



AGENDA STAFF REPORT

DATE: May 12, 2025

TO: Honorable Mayor and City Council

THRU: Patrick Gallegos, Interim City Manager

FROM: Iris Lee, Director of Public Works

SUBJECT: **Proposition 218 - Proposed Water Rate and Sewer Rate Adjustments**

SUMMARY OF REQUEST:

That the City Council adopt Resolution 7644:

1. Setting the Public Hearing on the proposed water and sewer rate adjustments for July 14, 2025, or such other date selected by the Interim City Manager; and,
2. Authorizing the City Clerk, or the City Clerk's designee, to provide notice of the Public Hearing in compliance with Proposition 218.

That the City Council adopt Resolution 7645:

1. Adopting revised procedures applicable to the conduct of the Public Hearing and majority protest proceedings and establishing an exhaustion of administrative remedies procedure pursuant to Government Code Sections 53759.1 and 53759.

BACKGROUND AND ANALYSIS:

Background:

The City's Water and Sewer utilities are funded by fees received from the ratepayers, also known as Water Enterprise and Sewer Enterprise funds, respectively. All associated expenditures, such as operating and maintenance costs, capital improvements, and reserves are funded through rate-funded revenues, and not the General Fund.

Rates are regularly evaluated as part of the City's annual budgeting process to ensure projected revenues are sufficient to cover all Water and Sewer utility-related expenditures. The City's last rate adjustment and cost of service study was

approved in February 2021; however, the rates are no longer sufficient to balance ongoing operating costs.

The City retained Raftelis Financial Consultants, Inc. (Raftelis) to conduct a Water and Sewer Rate Study, utilizing the existing rate structure, to ensure the City's plan for critical infrastructure maintenance and funding for capital improvement projects are in alignment. This would include meeting established reserve policies, continued reinvestment into the aging infrastructure to ensure system reliability, inflationary cost increases, preparation of current and future mandates, and ensure water quality is met.

Water Utility System:

The City owns and maintains a water system and is responsible for ensuring safe and reliable water for potable and fire protection use. These essential services are accomplished through a strategic combination of highly qualified operators and administrative support staff, which includes City departments such as the Public Works Department, City Manager's Office, City Clerk's Office, and the Finance Department. Together, the water system's two (2) reservoirs, two (2) booster stations, four (4) production wells, 73.5 miles of pipeline, and over 5,300 services are properly maintained.

Based on Raftelis' detailed financial plan analysis, the February 2021 rate adjustments are no longer sufficient to balance the operating costs due to:

1. Increased wholesale import and groundwater costs;
2. Aging infrastructure and deferred maintenance;
3. Overall inflationary impacts; and,
4. On-going introduction of new legislation.

Water Enterprise Fund Reserve Policy:

The Water Rates have been constructed with a financial plan that corrects the structural deficit and sufficiently fund operations, capital and reserves. A reserve policy was set based on the types of risk the utility faces.

- Operating Reserves – to cover day-to-day expenses and maintain sufficient funds to cover operating cash flows, periods of reduced water sales, or unforeseen costs.
 - Minimum 20% of Operating & Maintenance expenditures
 - Target: 25% of Operating & Maintenance expenditures
- Capital Replacement Reserves – to cover a portion of upcoming annual capital expenditures and mitigate unexpected capital needs.
 - Minimum 25% of average 5 - year CIP
 - Target: 30% of average 5 - year CIP

- Debt Reserve – to cover debt repayments when cash flow to a debt service is insufficient and prevents default.
 - Minimum 20% of total debt services
 - Target: 25% of total debt services

Proposed Water Debt:

To maintain effective operations, it is necessary to secure Water utility revenue through low-interest State Revolving Loans and market-debt loans. This approach ensures ongoing expenditures can be sustained until the anticipated rate-generated revenues come into effect.

Staff will continue to pursue external funding sources to reduce debt issuances, if possible.

