

SANITARY SEWER RATE STUDY FINDINGS

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City Council Meeting
March 11, 2025

The Sanitary Sewer System

Service area of 12,430 acres, +280 miles of gravity sewer mains, force mains and 11 lift stations

Sanitary Sewer Master Plan Update (SSMP) – adopted by City Council in May 2023

Existing sewer flows are estimated at 10.46 million gallons per day

SSMP estimates an additional 2.33 million gallons per day from the North of Boronda Future Growth Area (FGA)

SSMP developed a Capital Improvement Program and defined Capital Improvement Projects (CIP)

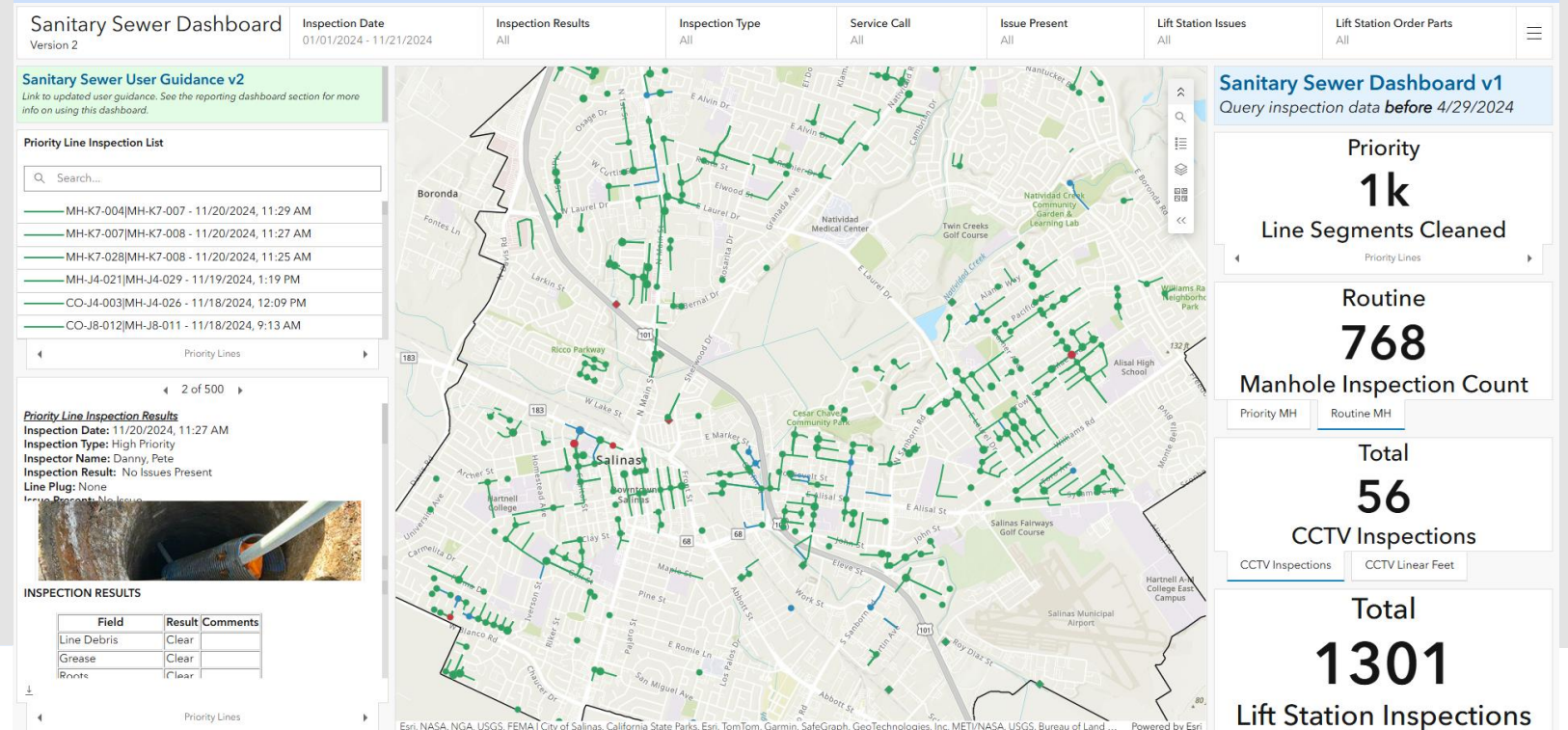
CIP (maintenance, lift stations and future) were ranked based on specific criteria.

