CITY COUNCIL **AGENDA REPORT**

MEETING DATE: December 3, 2025	**ITEM # 10**
CITY OF WEST SACRAMENTO **SUBJECT:** **WORKSHOP ON WATER & SEWER RATE STUDIES AND PROPOSED RATES**	
INITIATED OR REQUESTED BY: **[ ] Council [X] Staff** **[ ] Other**	**REPORT COORDINATED OR PREPARED BY:** Roberta Raper, Finance Director Jai Chahal, Capital Projects Director Rebecca Scott, Public Works, O & M Director **Finance, Capital Projects, Public Works O&M Departments**
ATTACHMENT [X] Yes [ ] No	**[ ] Information [X] Direction [ ] Action**

OBJECTIVE

The objective of this report is to hold a workshop on proposed water and sewer rates, receive Council feedback and direction on the desired scenario, and receive approval to begin the Proposition 218 process to adjust utility rates and set the protest hearing for March 18, 2026 at 7:00 PM.

RECOMMENDED ACTION

Staff respectfully recommends that the City Council:

1) Receive the presentation by staff and conduct a workshop on proposed water and sewer utilities rate adjustment scenarios;
2) Provide guidance and direction to staff as to the preferred rate adjustment scenario for the water and sewer utilities;
3) Authorize the City Manager or designee to proceed with the Proposition 218 noticing process and return to Council to conduct the protest hearing and to consider adoption of adjusted utility rate charges for Water and Sewer services;
4) Schedule the protest hearing for March 18, 2026 at 7:00 PM, at the City Council chambers.

BACKGROUND

The City of West Sacramento provides water and wastewater/sewer collection for West Sacramento customers funded through the Water Utility Fund and Sewer Utility Fund, respectively. These enterprise funds are supported with revenue derived from rates. The utility rates are determined through a process prescribed by state law, which requires a Cost of Service (COS) analysis and Council approval of any rate adjustments at a public hearing.

The goal of the COS analysis and rate adjustments is to ensure that utilities have enough money to operate and maintain reliable and safe utilities, while ensuring customers pay their fair share of the service costs. The enterprise utilities must generate sufficient revenues to maintain ongoing operations; meet financial obligations and City-issued long-term debt obligations; and cover the replacement, upgrade, and expansion of the infrastructure needed to meet current and future needs.

The City Council last approved rate adjustments for the water, sewer and refuse utilities in 2017, and previously on June 1, 2011. At that time, the actions taken were in response to the negative fiscal impacts of the economic downturn and the resulting cost reduction measures. The 2017 rate structure remained among the lowest in the region - third lowest overall, above only Folsom and Roseville. While this history of maintaining low rates has benefited ratepayers, it has also constrained the utilities' ability to generate sufficient revenue to support an adequate level of service and to invest in preventative maintenance, rehabilitation, replacement, and expansion of critical infrastructure.

As a result, the utilities have largely operated on a reactive basis, addressing system failures as they occur rather than through planned preventative maintenance. This approach has proven more costly over time, as emergency repairs typically cost at least twice as much as scheduled maintenance.

Significant operational, maintenance, and capital needs now exist across both the water and sewer systems, placing upward pressure on future customer rates. Following a competitive solicitation, the City selected HF&H Consultants to develop comprehensive rate models for the water and sewer utilities. These models forecast operations and maintenance expenses, capital improvement costs, and debt service requirements to determine each utility's long-term revenue needs.

The Water and Sewer Master Plans, last prepared in 2015 and adopted in 2017, were updated and approved by City Council in January 2025. The Water Master Plan is the crucial document that guides the City's water system capital program to serve the existing and future needs for the City's customers. Key goals of the Water Master Plan include maintaining reliable water service, improving water service in currently underserved neighborhoods of the City, replacing aging infrastructure, preparing for new economic development, improving reliability and resiliency, managing infrastructure improvements in a cost effective and responsible manner, and facilitating interdepartmental coordination within the City.

The Sewer Master Plan provides a comprehensive framework for assessing both current and future sewer system needs, identifying capacity constraints, and prioritizing necessary improvements. Furthermore, the City's Sewer Master Plan supports compliance with regulatory requirements, reduces the risk of sewer overflows, and helps protect public health and the environment.

Upon completion and approval of the Water and Sewer Master Plans, the COS analyses were updated to reflect current operations cost data, recently adopted labor agreements, and necessary infrastructure projects identified in the master plans and prioritized by Capital Projects and Public Works, Operations & Maintenance staff.

Staff and the consultant developed three rate scenarios, each providing different levels of funding for operations and capital investment, and corresponding rate impacts. These scenarios, along with their justifications, fiscal implications, and alternatives, were presented to the Environment & Utilities (EU) Commission's consideration and feedback on November 12, 2025, and as a result of that feedback, a fourth scenario (EU Proposed) was added for Council consideration.

