



CITY OF HEALDSBURG CITY COUNCIL AGENDA STAFF REPORT

MEETING DATE: May 20, 2024

SUBJECT: Second Reading of an Ordinance establishing Water and Wastewater Rates for Fiscal Years 2024-25, 2025-26 and 2026-27

PREPARED BY: Terry Crowley, Utilities Director

STRATEGIC INITIATIVE(S):
Maintain and Improve Infrastructure and Facilities
Maintain and Enhance Public Health and Safety

RECOMMENDED ACTION(S):

Pass an Ordinance of the City Council of the City of Healdsburg adopting water and wastewater rates for fiscal years 2024-25, 2025-26, and 2026-27.

COMMUNITY ENGAGEMENT/OUTREACH:

In October of 2023 the City Council approved a professional services agreement to update water and wastewater rates due to revenues falling well below the forecasted amounts. In February of 2024 staff and the City's consultant presented the City Council with preliminary financial forecasts and potential rate increases. On March 18th an additional meeting provided further information requested by the City Council and another opportunity for public feedback. Upon the conclusion of the March agenda item, the City Council directed staff to begin the Proposition 218 balloting process to adjust rates. Notices were mailed to all property owners and water and wastewater customers, in both Spanish and English, on or before March 22, 2024. On May 6, 2025 the City Council held a public hearing during a regularly scheduled meeting as required by Proposition 218 and recorded 187 protest votes; less than a majority.

BACKGROUND:

In June of 2022 the City Council approved a series of new water and wastewater rates. These rates were intended to cover operating costs and fund necessary capital improvement projects. However, ongoing conservation stemming from the recent drought resulted in reduced sales and revenues necessary to operate both the Water and Wastewater departments. Although conservation is desirable, the variance between projected and actual usage created a financial imbalance for the funds. Over the last two fiscal years, staff have proposed, and the City Council has adopted several budget reductions to both the Water and Wastewater fund in an effort to reduce costs and support fiscal responsibility, including freezing staff positions, reductions in

operational expenses, and deferral of capital projects. Despite these changes, both funds remain structurally imbalanced, threatening the City’s ability to provide critical water and sewer services to City residences. To correct this, staff recommended, and the City Council approved a professional service agreement with Raftelis Financial Consultants, Inc. (Raftelis) to review and update the financial outlook for the water and wastewater departments along with proposed rate corrections.

On February 5, 2024, and March 18, 2024, City staff and Raftelis presented an updated financial outlook, a revised capital improvement plan, and proposed rate structures to recover the costs necessary to provide water and wastewater services. As part of this process, staff further scrutinized operational budgets for savings and carefully prioritized outstanding capital projects. The findings indicated that rate increases for both water and wastewater services are necessary to not only cover basic operating costs and bond covenants but to also fund new regulatory obligations and the replacement of aging infrastructure.

The new proposed rates included updated monthly fixed fees for all customers, three tiers for residential customers, and the establishment of various per unit fees for each customer class. The new rate structures are intended to fund basic operations, meet bond covenant requirements, fund critical capital improvement projects, and support funding to lessen the City’s reliance on the Russian River.

DISCUSSION/ANALYSIS:

The table below shows the forecasted revenue requirement, expenses by category and the overall proposed rate increases. These expenditures include operational costs, sufficient revenue to meet bond covenants, capital improvements, and funding for improved water supply security.

Water fund forecasted revenue, expenditures, and overall rate increases.

Effective Date	FY 2024-25	FY 2025-26	FY 2026-27
Operating & Maintenance	\$5,247,953	\$5,506,084	\$5,774,793
Debt Service	\$779,894	\$784,515	\$632,022
Capital Improvements	\$1,404,571	\$1,458,834	\$4,097,434
Total Costs	\$7,432,418	\$7,749,433	\$10,504,249
Revenue Adjustment	21.0%	20.0%	13.0%

Wastewater fund forecasted revenue, expenditures, and overall rate increases.

Effective Date	FY 2024-25	FY 2025-26	FY 2026-27
Operating & Maintenance	\$6,719,022	\$7,045,209	\$7,381,809
Debt Service	\$1,794,750	\$1,791,250	\$1,795,750
Capital Improvements	\$1,160,094	\$2,333,129	\$3,391,373
Total Costs	\$9,673,867	\$11,169,588	\$12,568,931
Revenue Adjustment	18.0%	18.0%	15.0%

Proposed Rates

Included in the proposed rates are structural changes for both water and wastewater. As proposed, residential monthly fixed fees for water customers will be set by the metered

connection size rather than the number of dwellings per meter. Additionally, per unit water charges will be based upon customer class (residential, commercial, industrial, landscape) and residential customers will include three increasing tiers. For wastewater, monthly fixed fees will remove the combined charge for single-family dwellings (SFD) with accessory dwelling units (ADU) and treat SFD with ADU as multi-family residential (MFR). The tables below, which are also included in the executive summary, show the proposed monthly and per-unit rates for water and wastewater services over the next three fiscal years.

