

# Water and Wastewater Rate Study

## Santa Rosa Water – BPU Recommendation

December 19, 2024



# Agenda

- 1) Project Objectives and General Rate Setting
- 2) Water and Wastewater Rate Recommendations
- 3) Value of Water Campaign
- 4) New Optional Prop 218 Procedures
- 5) Request for Recommendation to City Council

# Rate Setting Objectives

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

# Rate Study Overview

## Revenue Requirements



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graph TD; A[Revenue Requirements] --> B[Cost-of-Service]; B --> C[Rate Design];
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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

## Cost-of-Service

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

## Rate Design

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

# Water and Wastewater Rate Study Recommendations

# Summary of Recommended Water/Wastewater Rate Adjustments

Based on feedback from Board Study Session to have ending fund balance and reserve levels match as closely as possible, reduced water rate recommendation from 8%, 8%, 7%, 7%, 7% to the following (Sewer rate did not change):

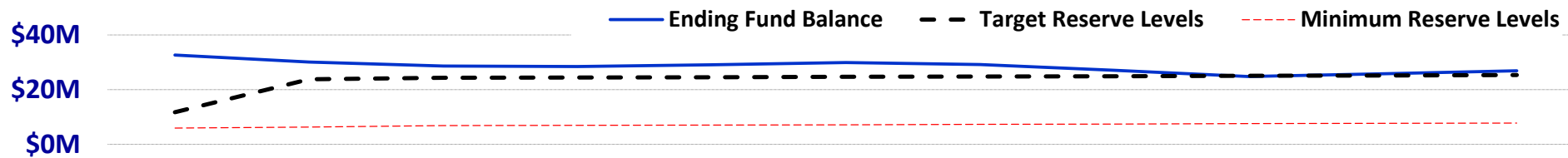
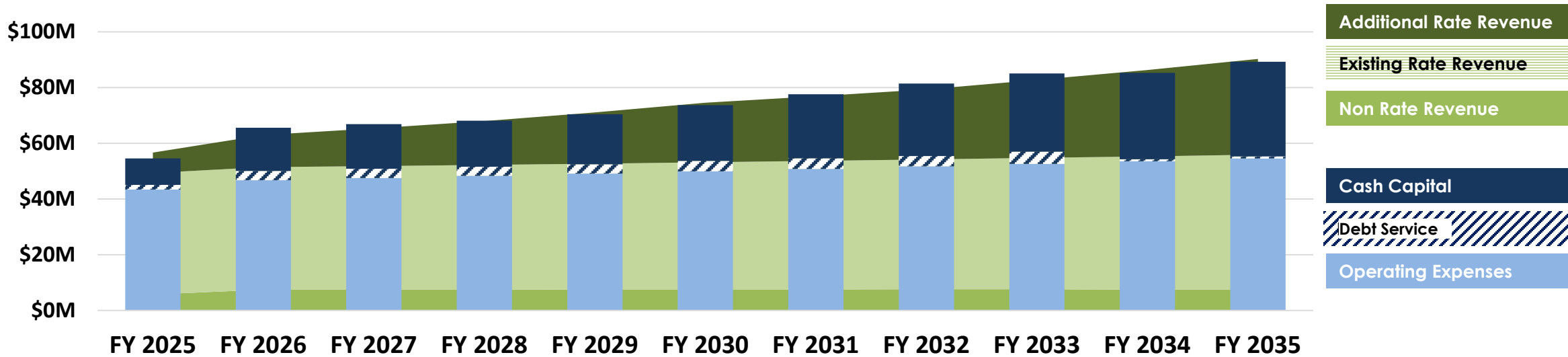
	<b>Baseline Water Rate Adjustments <sup>2</sup></b>	<b>Wastewater Rates Adjustment</b>	<b>Change in a Typical Single Family Utility Bill <sup>3</sup></b>
July 2025 <sup>1</sup>	<b>6.0%</b>	<b>5.0%</b>	6.1%
July 2026	<b>6.0%</b>	<b>5.0%</b>	5.4%
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<sup>1</sup> 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.

<sup>2</sup> The final adjustment to Water rates will be dictated by the pass-through of Sonoma Water wholesale water costs.