The City also contracts for refuse collection for residents and businesses. The current contract for refuse collection with Waste Management expires on June 30th, 2027. Because significant lead-time is necessary when shifting from one hauler to another, staff have already begun the process of going out to bid for a new waste hauler contract. In light of this work, the study of refuse rates is paused until a new contract is finalized. Once the new contract is in place, staff will revisit refuse rates to align with the new waste hauler rates, which will commence on July 1, 2027.

This staff report provides a summary of what is included in the COS analyses; the public outreach that has occurred and is planned to occur; the feedback received from the EU Commission, the revised proposed rate scenarios along with risks and benefits of implementing each; staff's recommendation; and the requested next steps in the rate setting process.

<u>ANALYSIS</u>

<u>Utility Infrastructure/Capital Improvement Program (CIP)</u>
The Water and Sewer Divisions are responsible for over 100 million dollars' worth of infrastructure assets that are critical to the community's health and the environment, including:

- Over 210 miles of water mainlines
- Over 6,100 water valves
- Nearly 3,000 fire hydrants
- 1 water treatment plant
- 8 reservoirs and pump stations
- 2 clearwells
- 1 booster station
- Nearly 100 miles of water service lines
- More than 16,000 water meters

- Over 210 miles of sewer pipelines
- 9 wastewater pump stations
- 5 lift stations

Careful financial planning is essential to ensuring the long-term sustainability of the City's public utilities. With the responsibility of delivering critical services such as water and wastewater collection for more than 50,000 residents, the City must balance the need for reliable infrastructure, regulatory compliance, and operational efficiency with fiscal responsibility. Strategic financial planning enables utilities to invest in system upgrades, prepare for unseen challenges, and maintain affordability for ratepayers. Without it, the ability to deliver safe, resilient, and equitable service can be compromised, placing both public health and environmental stewardship at risk.

There are several factors influencing proposed rates for the upcoming 5-year period. First, the last COS study performed in 2017 planned for $33 million in water infrastructure projects and $10 million in sewer infrastructure projects over the five-year rate period (2017-2021). The current infrastructure project list (***full ask*** scenario) proposes over $93 million (3x) in infrastructure investment for the water utility and $44 million (4x) for the sewer utility over the upcoming five-year period (2026-2031), based on recommendations from the recently adopted water and sewer master plans. A portion of the capital cost increase is due to the Construction Cost Index (CCI) increase (approx. 14%) since the last rate adjustment in 2021. These increases reflect the critical need to address aging infrastructure and invest in system resilience to meet future demand and regulatory standards, as well as to implement a more proactive investment program focused on appropriate maintenance and replacement of critical infrastructure.

Key Infrastructure Projects Driving the Rate Adjustments
The City's water and sewer systems are essential public services that residents rely on every day. Much of this infrastructure has been in service for many decades and is nearing or past the end of its useful life. The following high-priority projects represent the most significant investments recommended in the updated Water and Sewer Master Plans and are critical to maintaining system reliability, regulatory compliance, and service quality for the community.

Water System Projects
The City's drinking water comes from the George Kristoff Water Treatment Plant, which pumps water from the Sacramento River, treats it to meet or exceed state and federal standards, and distributes it throughout the community. Much of the City's water infrastructure was installed decades ago and has served beyond its intended lifespan. Reinvesting now prevents costly emergency repairs, protects water quality, and ensures the system remains reliable as the community continues to grow and regulations become more stringent.

- *High Service Vault and Manifold Replacement – $10 Million (Effluent Meter Work Underway – $4.2 Million)*
  The high service vault and manifold at the treatment plant serve as the "heart" of the City's distribution system, controlling how treated water flows out to residents and businesses. These components are aging and showing signs of corrosion. The City is already investing $4.2 million to replace the effluent meter and complete investigative work, with the full vault and manifold replacement estimated at $10 million. These improvements will strengthen operational reliability, improve monitoring capabilities to comply with State regulations, and better ensure uninterrupted delivery of safe drinking water citywide.

- *Central Water Storage Tank Rehabilitation and Recoating – $3 Million*
  The Central Water Tank is a 2,000,000-gallon steel storage tank inherited from Yolo County when the City first incorporated. The tank has not been recoated or repainted since its original installation and is now in dire need of rehabilitation. The protective interior coating has deteriorated over time, leaving the steel structure vulnerable to corrosion and potential contamination. This $3 million project will repair, clean, and recoat the tank—restoring its integrity, extending its service life, and ensuring the continued delivery and emergency storage of clean, safe water.

