact Fund Transfer	\$2,229,075
Total Budget:	\$46,535,657*



* Does not include capital spending

Water Reserve Targets

Strong financial practices/policies are in the interest of rate payers by protecting Santa Rosa Water against unforeseen circumstances and contributing towards a strong credit rating.

Current policies :

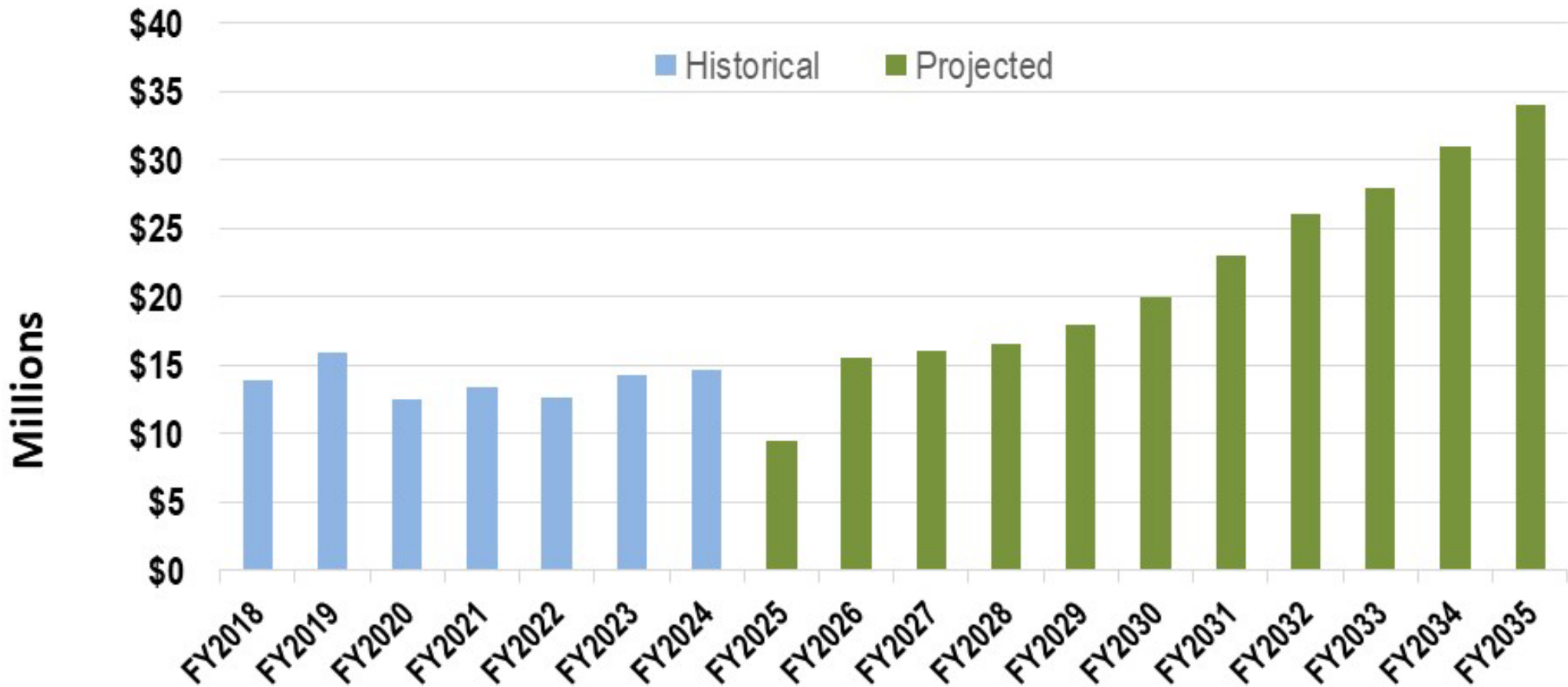
Operating Reserve: For changes in operating costs or disruption in revenue. Target = 15% O&M costs (current target approximately: \$6 million)

Catastrophic Reserve: Ensures timely response to natural disasters and/or other emergencies. Target = \$5.75 million

Current Total Target = \$11.7 million

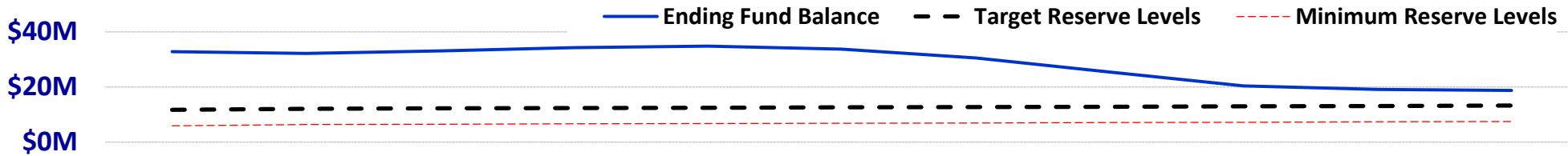
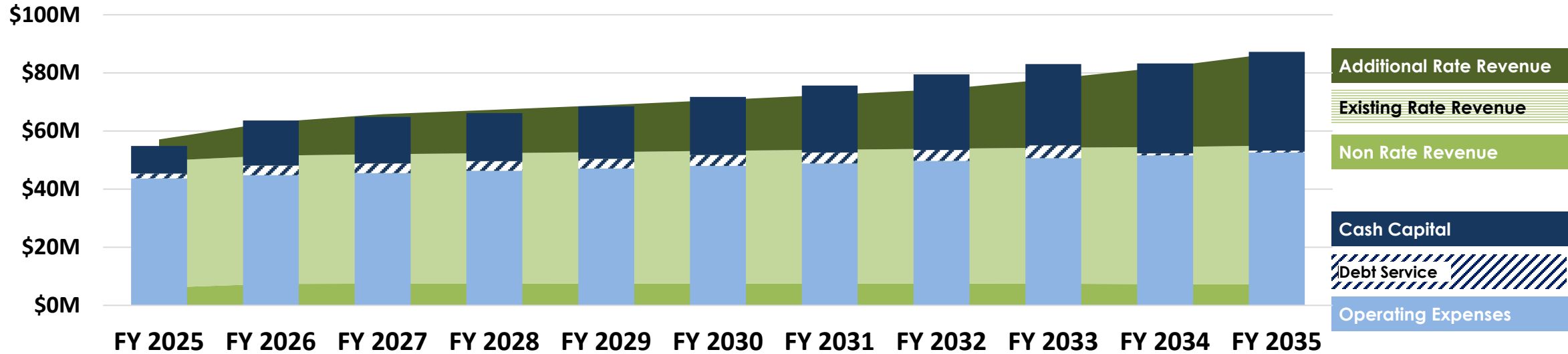
Water Capital Appropriations

Goal: Increase annual capital appropriations* from current levels (average \$13.8 million per year) to \$34 million per year by FY2034/35.



* Commensurate increases to capital spending will be required

Water Financial Forecast & Proposed Rate Revenue Increases



FY 2025 FY 2026 FY 2027 FY 2028 FY 2029 FY 2030 FY 2031 FY 2032 FY 2033 FY 2034 FY 2035

	Proposed					Forecast				
Water Rate Revenue Increases:	8.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%

Debt Coverage Ratio: 8.02 5.45 6.09 6.33 6.57 6.05 6.23 6.60 6.19 43.53 48.85

Capital Spending: \$9.5M \$15.5M \$16.0M \$16.5M \$18.0M \$20.0M \$23.0M \$26.0M \$28.0M \$31.0M \$34.0M

* Debt Coverage Ratio measures whether the Santa Rosa Water can afford its debt obligations. Minimum levels are 1.2 and target levels are 1.5.

