



City of Sebastopol

City Council Meeting

Rate Studies Presentation

April 23, 2024





Agenda

-  Utility Financial Plan Options
-  Study Results
 - Water Rates
 - Wastewater Rates
-  Bill Impacts and Bill Comparisons
-  Next Steps

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)

Nearby Utility Comparison – Combined Water and Wastewater Service

Agency	Water (1)	Wastewater (2)	Total Monthly Bill (FY 2024-2025)
Rohnert Park ⁽³⁾	\$55.28	\$51.62	\$106.90
Windsor ⁽³⁾	\$29.93	\$78.91	\$108.84
Sebastopol (Current)	\$45.01	\$69.24	\$114.24
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
Sebastopol Option 2	\$57.77	\$94.04	\$151.80
Sebastopol Option 1 (Staff Recommended)	\$63.22	\$103.45	\$166.67
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

Rate Study Terms

- Financial Plan: How much money is needed each year to provide safe drinking water and to collect and treat wastewater
- Cost of Service: How utility costs are divided between classes of customers based on who is responsible for paying for what
- Rate Design: How different users pay for the cost to serve their water and wastewater service
- Fixed Charge: Charge that is the same each billing period and does not vary by the amount of water or wastewater used
- Variable Charge: Charge that varies by the amount of water or wastewater used
- CIP: Capital Improvement Plan for reinvestment in utility infrastructure
- Revenue Increase – the amount of revenue the water or wastewater fund require to be financially sustainable, this is different than a rate increase

Rate Study Terms (Continued)

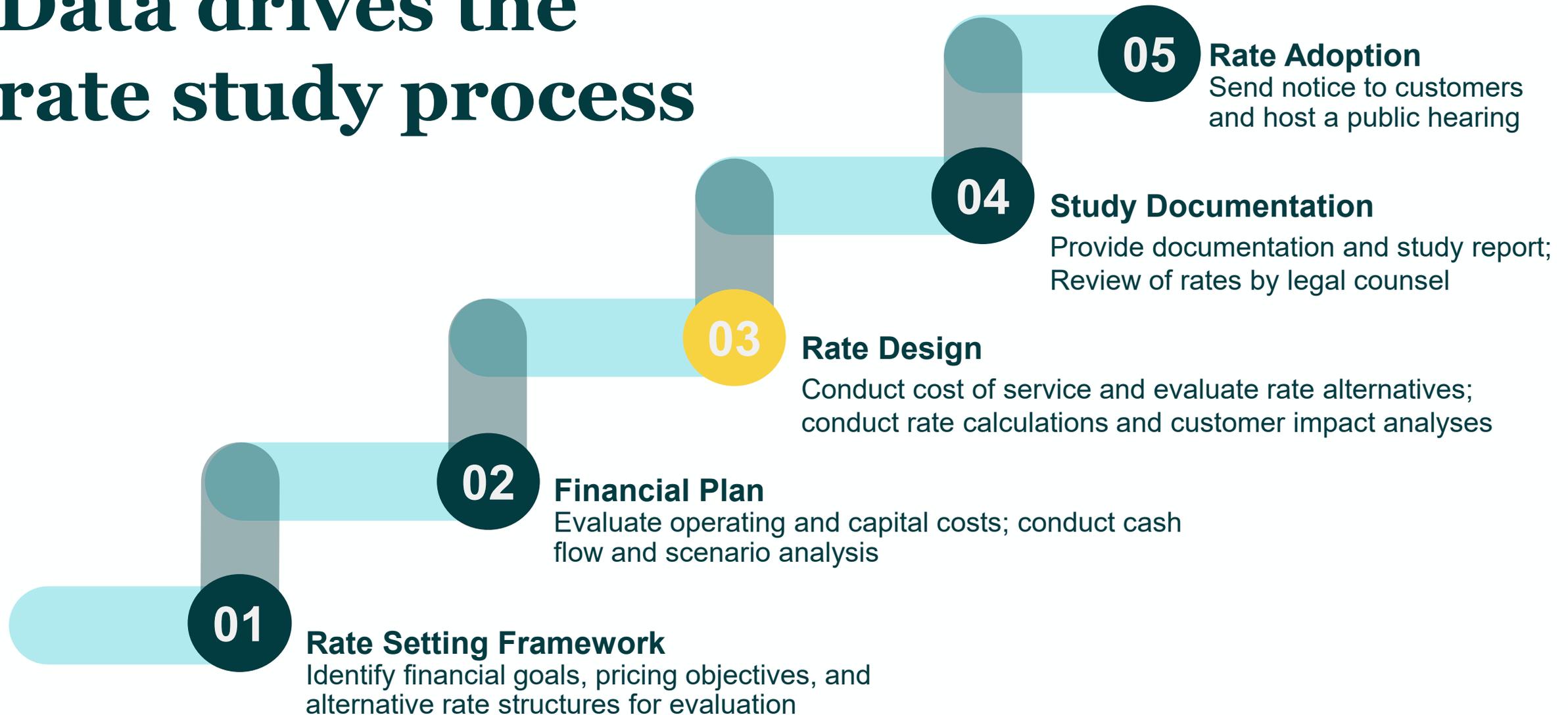
- Customer Class / Rate Class: customer types based on land use, demand patterns, and/or connection size
- SFR: Single Family Residential customer class
- Irrigation: customers with a metered connection dedicated to outdoor landscaping
- Commercial: All connections not classified as SFR or Irrigation providing domestic water service
- Proposition 218: California's legal framework for developing, adopting, and implementing utility rates

Establishing Rates

Data + Principles Guide Our Work



Data drives the rate study process



Guiding Principles



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



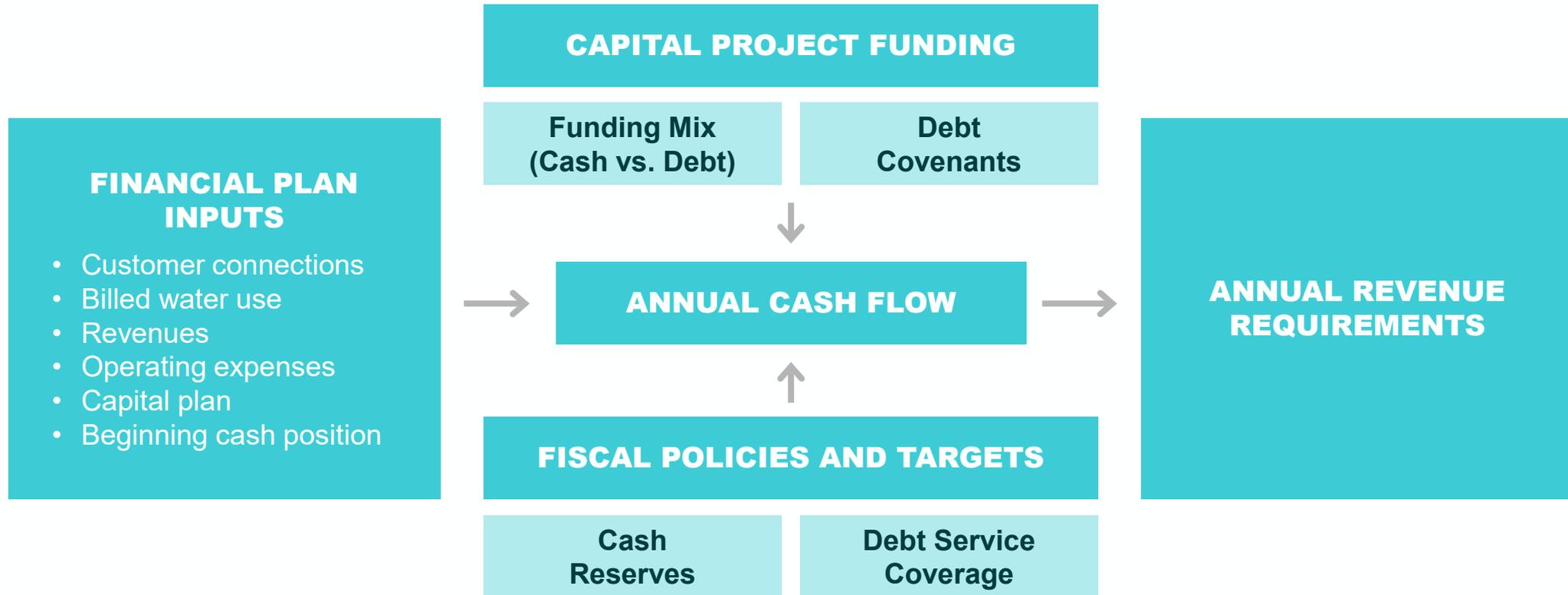
Equitability

Fairness in rates between existing customers based on their use of the systems; and fairness between current and future users