	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030
Market Debt Issuance		\$25M			
State Loan (SRF)	\$2.5M	\$1M	\$3M	\$3M	

Wholesale Water Purchase Cost Pass-Through:

The City purchases water from wholesale agencies and has no control over those charges. The City has estimated future wholesale rates; however, if wholesale rates are higher than predicted, the City will pass-through the increase in wholesale water purchase costs as allowable by Government Code Section 53756. The pass-through amount will not exceed the increase in cost. The pass-through will be calculated as the increase in wholesale water purchase costs divided by annual water use.

Water Bill Components:

Water Rates have two (2) components – 1) fixed charges; and 2) variable volumetric charges. Fixed charges are a function of meter size and are charges without respect to use. Volumetric charges are calculated based on the amount of water used multiplied by the rate per unit. The unit is measured in hundred cubic feet (HCF), which is approximately 748 gallons.

Proposed Water Rates:

Current Water Rate structures will remain the same. That is, a fixed charge by meter size, plus a volumetric rate that is generally broken down into the following:

- A two-tiered Single-Family Residential, Multi-Family Residential, and Leisure World customer class based on consumption; and,
- A single-tiered rate structure for Commercial, Irrigation, Sunset Aquatic Park, and City customer class based on consumption.

Although the overall rate structure will not change, the amount of the fixed charge, which is based on meter size, is proposed to increase for the Leisure World community based upon a recent evaluation of its meter infrastructure. The City's engineering consultant, AKM Consultants (AKM), conducted an independent evaluation of the meter size for the Leisure World community. In an opinion dated April 1, 2025, AKM concluded that the two (2), existing 12-inch service meters serving Leisure World are appropriately sized to account for the community's "peak hour and maximum day demand plus fire flow." Beginning with the City's last rate update in 2021, Leisure World's fixed rate charge was for one(1), six-inch meter based upon an earlier analysis of Leisure World's effective flow demand. However, AKM has provided a current and different analysis of the cost of providing service to the Leisure World community.

The tables below illustrate the proposed rate and charge increases for the next five (5) years. These adjustments were calculated by forecasting revenue, expenses and reserves to establish adequate cost-to-debt ratio.

Proposed Water Fixed Charges (\$/bi-monthly)

Customer Type & Tier	Current	8/1/2025	7/1/2026	7/1/2027	7/1/2028	7/1/2029
5/8"	\$52.38	\$70.68	\$86.94	\$91.29	\$95.85	\$100.64
3/4"	\$52.38	\$70.68	\$86.94	\$91.29	\$95.85	\$100.64
1"	\$77.92	\$104.87	\$128.99	\$135.44	\$142.21	\$149.32
1.5"	\$150.93	\$202.85	\$249.51	\$261.99	\$275.09	\$288.84
2"	\$228.33	\$306.50	\$377.00	\$395.85	\$415.64	\$436.42
3"	\$406.25	\$544.72	\$670.00	\$703.50	\$738.68	\$775.61
4"	\$675.94	\$906.18	\$1,114.60	\$1,170.33	\$1,228.84	\$1,290.28
6"	\$1,331.01	\$1,783.70	\$2,193.95	\$2,303.64	\$2,418.82	\$2,539.77
8"	\$2,128.92	\$2,852.83	\$3,508.98	\$3,684.43	\$3,868.65	\$4,062.08
10"	\$3,047.29	\$4,083.10	\$5,022.21	\$5,273.32	\$5,536.99	\$5,813.84
12" Leisure World	\$1,331.01	\$7,458.19	\$9,173.58	\$9,632.26	\$10,113.87	\$10,619.56
2" Aquatic Park	\$344.58	\$476.01	\$585.49	\$614.76	\$645.50	\$677.78
Private Fire Charges						
4"	\$54.42	\$75.10	\$92.37	\$96.99	\$101.84	\$106.93
6"	\$158.07	\$218.14	\$268.31	\$281.72	\$295.81	\$310.60
8"	\$336.86	\$464.87	\$571.79	\$600.38	\$630.39	\$661.91
10"	\$605.79	\$835.99	\$1,028.27	\$1,079.68	\$1,133.67	\$1,190.35
12"	NA	\$1,350.35	\$1,660.94	\$1,743.98	\$1,831.18	\$1,922.74