Proposed Three-Year Water Rate Schedule (Executive Summary Table 1-3)

Description	Current	FY 2025		FY 2026		FY 2027	
Residential Fixed Monthly Service Charge							
Single Family	\$28.61	By Size	Meter	By Size	Meter	By Size	Meter
Single Family + ADU (per DU)	\$21.84	By Size	Meter	By Size	Meter	By Size	Meter
Multi-Family (Per DU)	\$17.01	By Size	Meter	By Size	Meter	By Size	Meter
Fixed Monthly Service Charges							
Up to 1"	\$45.26	\$41.34		\$49.61		\$56.06	
1 ½"	\$45.26	\$77.94		\$93.53		\$105.69	
2"	\$86.90	\$121.86		\$146.24		\$165.26	
3"	\$136.86	\$238.98		\$286.78		\$324.07	
4"	\$253.46	\$370.75		\$444.90		\$502.74	
6"	\$419.91	\$736.76		\$884.12		\$999.06	
Residential (Single Family & Multi-Family)							
Tier 1 (0-5 HCF)	\$6.48	\$6.48		\$7.78		\$8.80	
Tier 2 (6-10 HCF)	\$6.48	\$8.41		\$10.10		\$11.42	
Tier 3 >10 HCF	\$6.48	\$10.80		\$12.96		\$14.65	
Non-Residential Classes							
Commercial	\$6.48	\$7.61		\$9.14		\$10.33	
Industrial	\$6.48	\$9.49		\$11.39		\$12.88	
Landscape	\$6.48	\$11.06		\$13.28		\$15.01	
Riverview HOA ¹	\$1.59	\$1.93		\$2.32		\$2.63	

¹ Rate applicable to Riverview HOA under the terms of the 1997 order of condemnation

Proposed Three-Year Wastewater Rate Schedule (Executive Summary Table 1-5)

Description	Current	FY 2025	FY 2026	FY 2027
Residential Service Charges (\$/Month/Dwelling Unit)				
Single Family Residential (SFR)	\$46.67	\$51.33	\$60.57	\$69.66
SFR + ADU	\$31.95	N/A	N/A	N/A
Multi-Family Residential (MFR)	\$37.80	\$36.94	\$43.60	\$50.14
Flat Rate (Sewer Only SFR)	\$104.01	\$106.21	\$125.34	\$144.15
Non-Residential Service Charges (\$/Month/Meter)				
5/8"	\$75.75	\$83.88	\$98.99	\$113.84
1"	\$75.75	\$83.88	\$98.99	\$113.84
1 1/2"	\$148.49	\$243.37	\$287.18	\$330.26
2"	\$235.77	\$396.68	\$468.09	\$538.31
3"	\$439.44	\$1,279.52	\$1,509.84	\$1,736.32
4"	\$730.39	\$1,405.05	\$1,657.97	\$1,906.67
6"	\$1,966.94	\$1,405.05	\$1,657.97	\$1,906.67
Wastewater Usage Charges (\$/HCF)				
Residential (SFR/MFR)	\$11.47	\$14.71	\$17.37	\$19.98
Non-Residential				
Low Strength	\$10.31	\$11.43	\$13.49	\$15.52
Medium Strength	\$15.09	\$15.21	\$17.95	\$20.65
High Strength	\$22.08	\$21.08	\$24.88	\$28.62