Financial Plans



Financial Plan Elements



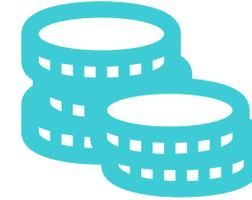
Long-Range Financial Plan Drivers



Inflationary Pressures



Supply and Treatment Costs



Cash Reserves



Future Borrowing Terms & Assumptions

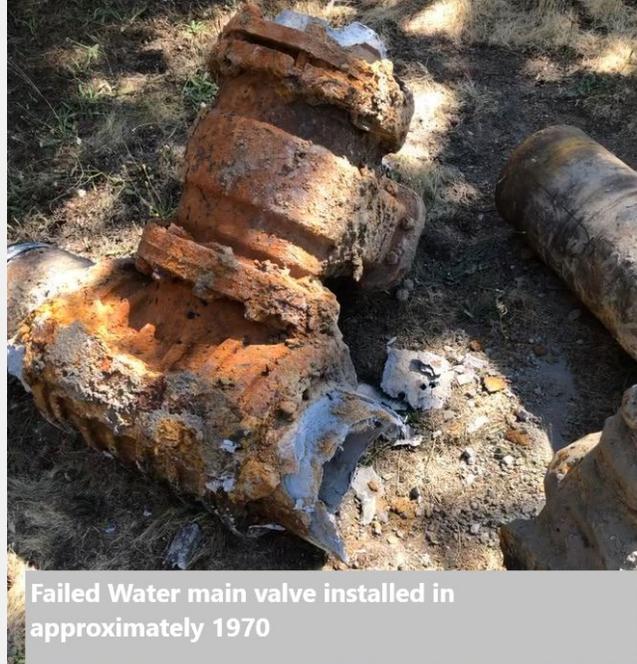


Baseline Water Sales Estimates



Capital Reinvestment

Aging Water and Sewer Infrastructure



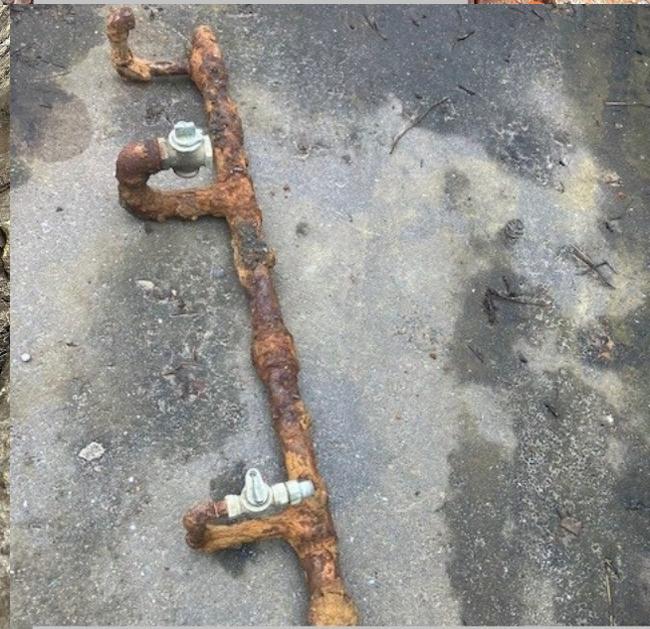
Failed Water main valve installed in approximately 1970



Brick manhole constructed in 1925



Clay sewer piper, failed connection joint tree root intrusion blockage



Corroded, metal water meter manifold

Reserves Policy Discussion

- Maintain a minimum Operating Reserve level of 25% (Operating expenses plus debt service), which represents 90 days of cash
- 90 days of cash is considered the lowest threshold allowed for future access to credit
- Considering the bi-monthly billing cycle, a higher minimum should be explored in the next rate cycle

This Recommendation:

Aims to be a starting point for getting the enterprise funds back on track



Helps to mitigate otherwise higher rate increases

Enterprise Fund Cash and Cash Flows

FY 2023-24	Water	Wastewater
Revenue	\$2,417,972	\$3,107,820
Operations & Maintenance Expenses	\$2,720,000	\$3,868,640
Net Revenue	-\$302,028	-\$760,820
Debt Service	\$380,704	\$178,656
Cash-Funded Capital	\$530,000	\$542,000
Net Cashflow	-\$1,212,732	-\$1,481,476
July 1, 2023 Beginning Cash Balance	\$1,225,855	\$392,668
June 30, 2024 Projected Ending Cash Balance	\$13,123	-\$1,088,808

Financial Plan Options

- Option 1: Baseline

- › Best engineering judgment
- › Staff-preferred option
- › CIP is minimum but based on best engineering judgment at current
 - Future Master Plan studies will better inform long-term CIP
- › Staffing increase is needed based on best Public Works judgment
- › Wastewater: Pays back GF loan and meets or works towards minimum 25% operating reserve

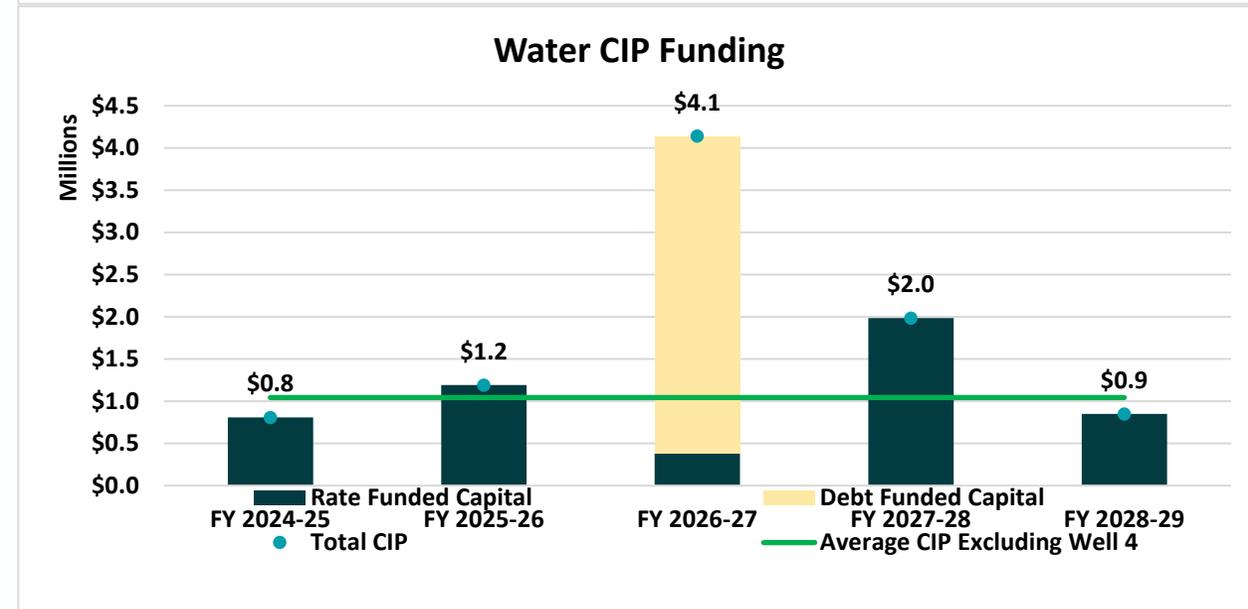
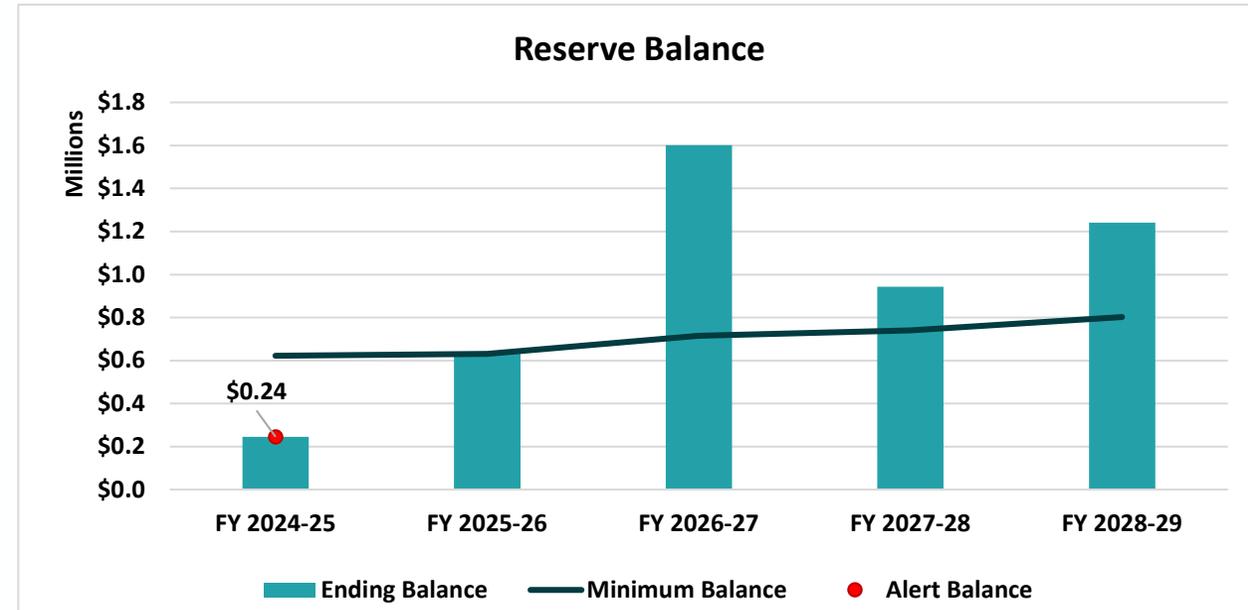
- Option 2: Lower Service Level