Water Cost Allocation Principles

❖ Customer costs

- ✓ Assigned to each customer on an equal basis

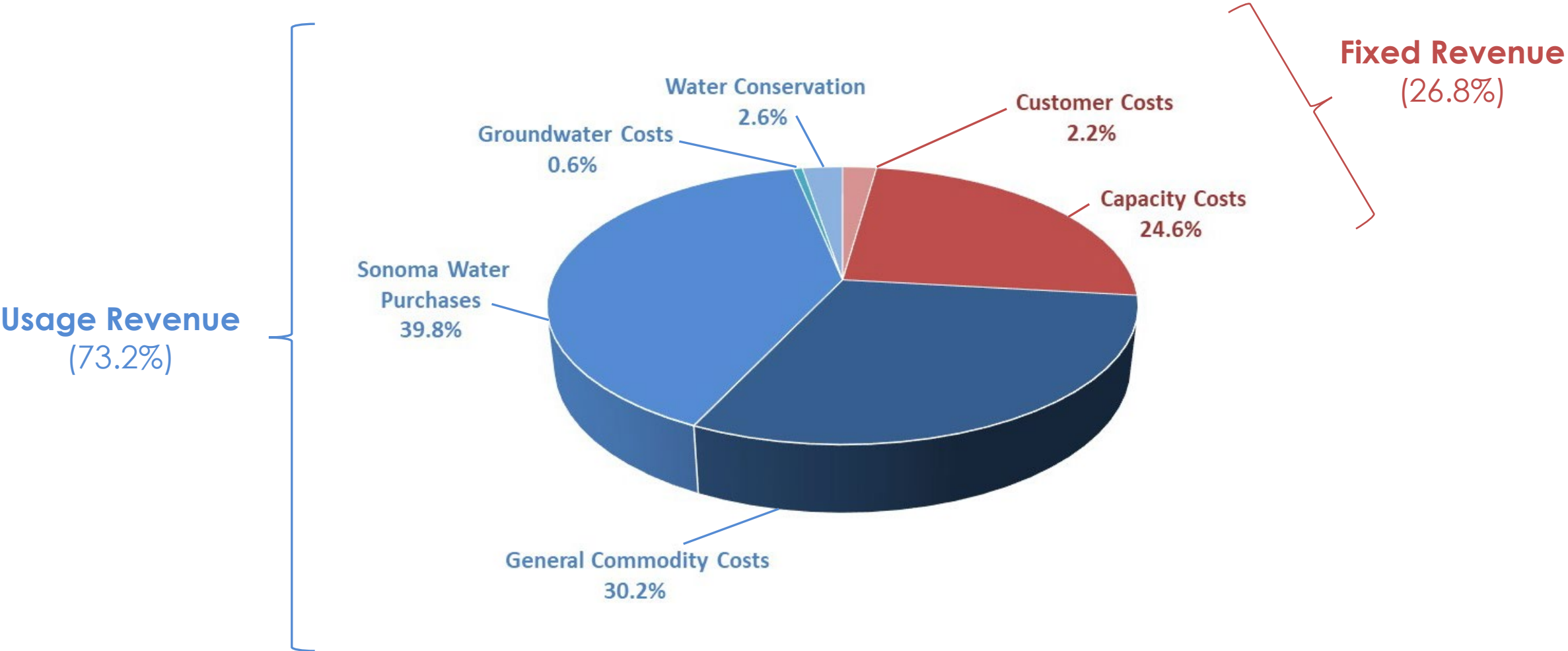
❖ Capacity costs

- ✓ Assigned to each customer based on meter size

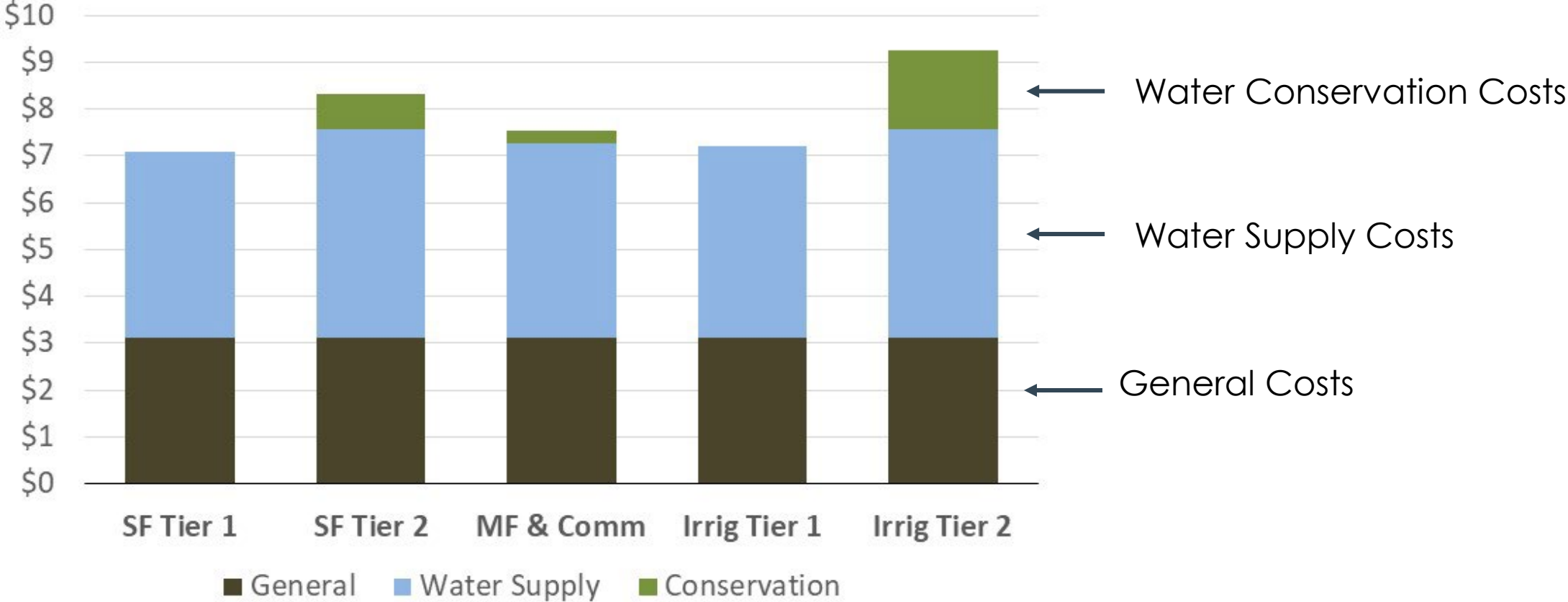
❖ Commodity costs

- ✓ Assigned to each customer based on usage
 - Tiered water usage rates based on differential water supply and water conservation costs

Water Fixed vs Variable Revenue



Water Usage Rate Calculations



Recommended FY 2025/26 Water Rate Schedule

		<u>Current</u>	<u>July 2025</u>	<u>Change</u>	
Water Usage Rates (\$/TGAL)				\$	%
Single Family Residential & Duplex					
Tier 1	Use up to Sewer Cap ¹	\$6.61	\$7.09	\$0.48	7.3%
Tier 2	Above Sewer Cap	\$7.49	\$8.31	\$0.82	10.9%
Multi-Family, Commercial, Industrial, and Institutional					
	All water use	\$6.98	\$7.54	\$0.56	8.0%
Irrigation (potable water) ²					
Tier 1	Use up to 125% of water budget	\$6.72	\$7.21	\$0.49	7.3%
Tier 2	Over 125% of water budget	\$8.32	\$9.25	\$0.93	11.2%
Irrigation (recycled water) ³					
Tier 1	Use up to 125% of water budget	\$6.38	\$6.85	\$0.47	7.4%
Tier 2	Over 125% of water budget	\$8.32	\$9.25	\$0.93	11.2%
Monthly Service Charges (Potable Water)					
	5/8" meter	\$15.55	\$16.00	\$0.45	2.9%
	1" meter	\$34.90	\$37.15	\$2.25	6.4%
	1 1/2" meter	\$67.15	\$72.40	\$5.25	7.8%
	2" meter	\$105.87	\$114.70	\$8.83	8.3%
	3" meter	\$196.18	\$213.40	\$17.22	8.8%
	4" meter	\$325.22	\$354.40	\$29.18	9.0%
	6" meter	\$647.80	\$706.90	\$59.10	9.1%
Monthly Service Charges (Recycled Water)					
	5/8" meter	\$13.99	\$14.40	\$0.41	2.9%
	1" meter	\$31.41	\$33.44	\$2.03	6.5%
	1 1/2" meter	\$60.43	\$65.16	\$4.73	7.8%
	2" meter	\$95.28	\$103.23	\$7.95	8.3%
	3" meter	\$176.57	\$192.06	\$15.49	8.8%
	4" meter	\$292.70	\$318.96	\$26.26	9.0%
	6" meter	\$583.02	\$636.21	\$53.19	9.1%
Private Fire Line Service (Fixed Monthly Fee)					
	2" meter	\$32.00	\$32.96	\$0.96	3.0%
	4" meter	\$32.00	\$32.96	\$0.96	3.0%
	6" meter	\$41.00	\$42.23	\$1.23	3.0%