<sup>3</sup> Typical single family bill includes a 5/8" water meter, 7,000 gallons of monthly water use, and 4,500 gallons of wastewater.

# 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
<b>Water Rate Revenue Increases:</b>		6.0%	6.0%	6.0%	7.0%	7.0%	4.0%	4.0%	4.0%	4.0%	4.0%
<b>Debt Coverage Ratio:</b>	7.95	4.86	5.35	5.91	6.62	6.56	6.87	7.40	6.82	46.76	50.85
<b>Capital Appropriations:</b>	\$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

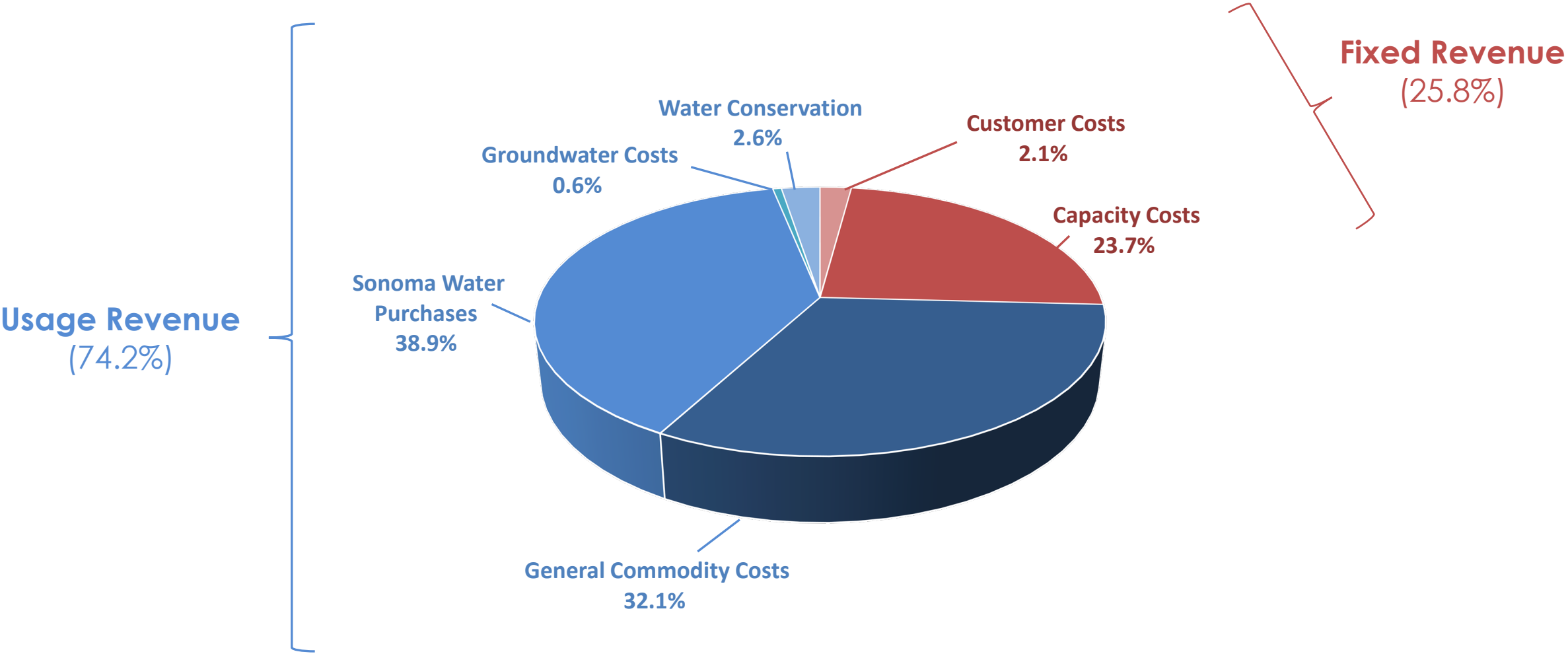
- ✓ Assigned to each customer based on meter size