- › Minimum service levels
- › CIP is at an even lower level than Option 1 but “can live with” for now but still includes master plan.
- › No staffing addition in year 5 but “can live with” for now
- › Wastewater: Pays back GF loan and meets or works towards minimum 25% operating reserve
- › **Increases risks of system failures and more frequent service interruptions**

Water Baseline Option 1

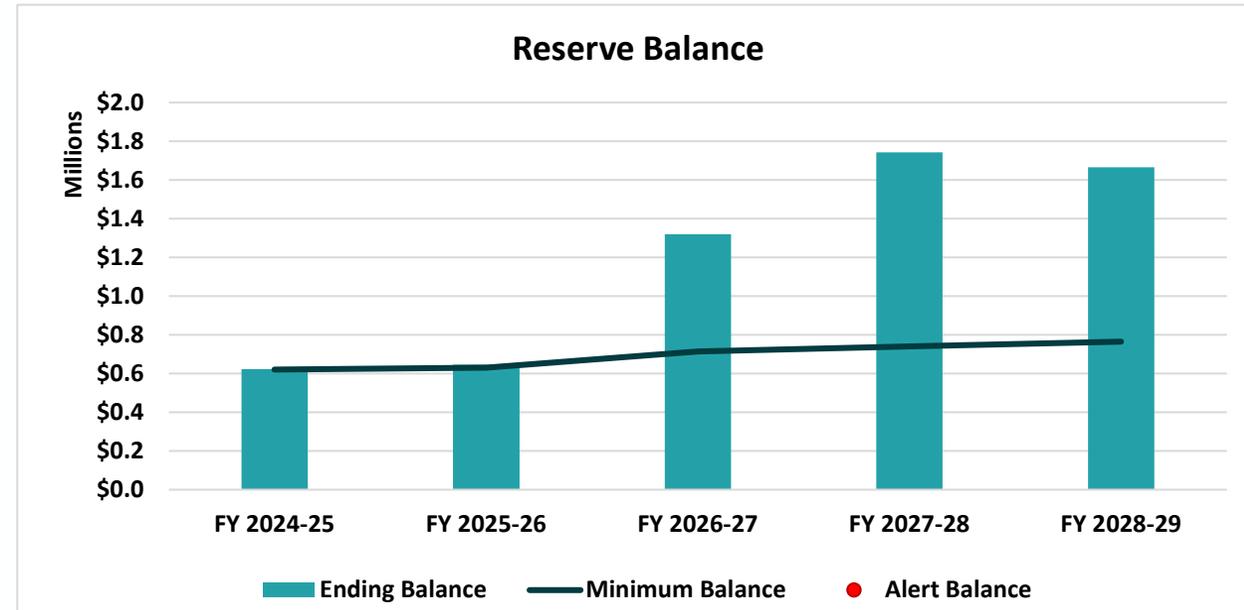
Fiscal Year	Revenue Adjustment	*Planned Bonds
FY 2024-25	50.0%	\$0
FY 2025-26	16.0%	\$0
FY 2026-27	1.5%	\$3,758,846
FY 2027-28	1.5%	\$0
FY 2028-29	1.5%	\$0

*Presumes debt is issued for the Well #4 replacement project.



Water Lower Service Level Option 2

Fiscal Year	Revenue Adjustment	Planned Bonds
FY 2024-25	37.0%	\$0
FY 2025-26	4.0%	\$0
FY 2026-27	4.0%	\$3,758,846
FY 2027-28	3.5%	\$0
FY 2028-29	3.5%	\$0



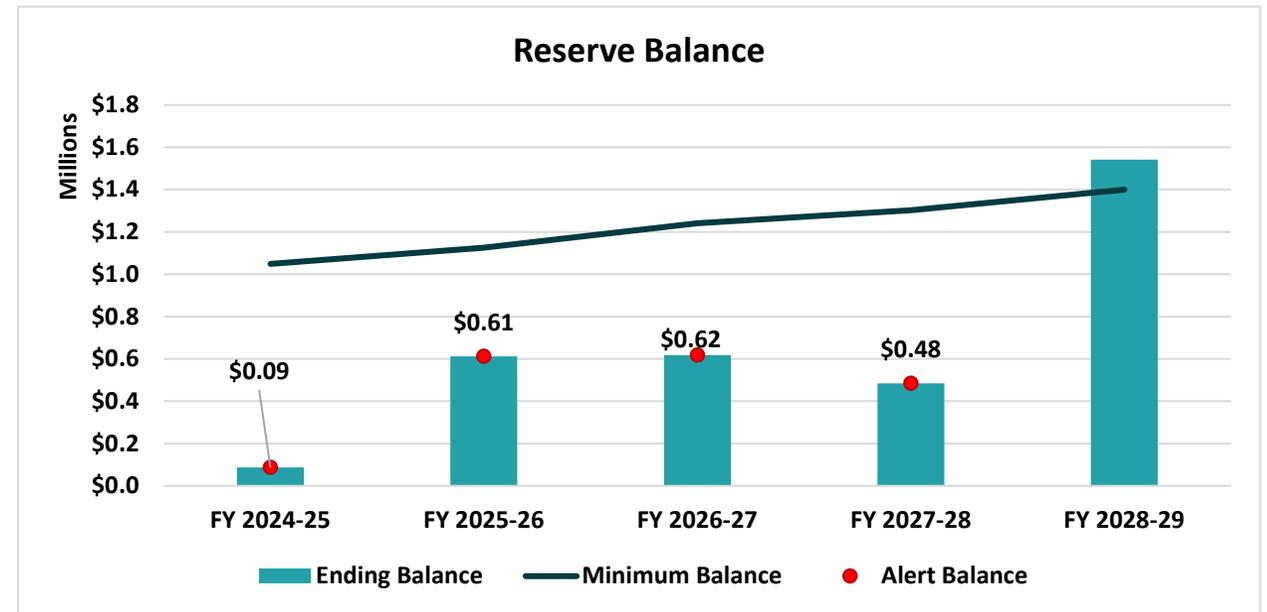
Presumes debt is issued for the Well #4 replacement project.

