



## **STAFF REPORT TO THE CITY COUNCIL**

**DATE:** Regular Meeting of July 22, 2025

**TO:** Mayor and Members of the City Council

**VIA:** Dante Hall, City Manager

**SUBMITTED BY:** Glenn Dombeck, Public Works Director/City Engineer

**SUBJECT:** Public Hearing to Consider Whether to Adopt Proposed Sewer Rate Increases Pursuant to Proposition 218

### **RECOMMENDED ACTION:**

It is recommended that the City Council take the following actions:

1. Conduct a public hearing pursuant to Section 6(a)(2) of Article XIII D of the California Constitution regarding the proposed changes to the sewer rates. During the Public Hearing, consider all protests against the proposed changes to the sewer rates;
2. Close the Public Hearing
3. If written protests against the proposed sewer rates are presented by a majority of the affected parcels of real property, the proposed sewer rates cannot be adopted; or
4. If written protests against the proposed sewer rates are presented by less than a majority of the affected parcels of real property, adopt the following Resolution titled: "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HERCULES FINDING THAT NO MAJORITY PROTEST EXISTS AND ADOPTING SEWER RATES."

## BACKGROUND:

On May 27, 2025, the City Council received Willdan Financial Services' (Willdan's) presentation of their May 13, 2025 Comprehensive Sewer Utility Rate Study results and recommendations. City Council directed staff to schedule a Public Hearing with formal notification to all property owners and customers of record, as is required by Proposition 218, for July 22, 2025.

The current utility rates were adopted in April 2009. The City has not increased sewer rates since 2014 despite rising costs for operations, maintenance, and personnel. The financial rate study conducted by Willdan demonstrates that Hercules' existing sewer rates are not fully recovering costs associated with operation, maintenance, and capital projects. The five-year rate adjustment plan, beginning in FY 2026 (commencing July 1, 2025), is necessary to address these cost increases and ensure compliance with financial obligations, such as reserve targets and debt service coverage.

The Council will hold a separate public hearing on July 29, 2025 to consider the collection of sewer service charges on the tax roll.

## ANALYSIS:

Sewer rates are collected twice a year through the Contra Costa County property tax roll. The existing rates for sewer service are provided in Table 1.

**Table 1 – Existing Annual Sewer Rates**

Description	Rate
<b>Minimum Fixed Charge:</b>	
Single-Family Residence <sup>[1]</sup>	\$ 625.80
Multi-Family Residence (per Dwelling Unit) <sup>[1]</sup>	\$ 625.80
Senior Living (per Dwelling Unit) <sup>[1] [2]</sup>	\$ 427.16
Non-Residential Metered (per Business)	\$ 120.00
<b>Volumetric Rates Per 100 Cubic Feet - Non-Residential Metered:</b>	
All Flow	\$ 3.87

[1] All residential customers only pay a flat fee per dwelling unit, regardless of usage.

[2] Apartments are currently charged the existing "Senior Living" flat fee per dwelling unit only, regardless of usage. Under the proposed rates, starting in FYE 2026, apartments will pay the "Multi-Family Residence" flat fee per dwelling unit only, regardless of usage.

## Sewer Rate Study

The Willdan Report analyzed revenue sources and expenditures of the sewer utility system, developed a five-year financial analysis, and provides recommendations for proposed rate/and or rate structure adjustments to meet the financial and administrative

goals and objectives of the City. It is projected that, under the existing rates, adequate revenues will not be realized for the City to meet its collective projected operating financial obligations and cover costs of capital projects. Therefore, adjustments to current rates are required to generate additional revenue to fund projected costs of operations and capital projects; and maintain adequate cash reserves. The Report shows that under existing rates, if capital projects are funded, the sewer fund will decline from a \$12.9 million balance in Fiscal Year 2025-2026 to \$160,000 in Fiscal Year 2029-2030 with inadequate reserve targets and debt service coverage beginning in Fiscal Year 2026-2027.

