



# City of Sebastopol

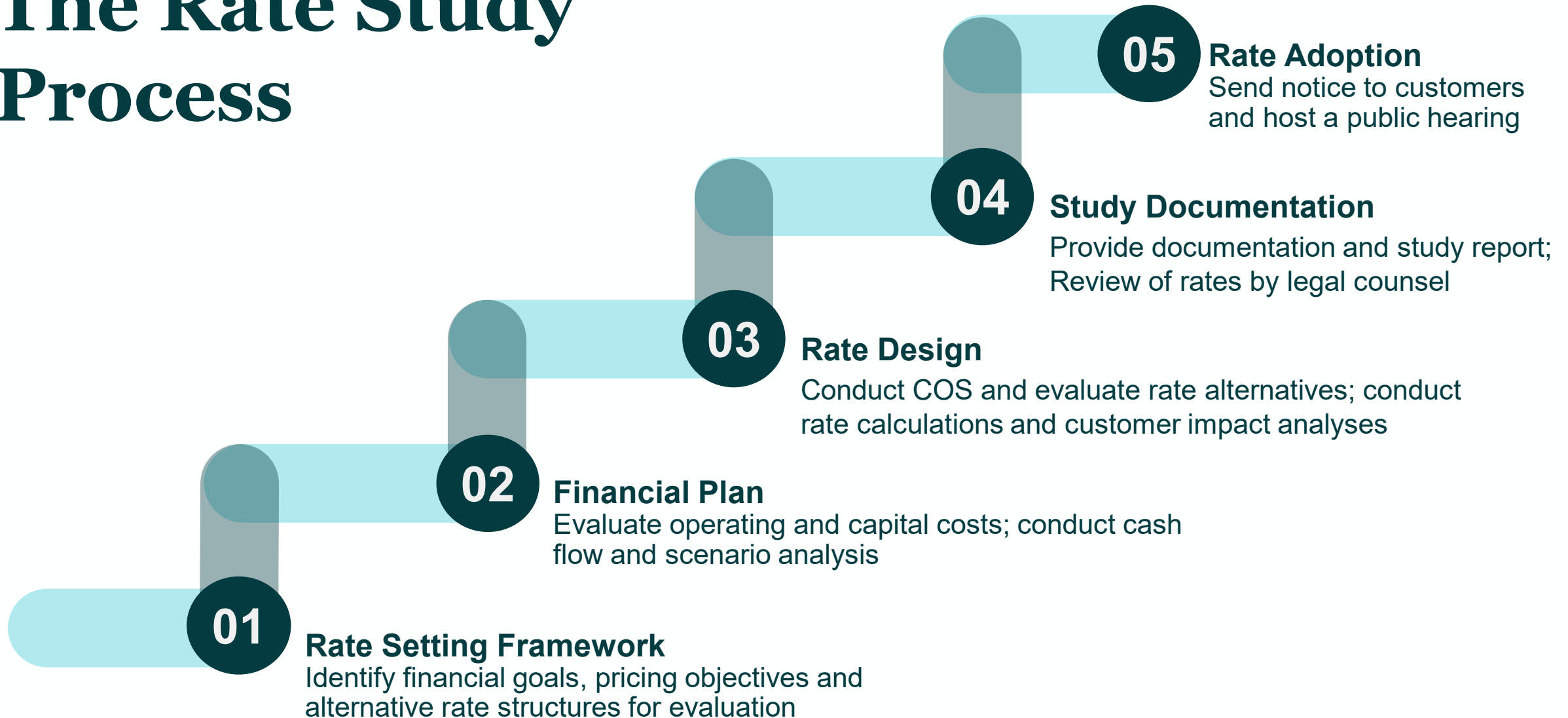
Water and Wastewater Rate Study

Public Hearing

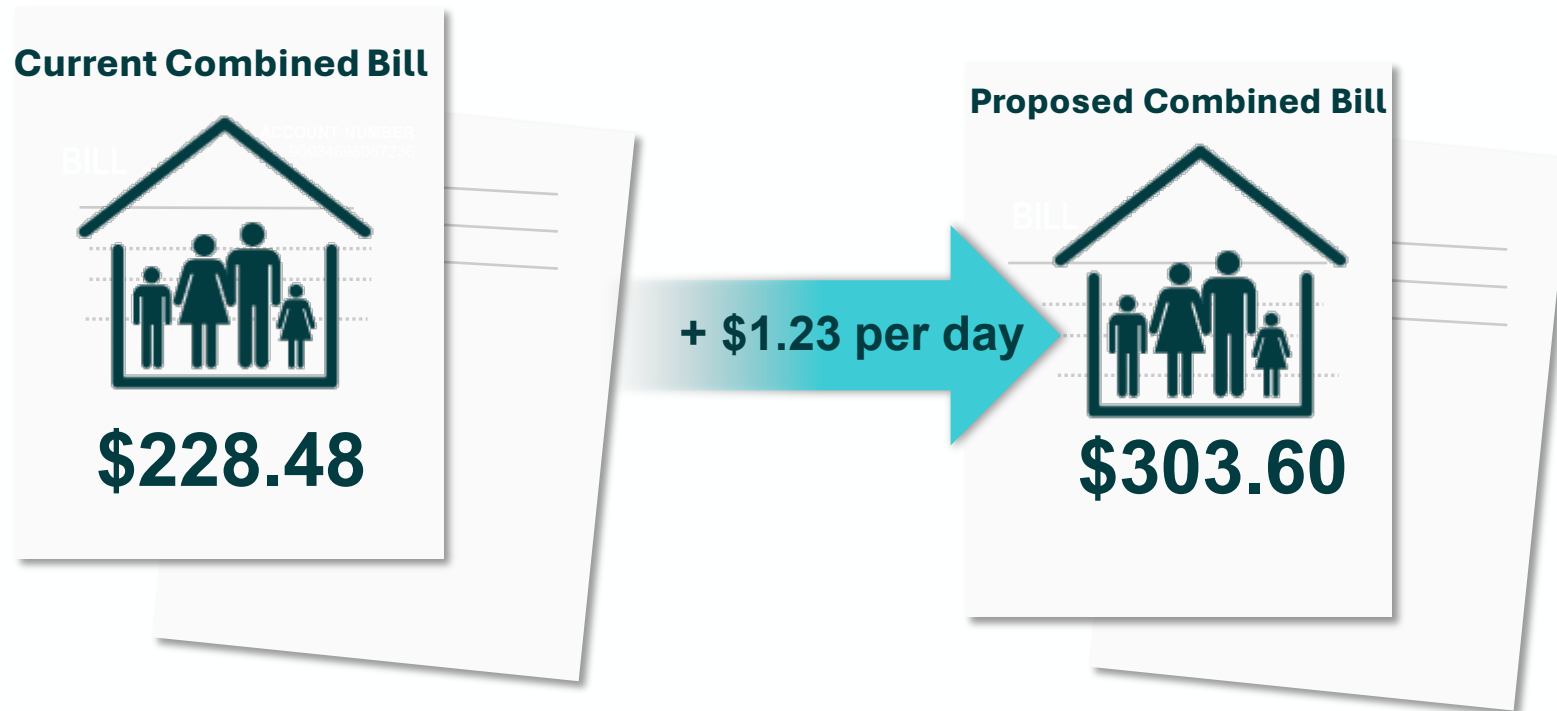
June 18, 2024



# The Rate Study Process



# Single Family Residential Customer Combined Utility Bill\*



*\* Comparison reflects an average single-family customer using 9 Units (kgal) per billing period of water and a winter average of 6 Units (kgal) per billing period.*

*If approved, rate adjustments would go into effect July 1, 2024*

# Key Policy Objectives



## Financial Stability

The City must meet water and wastewater system financial obligations from its own rate revenues; the utility enterprises should be sustainable over time