Water Revenue Increase Comparisons

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Sebastopol – Baseline Option	50%	16%	1.5%	1.5%	1.5%
Sebastopol – Lower Service Option	37%	4%	4%	3.5%	3.5%
Healdsburg	21%	20%	13%	12%	12%
St Helena	28%	8%	8%	8%	8%
Calistoga	50%	12%	10%	6%	6%
Cloverdale	12%	12%	-	-	-
City of Sonoma	5%	5%	5%	5%	5%
Rohnert Park	5%	5%	5%	-	-
Santa Rosa	4%	-	-	-	-
Windsor	Study in Progress				

Wastewater Baseline Option 1

Fiscal Year	Revenue Adjustment	GF Loan Repayment
FY 2024-25	65.0%	
FY 2025-26	14.0%	
FY 2026-27	11.0%	\$237,746
FY 2027-28	11.0%	\$237,746
FY 2028-29	2.0%	\$237,746

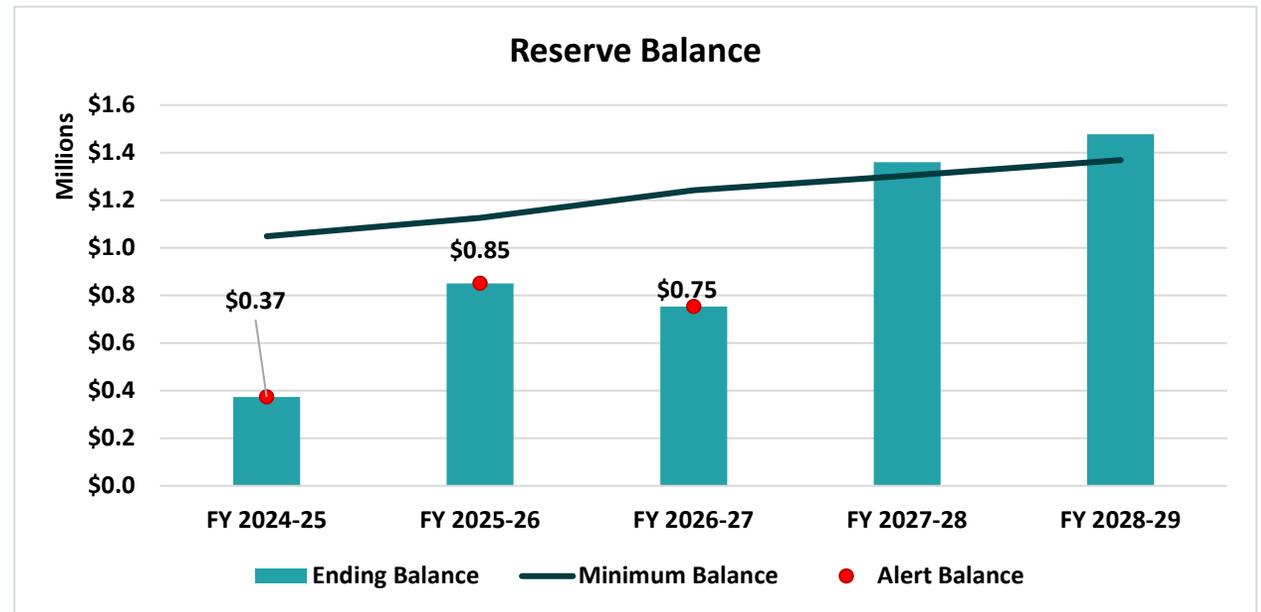


Presumes a ~\$1.1M loan from the general fund, repaid over 5 years, with 3% interest, starting in FY2026-27 (\$237,746/yr).

If 0% interest, could reduce the FY2027-28 revenue adjustment from 11% to 10%.

Wastewater Lower Service Level Option 2

Fiscal Year	Revenue Adjustment	GF Loan Repayment
FY 2024-25	50.0%	
FY 2025-26	11.0%	
FY 2026-27	10.0%	\$237,746
FY 2027-28	10.0%	\$237,746
FY 2028-29	10.0%	\$237,746



Presumes a ~\$1.1M loan from the general fund, repaid over 5 years, with 3% interest, starting in FY2026-27 (\$237,746/yr).

If 0% interest, could reduce the FY2028-29 revenue adjustment from 10% to 9%.

Wastewater Revenue Increase Comparisons

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029
Sebastopol – Baseline Option	65%	14%	11%	11%	2%
Sebastopol – Lower Service Option	50%	11%	10%	10%	10%
Healdsburg	18%	18%	15%	9%	5%
St Helena	50%	4%	4%	4%	4%
Calistoga	35%	25%	3%	3%	3%
Cloverdale	10%	10%	-		
City of Sonoma	-	-	-	-	-
Rohnert Park	Study in Progress				
Santa Rosa	2%	-	-	-	-
Windsor	Study in Progress				

Why We Need Immediate, Large Increases

- Current rate revenue does not meet Operating needs (O&M + Debt Service costs):
 - › Water requires > 25% increase
 - › Wastewater requires >30% increase
- Even higher increases are needed to meet capital spending and minimum reserves
- Water minimum reserve must be met before going for debt funding
- Wastewater needs to be able to repay General Fund borrowing
- Need additional staff to improve maintenance and save money on more costly, emergency repairs

Why Option 1 is Staff's Recommendation

- Immediately addresses the operating deficit
- Provides funding for necessary capital expenditures on aging infrastructure
- Provides funding for preventative maintenance to reduce system failures and emergency repairs
- Reduces financial risk and systems risk
- Establishes self-sustaining enterprise funds