### **Proposed Sewer Rates**

City staff and Willdan developed a financial plan to adequately fund sewer system costs. The annual sewer rates, identified in Table 2, reflect the cost of providing service to individual customers based on customer class for the five-year period covering fiscal years 2025-2026 through 2029-2030. The fiscal year starts on July 1 and ends on June 30 of the following year for a 12-month consecutive period. The proposed sewer rates and charges are anticipated to generate sufficient revenues to meet the minimal funds necessary for the City to operate, maintain and improve the sewer system for the next five years.

**Table 2 – Proposed Annual Sewer Rates**

Description	Existing Rates	Projected for Fiscal Year Ending June 30,				
		2026	2027	2028	2029	2030
Minimum Fixed Charge:						
Single-Family Residence <sup>[1]</sup>	\$ 625.80	\$ 801.40	\$ 857.50	\$ 908.95	\$ 949.85	\$ 983.09
Multi-Family Residence (per Dwelling Unit) <sup>[1]</sup>	\$ 625.80	\$ 690.23	\$ 738.55	\$ 782.86	\$ 818.09	\$ 846.72
Senior Living (per Dwelling Unit) <sup>[1] [2]</sup>	\$ 427.16	\$ 562.37	\$ 601.74	\$ 637.84	\$ 666.54	\$ 689.87
Non-Residential Metered (per Business)	\$ 120.00	\$ 335.97	\$ 359.49	\$ 381.06	\$ 398.21	\$ 412.14
Volumetric Rates Per 100 Cubic Feet - Non-Residential Metered:						
All Flow	\$ 3.87	\$ 7.13	\$ 7.63	\$ 8.08	\$ 8.45	\$ 8.74

[1] All residential customers only pay a flat fee per dwelling unit, regardless of usage.

[2] Apartments are currently charged the existing "Senior Living" flat fee per dwelling unit only, regardless of usage. Under the proposed rates, starting in FYE 2026, apartments will pay the "Multi-Family Residence" flat fee per dwelling unit only, regardless of usage.

Property-based fees and charges are required to comply with Proposition 218, which is a constitutional amendment adopted in 1996. As such, fees/charges that are imposed as an incident to property ownership or tenancy, such as sewer rates, must be based on and not exceed the reasonable proportional cost of providing the service, and revenues received from these charges cannot be used for any other purpose than that for which they are imposed.

Table 3 shows projected revenues and expenditures and fund balances if the proposed sewer fees are adopted. The projected revenues generated from the proposed annual sewer rates will include cash reserves on hand to help fund ongoing operations in the event of periodic fluctuations in cash flow, and to address unexpected needs that may require cash funding. Table 3 also includes projected revenues for 2026, calculated based

on existing rates, as a basis for comparison with the revenues generated, calculated based on the proposed rates.

**Table 3 – Projected Operating Results (in \$1,000's)**

Description	With Existing Rates	Projected if Proposed Rates are Approved				
	FY 2025-26	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30
Revenues	\$6,235	\$7,810	\$8,269	\$8,738	\$9,121	\$9,443
Operations & Maintenance Expenses	(\$5,209)	(\$5,209)	(\$5,481)	(\$5,771)	(\$6,081)	(\$6,350)
Other Expenditures & Transfers	(\$2,066)	(\$2,066)	(\$2,067)	(\$2,063)	(\$2,063)	(\$2,063)
Capital Projects	(\$1,985)	(\$1,985)	(\$2,750)	(\$1,675)	(\$650)	\$0
Beginning Fund(s) Balance	\$15,923	\$15,923	\$14,473	\$12,443	\$11,671	\$12,000
Ending Fund(s) Balance	\$12,898	\$14,473	\$12,444	\$11,672	\$11,998	\$13,030

### **Intention to Levy**

On May 27, 2025, the City Council accepted a report from Willdan on the proposed sewer rates and directed staff to mail notice of a public hearing to record owners of parcels at least 45 days before holding a hearing.

### **Prop 218 Public Hearing Notice**

Article XIII D, section 6 of the California Constitution requires the local government to mail notice at least 45 days before holding a hearing at which the proposed fee or charge will be considered. On June 5, 2025, a Notice of the Public Hearing, set for July 22, 2025, at 7:00 pm at the Hercules City Council Chamber, regarding the proposed changes to annual sewer rates, was mailed out to record owners of parcels subject to the proposed sewer rates. This noticing provided an additional three (3) days than the legally required time frame to file a protest.