- *Westmore Oaks Water Main Replacement – $8 Million*
  The Westmore Oaks neighborhood was built with welded steel water mains that are corroding and deteriorating. These aging lines cause leaks, reduce water pressure, and can impact water quality. This $8 million project will replace the failing water mains with new, longer-lasting materials that improve water quality and reliability. The work will follow the successful model used in the State Streets neighborhood, where similar upgrades were recently completed.

Sewer System Projects
The City's sewer system collects wastewater from homes and businesses and conveys it through a network of underground pipelines and lift stations. These lift stations pump wastewater into the Regional Sanitation District (Regional San) mains, which transport the flow to the regional treatment plant for processing. While the system continues to operate, many of its core components are operating on borrowed time. Proactively upgrading these facilities now avoids environmental risks, regulatory violations, and emergency failures that would be far more expensive to repair.

- *Westmore Oaks Sewer Line Rehabilitation – $6 Million*

This project will replace deteriorating and corroded sewer lines in the Westmore Oaks neighborhood after decades of service. The work will improve system reliability and prevent blockages or overflows. Completing this work at the same time as the water main replacement will minimize construction and restoration costs, and avoid future street closures for repair work.

- *South Lift Station Rehabilitation – $8.5 Million*
  Located at Park Boulevard and Stone Boulevard, the South Lift Station is one of the largest and most critical pumping facilities in the City's sewer network. The station's mechanical and structural components are heavily corroded and in need of modernization. This $8.5 million project will replace pumps, upgrade electrical and mechanical systems, and add storage capacity to manage high flows during storms or peak periods. Rehabilitating this facility now will prevent potential system failures, help protect the environment, and ensure continuous, reliable wastewater service.

- *Bryte Lift Station Rehabilitation – $6 Million*
  The Bryte Lift Station serves several of the City's older neighborhoods and plays a vital role in conveying wastewater safely to the Regional San mains. Like the South Lift Station, it has reached the end of its useful life, with pumps, coatings, and structural components showing significant wear. This $6 million project will replace equipment, repair leaks, and improve efficiency and capacity, extending the life of the facility and ensuring dependable wastewater service for years to come.

Other Uses of Water and Sewer Funds and the Importance of Timely Investment
In addition to the major infrastructure projects described above, the proposed water and sewer rates will also fund a number of other essential improvements needed to maintain reliable service and address aging infrastructure. On the water side, these funds will support additional tank rehabilitation projects, major emergency repairs to the distribution system, and key upgrades at the George Kristoff Water Treatment Plant. These include improvements to the process drain pump station, sand pump replacements, tube settler enhancements, and plant security upgrades, all necessary to ensure the City's ability to continue providing safe, clean drinking water to residents and businesses.

On the sewer side, the funds will be used to complete major mainline repairs and provide a contingency for emergency repairs when system failures occur. Much of the City's sewer system was constructed decades ago and requires proactive maintenance and rehabilitation to prevent backups, overflows, and environmental impacts.

Infrastructure project lists for each utility for each rate scenario are included as Attachment 2 to this report.

If the recommended rate adjustments are not approved, the City would be forced to delay or phase many of these critical projects over multiple years. This approach is not cost-effective. For example, phasing the Westmore Oaks Project into multiple smaller segments would require repeated contractor mobilizations, setup, excavation/restoration, and traffic control for each phase, adding millions of dollars to the total cost. Similarly, sewer lift station rehabilitations are designed to be completed as single, continuous projects. If the City is forced to phase these efforts, it would leave critical infrastructure operating on temporary bypass systems for extended periods, significantly increasing the risk of system failure and emergency response costs.

Delaying projects also drives up costs due to inflation and construction cost escalation. Projects that are shovel-ready today, such as the High Service Vault Replacement, will only become more expensive if postponed. Without sufficient rate support, the City would have to rely more heavily on emergency repairs, which are far more costly than planned improvements and provide only temporary relief.

To get the most value for each dollar and to maintain safe, reliable water and sewer service, projects need to be completed in single, coordinated phases. The proposed rate structures under the recommended and full-ask scenarios provide the funding necessary to move these projects forward efficiently and proactively, avoiding future emergencies, reducing long-term costs, and ensuring that West Sacramento's water and sewer systems remain strong for decades to come.

Together, these projects and reinvestments represent a generational commitment to protecting the City's water and sewer infrastructure. By addressing aging infrastructure before it fails, the City is reducing long-term costs, protecting public health and the environment, and maintaining the reliability and resilience that residents expect from their essential services. The proposed rate adjustments are designed to fund these critical improvements responsibly, preserving system sustainability and affordability for the community.

By incorporating higher levels of capital investment into the proposed rates, the City is taking a forward-looking approach to reinvest in essential infrastructure, reduce the risk of costly emergency repairs, and maintain long-term system sustainability – all while balancing affordability and rate stability for customers.