Notes:

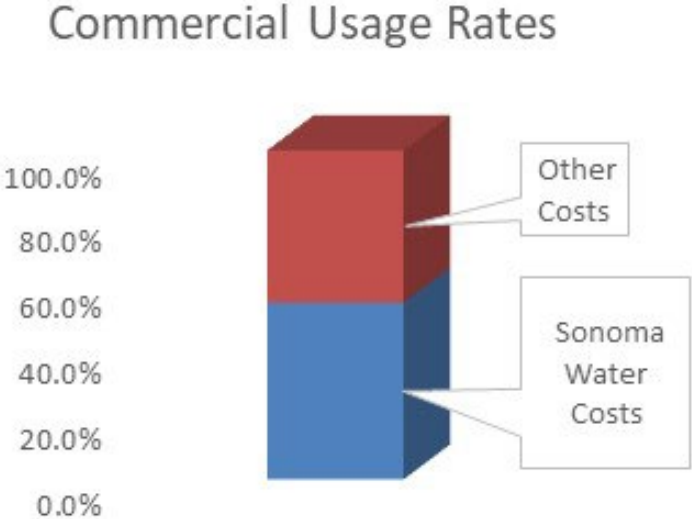
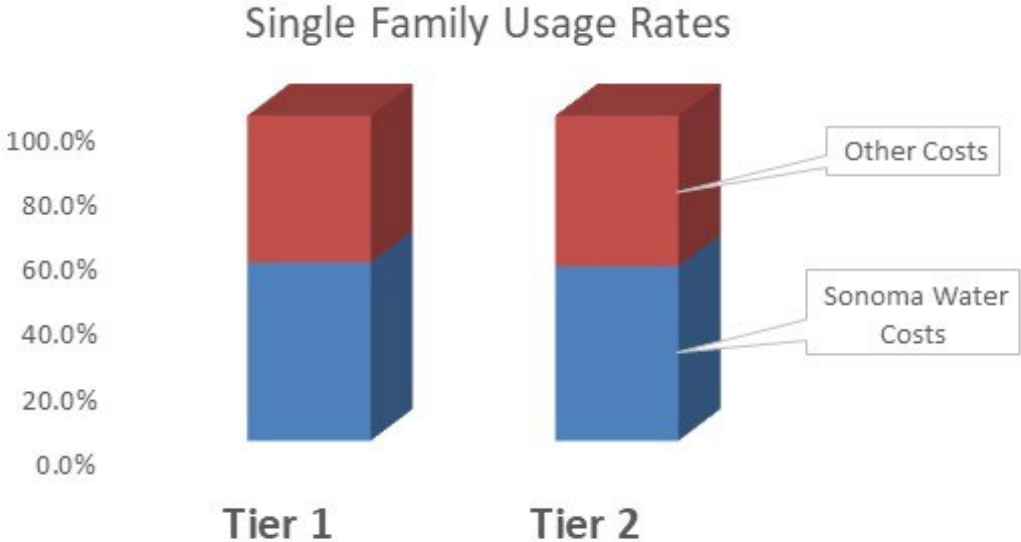
¹ The Sewer Cap is calculated for each customer based on the average monthly water use during November through March.

² The landscape water budget varies for each customer each month and is determined using the site's square footage for the types of plants and the evapotranspiration rate for the billing period.

* This schedule no longer includes special rate for single family or duplex accounts with no outdoor usage

Proposed SCWA Pass-Through Provision

- All Usage Rates increase based on the proposed schedule...
- ... however, a portion of the Usage Rates will be adjusted based on actual changes in wholesale water costs
- Adjustments occur each July, following Sonoma Water rate action (with 30-day notice provided to customers)



Example Calculation of SCWA Pass-Through Provision

Santa Rosa Water Rate Increase Proposed 2027 Change: 7.00%		SCWA Santa Rosa Aqueduct ¹ Example Change: 2.0%				
	Current Rates	Rates with Baseline Adjustment	% SCWA Water Cost ²	SCWA Adjustment (relative to Baseline Adjustment)	Final Usage Rates	Change
Water Usage Rates (\$/TGAL)						
<u>Single Family</u>						
Tier 1	\$7.09	\$7.59	54.8%	-\$0.19	\$7.39	4.2%
Tier 2	\$8.31	\$8.89	53.7%	-\$0.22	\$8.67	4.3%
<u>Commercial/Industrial/Multifamily</u>						
All Water Use	\$7.54	\$8.07	54.4%	-\$0.21	\$7.86	4.2%
<u>Irrigation (potable)</u>						
Tier 1	\$7.21	\$7.71	55.9%	-\$0.20	\$7.51	4.2%
Tier 2	\$9.25	\$9.90	48.2%	-\$0.22	\$9.67	4.5%
<u>Irrigation (recycled)</u>						
Tier 1	\$6.85	\$7.33	55.9%	-\$0.19	\$7.14	4.2%
Tier 2	\$9.25	\$9.90	48.2%	-\$0.22	\$9.67	4.5%
(No change to service charges due to changes in SCWA costs)						

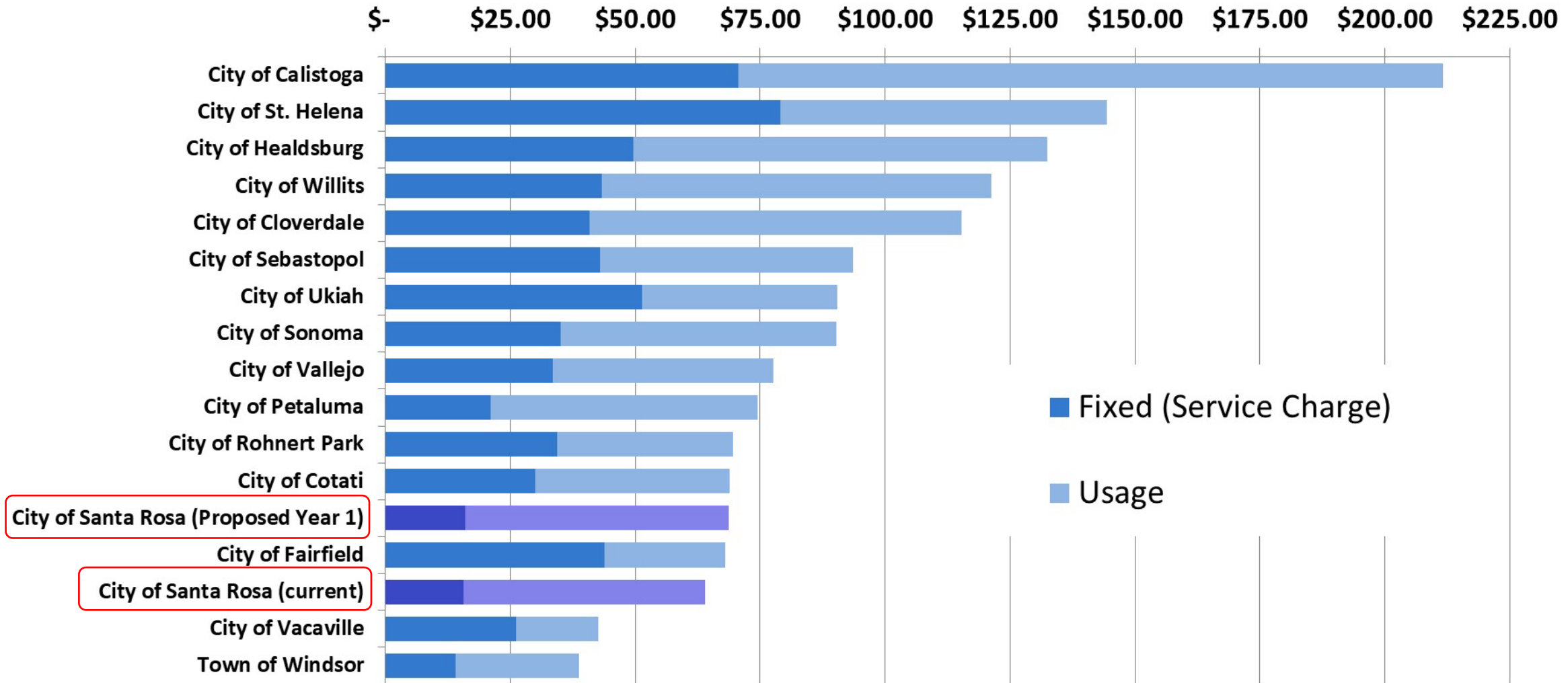
Notes:

¹ Rates charged by SCWA for water from the Santa Rosa Aqueduct. Rates for the upcoming fiscal year are typically adopted in April of each year.