The proposed fees will be subject to a majority protest proceeding at the public hearing and will be enacted only if there is not a written majority protest from identified parcels subject to the fee. The Notice mailed to property owners described the protest procedure.

### **Public Hearing**

At the Public Hearing, staff recommends the City Council consider all protests against the proposed changes to the annual sewer rates. If written protests against the sewer rates are presented by owners of a majority of the affected parcels, the City Council may not impose the proposed sewer rates.

### **Rate Adjustment Effective Dates**

If adopted, the proposed sewer rates will become effective July 1, 2025, through June 30, 2030.

### **CEQA**

As set forth in 14 California Code of Regulation Section 15273, the California Environmental Quality Act does not apply to the establishment, modification, structuring, restructuring, or approval of rates and other charges by public agencies which are for the purpose of meeting operating expenses, purchasing or leasing supplies, equipment, or materials, meeting financial reserve needs and requirements, and/or obtaining funds for capital projects, necessary to maintain service within existing service areas.

### **Conflict of Interest Laws**

Pursuant to “conflicts of interest” laws, if a governmental decision produces a foreseeable material financial effect on parcels of real property owned by councilmembers, then there are certain factors that must be considered by those councilmembers located inside a 500-foot radius from a project’s boundaries. There is, however, an exception to the disqualification requirement: if the “decision solely concerns repairs, replacement or maintenance of existing streets, water, sewer, storm drainage or similar facilities” then the governmental decision is not material to cause a conflict of interest. 2 CCR § 18702.2. Therefore, no council members are disqualified regarding this project and do not need to recuse themselves.

### **Record Owner Comment Received to Date**

Comments received to date express similar concern about the financial challenge presented by the proposed rate increase. Several comments assert a lack of transparency regarding the basis for the rate increase, a lack of communication on behalf of the City and a lack of detailed information on the costs involved.

In response to comments regarding communication, the City provided mailed notice, at least 45 days prior to the hearing, as required by Proposition 218. The City held a meeting on May 27, 2025 to review the rate study and a held a hearing on adoption of the proposed rate structure on July 22, 2025. Additionally, for the entire duration of the notice period, the City has hosted a Sewer System Rates web page, accessible by entering ‘rates’ into the search engine on the City’s home page, which provides a comprehensive FAQ covering the sewer system, the sewer capital improvement program, and the proposed sewer rates, as well as links to the sewer rate notice, the 2025 Comprehensive Sewer Utility Rate Study (“Rate Study”) and the 5/27/25 meeting video and agenda.

The Rate Study documents the basis for the proposed cost-based rate structure as necessary to achieve full recovery of all costs related to utility operations, including operating and maintenance costs, debt, and other expenditure requirements. Projected Operating costs are summarized in Table 18 of the Rate Study and a detailed breakdown of operation and capital costs for FY2026 are provided in Appendix B. Public Works expenditures and capital projects are detailed in the approved FY25-26 budget, which is also accessible on the City’s website. Concerns that the proposed rates are unjustified

do not account for the fact that the City has not raised rates since 2014 or that the CIP for both the City and the Pinole wastewater treatment plant was not available prior to FY24.

Concerns about affordability are addressed in the current and proposed rate structure through a waiver program where eligible multi-family accounts that demonstrate low water usage over an annual basis are charged at the Senior Living rate.

**FISCAL IMPACT:**

Current projections indicate that, unless changes are made to the existing rates, the City may face challenges in generating adequate revenue to fulfill its overall operating financial obligations, address capital project costs, and manage anticipated transfers. To address this concern, the proposed sewer rates and charges are designed to generate necessary revenues to meet the system's requirements over the next five-years. If the City Council approves these recommendations, the new rates would be implemented at the start of the billing cycle following July 1, 2025.

**ATTACHMENTS:**

1. Resolution
2. Notice mailed to voters (45 Day Notice)