Funded and Deferred Capital Improvement Projects

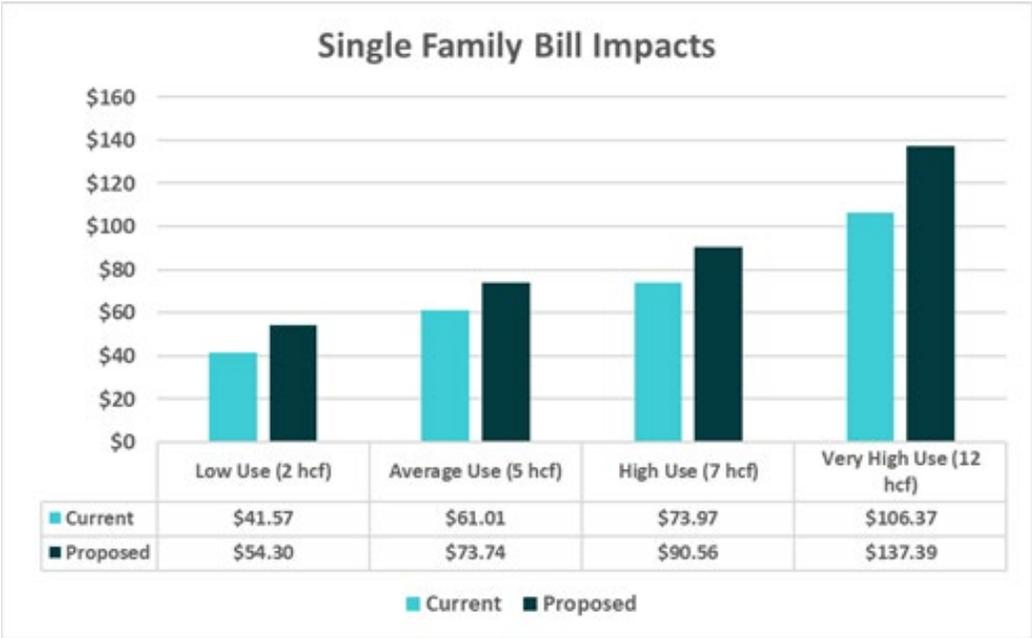
Due to aging underground infrastructure and new regulatory requirements staff is recommending, and the proposed rates include funding for critical capital improvement and replacement projects. Major funded projects include improved filtration of the City’s drinking water to eliminate cryptosporidium (a parasite found in surface waters) and to improve the City’s water supply security by increasing our ability to pump water from Dry Creek and Lake Sonoma. Several capital replacement projects totaling roughly \$27.5 million were deferred. The table below summarizes both the major funded projects and the major deferred projects.

Included In Proposed Rates (\$13.9 million)	Deferred Projects (\$27.5 million)
Dry Creek Cryptosporidium Filtration – Water	Fitch Well Field Cryptosporidium Filtration – Water
Dry Creek Pumping & Clear Well Improvements – Water	Dry Creek Well Capacity Improvements – Water
Gauntlett Reservoir Liner Replacement – Water	Gauntlett WTP Membrane Replacements – Water
Healdsburg Ave Utility Replacement - Water & Wastewater	Gauntlett Reservoir Membrane Replacements – Water
Brown Street Sewer & Water Replacement –	Fitch Treatment Modernization – Water

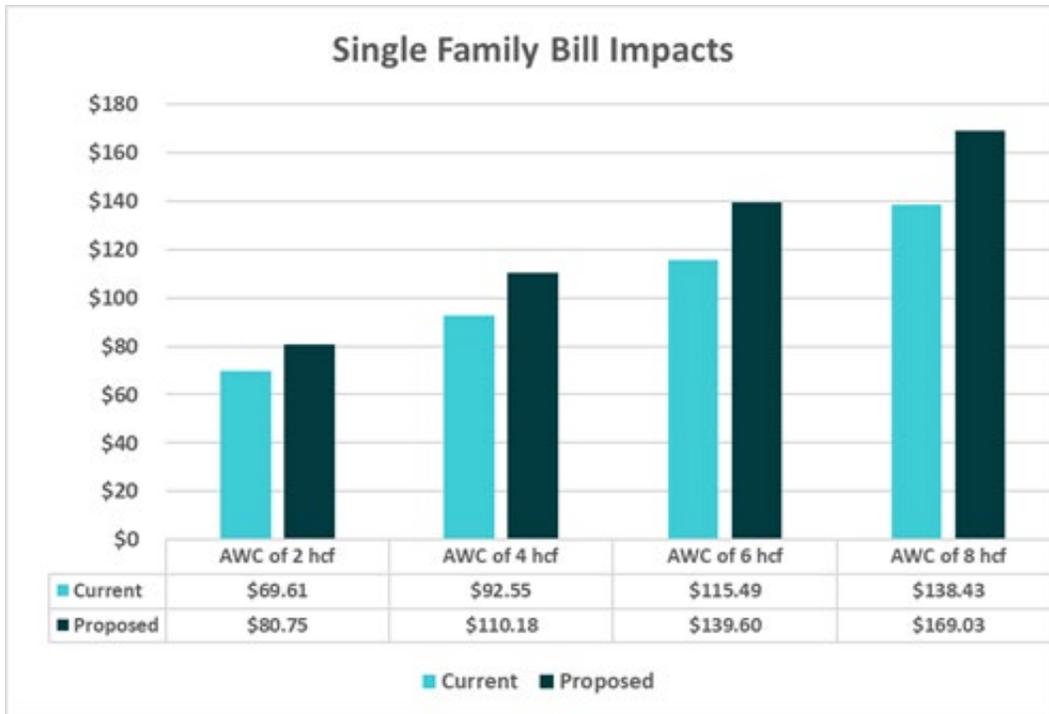
Water & Wastewater	
University Street Sewer & Water Rpl. – Water & Wastewater	PFAS removal – Water (TBD by 2024/25 test results)
Orchard Lift Station Rehabilitation – Wastewater	Gauntlett and Fitch Pipeline Rehab – Water
Healdsburg Ave Sewer Replacement - Wastewater	McDonough Watermain Replacement – Water & Wastewater
Water Reclamation Facility Membrane Replacement – Wastewater	Heron Lift Station Relocation – Wastewater
Magnolia Lift Station Rehabilitation – Wastewater	Hendricks Lift Station Conversion – Wastewater
	Inflow & Infiltration Repairs – Wastewater