² Percentage of the current water usage rate that is attributable to SCWA water purchase costs. These percentages are updated with each cost of service study update.

Comparison to Other Local Agencies – Water Charges

for single family homes with 3/4" meter and 7,000 gallons of water usage

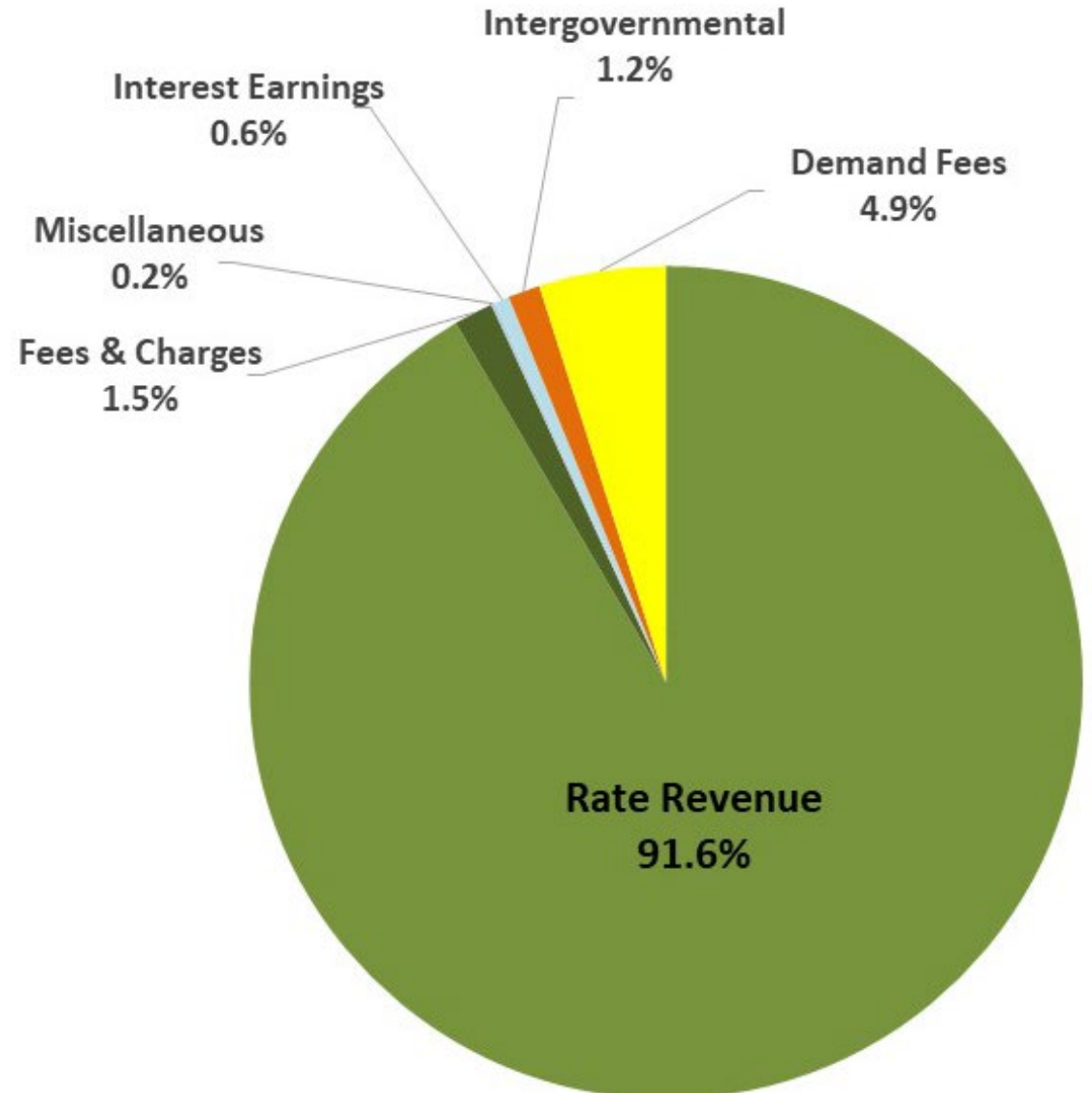


Wastewater Utility

Local Wastewater Revenue

FY2024/25 Budget

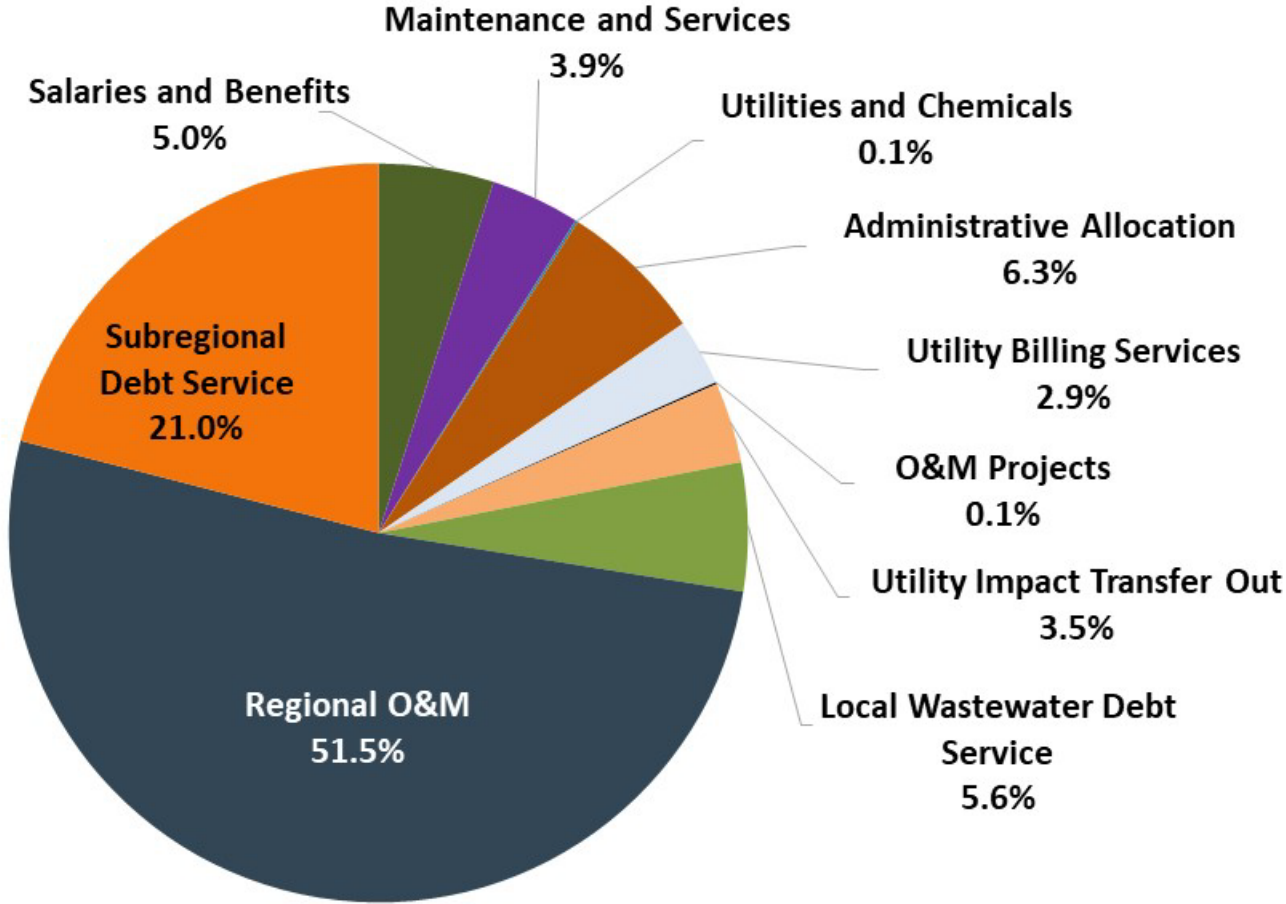
Rate Revenue	\$73,460,000
Non-Rate Revenue	
Fees & Charges	\$1,229,000
Miscellaneous	\$135,000
Interest Earnings	\$450,000
Intergovernmental	\$995,583
Demand Fees	\$3,950,000
Total:	\$80,219,583