Utility Operations & Maintenance
On the operations side, there are several factors influencing increases in costs, including:

- **18.67%** - Consumer Price Increase (CPI) since 2021 rate adjustment
- **17.19%** - CalPERS Employer Rate adjustment since 2021
- **22.82%** - Local 39 employee general base salary increase (GSI) since 2021 (not including equity adjustments)
- 22 new water/sewer positions proposed to be added over the next 5 years to help move from a reactionary to a more proactive approach for maintenance and replacement
- Purchase/replacement of several vehicles and large pieces of utility equipment at the end of or past their useful life

If nothing else changes since the last rates were set, each utility would require approximately 20% in rate increases in the first year just to keep pace with the rising primary operating costs of doing business as usual. As mentioned earlier, previous City Councils have maintained some of the lowest water and sewer rates in the region and prioritized cost cutting measures to maintain low rates for residents. As a result, a higher level of investment is required now to ensure an adequately working and resilient utility system.

Impacts to Sewer Rate Structure
During the previous rate study conducted in 2016, single-family residential water use was significantly lower than in the current COS analysis, partly due to the statewide drought and associated conservation measures. In contrast, recent consumption data shows that single-family residential water use has increased substantially as drought restrictions have eased. As a result, single-family customers now account for most of the total wastewater flow, whereas commercial customers were the dominant class in the prior study.

Although single-family customers are billed a flat monthly rate, their share of total system costs is influenced by the volume of wastewater generated, which is estimated based on their water use. The higher residential water use observed in the current study period therefore results in a greater portion of system costs being allocated to the single-family class, which is addressed through increases to the flat monthly rates that are charged to residential customers. Conversely, the commercial class now represents a smaller share of the total flow and associated costs, leading to a reduction in the commercial rate.

Impacts to Water Rate Structure
Current water rate revenues are driven by revenues collected from water use charges (i.e., consumption charges). A current rate revenue analysis revealed that revenue from consumption charges accounts for more than half of overall water rate revenues. However, the last rate study was designed so that a smaller share of revenue would come from water use, with more coming from fixed monthly charges. Since that time, higher water demand has shifted the balance, making the City's revenue more dependent on water usage. When revenues depend heavily on how much water people use, they can fluctuate with weather, drought restrictions, and conservation, making it harder for the utility to cover its fixed costs. As an example, while water usage in West Sacramento has increased since 2016, it has followed the Statewide decline over the last 15 years, largely due to more stringent conservation mandates and increased awareness. In recent years, the State has implemented another round of conservation efforts, which may result in further water usage reductions.

To strengthen financial stability, the City is proposing to adjust the balance between fixed and variable charges. Under the proposed rates, a greater share of total revenue will come from the fixed monthly service charge. This portion of the bill is based on meter size, which reflects the system capacity available to serve each customer. During the next five years, the City plans major capital investments to maintain and expand that capacity. Because of this rebalancing, customers will see larger increases in the fixed service charge than in the per-unit cost of water. This change will make water revenues more predictable, helping the City maintain reliable service and plan for long-term system needs.

Cost of Service Study (COS) Results and Rate Reduction Measures
The City prepared its initial (***full-ask***) scenario which would fully fund 100% of proposed operational and capital needs over the next five years based on the analysis of historical service call and response time data; the need to implement industry standard preventative maintenance programs; and the required infrastructure investments outlined in the water and sewer master plans and prioritized by Capital Projects and Public Works O&M staff. This scenario included funding of $97.5 million in water infrastructure projects and $44 million in sewer

infrastructure projects over the next five years, and resulted in a total bill impact over the next five years of 101%, including the following proposed bill impacts by fiscal year:

Table 1: Initial Full-Ask Scenario

Effective Date	4/1/2026	1/1/2027	1/1/2028	1/1/2029	1/1/2030	TOTAL
Rate Increase	32%	21%	11%	7%	6%	101%

This proposal, while justifiable, came with a lot of sticker shock. As a result, staff collaborated on ways to reduce the impact to customers while maximizing the revenues available to fund critical infrastructure projects.

As part of the rate analysis, City staff reviewed and is proposing revisions to each utility's rate stabilization policy to ensure financial stability while minimizing rate impacts to customers, and to better align with industry best practices. Current reserve policies require each utility to maintain a balance of 50% of annual operating costs **plus** one year of average pay-go CIP spending. This approach required the City to hold a relatively large amount of cash in reserves, which limited flexibility and tied up funds that could otherwise be used for system investments. With the significant increase in capital needs for each utility, higher rate increases would be necessary to maintain reserves at the required levels.