Cost of Service and Rate Design Water



Financial Plan vs. Cost of Service

Financial Plan

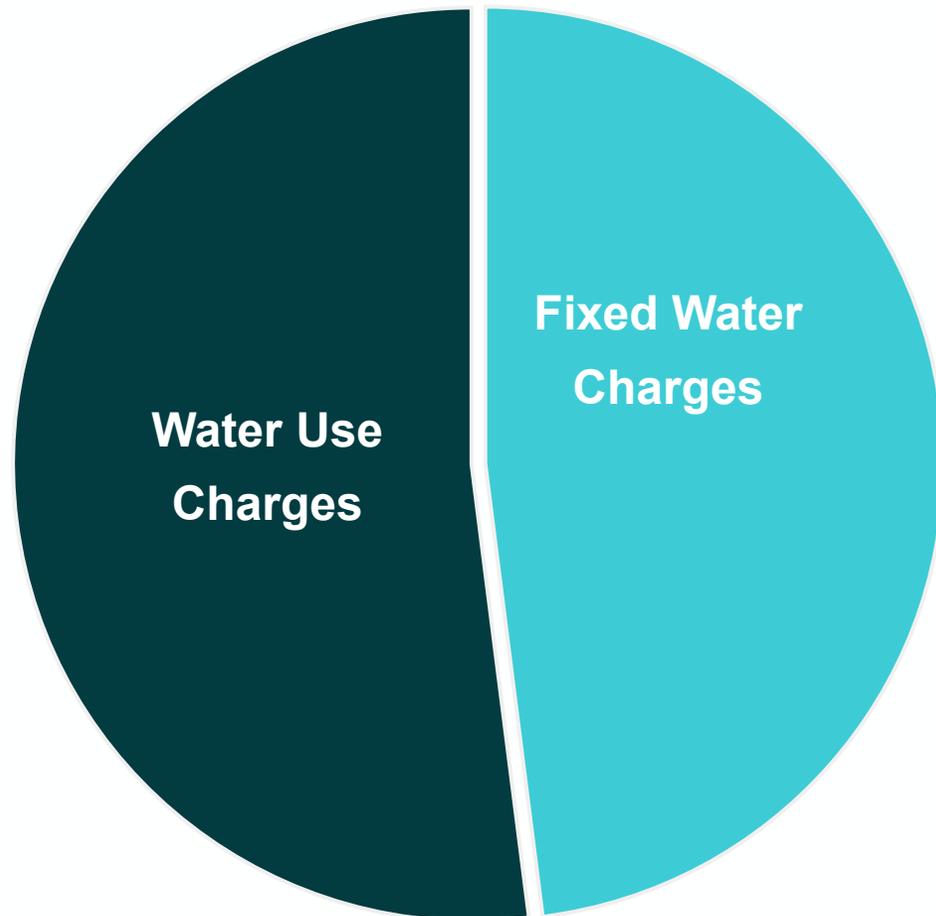


Cost of Service



Fixed & Variable Revenue Recovery - Water

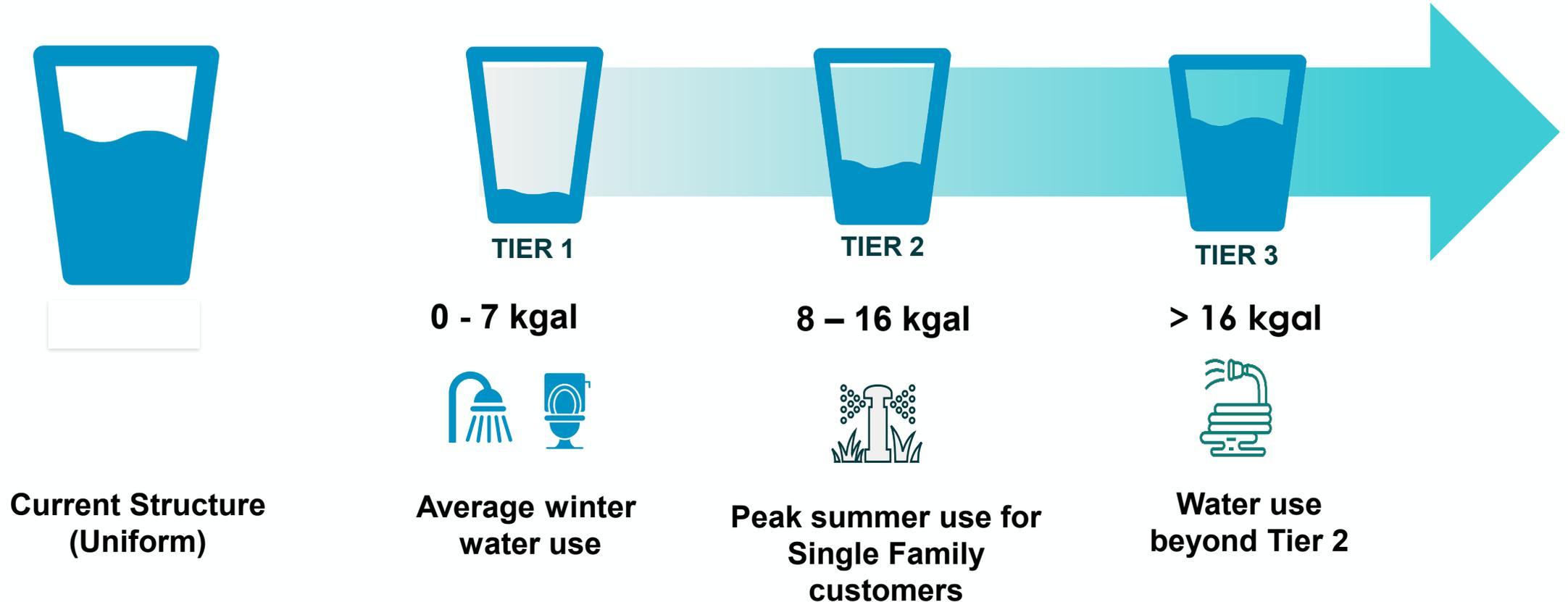
Current Share of Water Rate Revenues



- Currently 48% fixed and 52% variable
- No proposed changes to fixed revenue recovery to ensure revenue stability
 - › Rates designed to keep the percentage of revenue from fixed charges the same

Single Family Residential

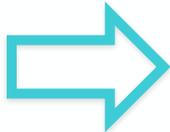
Proposed Water Use Rate Structure Modifications



1 kgal = 1,000 gallons (approximately 20 bathtubs)

Proposed Single Family Residential Water Use Rates (Baseline Option 1)

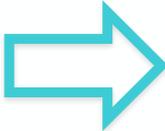
Current FY 2023-24 Rate Water Use Charges (\$/kgal)	
Uniform Rate (All Units)	\$4.52



FY 2024-25 Rate Water Use Charges (\$/kgal)	
Tier 1 (0-7 kgal)	\$5.48
Tier 2 (8-16 kgal)	\$6.99
Tier 3 (>16 kgal)	\$9.71

Proposed Non-Residential Water Use Rates (Baseline Option 1)

Current FY 2023-24 Rate Water Use Charges (\$/kgal)	
Commercial	\$4.52
Irrigation	\$4.52



FY 2024-25 Rate Water Use Charges (\$/kgal)	
Commercial	\$6.03
Irrigation	\$10.86

Customer Classes are defined and charged based on their demand characteristics

Water Use Rate Comparison (\$/kgal) – Year One

Customer Class	Baseline Option 1	Lower Service Option 2
Residential		
Tier 1: 0 – 7 kgal	\$5.48	\$5.01
Tier 2: 8 – 16 kgal	\$6.99	\$6.39
Tier 3: > 16 kgal	\$9.71	\$8.87
Commercial	\$6.03	\$5.51
Irrigation	\$10.86	\$9.92

Five-Year Schedule of Water Rates – Baseline Option

Rate Schedule - Fixed Bi-Monthly

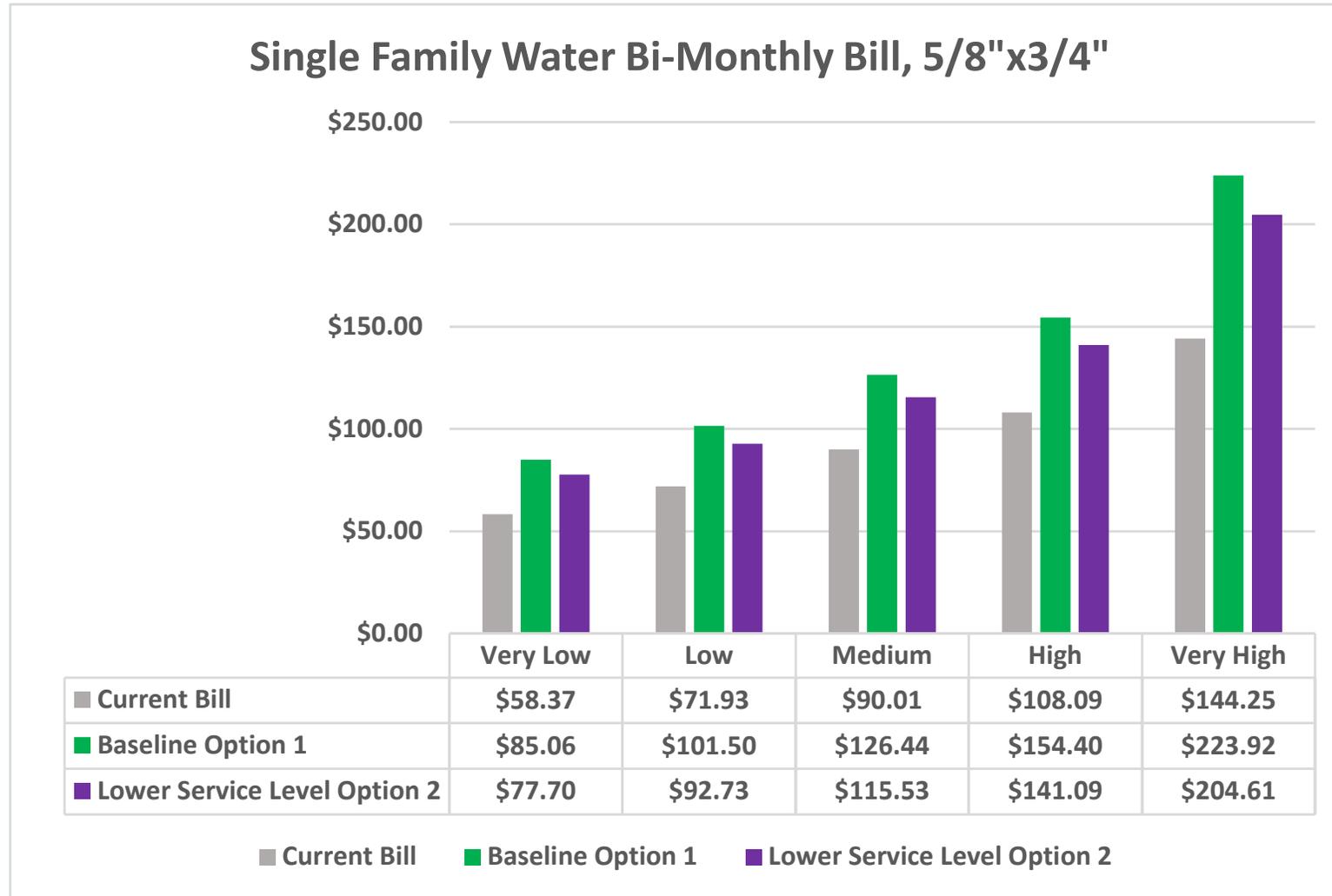
Meter Size	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
5/8"x3/4" & 3/4"	\$49.33	\$74.10	\$85.96	\$87.25	\$88.56	\$89.89
1"	\$82.41	\$122.57	\$142.19	\$144.33	\$146.50	\$148.70
1.5"	\$164.13	\$243.71	\$282.71	\$286.96	\$291.27	\$295.64
2"	\$262.77	\$389.09	\$451.35	\$458.13	\$465.01	\$471.99
3"	\$575.37	\$849.44	\$985.36	\$1,000.15	\$1,015.16	\$1,030.39
4"	\$821.78	\$1,527.87	\$1,772.33	\$1,798.92	\$1,825.91	\$1,853.30

Note: Single family with 1" meters for fire service are charged at the 3/4" rate.