Residential Bill Impacts

The forecasted costs and increases shown are necessary to provide reliable water and wastewater services. While the overall rate increases are shown in the tables further above, impacts on individual users and differing classes of customers can vary. Included within the executive summary and in the charts below are rate impacts to typical water and wastewater customers. For the average water and wastewater users (5HCF of water and 4HCF of wastewater) the combined rate increase is roughly \$30 per month.



Monthly Water Bill Impacts for typical Single-Family residential usage (FY 2024-25)



Monthly Wastewater Bill Impacts for typical Single-Family usage (FY 2024-25)

Unique to Healdsburg is the ownership of a publicly owned electric utility. Over the years the City’s electric utility has provided better reliability at a lower cost than available outside City limits. Currently the City’s electric rates are roughly half those of PG&E resulting in citywide savings of over \$19 million annually. While rate increases in water and wastewater are an unwelcome necessity, energy cost savings for Healdsburg’s residential and commercial customers outweigh the proposed increases. For example, the typical residential home using 300 kilowatt-hours per month will save roughly \$75 a month, creating an overall utility bill (water, sewer, and electric) that’s lower than other surrounding cities.

Final Cost of Service and Rate Design Study

During the May 6, 2024 public hearing, staff heard comments from one resident regarding concerns of errors within the Cost of Service and Rate Design Study (Study). Staff and Raftelis closely reviewed those concerns and provided corrections to the final Study. The errors consisted of typographical or text errors that did not impact the published rates, rate structures, or forecasted revenues. Corrections included the following:

- Corrections to units shown in Figure 11, this chart is millions of gallons not acre-feet.
- Corrections to table 4-3 correcting the current number of metered water connections.
- Corrections to the meter ratio text (section 4.5.1), 50 gpm is the correct divisor.
- Identified small rounding errors within the estimated bill impacts presented in the Prop 218 notice. Rounding resulted in combined bill impact error of 9-cents in 2025 and 18-cents in 2026.

Rate Implementation

During the City Council’s regularly schedule May 6, 2024 meeting, a public hearing was held and receive public input on the recommended water and wastewater rate increases. Upon

conclusion of the public hearing the City recorded 187 protest votes, less than a majority allowing the Council to approve of the proposed rate increases. After further deliberations, the City Council approved the proposed rate increases and the ordinance is on the agenda for May 20, 2024 for final adoption.

ENVIRONMENTAL STEWARDSHIP:

Continued adequate funding for both the water and wastewater departments allows these activities to work within existing and future environmental regulations. The proper treatment of drinking water along with the proper collection and treatment of the City's wastewater helps ensure the responsible use of natural water resources and that the City's waste will not pollute the local creeks and rivers.

ALTERNATIVES:

As an alternative the City Council could choose not to pass the ordinance and provide further direction to staff. Due to existing structural deficits and needed funding for capital improvements staff does not recommend this option.

FISCAL IMPACT:

Due to lower-than-expected customer usage, both the Water and Wastewater departments are experiencing budget shortfalls that are not sustainable. Staff and the City Council have eliminated many capital improvement projects and lowered necessary operating costs where possible to continue operations under the current rate structure. However, the prepared financial outlook identifies that revenue adjustments are needed to correct budget shortfalls, meet bond covenants, meet reserve policies, and fund necessary capital improvement projects. The proposed rates will correct the structural deficit and place the City on a path to fund critical capital improvement projects.

ENVIRONMENTAL ANALYSIS:

A utility rate is not subject to the provisions of the California Environmental Quality Act (CEQA) because a rate study and/or increase is not a project as defined in CEQA Guidelines section 15378, since it will not have a direct or reasonably foreseeable indirect impact on the environment.

ATTACHMENT(S):

Ordinance
Healdsburg Rate Study Report