



STAFF REPORT TO THE CITY COUNCIL

DATE: Regular Meeting of May 27, 2025

TO: The Mayor and Members of the City Council

VIA: Dante Hall, City Manager

SUBMITTED BY: Glenn Dombeck, City Engineer

SUBJECT: Presentation of City's 2025 Comprehensive Sewer Utility Rate Study Report

RECOMMENDED ACTION:

Receive Willdan Financial Services' (Willdan's) presentation of their Comprehensive Sewer Utility Rate Study Report (Report) results and recommendations, set the Proposition 218 public hearing date, and approve the mailing of public hearing notices (Attachment 2) to conduct a public hearing at the July 22, 2025 City Council meeting.

BACKGROUND:

The City's sewer rates are submitted annually to the Contra Costa County Auditor-Controller's Office for placement each year on the Secured Property Tax Roll. Utility rates must be set at a level such that operating, maintenance, debt, and capital expenses are funded with the revenues received from customers. City sewer rates, which are collected twice a year through the County tax roll, have not been updated since 2014.

On May 28, 2024, the City Council received a presentation on the Fiscal Year (FY) 23/24 Sewer Fund financial model prepared by Wildan. The presentation included findings of the model run conducted by Wildan and recommendations for rate adjustments to meet the budgeted and projected financial needs in future years. The presentation also included a recommendation to proceed with a Proposition 218 process in Spring 2025 to increase rates in FY 25/26.

Wildan's Report (Attachment 1) includes the development and presentation of a pro-forma sewer financial plan for a 5-year planning period, as well as the development of cost-based rates through a cost-of-service and rate design analysis. The purpose of this

study is to provide a review of the City's existing utility rates to determine if rate adjustments are necessary to meet the budgeted and/or projected financial needs in future years. The report provides the results of Wildan's investigations, analyses, and conclusions from this study.

The rate study methodology applied in the development of updated sewer rates, outlined in the Report, consisted of reviewing the historical operating results of the sewer utility system, analyzing the budget to identify the net revenue requirements to be recovered from user rate revenues, performing general cost-of-service allocations based on the rate components and functional cost categories, and revising the rates based on the applicable costs and expenditures to be removed from user rates. The findings and conclusions of the rate analysis, as well as the resulting revised rate recommendations, were utilized to develop a projection of future operating results for a 5-year planning period from FY 2026 (beginning July 1, 2025) through FY 2030 (ending June 30, 2030), referred to as the "Projection Period".

The purpose for developing the 5-year projections is to determine the financial capability of the sewer revenues to support system operations and maintenance and fund planned capital improvements. The following table summarizes the maximum proposed sewer rates covering the 5-fiscal year Projection Period through June 30, 2030:

Description	Existing Rates	Projected for Fiscal Year Ending June 30,				
		2026	2027	2028	2029	2030
Minimum Fixed Charge:						
Single-Family Residence ^[1]	\$ 625.80	\$ 801.40	\$ 857.50	\$ 908.95	\$ 949.85	\$ 983.09
Multi-Family Residence (per Dwelling Unit) ^[1]	\$ 625.80	\$ 690.23	\$ 738.55	\$ 782.86	\$ 818.09	\$ 846.72
Senior Living (per Dwelling Unit) ^{[1] [2]}	\$ 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
Notes:						
[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.						

The City Council would implement new annual sewer rates as a series of annual adjustments starting on July 1, 2025, and each July 1 thereafter until July 2029.

For the upcoming resolution authorizing the new annual sewer rates, staff recommends that the City continue the appeal process established in April 2009. Continuing this process will enable residents of townhomes or condominiums who can demonstrate low water usage to be billed at the senior living service rate. Currently, four townhomes and two condominiums are participating in the waiver program.

FISCAL IMPACT:

None.

ATTACHMENTS:

Attachment 1 – May 13, 2025 City of Hercules, CA Comprehensive Sewer Utility Rate Study Report

Attachment 2 – Notice of Public Hearing Regarding Proposed Changes to Annual Sewer Rates

Attachment 3 - Presentation

Financial Impact

Description: Presentation of 2025 Sewer Rate Study Report

Funding Source: N/A

Budget Recap:

Total Estimated cost: None New Revenue: None

Amount Budgeted: None Lost Revenue: N/A

New funding required: Yes No ☒