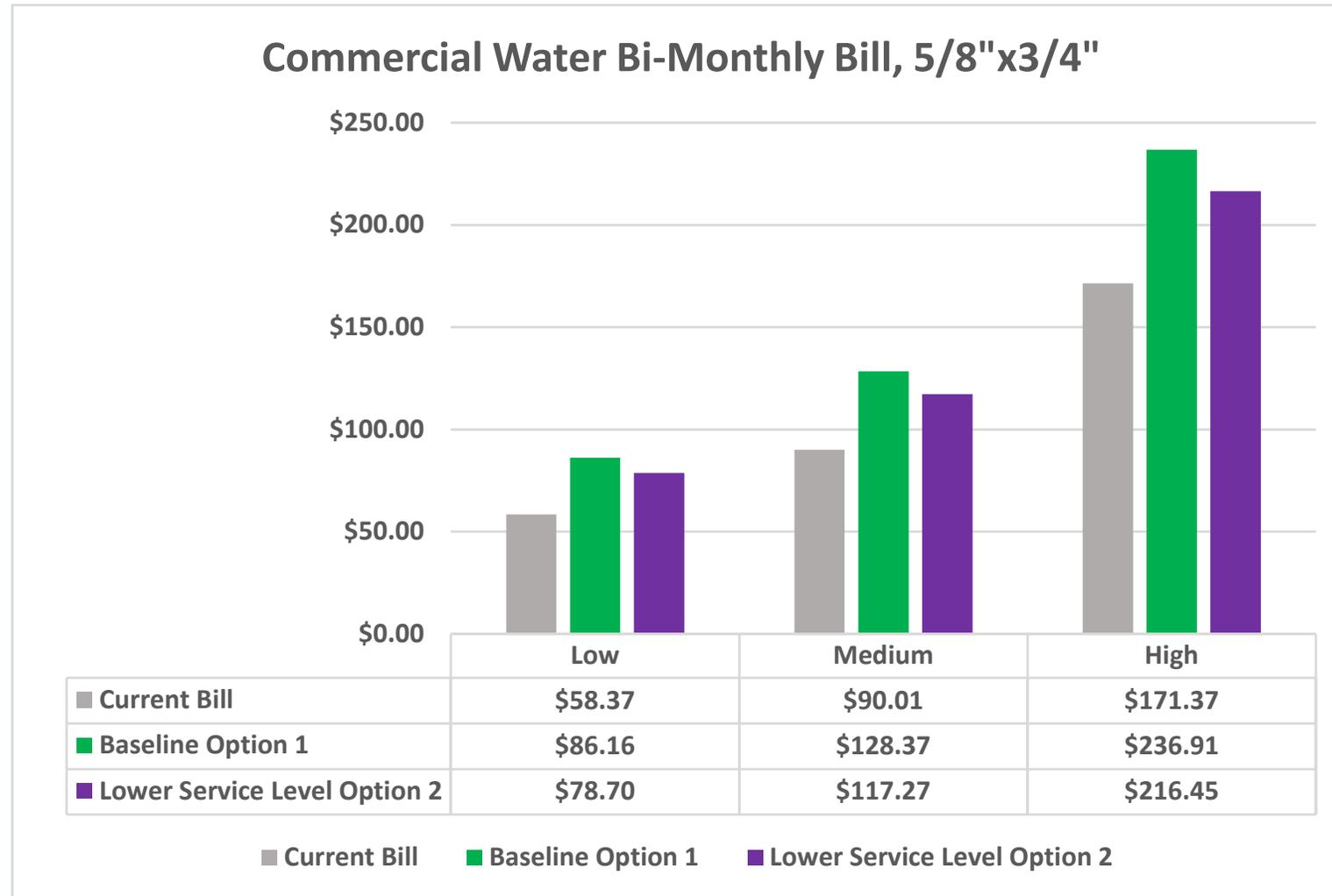
Rate Schedule – Water Use (\$/kgal)

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	\$5.48	\$6.36	\$6.46	\$6.56	\$6.66
Tier 2: 8 - 16 kgal	\$4.52	\$6.99	\$8.11	\$8.24	\$8.37	\$8.50
Tier 3: > 16 kgal	\$4.52	\$9.71	\$11.27	\$11.44	\$11.62	\$11.80
Commercial	\$4.52	\$6.03	\$7.00	\$7.11	\$7.22	\$7.33
Irrigation	\$4.52	\$10.86	\$12.60	\$12.79	\$12.99	\$13.19

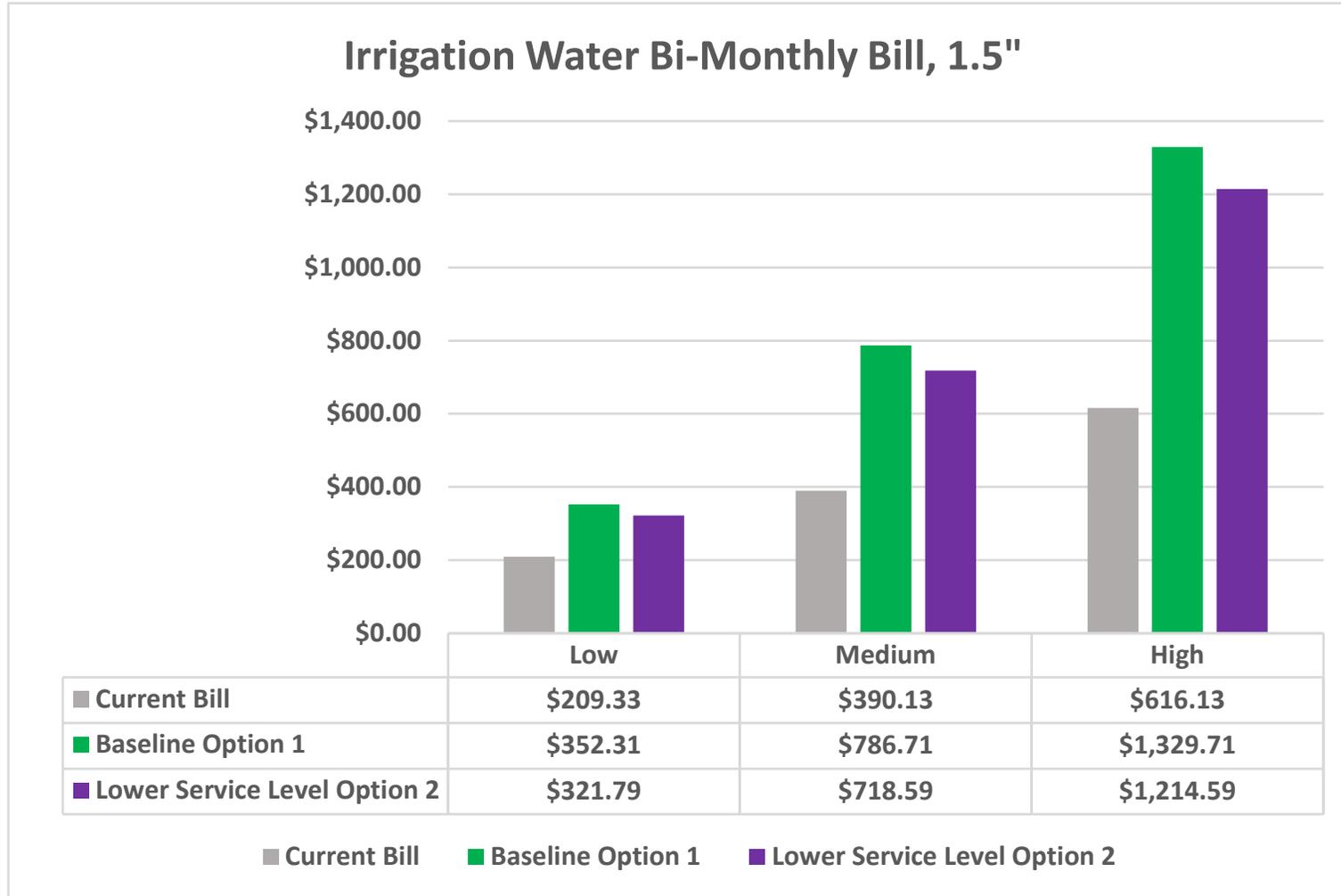
Single Family Water Bill Impact – Year One