Local Wastewater Operating and Debt Expenses

FY2024/25 Budget

Salaries and Benefits	\$3,888,000
Maintenance and Services	\$3,014,000
Utilities and Chemicals	\$91,000
Administrative Allocation	\$4,890,000
Utility Billing Services	\$2,233,000
O&M Projects	\$65,000
Utility Impact Transfer Out	\$2,715,000
Local Wastewater Debt Service	\$4,330,000
Regional O&M	\$39,670,000
Subregional Debt Service	\$16,174,000
Total Budget:	\$77,070,000*



* Does not include capital spending

Local Wastewater Reserve Targets

Strong financial practices/policies are in the interest of rate payers by protecting the Santa Rosa Water against unforeseen circumstances and contributing towards a strong credit rating.

Current Local WW Policies :

Operating Reserve: For changes in operating costs or disruption in revenue. Target = 15% O&M costs (current target approximately \$2.1 million)

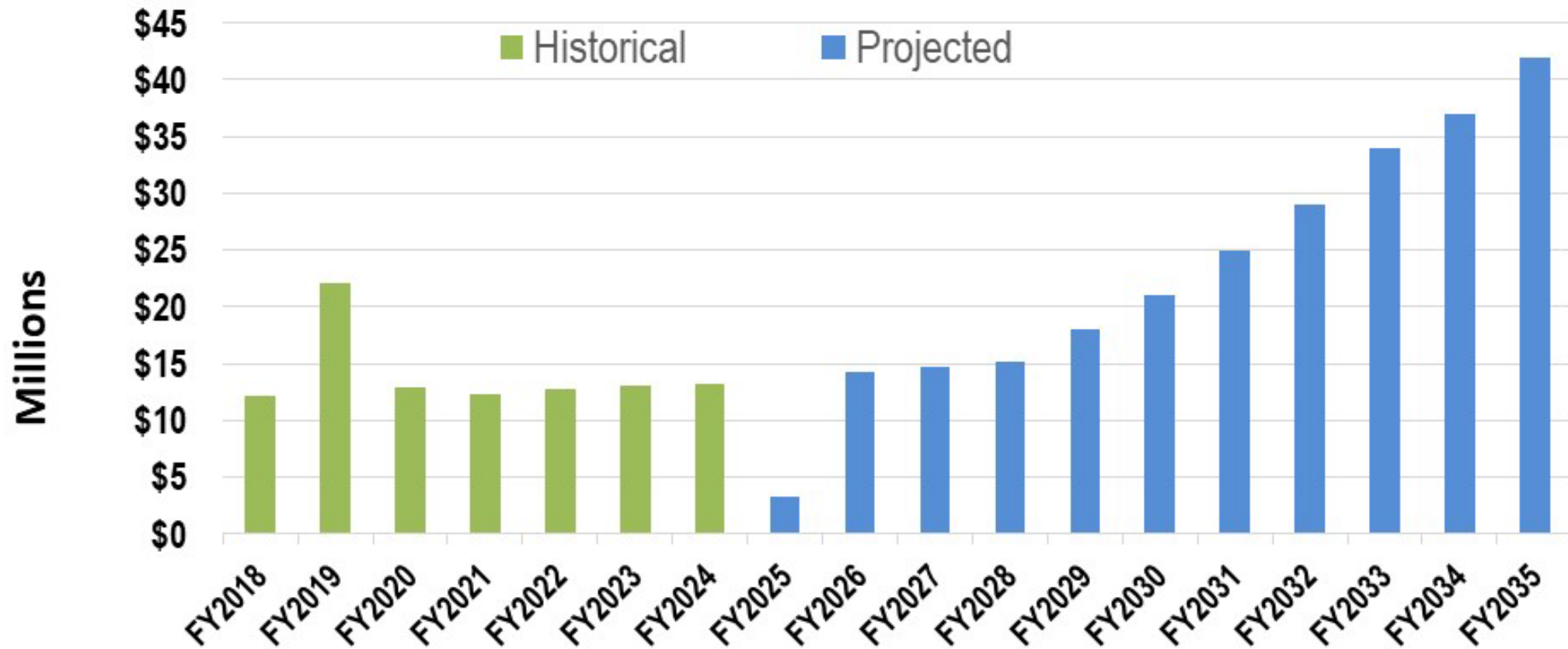
Catastrophic Reserve: Ensures timely response to natural disasters and/or other emergencies. Target = \$6.8 million

Rate Stabilization Reserve: Ensures ability to meet debt obligations. Target = \$1.0 million

Current Total Local Target = \$9.9 million

Local Wastewater Capital Appropriations

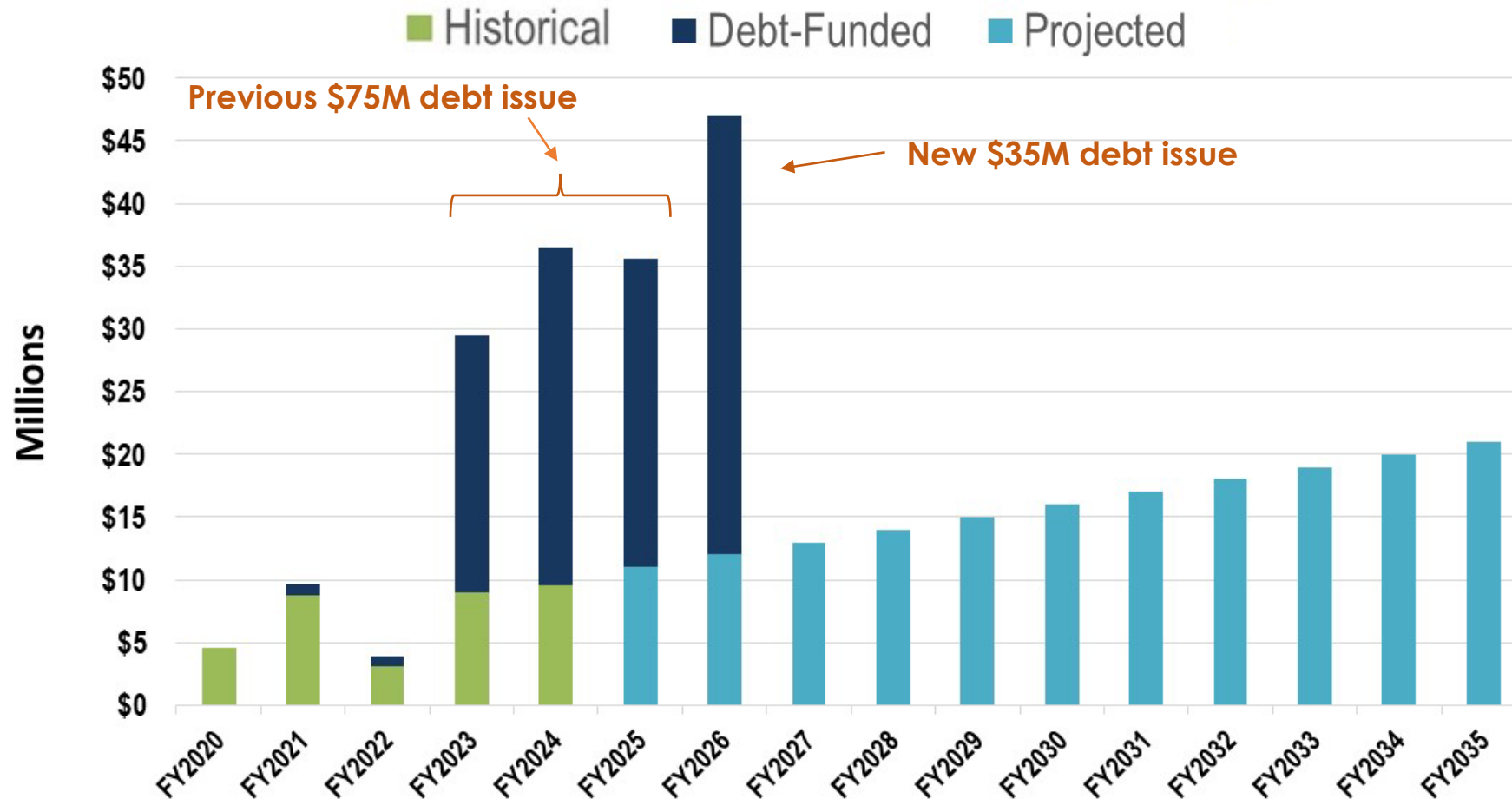
Goal: Increase annual capital appropriations* from current levels (average \$14.2 million per year) to \$42 million per year by 2034/35.