Rate Study

What is a Rate Study?

A rate study is a financial evaluation process by which a City establishes the amount required to fully fund a utility program.

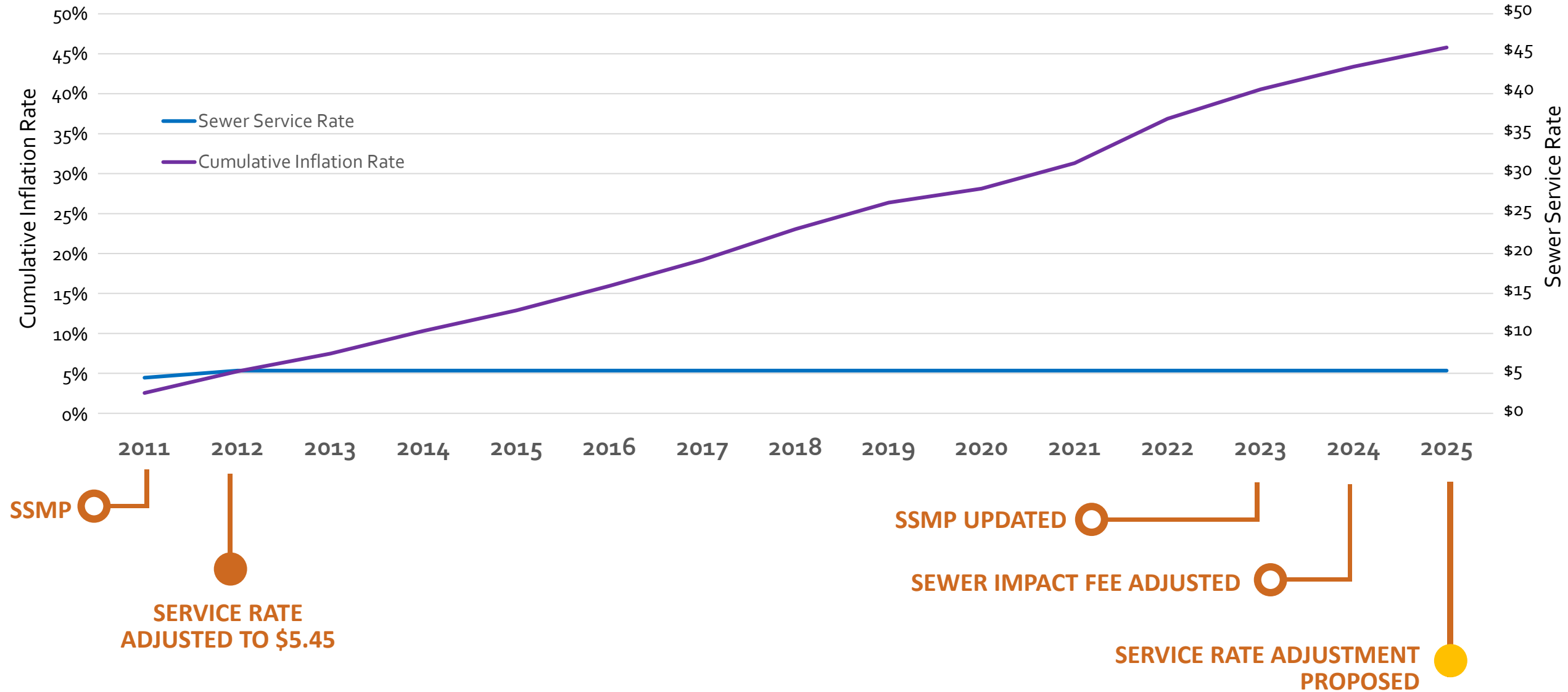
Staff • Equipment • Supplies • Software • Maintenance Work • Consultants • Contractors • Repairs • Improvements • Upgrades • Permit Compliance • Reserves • Debt Service



2011 Sewer Rate Study

- In 2011, City Council approved the Sanitary Sewer Master Plan (SSMP)
- In November 2011, City Council received a Wastewater Financial Plan and Rate Study.
- On February 1, 2012 sewer service rates were adjusted to \$5.45 per month for a residential unit or equivalent dwelling unit (EDU)
- The 2011 SSMP did not incorporate required upgrades needed to allow for future growth
- FY24/25 anticipated \$400,000 shortfall