## ❖ 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



# Recommended FY 2025/26 Water Rate Schedule

		<u>Current</u>	<u>July 2025</u>	<u>Change</u>	
				\$	%
<b>Water Usage Rates (\$/TGAL)</b>					
Single Family Residential & Duplex					
Tier 1	Use up to Sewer Cap <sup>1</sup>	\$6.61	\$7.21	\$0.60	9.1%
Tier 2	Above Sewer Cap	\$7.49	\$8.43	\$0.94	12.6%
Multi-Family, Commercial, Industrial, and Institutional					
	All water use	\$6.98	\$7.66	\$0.68	9.7%
Irrigation (potable water) <sup>2</sup>					
Tier 1	Use up to 125% of water budget	\$6.72	\$7.33	\$0.61	9.1%
Tier 2	Over 125% of water budget	\$8.32	\$9.36	\$1.04	12.5%
Irrigation (recycled water) <sup>2</sup>					
Tier 1	Use up to 125% of water budget	\$6.38	\$6.96	\$0.58	9.1%
Tier 2	Over 125% of water budget	\$8.32	\$9.36	\$1.04	12.5%
<b>Monthly Service Charges (Potable Water)</b>					
	5/8" & 3/4" meters	\$15.55	\$15.38	(\$0.17)	-1.1%
	1" meter	\$34.90	\$35.78	\$0.88	2.5%
	1 1/2" meter	\$67.15	\$69.78	\$2.63	3.9%
	2" meter	\$105.87	\$110.58	\$4.71	4.4%
	3" meter	\$196.18	\$205.78	\$9.60	4.9%
	4" meter	\$325.22	\$341.78	\$16.56	5.1%
	6" meter	\$647.80	\$681.78	\$33.98	5.2%
<b>Monthly Service Charges (Recycled Water)</b>					
	5/8" & 3/4" meters	\$13.99	\$13.84	(\$0.15)	-1.1%
	1" meter	\$31.41	\$32.20	\$0.79	2.5%
	1 1/2" meter	\$60.43	\$62.80	\$2.37	3.9%
	2" meter	\$95.28	\$99.52	\$4.24	4.5%
	3" meter	\$176.57	\$185.20	\$8.63	4.9%
	4" meter	\$292.70	\$307.60	\$14.90	5.1%
	6" meter	\$583.02	\$613.60	\$30.58	5.2%

**Notes:**

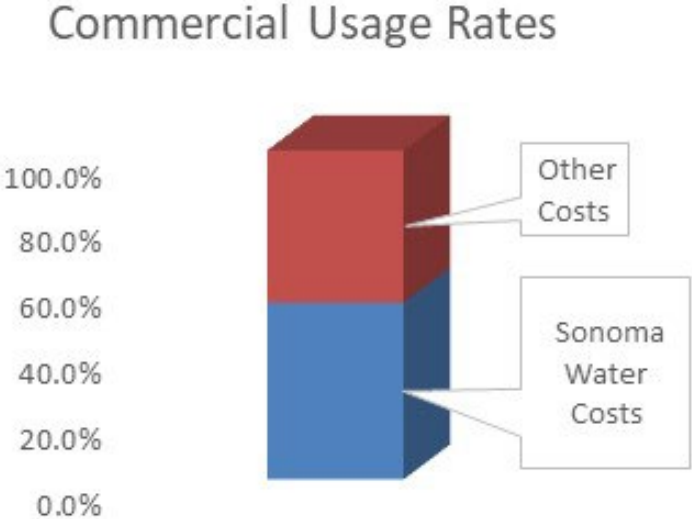
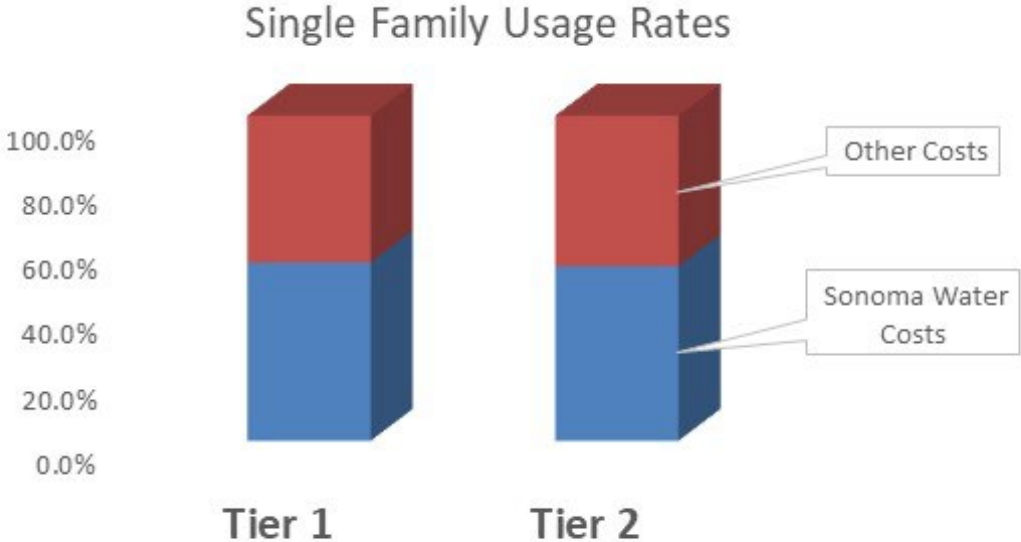
<sup>1</sup> The Sewer Cap is calculated for each customer based on the average billing period water use during November through March.