Proposed Water Volumetric Charges (\$/hcf)

VOLUMETRIC RATES (\$/HCF) Rates are shown bi-monthly	Current	8/1/2025	7/1/2026	7/1/2027	7/1/2028	7/1/2029
Single-Family Residential						
Tier 1	\$3.77	\$5.20	\$6.40	\$6.72	\$7.06	\$7.41
Tier 2	\$3.99	\$5.51	\$6.77	\$7.11	\$7.47	\$7.84
Multi-Family Residential / Leisure World						
Tier 1	\$3.77	\$5.20	\$6.40	\$6.72	\$7.06	\$7.41
Tier 2	\$3.94	\$5.44	\$6.69	\$7.02	\$7.37	\$7.74
Non-Residential						
Commercial	\$3.77	\$5.20	\$6.40	\$6.72	\$7.06	\$7.41
Irrigation	\$3.86	\$5.33	\$6.55	\$6.88	\$7.22	\$7.58
City	\$3.82	\$5.27	\$6.48	\$6.81	\$7.15	\$7.51
Aquatic Park	\$4.27	\$5.89	\$7.25	\$7.61	\$7.99	\$8.39

* Multi-Family tier allocations are determined by multiplying the hcf definition shown above (17 hcf) by the number of dwelling units for a given account. For example, the tier allocation for a Multi-Family Residential (MFR) account with two dwelling units would be equal to 17 hcf X 2 dwelling units = 34 hcf bi-monthly.

** Leisure World tier allocations are determined in the same manner as MFR, by multiplying dwelling units by the individual allocation of 17 hcf.

Sewer Utility System:

The City also owns and maintains a Wastewater (also known as Sewer) collections system. This system consists of 181,000 linear feet of pipeline, approximately 800 manholes, and six (6) pump stations. Similar to the Water Utility System, the Sewer Utility System is supported by technical and administrative staff through a rate-supported Sewer Enterprise fund.

Sewer Enterprise Fund Reserve Policy:

The Sewer Rates have been constructed with a financial plan that corrects the structural deficit and sufficiently funds operations, capital and reserves. A reserve policy was set based on the types of risk the utility faces.

- **Operating Reserves** – to cover day-to-day expenses and maintain sufficient funds to cover operating cash flows, periods of reduced revenue, or unforeseen costs.
 - Minimum 25% of Operating & Maintenance expenditures
 - Target: 25% of Operating & Maintenance expenditures
- **Capital Replacement Reserves** – to cover a portion of upcoming annual capital expenditures and mitigate unexpected capital needs.

- Minimum 25% of average 5 - year CIP
- Target: 25% of average 5 - year CIP
- **Debt Reserve** – to cover debt repayments when cash flow to a debt service is insufficient and prevents default.
 - Minimum 10% of total debt services
 - Target: 10% of total debt services

Proposed Sewer Debt:

The required Sewer Utility revenue to properly sustain operations will require market-debt issuance. This will allow expenditures to continue while the proposed rate-generated revenues catch up.

Staff will continue to pursue more favorable external funding sources to reduce debt issuance, if possible.

	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030
Market Debt Issuance		\$6M	\$4M	\$4M	

Sewer Bill Components:

Sewer Rates have two (2) components – 1) fixed charges; and 2) variable volumetric charges. Fixed charges are a function of customer classification and are charges without respect to use. The City does not measure wastewater flow, but instead estimates flows based on water use by applying a return-to-sewer factor (RTS) to non-residential water use. Volumetric charges, therefore, are calculated based on the amount of water used multiplied by the rate per unit.

Proposed Sewer Rates:

The current Sewer Rate structures will remain the same.

- Single Family Residential: fixed charge;
- Other Customer Classes: fixed charge plus volumetric rate based on water consumption.

The table below illustrates the proposed rate and charge increases for the next five (5) years. These adjustments were calculated by forecasting revenue, expenses and reserves to establish adequate cost-to-debt ratio.