Government Finance Officers' Association of the United States and Canada (GFOA) and American Water Works Association (AWWA) provide guidance that reserve levels for utilities should be set between 25-50% of annual operating expenses. Lower risk utilities (stable demand, minimal purchased water costs) may set reserve levels lower (20-25%) while higher risk utilities (high purchased water costs, heavy reliance on consumption charges, weather-sensitive demand) should target higher, 40-50%. The City is proposing minimum reserve levels of 25% and target reserve levels of 50% of annual operating expenses for each utility. While reserve levels may dip below the 50% target for the short term, there must be a plan to bring reserve levels back to the 50% target balance.

To put this into perspective, the table below shows current reserve balances, required reserve balances if the same reserve policies are maintained, and the proposed target reserve balances for each utility for FY 2026/27:

Table 2: Target Reserve Levels - Current vs Proposed Rate Stabilization Reserve Policies

Utility/Fund	Current Minimum Reserve Balance	Required Reserve Balance	Proposed Target Reserve Balance
Water	$4,707,522	$16,568,322	$5,849,322
Sewer	$2,353,808	$7,665,579	$2,165,579

By reducing the reserve requirement and maintaining a policy in line with industry standards, the City may release nearly $11 million from the water reserve requirement and $5.5 million from the sewer reserve requirement, significantly reducing impacts to ratepayers. This new framework maintains a prudent financial position for the City and allows the City to spend down reserves to support near-term capital improvement needs in the water and sewer systems. It should be noted that these reserves are currently being used to meet the City's legally required debt coverage since rates have not been adjusted in several years.

This approach helps lower rates for customers, maintains the long-term financial health of the utilities, and ensures that necessary capital projects can proceed without creating undue rate pressure.

Staff and the consultant have also modeled debt-financing to fund a large portion of the CIP needs for each utility over the next 5 years. The benefit of debt financing for large infrastructure project costs is the ability to smooth out the impact on rates over a 30-year period rather than putting all the infrastructure costs on ratepayers over the next five years. The revenue requirement maintains at least 135% debt coverage to ensure that fluctuations in water usage and related water and sewer revenues do not impact the City's ability to maintain the legally required debt coverage (net revenues).

The next step taken by staff to maximize revenues to fund necessary infrastructure while minimizing the proposed impact to ratepayers was to develop multiple CIP scenarios for the EU Commission and City Council to consider, each with different levels of funding for infrastructure and a different level of impact on ratepayers. As a result, staff prepared three (3) possible scenarios: 1) a **LOW** scenario which drastically reduces the CIP spend for each utility and limits total bill impacts to 9% annually (in an attempt to ensure no double digit increases during the five-year period); 2) a **MID** scenario which provides a workable reduced CIP scenario that prioritizes the most necessary infrastructure projects for each utility and maximizes debt financing to reduce impact to customer rates, and 3) the revised **FULL-ASK** scenario which fully funds the initial proposed CIP, but at a lower impact to customers due to the rate-mitigation measures described above. These scenarios were presented to the EU Commission in November, and a fourth scenario **(EU Proposed)** was developed for Council consideration based on the feedback received.

After implementing the changes to the reserve targets, increasing proposed debt-funding for CIP projects, and adding the fourth scenario, the four options result in the following potential rate increases:

Table 3: Rate Scenarios, Proposed Bill Impacts, and Water and Sewer CIP Funding (in millions) by Fiscal Year

Effective Date	4/1/2026	1/1/2027	1/1/2028	1/1/2029	1/1/2030	TOTAL	Water CIP	Sewer CIP
Initial Scenario	32%	21%	11%	7%	6%	101%	$97.5	$44.0
Scenario 1 (LOW)	9%	9%	9%	9%	9%	56%	$39.1	$27.5
Scenario 2 (MID)*	18%	9%	5%	7%	7%	54%	$63.0	$36.0
Scenario 3 (FULL-ASK)	26%	13%	7%	7%	7%	75%	$93.2	$44.0
Scenario 4 (EU PROPOSED)**	20%	12%	6%	7%	7%	61%	$76.5	$42.0

** Scenario recommended by staff to EU Commission*

*** New scenario recommended by EU Commission*

As is shown in Table 3 above, by implementing the rate reduction measures previously described, Scenario 3 (FULL ASK) results in reduced bill impacts over the five-year period of nearly 26% compared to the City's initial full-ask scenario prepared prior to applying any rate-mitigation or reserve policy adjustments. This scenario has the largest total bill impact over the five-year period, the largest initial year increase (at 26%) and the largest CIP funding for each utility. While this is staff's ideal scenario as it fully funds the proposed CIP for each utility, it is not the scenario recommended at this time due to the significant impact on customers.