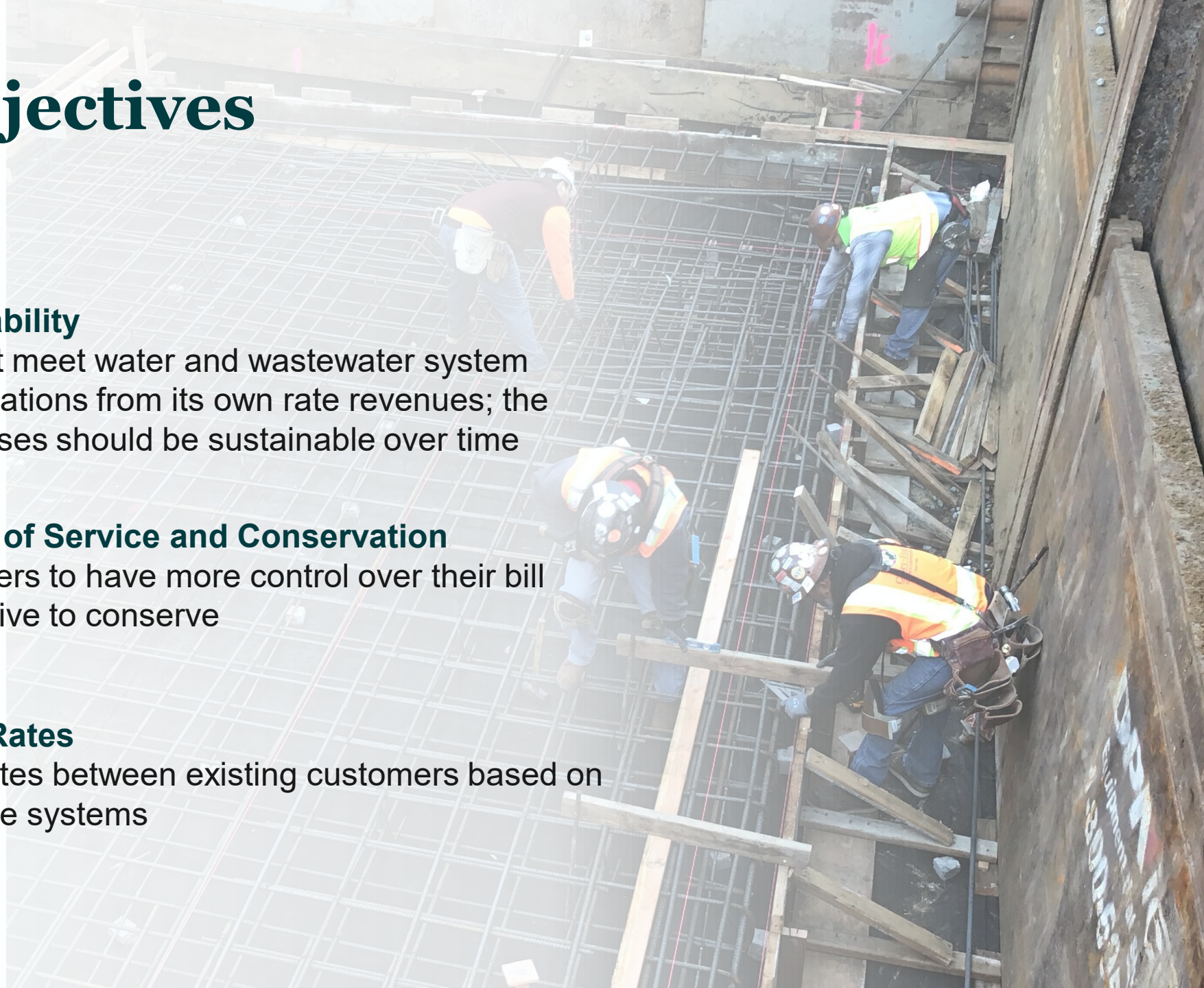
## Affordability of Service and Conservation

Allow customers to have more control over their bill and an incentive to conserve



## Fairness of Rates

Fairness in rates between existing customers based on their use of the systems



# City Council Direction and Policy Objectives



## **Financial Stability**

Maintaining approximately 50% fixed cost revenue recovery provides the City with stable revenues



## **Affordability of Service and Conservation**

Proposed three-tier water use rate alternative for Single Family Residential customers and maintain a variable wastewater rate component



## **Fairness of Rates**

Class-based water rates and wastewater fixed charges differentiated by wastewater flow patterns at each meter size

# Starting Point: Enterprise Funds in Deficit

<b>FY 2023-24</b>	<b>Water</b>	<b>Wastewater</b>
Revenue	\$2,417,972	\$3,107,820
Expenses		
Operations & Maintenance Expenses	-\$2,720,000	-\$3,868,640
Debt Service	-\$380,704	-\$178,656
Cash-Funded Capital	-\$530,000	-\$542,000
<b>Net Cashflow</b>	<b>-\$1,212,732</b>	<b>-\$1,481,476</b>
July 1, 2023 Beginning Cash Balance	\$1,225,855	\$392,668
FY 2023-24 Net Cashflow	<b>-\$1,212,732</b>	<b>-\$1,481,476</b>
<b>June 30, 2024 Projected Ending Cash Balance</b>	<b>\$13,123</b>	<b>-\$1,088,808</b>