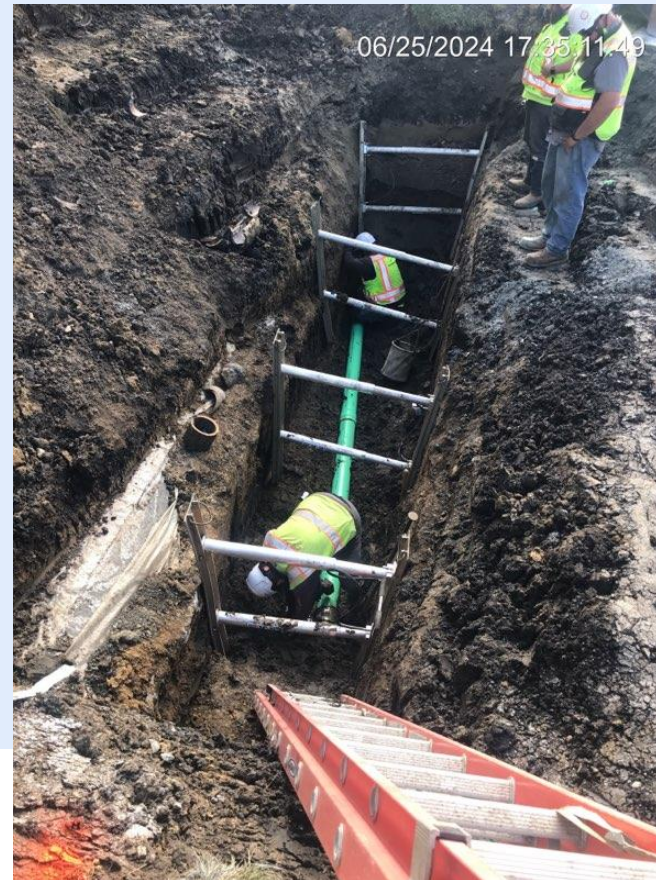
Financial Trends



| City | Population | Total Sewer Rate | City Sewer Rate | Gravity Sewer Pipelines | Lift Stations | Investment |
|---------------|------------|-------------------|-------------------|-------------------------|---------------|-------------------------|
| | | Per EDU per month | Per EDU per month | Miles | No. | \$ per mile of pipeline |
| Salinas | 163,542 | \$ 56.40 | \$ 5.45 | 280 | 11 | \$ 0.02 |
| Monterey | 30,218 | \$ 65.06 | \$ 14.11 | 98 | 7 | \$ 0.14 |
| Pacific Grove | 15,090 | \$ 85.78 | \$ 34.83 | 58 | 7 | \$ 0.60 |
| Seaside | 32,366 | \$ 67.47 | \$ 16.52 | 70 | 4 | \$ 0.24 |