Commercial Water Bill Impact – Year One



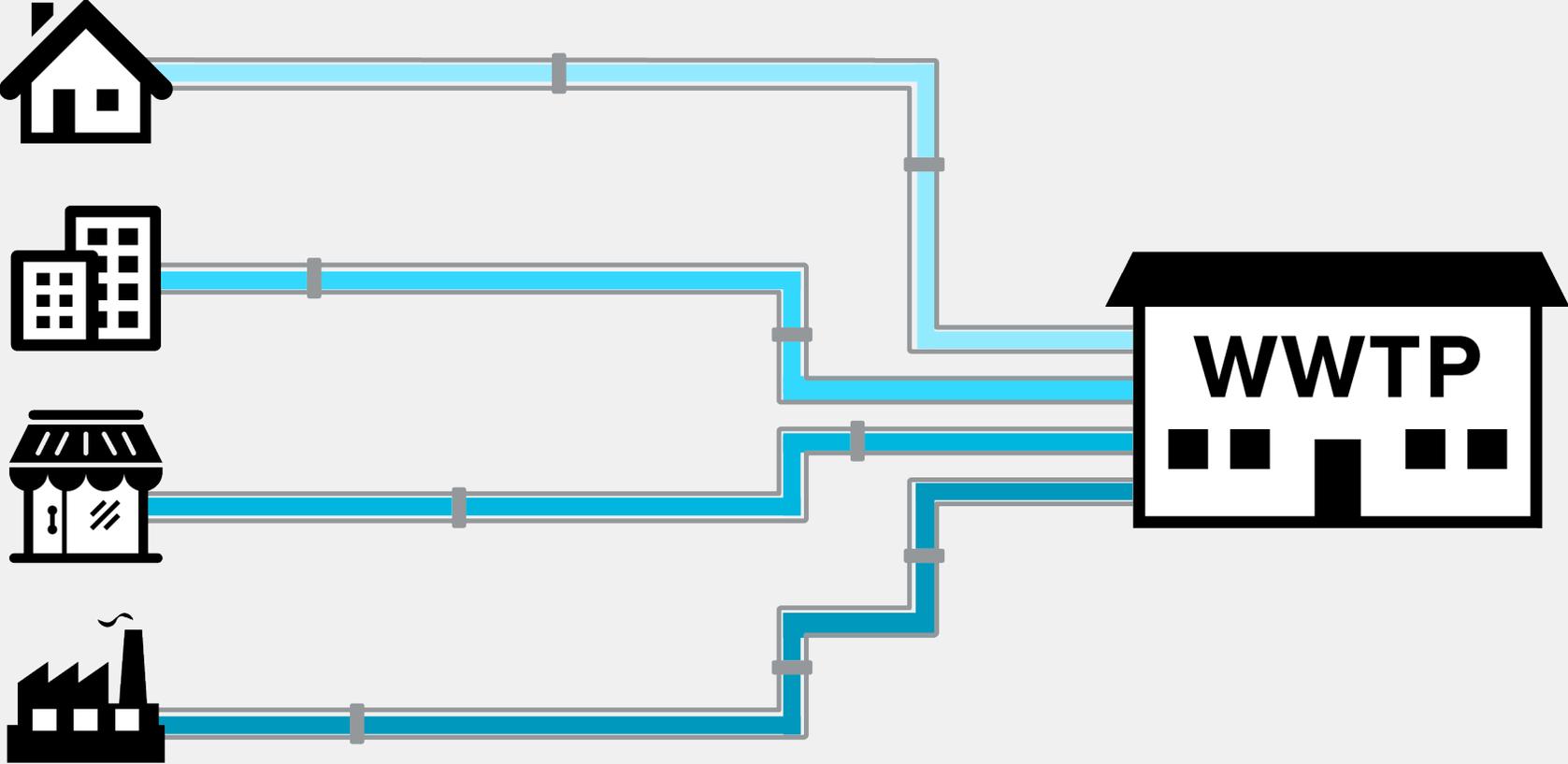
Irrigation Water Bill Impact – Year One



Cost of Service and Rate Design Wastewater

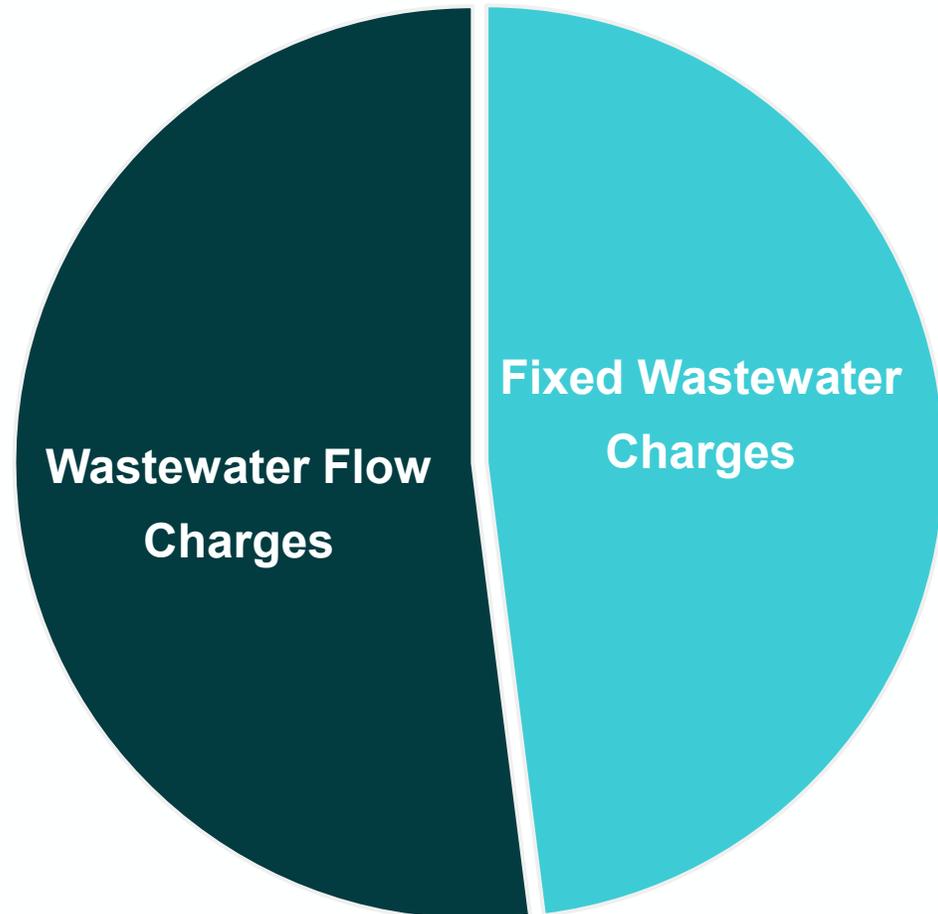


Wastewater Cost Of Service Analysis



Fixed & Variable Revenue Recovery - Wastewater

Current Share of Wastewater Rate Revenues



- Currently 48% fixed and 52% variable
- No proposed changes to fixed revenue recovery to ensure revenue stability
 - › Rates designed to keep the percentage of revenue from fixed charges the same