# Immediate, Large Rate Increases are Required

- Reserves were drawn down in past to keep rates low, City's reserve policy is not being met
- Current rate revenue does not even meet Operating needs (O&M + Debt Service costs)
- Large increases are needed to meet capital spending and City's minimum reserve policies
- Water minimum reserve must be met before debt funding can be obtained for needed Well #4 repairs
- Wastewater needs to be able to repay General Fund borrowing
- Systems need investment now to save money on more costly, emergency repairs later

# Proposed Water and Wastewater Enterprise Revenue Increases

Fiscal Year	Water Enterprise Revenue Increase	Wastewater Enterprise Revenue Increase
FY 2024-25	37.0%	50.0%
FY 2025-26	4.0%	11.0%
FY 2026-27	4.0%	9.0%
FY 2027-28	3.5%	9.0%
FY 2028-29	3.5%	9.0%

- Water: Allows for external borrowing for Well #4 replacement project
- Wastewater: Allows for repayment of \$1.1M in borrowing from the General Fund over five years

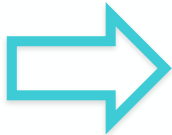


# Proposed Rates



# Proposed Single Family Residential Water Use Rate Structure Modifications

Current FY 2023-24 Rate Water Use Charges (\$/kgal)	
Uniform Rate (All Units)	\$4.52



FY 2024-25 Rate Water Use Charges (\$/kgal)	
Tier 1 (0-7 kgal)	\$5.01
Tier 2 (8-16 kgal)	\$6.39
Tier 3 (>16 kgal)	\$8.87

**Tiered rates are by far the most common rate structure in California because they improve affordability for those with low to average use and allow customers to manage their bills through wise water use.**

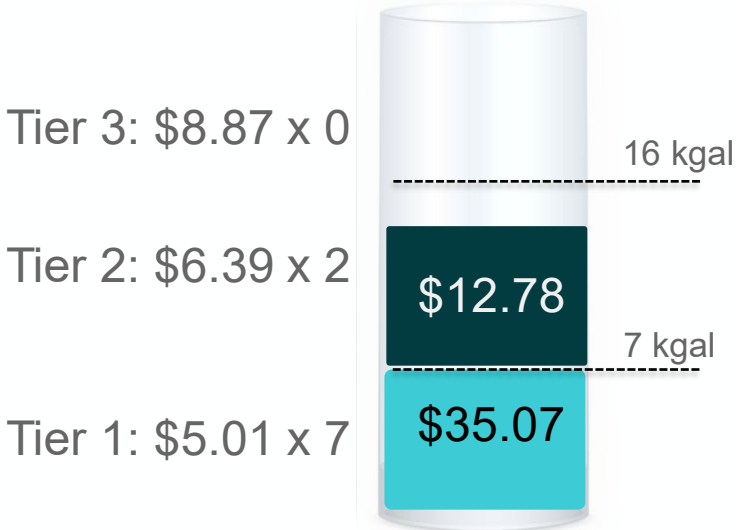
# Single Family Example Water Bill Calculation – Average Water Use

## Current Rates



Consumption:	\$ 40.68
5/8"x3/4" Service Charge:	\$ 49.33
<b>Water Charges:</b>	<b>\$ 90.01</b>

## Proposed FY 2024-25



Consumption:	\$ 47.85
5/8"x3/4" Service Charge:	\$ 67.68
<b>Water Charges:</b>	<b>\$115.53</b>

# Five-Year Schedule of Water Rates

## Rate Schedule - Fixed Bi-Monthly

Meter Size	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
5/8"x3/4" & 3/4"	\$49.33	\$67.68	\$70.39	\$73.21	\$75.78	\$78.44
1"	\$82.41	\$111.95	\$116.43	\$121.09	\$125.33	\$129.72
1.5"	\$164.13	\$222.59	\$231.50	\$240.76	\$249.19	\$257.92
2"	\$262.77	\$355.37	\$369.59	\$384.38	\$397.84	\$411.77
3"	\$575.37	\$775.82	\$806.86	\$839.14	\$868.51	\$898.91
4"	\$821.78	\$1,395.46	\$1,451.28	\$1,509.34	\$1,562.17	\$1,616.85