Scenario 1 (LOW), while maintaining single digit increases year-over-year, brings in significantly less funding for water and sewer CIP ($54.1 million and $16.5 million, respectively). While this scenario may be ideal for ratepayers, it is simply not workable as it does not generate sufficient revenue to fund the priority projects required for each utility. It also has a slightly higher 5-year bill impact than Scenario 2 (MID), and ideally, the City would prefer not to implement such high increases in each of the five years. For these reasons, the LOW scenario is also not recommended.

Scenario 2 (MID) brings in $63 million in infrastructure funding for the water utility and $36 million in infrastructure funding for the sewer utility while maintaining the *lowest* overall five-year bill impact for customers. The proposed first-year increase is larger than subsequent years to address a portion of the cost growth that has accumulated since the last rate adjustment in July 2021. Labor, materials, energy, and construction costs have risen roughly 20% during that period, while utility revenues have remained flat. Without a higher initial adjustment, the utilities would operate below cost for several years, forcing deferral of critical maintenance or drawing on reserves.

This approach "resets" rates to current cost levels, stabilizing finances and reducing the need for larger increases later. Once rates reflect actual costs, smaller annual adjustments will maintain system reliability, fund planned capital improvements and meet debt coverage requirements—supporting long-term financial stability while minimizing future rate shocks.

Finally, Scenario 4 (EU Proposed), builds on staff's recommended Scenario 2 by moving up high-priority capital projects that the Commission believed should be completed sooner rather than phased across multiple fiscal years. The Commission concluded that advancing these projects now—despite the higher near-term rate impact—would ultimately reduce long-term costs by avoiding further escalation, minimizing risk of system failure, and ensuring more efficient use of ratepayer dollars. Under Scenario 4, the five-year total bill impact is approximately 61%, generating $76.5 million for water infrastructure and $42 million for sewer infrastructure. This represents a total bill increase that is approximately 4% higher than the staff-recommended scenario over the five-year period.

Attachment 1 provides the fund balance graphs for the five-year period for each scenario for both water and sewer funds; projected bill impacts for average water use for residential and commercial customers; and comparisons of the City's current water and sewer rates to those of nearby jurisdictions. A combined water and sewer utility bill comparison is included to show how the combined bills for City customers would change under the EU Commission's recommended scenario. In addition to average bill totals at proposed rates for April 1, 2026 (year 1), the comparison includes average bill totals at the projected rates for FY 2029-30 (year five) to provide the Council with an additional reference point to compare how residential bills would change over a five-year period relative to the bills that customers in neighboring agencies pay today.

It is difficult to show how the proposed 5-year rates would compare to other jurisdictions' rates in 5 years as each agency updates rates at different times. However, Attachment 4 provides a summary of rate updates (recent, in progress, and planned) for surrounding agencies to the extent they have either adopted rates or are undertaking a rate study.

The attached report (Attachment 5) from the City's rate consultant, HF&H, provides the COS study for each utility based on Scenario 4 (EU Proposed).

The following charts provide a summary of the four scenarios, total CIP funding for each utility, and proposed rate changes under each scenario to summarize impacts of each proposed option presented to Council for consideration.