<sup>2</sup> The landscape water budget varies for each customer each billing period 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)



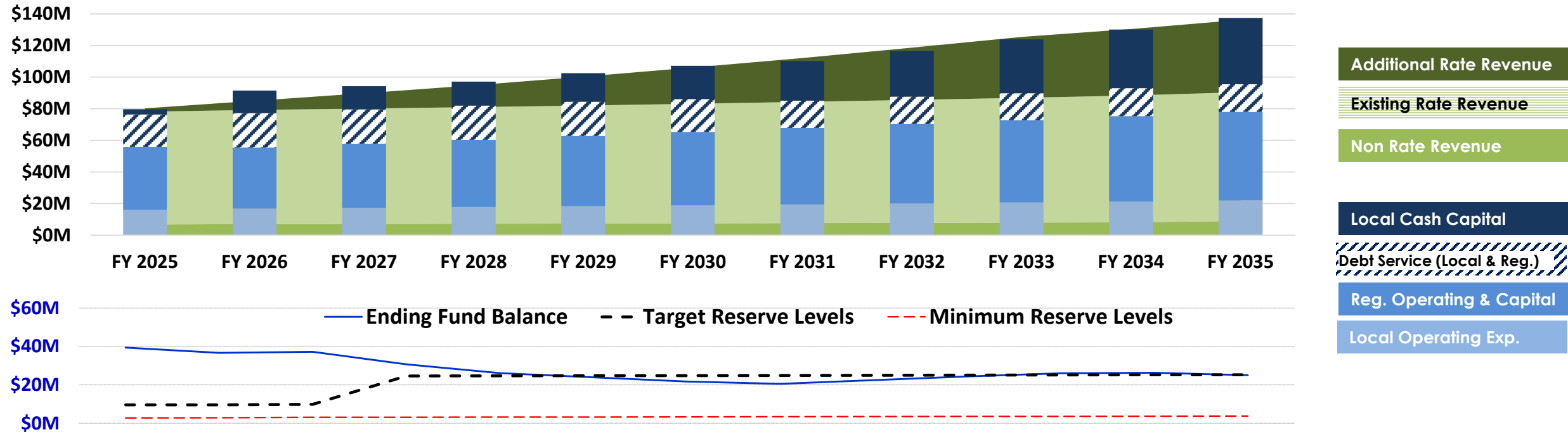
# Example Calculation of SCWA Pass-Through Provision