**Proposed Sewer Fixed Charges (\$/bi-monthly &
Volumetric Charges (\$/hcf of water)**

Fixed Charge	Current	8/1/2025	7/1/2026	7/1/2027	7/1/2028	7/1/2029
Single-Family Residential						
Fixed Charge	\$48.04	\$64.37	\$77.89	\$88.80	\$100.34	\$104.35

Customers with a Fixed Charge and Volumetric Rate	Current	8/1/2025	7/1/2026	7/1/2027	7/1/2028	7/1/2029
Multi-Family Residential						
Fixed Charge	\$1.22	\$1.63	\$1.98	\$2.26	\$2.55	\$2.65
Volumetric Rate (\$/hcf)	\$4.00	\$5.36	\$6.49	\$7.39	\$8.35	\$8.69
Commercial and City						
Fixed Charge	\$1.22	\$1.63	\$1.98	\$2.26	\$2.55	\$2.65
Volumetric Rate (\$/hcf)	\$4.00	\$5.36	\$6.49	\$7.39	\$8.35	\$8.69
Leisure World						
Fixed Charge	\$1.22	\$1.63	\$1.98	\$2.26	\$2.55	\$2.65
Flat Rate	\$2,198.06	\$2,945.40	\$3,563.93	\$4,062.89	\$4,591.06	\$4,774.70
Navy						
Sewer Meter Fixed Charge	\$1.22	\$1.63	\$1.98	\$2.26	\$2.55	\$2.65
Sewer Meter Volumetric (\$/hcf)	\$0.24	\$0.32	\$0.39	\$0.44	\$0.50	\$0.52
Aquatic Park						
Fixed Charge	\$1.22	\$1.63	\$1.98	\$2.26	\$2.55	\$2.65
Volumetric Rate (\$/hcf)	\$4.00	\$5.36	\$6.49	\$7.39	\$8.35	\$8.69
Sewer Service Equity Charge	\$997.50	\$1,336.65	\$1,617.35	\$1,843.78	\$2,083.47	\$2,166.80
Sewer Capital Equity Charge	\$1,322.00	\$1,771.48	\$2,143.49	\$2,443.58	\$2,761.24	\$2,871.69

Proposition 218 Requirements:

Water and sewer rate adjustments are subject to Proposition 218's public hearing and majority protest procedures. It is recommended that the City Council direct the public notification in compliance with Proposition 218, and set a public hearing date.

At the conclusion of the public hearing, the City Clerk will complete the tabulation of all written protests received from record property owners, water customers and sewer customers, including those received during the public hearing. Only one (1)

protest will be counted per property parcel in determining the existence of a majority protest. The City Clerk will then report on the results to the City Council.

If, according to the final tabulation, the written protests submitted against the Water Rate adjustments represent more than 50% of all the parcels in the City receiving water service, a majority protest exists, and the City Council shall not impose the Water Rate increase. If the final tabulation of written protests represents less than 50% of all the parcels in the City receiving water service, the City Council could consider implementing the Water Rate increases effective August 1, 2025, and on July 1 for each year from 2026 through 2029.

If, according to the final tabulation, the written protests submitted against the Sewer Rate adjustments represent more than 50% of all the parcels in the City receiving sewer service, a majority protest exists, and the City Council shall not impose the Sewer Rate increase. If the final tabulation of written protests represents less than 50% of all the parcels in the City receiving sewer service, the City Council could consider implementing the Sewer Rate increases effective August 1, 2025, and on July 1 for each year from 2026 through 2029.

New notices of public hearing in compliance with Proposition 218 will be provided. Written protests submitted in response to the 2024 Proposition 218 noticing will not be counted at the July 14, 2025 public hearing.

Majority Protest Procedures:

Proposition 218 authorizes the City to adopt procedures for the conduct of a public hearing and majority protest proceedings. Staff believes that such procedures would help the public, the City Clerk, and City Council understand how written protests can be submitted and how they will be counted for purposes of determining the existence of a majority protest. A draft set of procedures is attached to the proposed resolution for the Council's consideration.

If the City receives protests submitted on behalf of a majority of parcels, then the City Council may not adopt the proposed rates. Conversely, the City Council may adopt the rates if a majority protest is not reached. In that case, the City Council still has discretion when considering the proposed rates and may adopt them, in whole or in part, based upon its reasonable judgment.