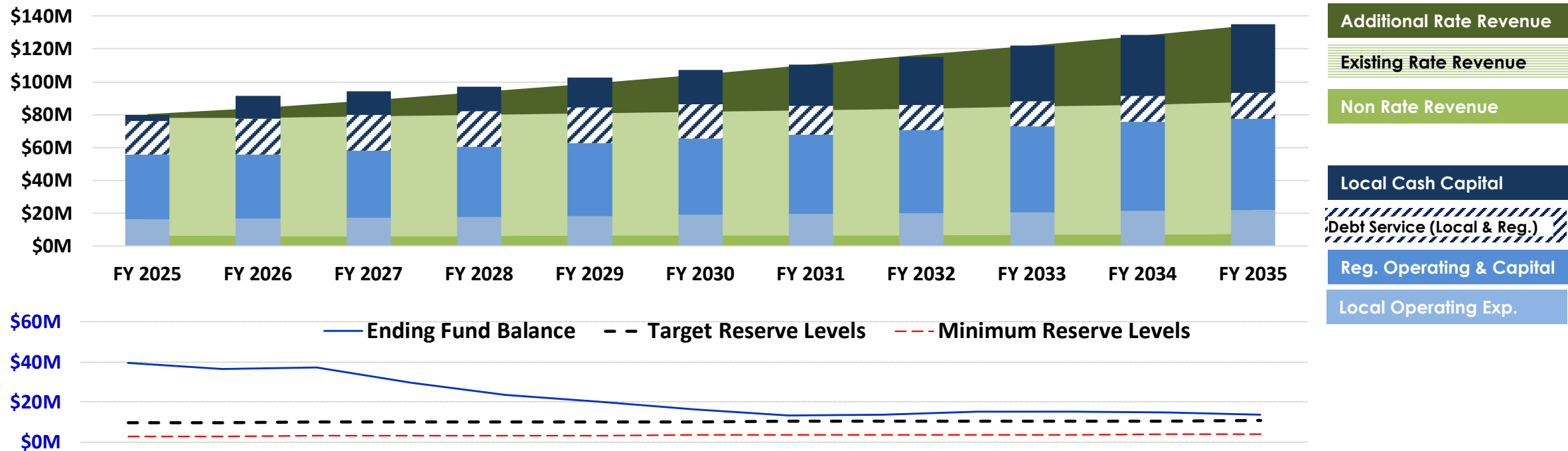
* Commensurate increases to capital spending will be required

Regional Capital Appropriations

Goal: Increase annual cash-funding by \$1 million per year from current levels (about \$11 million per year) to \$21 million per year by FY2034/35.



Local Wastewater Financial Forecast & Proposed Rate Revenue Increases



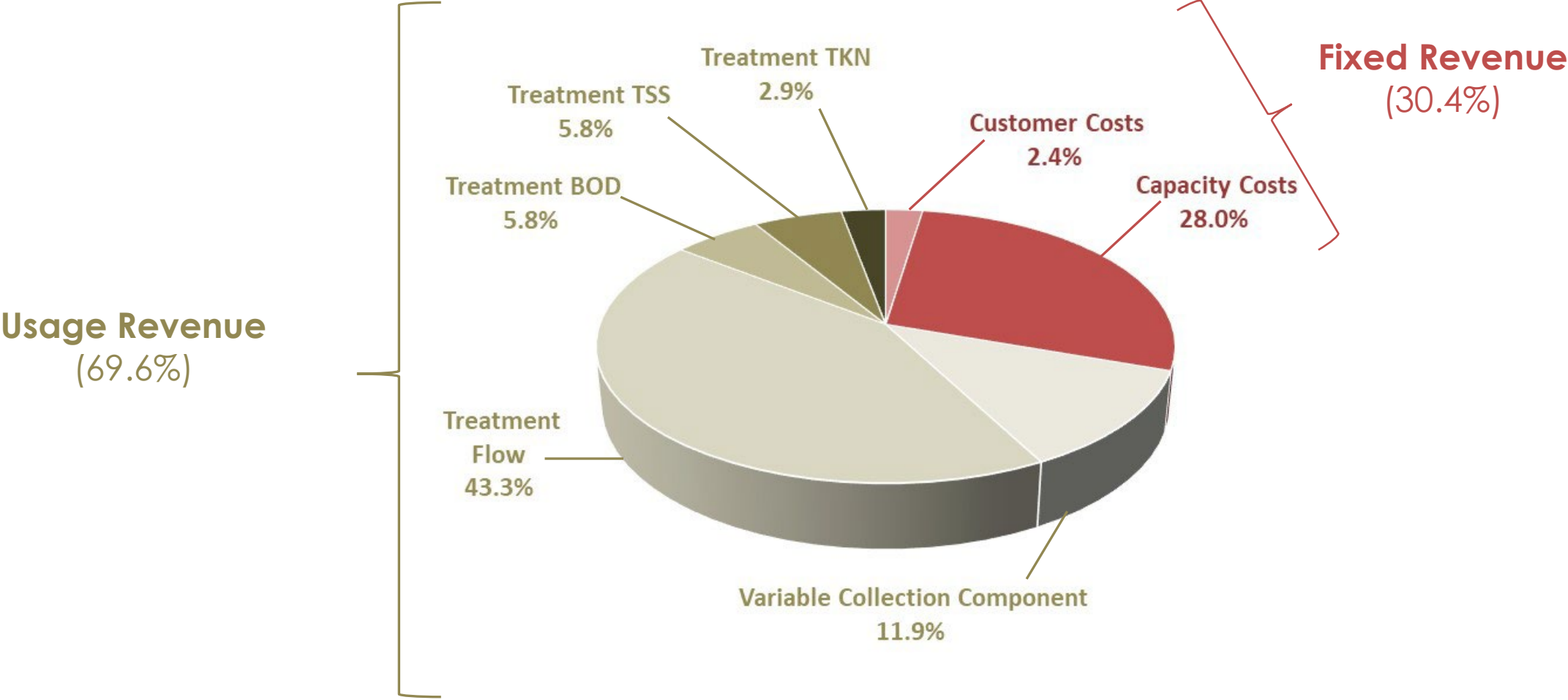
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035
		<u>Recommended</u>					<u>Projected</u>				
Wastewater Rate Increases:		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	4.0%	4.0%	4.0%
Combined Debt Coverage Ratio:	4.67	5.01	5.52	5.70	5.97	6.57	6.81	3.64	4.55	na	na
Local WW CIP:	\$3.3M	\$14.3M	\$14.7M	\$15.1M	\$18.0M	\$21.0M	\$25.0M	\$29.0M	\$34.0M	\$37.0M	\$42.0M

* Debt Coverage Ratio measures whether Santa Rosa Water can afford its debt obligations. Minimum levels are 1.2 and target levels are 1.5.