<b>Santa Rosa Water Rate Increase</b> Proposed 2027 Change: <b>6.00%</b>				<b>SCWA Santa Rosa Aqueduct Rate Change <sup>1</sup></b> Example Change: <b>10.0%</b>			
	<b>Current Rates</b>	<b>Current Santa Rosa Costs</b>	<b>Current SCWA Costs</b>	<b>Santa Rosa Rate Adjustment</b>	<b>SCWA Adjustment</b>	<b>Final Usage Rates</b>	<b>Change</b>
<b>Water Usage Rates (\$/TGAL)</b>							
<u>Single Family</u>							
Tier 1	\$7.21	\$3.36	\$3.85	\$0.20	\$0.39	<b>\$7.80</b>	8.2%
Tier 2	\$8.43	\$4.01	\$4.42	\$0.24	\$0.44	<b>\$9.11</b>	8.1%
<u>Commercial/Industrial/Multifamily</u>							
All Water Use	\$7.66	\$3.60	\$4.06	\$0.22	\$0.41	<b>\$8.28</b>	8.1%
<u>Irrigation (potable)</u>							
Tier 1	\$7.33	\$3.34	\$3.99	\$0.20	\$0.40	<b>\$7.93</b>	8.2%
Tier 2	\$9.36	\$4.95	\$4.41	\$0.30	\$0.44	<b>\$10.10</b>	7.9%
<u>Irrigation (recycled)</u>							
Tier 1	\$6.96	\$3.17	\$3.79	\$0.19	\$0.38	<b>\$7.53</b>	8.2%
Tier 2	\$9.36	\$4.95	\$4.41	\$0.30	\$0.44	<b>\$10.10</b>	7.9%
(No change to service charges due to changes in SCWA costs)							

**Notes:**

<sup>1</sup> 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.

# Local Wastewater Financial Forecast & Proposed Rate Revenue Increases



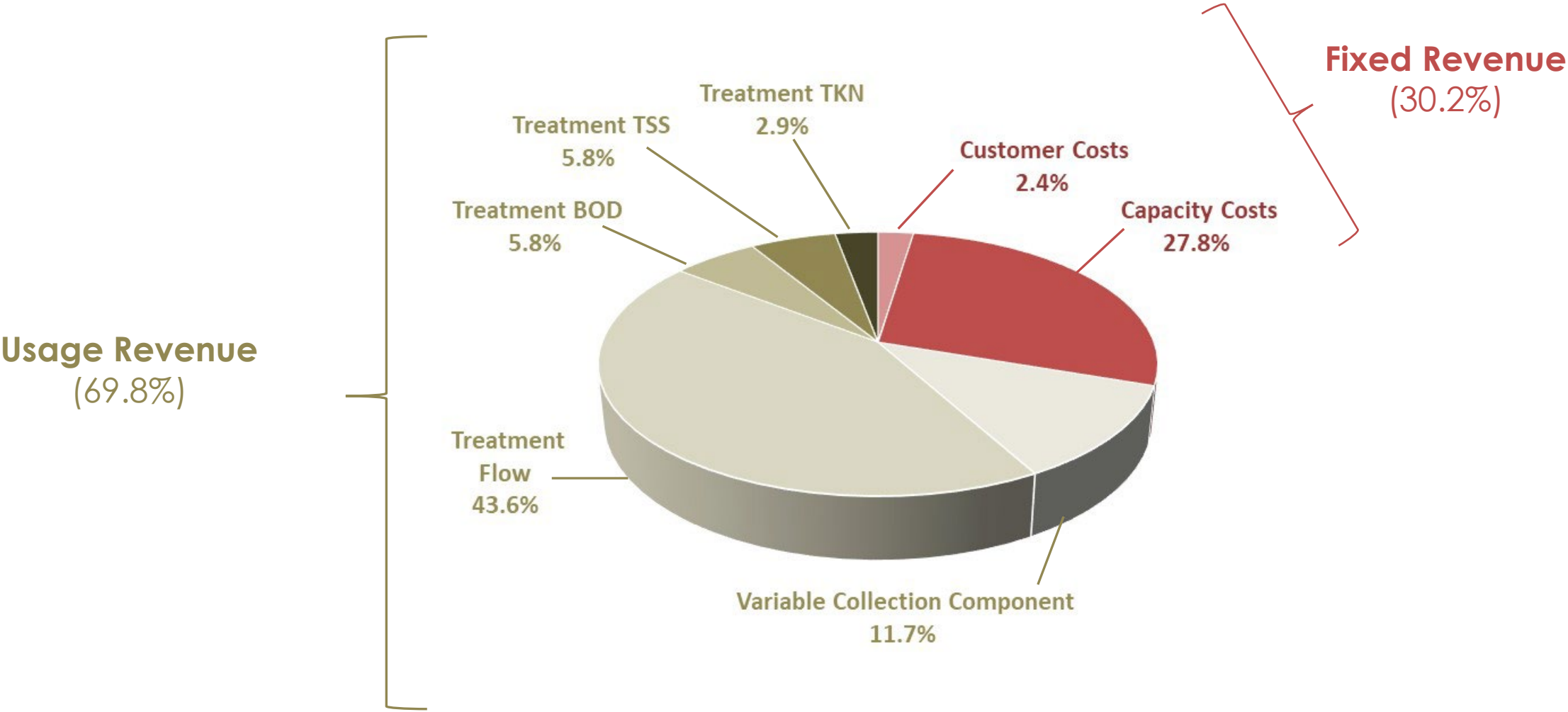
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035
		<u>Recommended</u>					<u>Projected</u>				
<b>Wastewater Rate Increases:</b>		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	3.0%	3.0%
<b>Combined Debt Coverage Ratio:</b>	5.19	5.26	5.50	5.75	6.02	6.42	8.24	4.58	5.03	4.44	4.65
<b>Local WW CIP:</b>	\$3.3M	\$14.3M	\$14.7M	\$15.1M	\$18.0M	\$21.0M	\$25.0M	\$29.0M	\$34.0M	\$37.0M	\$42.0M
<b>Regional Cash CIP:</b>	\$7.8M	\$8.5M	\$9.2M	\$9.9M	\$10.6M	\$11.3M	\$12.0M	\$12.7M	\$13.4M	\$14.2M	\$14.9M
<b>Debt Proceeds:</b>		\$35.0M									