## Rate Schedule – Water Use (\$/kgal)

Customer Class	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
Residential						
Tier 1: 0 - 7 kgal	\$4.52	\$5.01	\$5.22	\$5.43	\$5.63	\$5.83
Tier 2: 8 - 16 kgal	\$4.52	\$6.39	\$6.65	\$6.92	\$7.17	\$7.43
Tier 3: > 16 kgal	\$4.52	\$8.87	\$9.23	\$9.60	\$9.94	\$10.29
Commercial	\$4.52	\$5.51	\$5.74	\$5.97	\$6.18	\$6.40
Irrigation	\$4.52	\$9.92	\$10.32	\$10.74	\$11.12	\$11.51

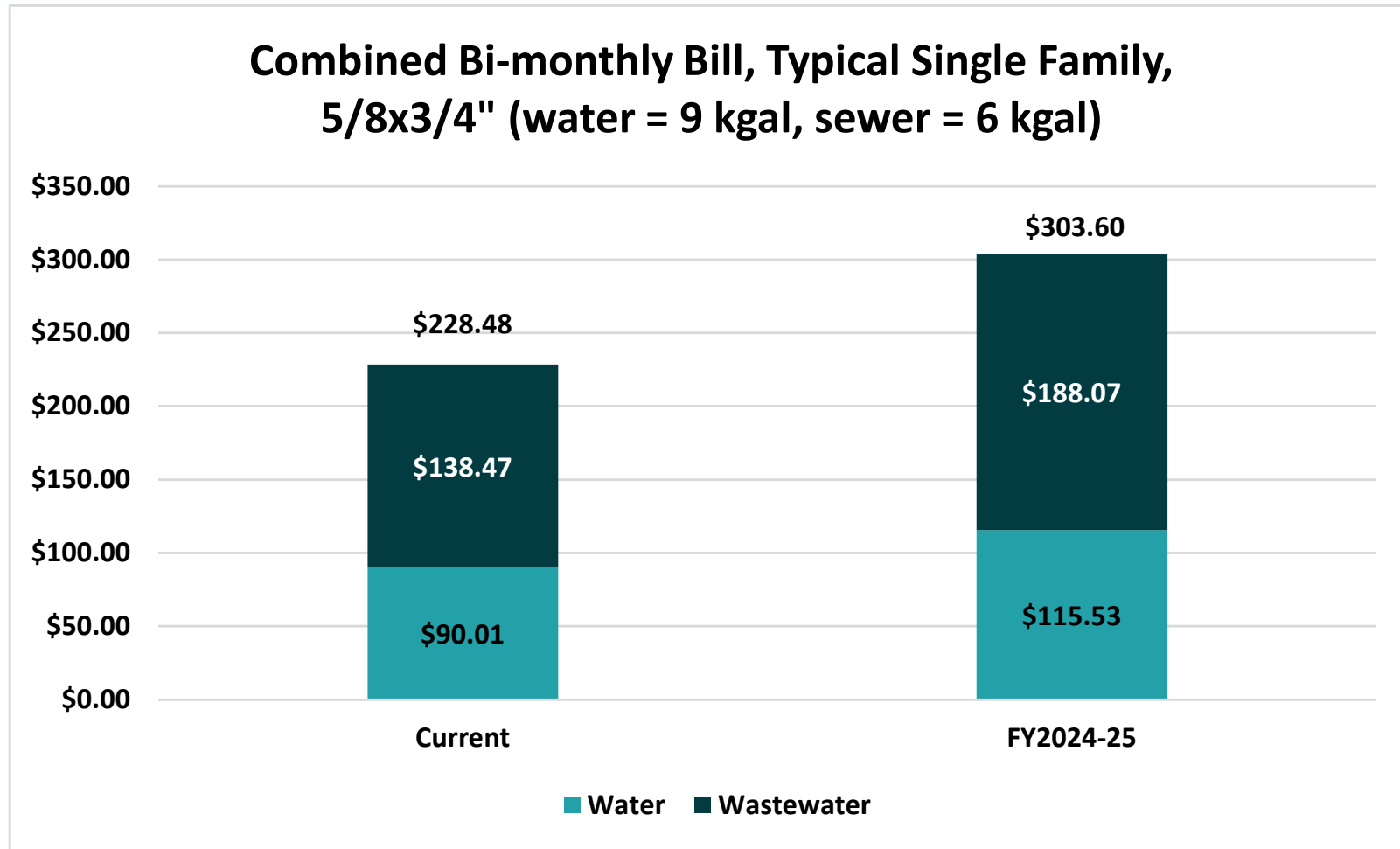
# Five-Year Schedule of Wastewater Rates