Wastewater Cost Allocation Principles

- ❖ Customer costs
 - ✓ Assigned to each customer on an equal basis
- ❖ Capacity costs
 - ✓ Assigned to each customer based on meter size
- ❖ Wastewater treatment costs
 - ✓ Assigned to sewer usage rates based on flow and strength

Wastewater Fixed vs Variable Revenue



Recommended FY 2025/26 Wastewater Rate Schedule

	<u>Current</u>	<u>July 2025</u>	<u>Change</u>	
<i>Wastewater Usage Rates (\$/TGAL) ¹</i>			\$	%
Single Family and Multi-Family ²	\$16.04	\$16.69	\$0.65	4.1%
Commercial, Industrial, and Institutional				
Low Strength	\$13.18	\$13.83	\$0.65	4.9%
Standard Strength	\$16.04	\$16.69	\$0.65	4.1%
Medium Strength	\$17.88	\$18.51	\$0.63	3.5%
High Strength	\$22.30	\$22.92	\$0.62	2.8%
<i>Monthly Service Charges</i>				
Single Family	\$27.65	\$29.92	\$2.27	8.2%
Multi-Family, Commercial, Industrial, Institutional				
5/8" & 3/4" meters	\$27.65	\$29.92	\$2.27	8.2%
1" meter	\$63.83	\$70.16	\$6.33	9.9%
1 1/2" meter	\$124.12	\$137.24	\$13.12	10.6%
2" meter	\$196.47	\$217.72	\$21.25	10.8%
3" meter	\$365.28	\$405.53	\$40.25	11.0%
4" meter	\$606.46	\$673.82	\$67.36	11.1%
6" meter	\$1,209.38	\$1,344.55	\$135.17	11.2%

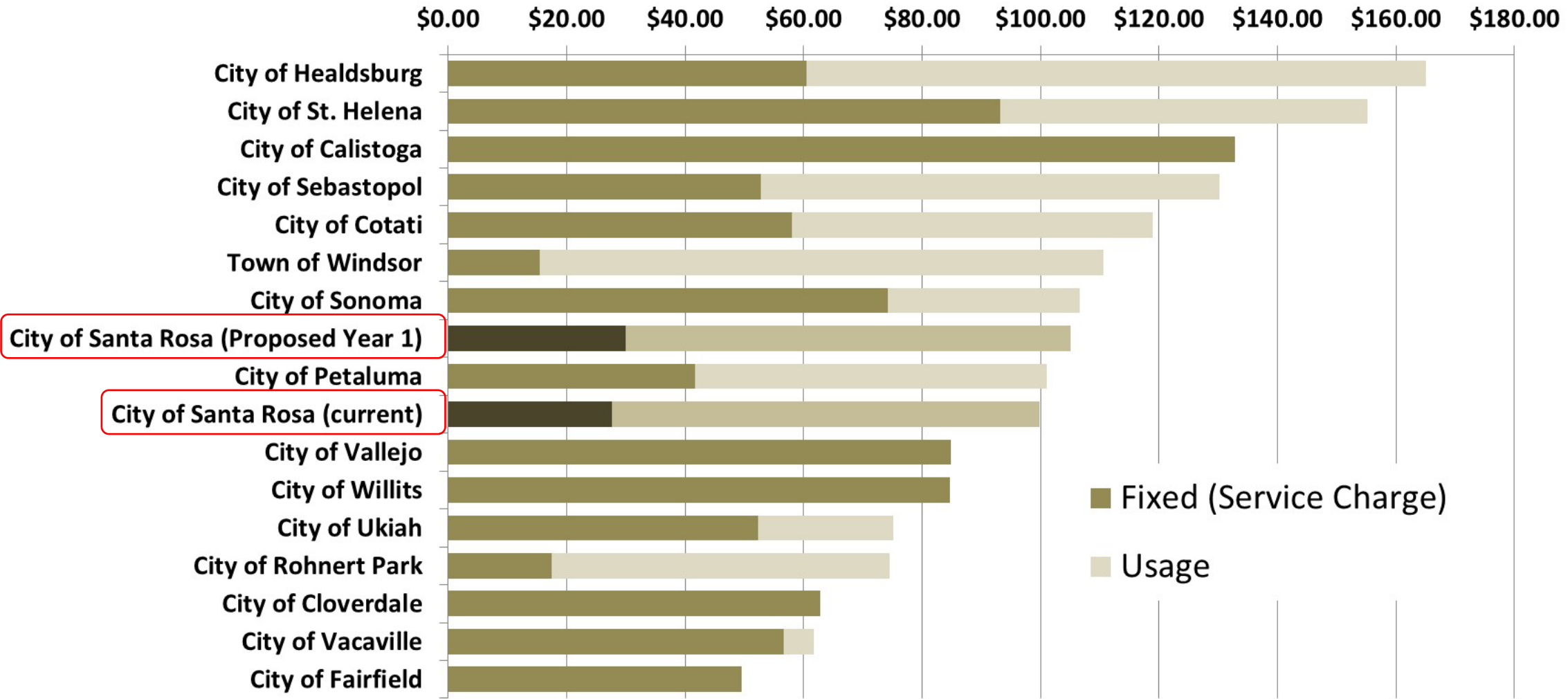
Notes:

1 Wastewater usage charge applies to the estimated wastewater generated. For single-family residential accounts and multi-family accounts that don't have a separate irrigation meter for landscaping the estimated wastewater is based on the lower of current water use or the Sewer Cap. The Sewer Cap is calculated for these residential accounts based on the average water use from complete billing periods within the months of November through March. For all accounts with separate irrigation meters (whether multifamily or non-residential) the wastewater generated is based on actual monthly water usage.

² Multifamily accounts include duplex, and triplex accounts.

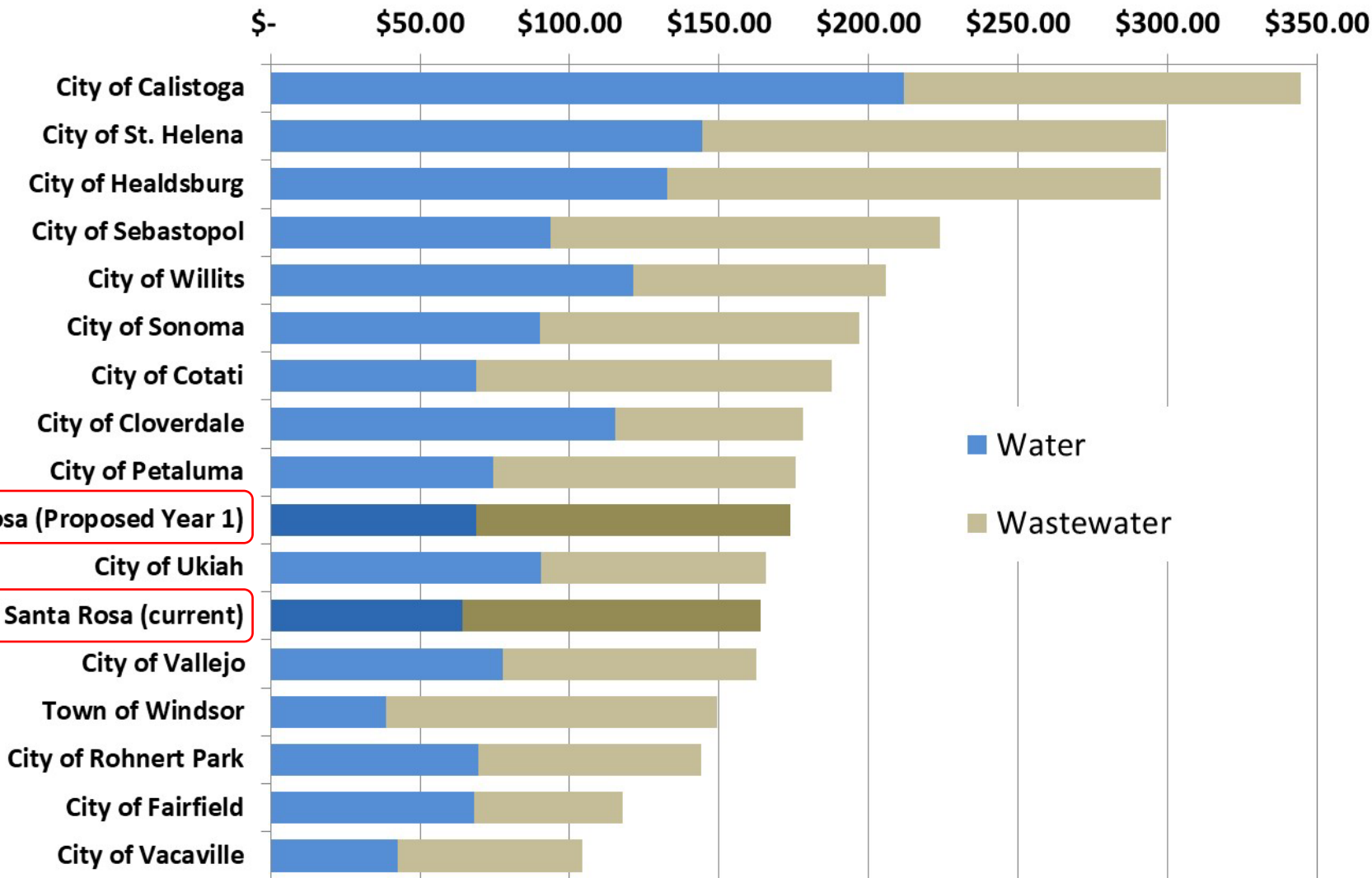
Comparison to Other Local Agencies – Sewer Charges

for single family homes with 4,500 gallons of winter water usage



Comparison to Other Local Agencies – Combined

for single family homes with 3/4" meter, 7,000 gallons of water usage and 4,500 gallons of winter water usage