\* 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>	
<b><i>Wastewater Usage Rates (\$/TGAL) <sup>1</sup></i></b>			<b>\$</b>	<b>%</b>
Single Family and Multi-Family <sup>2</sup>	\$16.04	\$16.86	\$0.82	5.1%
Commercial, Industrial, and Institutional				
Low Strength	\$13.18	\$13.87	\$0.69	5.2%
Standard Strength	\$16.04	\$16.86	\$0.82	5.1%
Medium Strength	\$17.88	\$18.77	\$0.89	5.0%
High Strength	\$22.30	\$23.39	\$1.09	4.9%
<b><i>Monthly Service Charges</i></b>				
Single Family	\$27.65	\$29.77	\$2.12	7.7%
Multi-Family, Commercial, Industrial, Institutional				
5/8" & 3/4" meters	\$27.65	\$29.77	\$2.12	7.7%
1" meter	\$63.83	\$69.80	\$5.97	9.4%
1 1/2" meter	\$124.12	\$136.53	\$12.41	10.0%
2" meter	\$196.47	\$216.60	\$20.13	10.2%
3" meter	\$365.28	\$403.42	\$38.14	10.4%
4" meter	\$606.46	\$670.32	\$63.86	10.5%
6" meter	\$1,209.38	\$1,337.56	\$128.18	10.6%

**Notes:**

<sup>1</sup> 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 esimated 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 water usage during the billing period.

<sup>2</sup> Multifamily accounts include duplex, and triplex accounts.