Proposed Rate Structure Modifications

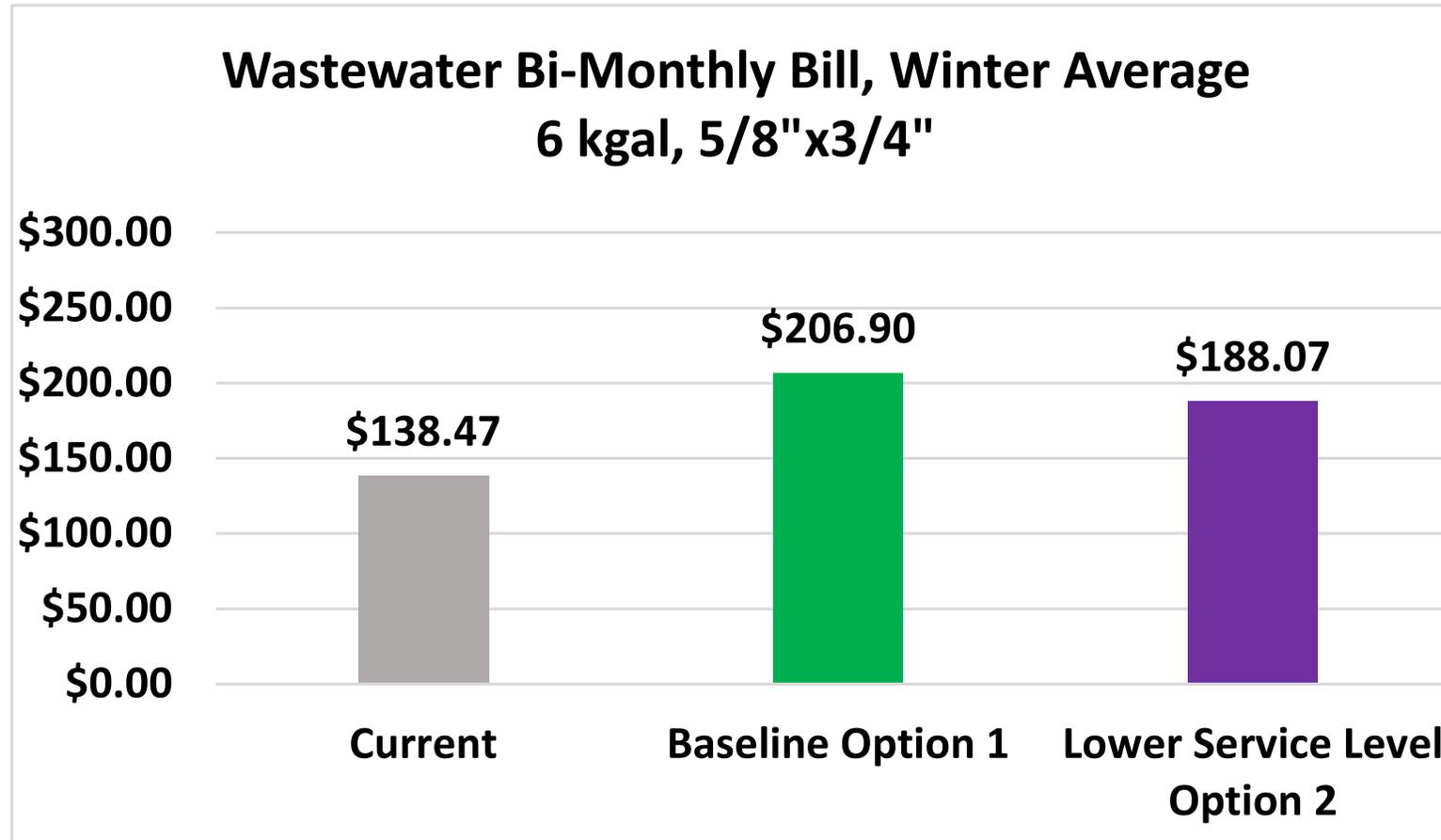
Meter Size	Current Ratio	Proposed Ratio
5/8"x3/4" & 3/4"	1.00	1.00
1"	1.37	2.71
1.5"	3.33	6.90
2"	5.33	8.83
3"	11.67	21.98
4"	21.00	66.22

- Currently fixed charges are differentiated by the size and capacity of the water meter
- Proposed fixed charges will be differentiated based on actual wastewater flow patterns at each meter size
- This proposal will improve fairness and better align with how costs are incurred between wastewater users

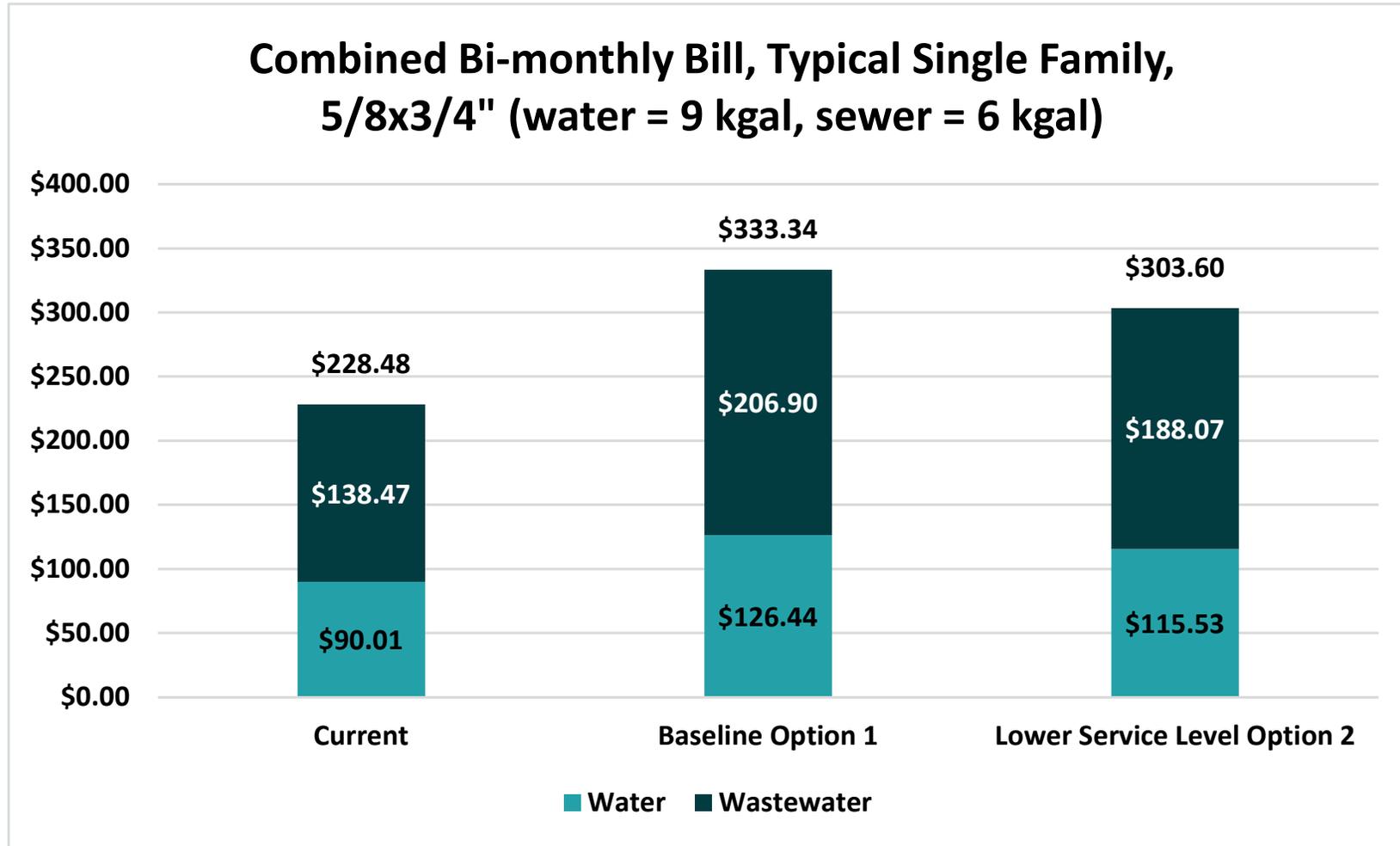
Five-Year Schedule of Wastewater Rates – Baseline Option 1

Fixed Bi-Monthly Charge						
Meter Size	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
5/8x3/4" & 3/4"	\$76.61	\$104.78	\$119.45	\$132.59	\$147.18	\$150.13
1"	\$127.97	\$284.18	\$323.97	\$359.61	\$399.17	\$407.16
1.5"	\$254.86	\$722.92	\$824.13	\$914.79	\$1,015.42	\$1,035.73
2"	\$408.03	\$925.13	\$1,054.65	\$1,170.67	\$1,299.45	\$1,325.44
3"	\$893.44	\$2,303.19	\$2,625.64	\$2,914.47	\$3,235.07	\$3,299.78
4"	\$1,276.06	\$6,937.89	\$7,909.20	\$8,779.22	\$9,744.94	\$9,939.84
Volumetric Rate, \$/kgal						
	Current	7/1/2024	7/1/2025	7/1/2026	7/1/2027	7/1/2028
All Customer Classes	\$10.31	\$17.02	\$19.41	\$21.55	\$23.93	\$24.41

Single Family Average Wastewater Bill – Year One



Single Family Combined Bill, FY 2024-25



Next Steps



Rate Study Next Steps

1

Request Council
approve starting
the Prop 218
process

***April 23 City
Council
Meeting***

2

Notice Postmark
date by

May 3

3

45 Day protest
period

***May 3 through
June 18***

4

Hold Public
Hearing to
receive public
comments,
count protests,
and consider
adoption of
water and
wastewater
rates

***June 18 City
Council
Meeting***

5

Year One Rate
Implementation

July 1, 2024

Suggested Motion

- **Move to**
 - › Accept the Staff recommended Water Baseline financial plan and associated rates
 - › Accept the Staff recommended Wastewater Baseline financial plan and associated rates
 - › Direct Staff to proceed with Proposition 218 notification and rate implementation processes
 - › Schedule a Public Hearing for June 18, 2024
- **Or,**
 - › Accept the alternative Water Lower Service Level financial plan and associated rates
 - › Accept the alternative Wastewater Lower Service Level financial plan and associated rates
 - › Direct Staff to proceed with Proposition 218 notification and rate implementation processes
 - › Schedule a Public Hearing for June 18, 2024
- **Or,**
 - › Direct staff to return with alternative rate proposals. Note that doing so will affect the schedule for the public hearing date.



Thank you

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