Chart 1: 5-Year Scenario Totals

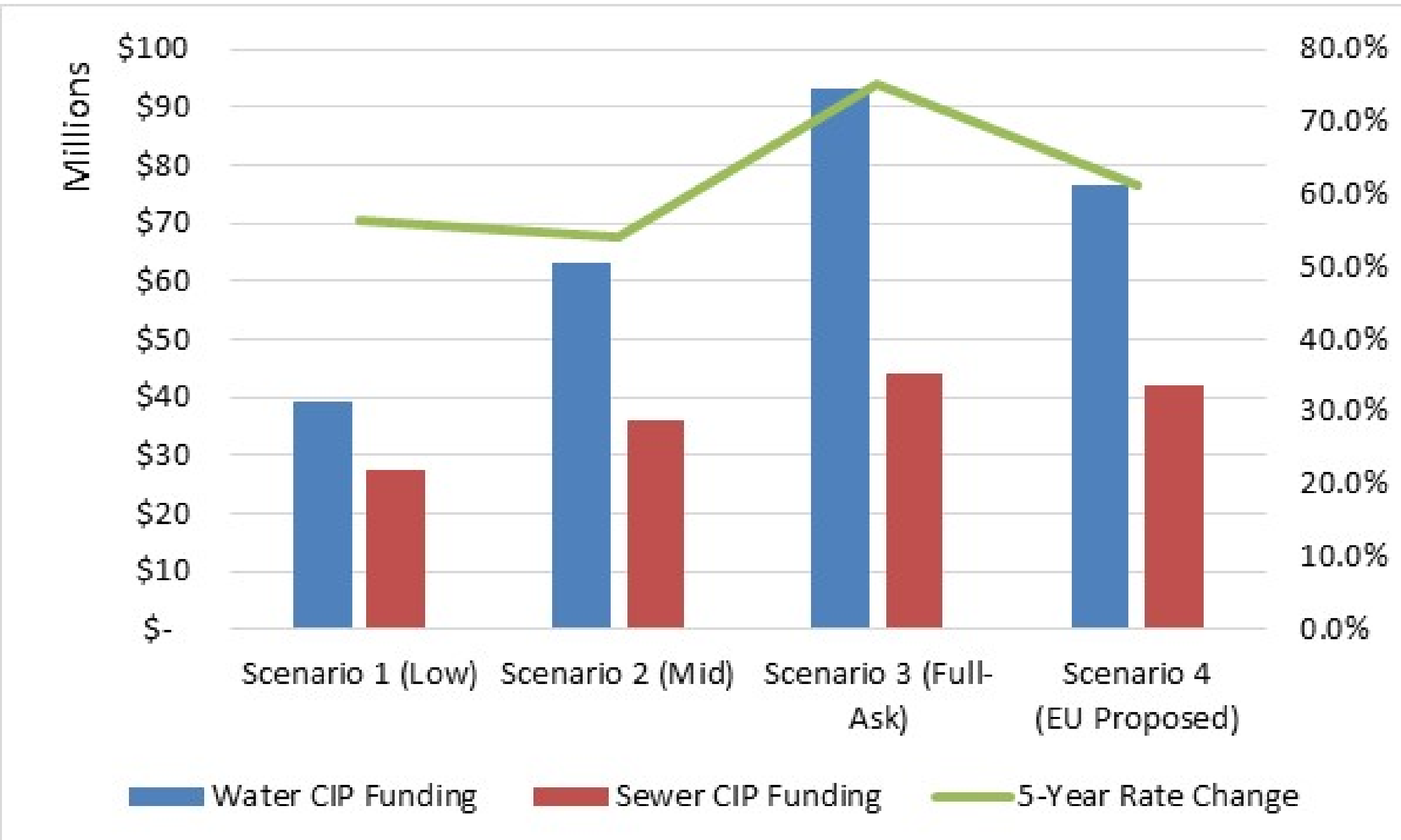
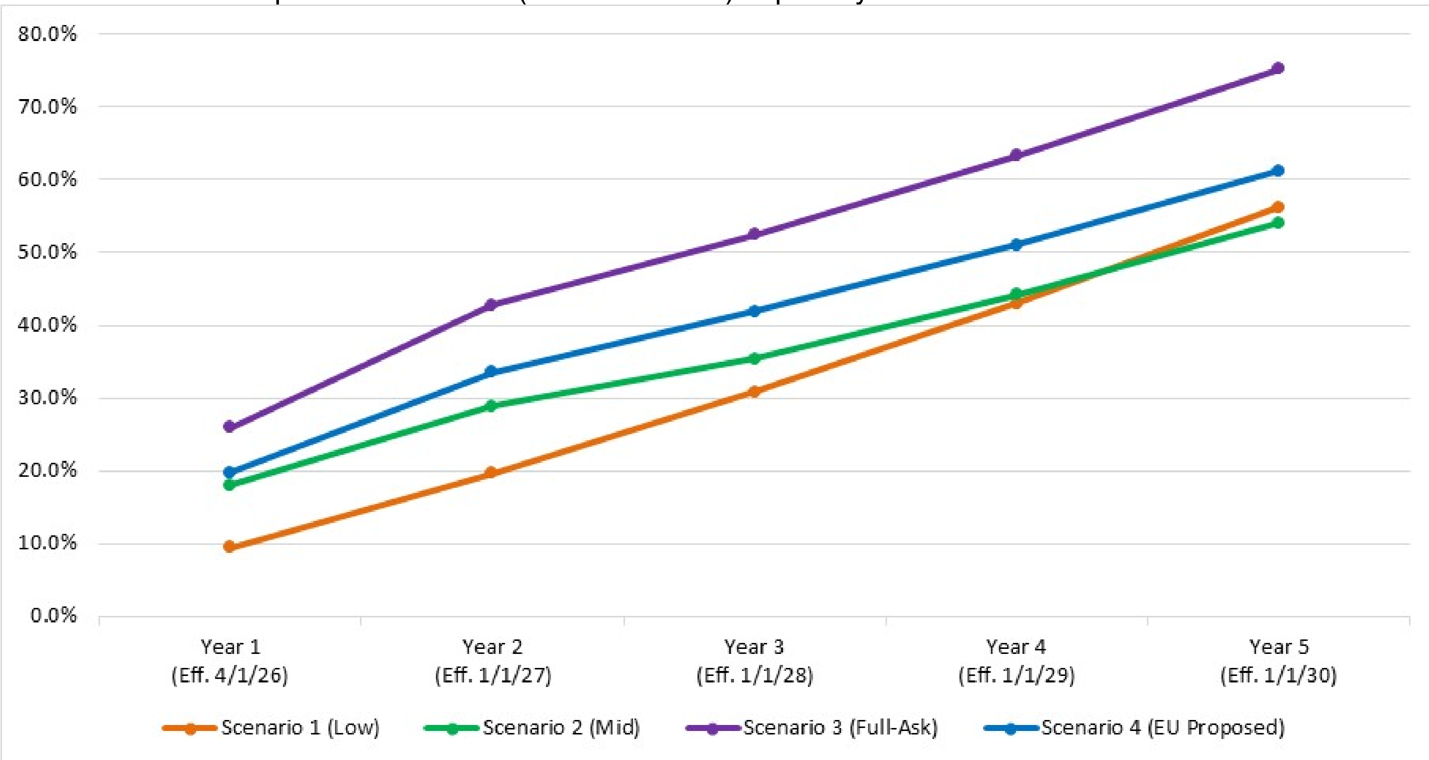