FY 2025/26 Bill Impact Analysis

	Meter Size	Wtr. 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	\$44.36	\$96.68	\$141.04	\$7.24	5.4%
Median Water Use	5/8"	7	4.5	\$64.02	\$99.83	\$163.85	\$68.68	\$105.03	\$173.71	\$9.86	6.0%
High Water Use	5/8"	12	6	\$100.15	\$123.89	\$224.04	\$108.40	\$130.06	\$238.46	\$14.42	6.4%
Very High Water Use	5/8"	20	7	\$159.19	\$139.93	\$299.12	\$173.66	\$146.75	\$320.41	\$21.29	7.1%
Duplex	5/8"	8	6	\$70.19	\$123.89	\$194.08	\$75.16	\$130.06	\$205.22	\$11.14	5.7%
Small Apartment (4 DUs)	1"	15	12	\$139.60	\$256.31	\$395.91	\$150.25	\$270.44	\$420.69	\$24.78	6.3%
Large Apartment (24 DUs)	2"	80	80	\$664.27	\$1,479.67	\$2,143.94	\$717.90	\$1,552.92	\$2,270.82	\$126.88	5.9%
Very Lrg. Apart. (100 DUs)	4"	320	320	\$2,558.82	\$5,739.26	\$8,298.08	\$2,767.20	\$6,014.62	\$8,781.82	\$483.74	5.8%
Small Retail	5/8"	6	6	\$57.43	\$106.73	\$164.16	\$61.24	\$112.90	\$174.14	\$9.98	6.1%
Large Retail	2"	80	80	\$664.27	\$1,250.87	\$1,915.14	\$717.90	\$1,324.12	\$2,042.02	\$126.88	6.6%
Office Building	1 1/2"	40	40	\$346.35	\$651.32	\$997.67	\$374.00	\$690.44	\$1,064.44	\$66.77	6.7%
Car Wash	2"	60	60	\$524.67	\$987.27	\$1,511.94	\$567.10	\$1,047.52	\$1,614.62	\$102.68	6.8%
Mixed Comm. w/ Food	1"	35	35	\$279.20	\$844.33	\$1,123.53	\$301.05	\$872.36	\$1,173.41	\$49.88	4.4%
Hotel w/ Restaurant	3"	200	200	\$1,592.18	\$4,825.28	\$6,417.46	\$1,721.40	\$4,989.53	\$6,710.93	\$293.47	4.6%
Restaurant	1 1/2"	50	50	\$416.15	\$1,239.12	\$1,655.27	\$449.40	\$1,283.24	\$1,732.64	\$77.37	4.7%
Supermarket	2"	160	160	\$1,222.67	\$3,057.27	\$4,279.94	\$1,321.10	\$3,179.32	\$4,500.42	\$220.48	5.2%
Mortuary	1"	20	20	\$174.50	\$509.83	\$684.33	\$187.95	\$528.56	\$716.51	\$32.18	4.7%
Small Winery	1"	10	10	\$104.70	\$286.83	\$391.53	\$112.55	\$299.36	\$411.91	\$20.38	5.2%
Sm. Irrig. (Wtr Budg.=18 tg)	1"	20		\$172.50	(na)	\$172.50	\$185.43	(na)	\$185.43	\$12.93	7.5%
Lrg. Irrig. (Wtr. Budg.=250 tg)	4"	300		\$2,421.22	(na)	\$2,421.22	\$2,517.40	(na)	\$2,517.40	\$96.18	4.0%

Debt Service Details

Existing Debt Service

- ✓ Water utility = \$1.6 million per year, increasing to \$4.4 million by 2033 and then dropping off
- ✓ Wastewater utility = \$4.3 million then dropping off in 2034
- ✓ Subregional system = \$21.6 million total... with \$16.2 million being Santa Rosa's portion

Proposed 2026 Subregional Debt (new money)

- ✓ \$35 million in proceeds
- ✓ Initial estimated annual debt service = \$1.9 million per year (Santa Rosa's portion)

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	8.0%	5.0%	6.0%
July 2026	7.0%	5.0%	5.8%
July 2027	7.0%	5.0%	5.8%
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.

Value of Water Campaign

Key Message:

- Investing Now to Secure Our Water Future

Outreach Plan:

- Two phase multi-media campaign
 - May – Nov. 2024: Value of Water Service and the Need to Invest
 - Dec. – July 2025: Proposed Water Rates, Prop 218 Noticing, and Adopted Rate Schedule



Value of Water Campaign

Using the power of digital advertising and partnerships to boost engagement.

- srcity.org/ValueOfWater
- City Connections eNewsletter
- QuenchCA Campaign

- Water Bill Messaging
- Digital, Print, and Radio
- Social Media

 [Facebook.com/SRWWater](https://www.facebook.com/SRWWater)

 [@SantaRosaWater](https://www.instagram.com/SantaRosaWater)



Value of Water Campaign

Digital Campaign
using Google Ads for
Sept. 30-Oct. 27

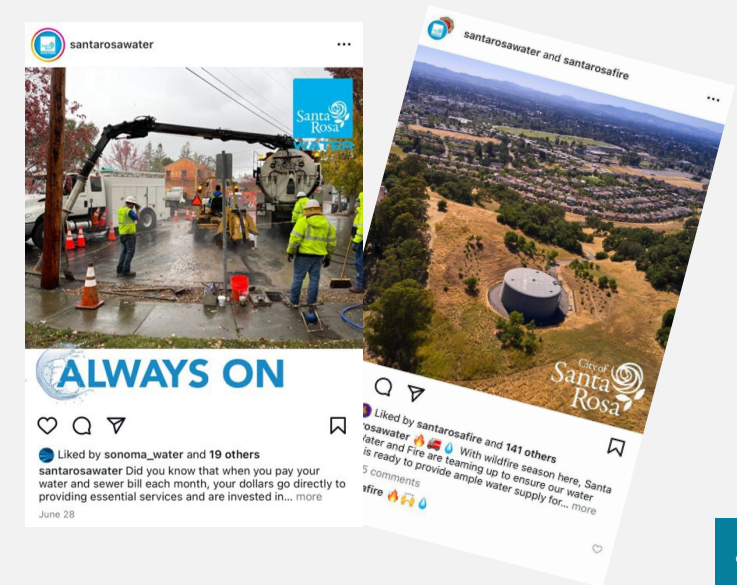
- 228K Impressions
- 5.17K Clicks to srcity.org/ValueOfWater



Social Media Campaign
May – Oct. 2024



- 95K Impressions
- 3.14 K Engagement/Link Clicks



Rate Setting Tentative Schedule

- ❖ Draft report and presentation to BPU in Study Session – **November 21**
- ❖ BPU rate recommendation consideration – **December 5**
- ❖ Presentation to City Council in Study Session – **January 7**
- ❖ Prop. 218 notifications mailing - **TBD**
- ❖ Public Hearing – **March 2025**

Recommendation

Santa Rosa Water Staff recommends that the Board of Public Utilities Budget Subcommittee recommend the proposed water and wastewater rate increases and rate schedule to the Board of Public Utilities

Questions?