<b>Fixed Bi-Monthly Charge</b>						
<b>Meter Size</b>	<b>Current</b>	<b>7/1/2024</b>	<b>7/1/2025</b>	<b>7/1/2026</b>	<b>7/1/2027</b>	<b>7/1/2028</b>
5/8x3/4" & 3/4"	\$76.61	\$95.25	\$105.73	\$115.25	\$125.63	\$136.94
1"	\$127.97	\$258.35	\$286.77	\$312.58	\$340.72	\$371.39
1.5"	\$254.86	\$657.20	\$729.50	\$795.16	\$866.73	\$944.74
2"	\$408.03	\$841.02	\$933.54	\$1,017.56	\$1,109.15	\$1,208.98
3"	\$893.44	\$2,093.81	\$2,324.13	\$2,533.31	\$2,761.31	\$3,009.83
4"	\$1,276.06	\$6,307.17	\$7,000.96	\$7,631.05	\$8,317.85	\$9,066.46

<b>Volumetric Rate, \$/kgal</b>						
	<b>Current</b>	<b>7/1/2024</b>	<b>7/1/2025</b>	<b>7/1/2026</b>	<b>7/1/2027</b>	<b>7/1/2028</b>
All Customer Classes	\$10.31	\$15.47	\$17.18	\$18.73	\$20.42	\$22.26

# Single Family Combined Bill, FY 2024-25



Single Family Residential customers are more than 75% of the City's revenue base. Tiered water use and updated wastewater rates provides fairness and moderates impacts of necessary large, immediate revenue increases to these customers.

# Nearby Utility Comparison – Combined Water and Wastewater Service

Agency	Water (1)	Wastewater (2)	Total Monthly Bill (FY 2024-25)
Rohnert Park <sup>(3)</sup>	\$55.28	\$51.62	\$106.90
Windsor <sup>(3)</sup>	\$29.93	\$78.91	\$108.84
<b>Sebastopol (Current)</b>	<b>\$45.01</b>	<b>\$69.24</b>	<b>\$114.24</b>
Santa Rosa	\$46.62	\$75.77	\$122.39
Petaluma	\$51.05	\$79.26	\$130.31
Cloverdale	\$79.18	\$57.06	\$136.24
Cotati	\$50.10	\$90.54	\$140.64
<b>Sebastopol Proposed</b>	<b>\$57.77</b>	<b>\$94.04</b>	<b>\$151.80</b>
Healdsburg	\$82.28	\$110.33	\$192.61
St. Helena	\$115.27	\$134.49	\$249.76
Calistoga	\$161.08	\$132.80	\$293.88

1) Average water use of 4,500 gallons per month

2) Average winter water use of 3,000 gallons per month

3) Rohnert Park and Windsor are currently conducting rate studies

NOTE: **Sebastopol bills are bi-monthly,**  
but some other agencies bill monthly.  
Double bills for comparison.

# Key Points on Proposed Utility Rates



Proposed three-tier water use rate alternative for Single Family Residential Customers improves affordability at low-to average use and provides a conservation price signal



Maintaining approximately 50% fixed cost revenue recovery provides the City with revenue stability.



Wastewater fixed charges are differentiated by wastewater flow patterns at each meter size to improve fairness and better align with how costs are incurred between wastewater users



Tiered water use rates, along with updated wastewater rates, moderates impacts to Single Family Residential customers with combined utility service (Greater than 75% of the customer base)



# Public Hearing Procedure

- Open Public Hearing
- Public comment
- Call for additional written protests
- Close Public Hearing
- Council deliberation

## PROPOSITION 218 NOTICE



### How Proposed Water and Wastewater Rates Were Calculated

The City of Sebastopol is proposing to adjust the rates for its water and wastewater service charges based on its most recent rate models and rate study conducted by an independent rates consultant. The City hired Raftelis Financial Consultants, Inc., a consulting firm with expertise in water and wastewater rate studies, to evaluate the City's costs for providing water and wastewater services and to proportionally allocate those costs to customer classes (Residential, Commercial, etc.).