Sanitary Sewer Pipeline Investment

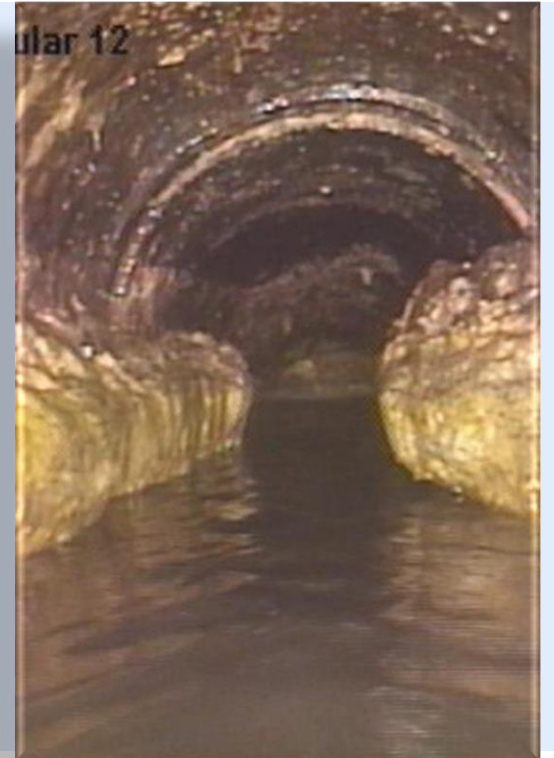
Impacts of Funding Shortfall



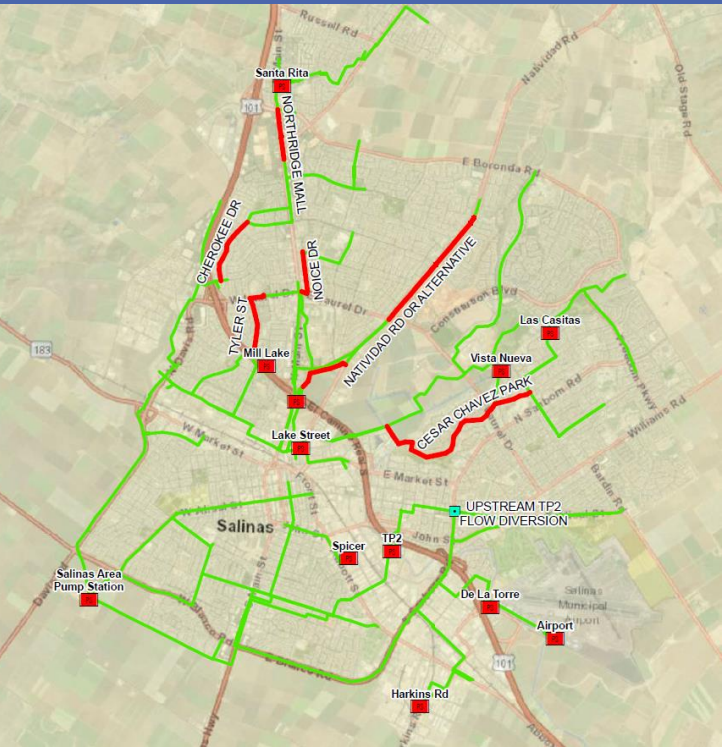
How did we get here?

What has changed?

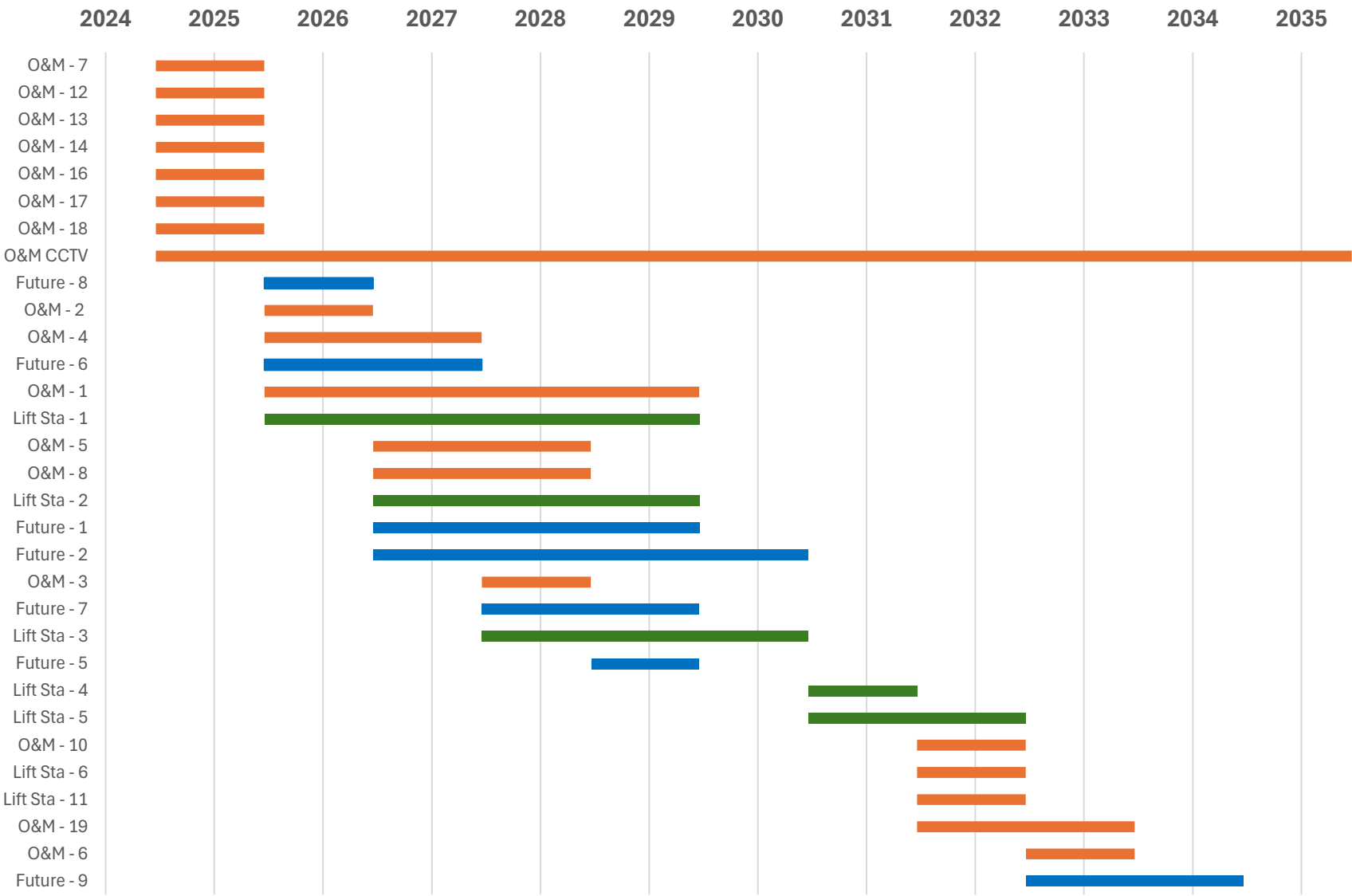
- Costs have increased
 - Construction and materials
 - Consultants/Contractors
 - Staff / Equipment / Software
- **Aging infrastructure deteriorates and needs to be repaired or replaced**