Exhaustion of Administrative Remedies Procedure:

The State of California Legislature enacted Assembly Bill 2257 (Exhaustion of Administrative Remedies Procedure), effective January 1, 2025, which assists local agencies in defending against lawsuits under Proposition 218. AB 2257 added Sections 53759.1 and 53759.2 to the Government Code and establishes a formal written objection procedure requiring ratepayers to timely raise specific Proposition 218 concerns about proposed water and sewer rate adjustments before filing litigation alleging noncompliance with Proposition 218 (Article XIII D of the California Constitution). This procedure is optional. Staff recommends that

the City Council adopt an exhaustion of administrative remedies procedure because the procedures are designed to provide an opportunity for the City to address objections during the Proposition 218 public participation process, reducing the likelihood of unforeseen litigation after rate increases are approved.

The City must comply with all of the requirements set forth in Government Code Section 53759.1 in order to establish an exhaustion of remedies requirement. Some key provisions require the following:

1. The City must provide at least 45 days after the notice of the Proposition 218 Public Hearing is mailed for persons and entities to submit to the City written objections that allege that the proposed rates do not comply with the substantive requirements of Proposition 218.
2. The mailed notice of the Public Hearing must include a prominently displayed statement that contains the following information:
 - i. That all written objections must be submitted within the written objection period set by the City and that a failure to timely object in writing bars any right to challenge the proposed rates through a legal proceeding; and,
 - ii. All substantive and procedural requirements for submitting a written objection to the proposed rates.
3. Prior to or during the Public Hearing, the City Council must adopt written responses to timely submitted written objections. The responses must explain the substantive basis for retaining or altering the proposed rates in response to the written objections.

The draft procedures attached to this Staff Report for the Council's consideration include an exhaustion of administrative remedies procedure.

ENVIRONMENTAL IMPACT:

This item is not subject to the California Environmental Quality Act (CEQA) because CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of water and sewer rates under Public Resources Code Section 21080(b)(8). The proposed rates are proposed to meet operating expenses, purchase necessary supplies and equipment, meet financial reserve needs, and fund capital projects necessary to maintain service within the existing service area. Furthermore, it is not a "project" as defined under Section 15378(b) of the state CEQA Guidelines. This item is also exempt from CEQA pursuant to Section 15061(b)(3) of the Guidelines because it can be seen with certainty that the approval of Water and Sewer Utility Rates will not have a significant effect on the environment.

LEGAL ANALYSIS:

The City Attorney has approved the resolutions as to form.

FINANCIAL IMPACT:

The anticipated increase in Water and Sewer revenue required to sustain proper utility operations, is summarized below:

Projected Water Utility Revenue Adjustment

	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030
Projected Revenue Increase	\$2.67M	\$2.23M	\$595k	\$625k	\$660k

Projected Sewer Utility Revenue Adjustment

	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030
Projected Revenue Increase	\$800k	\$665k	\$535k	\$565k	\$195k

STRATEGIC PLAN:

This item is not applicable to the Strategic Plan.

RECOMMENDATION:

That the City Council adopt Resolution 7644:

1. Setting the Public Hearing on the proposed water and sewer rate adjustments for July 14, 2025, or such other date selected by the Interim City Manager; and,
2. Authorizing the City Clerk, or the City Clerk's designee, to provide notice of the Public Hearing in compliance with Proposition 218.

That the City Council adopt Resolution 7645:

1. Adopting revised procedures applicable to the conduct of the Public Hearing and majority protest proceedings and establishing an exhaustion of administrative remedies procedure pursuant to Government Code Sections 53759.1 and 53759.

SUBMITTED BY:

Iris Lee

Iris Lee, Director of Public Works

NOTED AND APPROVED:

Patrick Gallegos

Patrick Gallegos, Interim City Manager

ATTACHMENTS:

- A. Resolution 7644 – Setting Public Hearing Date
- B. Resolution 7645 – Adopting Majority Protest Procedures and an Exhaustion of Administrative Remedies Procedure