The rate study consists of steps involving data evaluation, technical analyses, deriving customer rates, and understanding rate adjustment impacts to customers. The financial analyses and rate models are documented in the Rate Study Report to serve as part of the City's administrative record to justify proposed rates. The proposed adjustments to the current rates over the next five years are shown in the tables contained in this Notice.

### Sebastopol's Water and Wastewater Utilities

The City of Sebastopol owns and operates its own water production and distribution system to serve more than 7,300 customers through almost 3,000 connections. Water is produced via a series of wells located throughout the city. The City provides approximately 270 million gallons of water per year from 4 groundwater wells and maintains more than 37 miles of water pipelines, approximately 440 fire hydrants, and two storage reservoirs.

Producing, treating, and delivering water to our customers 24 hours a day, seven days a week, year-round, requires substantial investments in infrastructure, equipment, power, routine maintenance, and operational costs including personnel. Still, most customers pay about a penny a gallon for the water that flows from their tap every day, about \$2 a day for all the water required for drinking, cooking, bathing, washing dishes and clothes, and watering outdoor spaces.

The City also provides wastewater services to about 2,754 connections. The City owns and operates its own wastewater collection and conveyance system and contracts with the City of Santa Rosa Subregional Water Reclamation System for wastewater treatment. The City's wastewater is conveyed via pipeline to the City of Santa Rosa's Laguna Wastewater Treatment Plant. The City's wastewater system includes nearly 30 miles of gravity sewers, 750 manholes, 2.7 miles of force mains, and two pump stations.

### Why Are Water and Wastewater Rate Increases Needed?

Investing in water and wastewater infrastructure is an essential City obligation. Aging pipelines, drinking water wells, water distribution systems, wastewater collection and treatment systems, and critical capital projects demand regular maintenance, upgrades, and, at times, a complete overhaul. Neglecting these systems could lead to infrastructure failures resulting in more frequent service interruptions and compromised water quality.

Water and wastewater services are largely funded by the rates customers pay. Similar to higher costs for most consumer goods, the City is impacted by rising costs to deliver and store water, and for energy, fuel, equipment, parts, and labor. Per State law, revenues generated from rate increases must only be used to fund the actual costs to operate and maintain the water and wastewater systems. Current rates do not reflect the costs of service and the need to improve the aging systems.

### Statute of Limitations for Challenging Proposed Rates

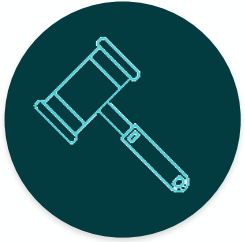
Please note that pursuant to California Government Code section 53759, there is a 120-day statute of limitations for judicially challenging all rates set forth in this Notice that runs from the effective date of or the date of the final passage, adoption, or approval of the ordinance, resolution, or motion approving the rates, whichever is later.

### The proposed rate increases are needed to fund:

- **Cost Inflation:** Operating costs continue to rise due to inflationary pressures with higher costs projected for energy, equipment, regional wastewater treatment, labor, and construction.
- **Planned Capital Expenditures:** The utility systems are aging and projects in the long-term capital plan have been deferred. Continued deferral will challenge system reliability, increase the likelihood of emergencies, and will cause larger future rate increases.
- **Cash Reserves:** Utilities must have sufficient cash on hand to pay bills, bridge fluctuations in costs, and mitigate risk from fluctuating revenues and expenses or the risk that comes with providing services that rely on extensive and specialized infrastructure.
- **Debt Coverage:** Proposed rates ensure that the water and wastewater enterprise funds fulfill existing debt obligations and have sufficient capacity to qualify for future credit.



# Possible Council Actions



**By Motion**, close the public hearing and receive a verbal report from the Protest Officer on the status of recorded written protests; and



**By Motion**, consider adoption of the Resolution; or



Do not approve the proposed rates and provide alternative direction to staff.

# Questions?