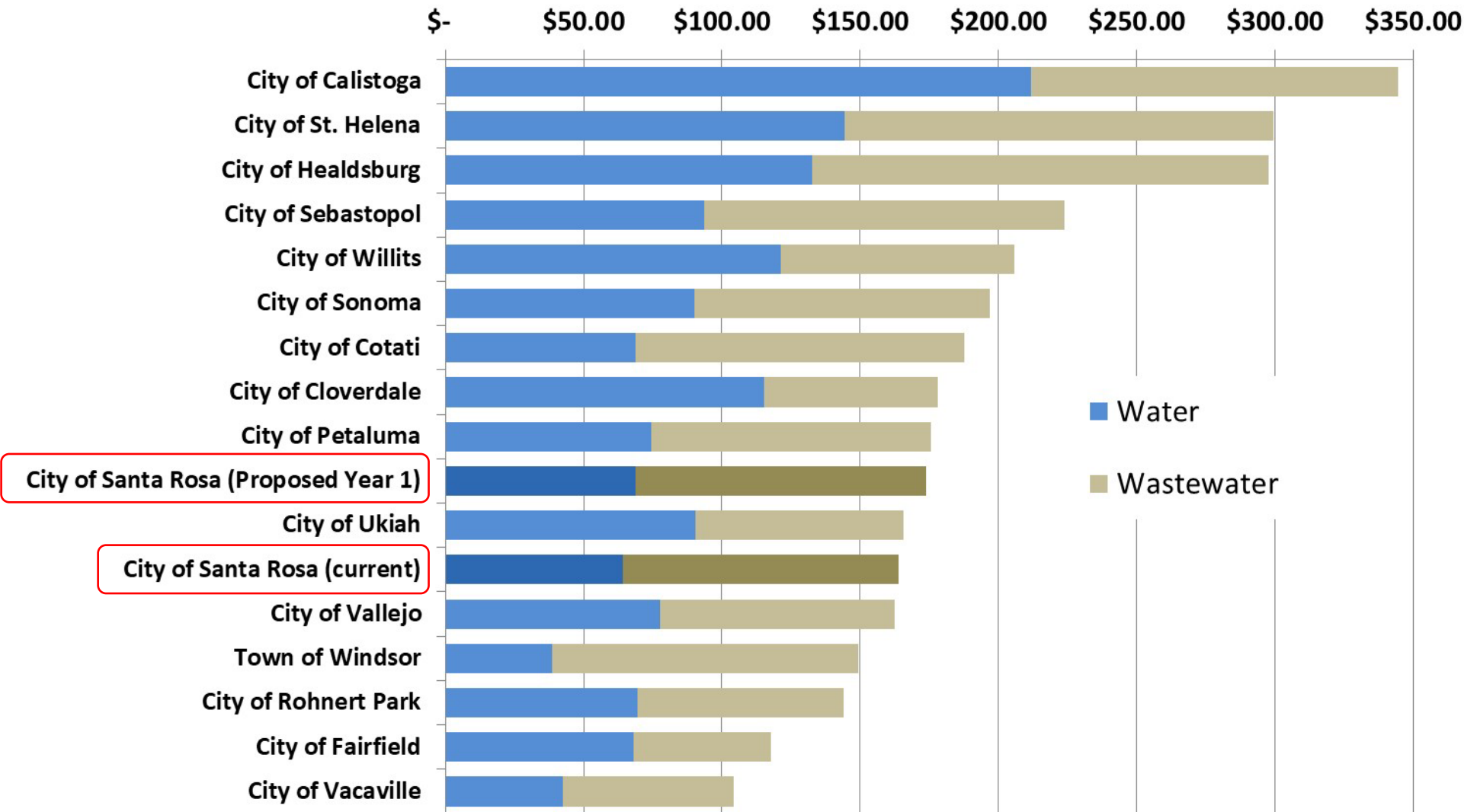


# FY 2025/26 Bill Impact Analysis

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

# 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



# Summary of Recommended Water/Wastewater Rate Adjustments

	<b>Baseline Water Rate Adjustments <sup>2</sup></b>	<b>Wastewater Rates Adjustment</b>	<b>Change in a Typical Single Family Utility Bill <sup>3</sup></b>
July 2025 <sup>1</sup>	<b>6.0%</b>	<b>5.0%</b>	6.1%
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<sup>2</sup> The final adjustment to Water rates will be dictated by the pass-through of Sonoma Water wholesale water costs.

<sup>3</sup> Typical single family bill includes a 5/8" water meter, 7,000 gallons of monthly water use, and 4,500 gallons of wastewater.

# Capital Project Delivery

# Proposed Capital Delivery Program

- Two current Master Professional Services Agreements for Project Management
  - Allow for additional project delivery while rate update process is underway
- Issue Project Management RFP → Prepared and issued after rate public hearing
- Issue Design Services RFP for package of projects → early FY25-26
- Deliver projects during FY26-27 and FY27-28
- Prepare next cycle during FY27-28 at increased scale

# Value of Water Campaign

# Value of Water Campaign

## Outreach Plan:

- 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

## Advertising:

- [srcity.org/ValueOfWater](http://srcity.org/ValueOfWater)
- City Connections eNewsletter
- QuenchCA Campaign
- Water Bill Messaging
- Digital, Print, and Radio
- Social Media