Chart 2: Annual Compounded Total Bill (Water & Sewer) Impact by Scenario



<u>Discounts and Programs to Reduce Utility Bills</u>
The City provides a Low-Income Rate Assistance program (LIRA) to utility customers. This program is described in more detail in Attachment 3, and a table comparing the City's rate assistance program with similar programs offered by surrounding jurisdictions is also provided for reference.

It is clear from the low utilization of the LIRA program that additional outreach would be helpful in ensuring customers are aware of the program and the benefit to their monthly utility bills. An outreach plan will be established, including emails and bill inserts notifying customers of the program and providing a link to the online application, notification to customers by phone and in person who contact utility customer service, and social media blasts. Additionally, we will ensure information and assistance enrolling is available for customers during the Proposition 218 outreach events which will be scheduled in early 2026.

The City also offers several other programs through its Sustainability Division to lower utility bills. Customers can apply for the Smart Irrigation Controller Rebate, the Lawn-Be-Gone program and the Water Wise House Call program. The first initiative helps residents replace their current sprinkler timer with a weather-based sprinkler timer. This rebate ($150) can help residents save thousands of gallons of water per month. Weather-based sprinkler timers automatically adjust schedules to follow the seasons, keeping plants healthy while using the most efficient amount of water. The second program provides up to $300 of compost and mulch to cover and kill unused sections of lawn. The last program provides a free audit of a customer's water system, including a leak-check and a survey of their irrigation system.

<u>Environmental Considerations</u>
The actions recommended in the attached resolution are not subject to the California Environmental Quality Act (CEQA), pursuant to Public Resources Code Section 21080 (b)(8), since the activities proposed involve administrative and financial activities that do not constitute a project pursuant to CEQA.

<u>Commission Recommendation</u>
City staff presented three scenarios (Low, Mid, Full-Ask) to the Environmental Utilities (EU) Commission in November. Staff recommended Scenario 2 (Mid) as the scenario that generates sufficient revenues for both Water and Sewer utilities to fund required operations and maintenance, as well as capital infrastructure projects, ensuring reliable service for ratepayers. The EU Commission recommended enhancing the staff-recommended scenario by adding priority projects at the lowest overall cost, resulting in Scenario 4 (EU Proposed).

Strategic Plan Integration
The proposed rate increase aligns with the "Core Services and Infrastructure" Strategic Principle, which includes sustaining a financially sound city in which everyone feels safe and secure, with quality services and well-maintained infrastructure.

Alternatives
This workshop is intended to gather Council feedback on which rate scenario staff should advance to begin the Proposition 218-required notification and outreach process. The selected scenario will be brought back for formal consideration at a future meeting.

Council may choose any of the four (4) scenarios or provide direction to modify a scenario. Scenario 1 (Low) is not recommended because it would not generate sufficient funding for required projects, leaving the utilities at increased risk of emergency repairs at substantially higher costs. Addressing such emergencies could require diverting funds from other projects or implementing an emergency Proposition 218 rate adjustment to maintain utility operations.

Coordination and Review
The utility rate analysis project has been coordinated between the Finance Department, Public Works Operation & Maintenance Department, the Sustainability Division, the Capital Projects' Department, the City Attorney's office and the City Manager's office.

Budget/Cost Impact
There is no cost impact associated with this item. However, the rate scenario selected by the Council will determine future revenues available to fund the City's Water and Sewer utilities' operations & maintenance and capital repair and replacement needs for the next five years and beyond.

ATTACHMENTS
1. Water and Sewer Scenarios Modeled
2. Infrastructure Project Lists
3. Ratepayer Assistance Programs
4. Regional Utility Rate Comparison
5. HF&H Cost of Service Study Report for Water and Sewer