# Value of Water Campaign

Digital Campaign  
using Google Ads for  
Sept. 30 - Dec. 9

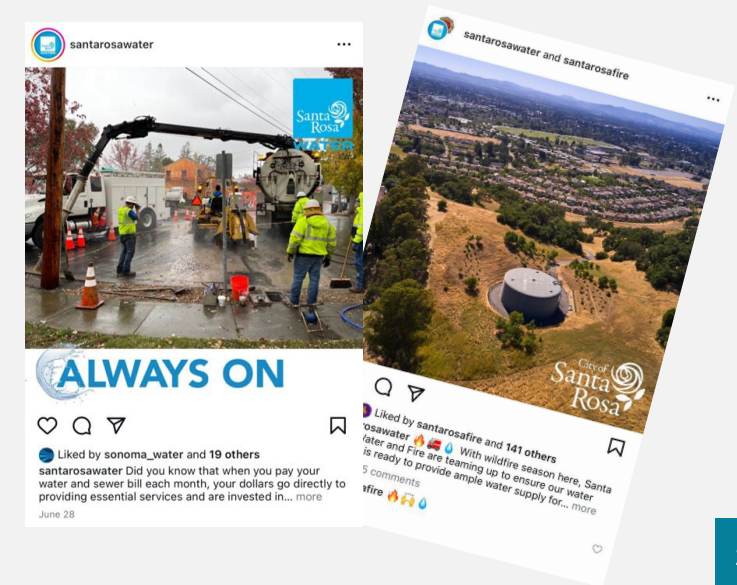
- 559K Impressions
- 11.3K Clicks to [srcity.org/ValueOfWater](http://srcity.org/ValueOfWater)



Social Media Campaign  
May – Dec 2024



- 101K Impressions
- 3.27 K Engagement/Link Clicks





# New Optional Prop 218 Procedures

# Legal Requirements for Setting Water Rates In California

Proposition 218 (Article XIII D, 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).

# 120 Day Statue of Limitations

- Government Code 53579 went into effect January 1, 2022
- Allows local agencies to implement a 120 day statue of limitations for challenging adoption of water or sewer service charges
- Requires including language in Prop 218 notice
- Benefit – Provides a 120 day limitation. If not included, challenges can be brought up to 3 years after adoption of water or sewer charges

# Exhaustion of Administrative Remedies

- AB 2257 – adds Government Code Sections 53579.1 and 53759.2 and goes into effect January 1, 2025
- Allows local agencies to adopt administrative exhaustion procedures (as part of the Prop 218 process) requiring written objections to be submitted in order to preserve the ability to initiate litigation challenging water and sewer rates. This is in addition to the ability to protest the proposed rates (current Prop 218 process).
  - Protests – A written protest stating not supportive of proposed rates (not substantive)
  - Objections – A written objection stating factual reasons why rates do not meet legal requirements (substantive)
- Requires including language in Prop 218 notice explaining the process
  - Must provide 45 days for rate payers to submit written objections
  - Must outline process, including due date, for submission of written objections
- Benefits – Substantially reduces legal risk
- Concerns – Communicating the two different options may be difficult. Adds time between issuance of Prop 218 notice and public hearing (approx. 2-3 week depending on number of objections received)

# Direction on Optional Prop 218 Procedures

- Water Director and Interim Assistant City Attorney recommend implementation of both optional procedures
- Language will be included in Prop 218 Notice for both procedures
  - Set 45 Day period for Objection Process – Objections due Feb 28<sup>th</sup>
  - Staff, rate consultant and legal counsel will review objections, make any needed corrections to rate study, and develop written responses
  - Council will consider and conclude objection process on April 1<sup>st</sup> as a separate item prior to rate adoption public hearing
  - Council will hold rate adoption Public Hearing on April 1<sup>st</sup> after completing objection process

# Rate Setting Tentative Schedule

- ❖ Presentation to BPU Budget Review Subcommittee – **November 6**
- ❖ Presentation to BPU in Study Session – **December 5**
- ❖ BPU rate recommendation consideration – **December 19 (today)**
- ❖ Presentation to City Council in Study Session – **January 7, 2025**
- ❖ Prop. 218 notifications mailing – **Postmarked by January 13, 2025**
- ❖ Public Hearing – **April 1, 2025**

# Recommendation

It is recommended by the Board of Public Utilities Budget Subcommittee and Santa Rosa Water that the Board of Public Utilities, by resolution, recommend that, after compliance with Proposition 218 and successful conclusion of a protest hearing, the City Council 1.) Enact increased rates for water services and 2.) Enact increased rates for wastewater services.

**Questions?**