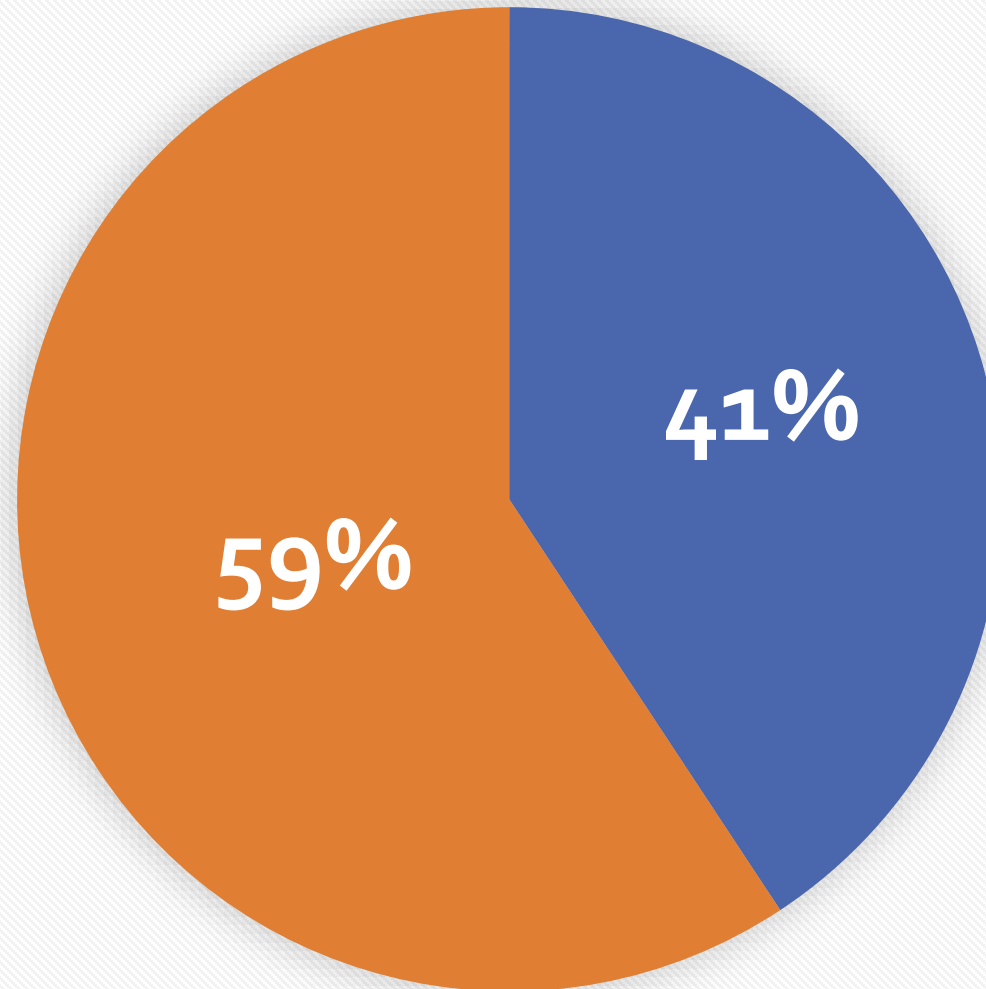
Plan to Move Forward



CIP Schedule



CIP Cost Sharing



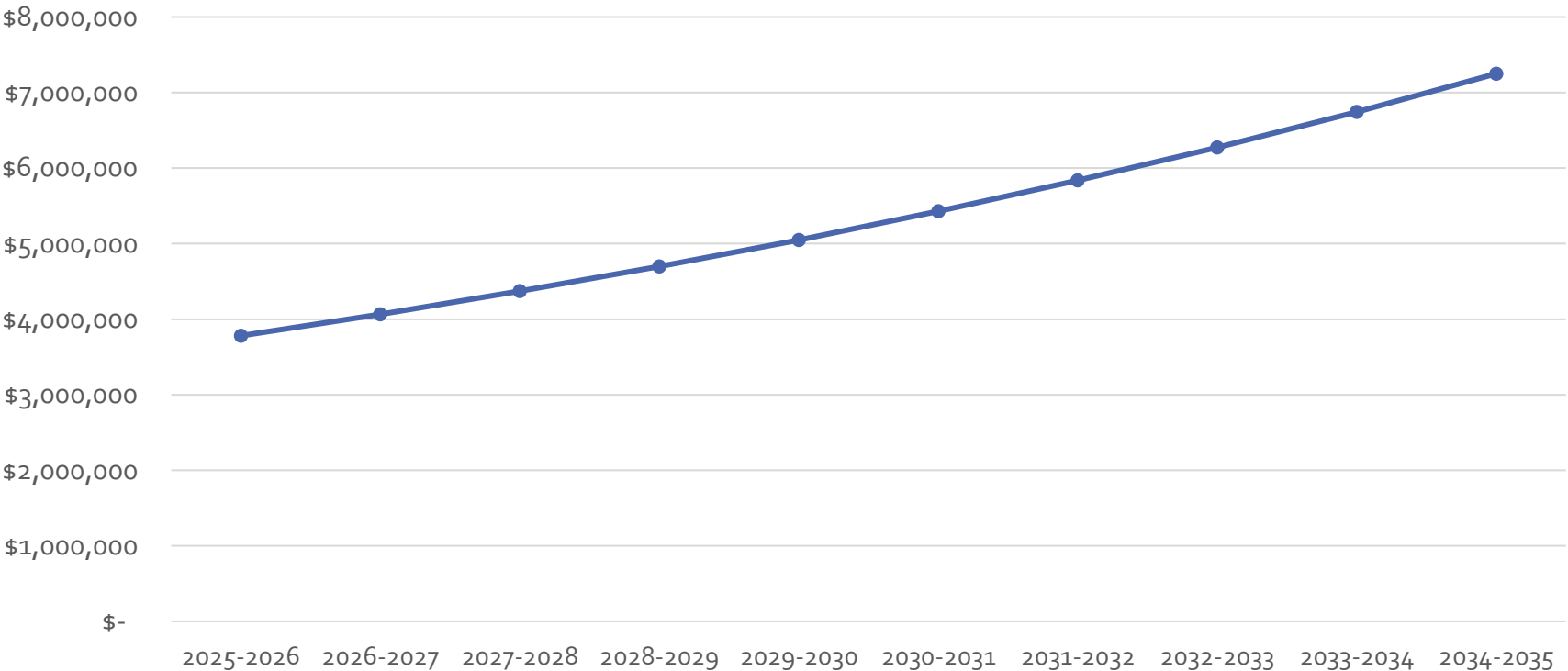
■ Developers ■ Rate Payers

Rate Study Findings

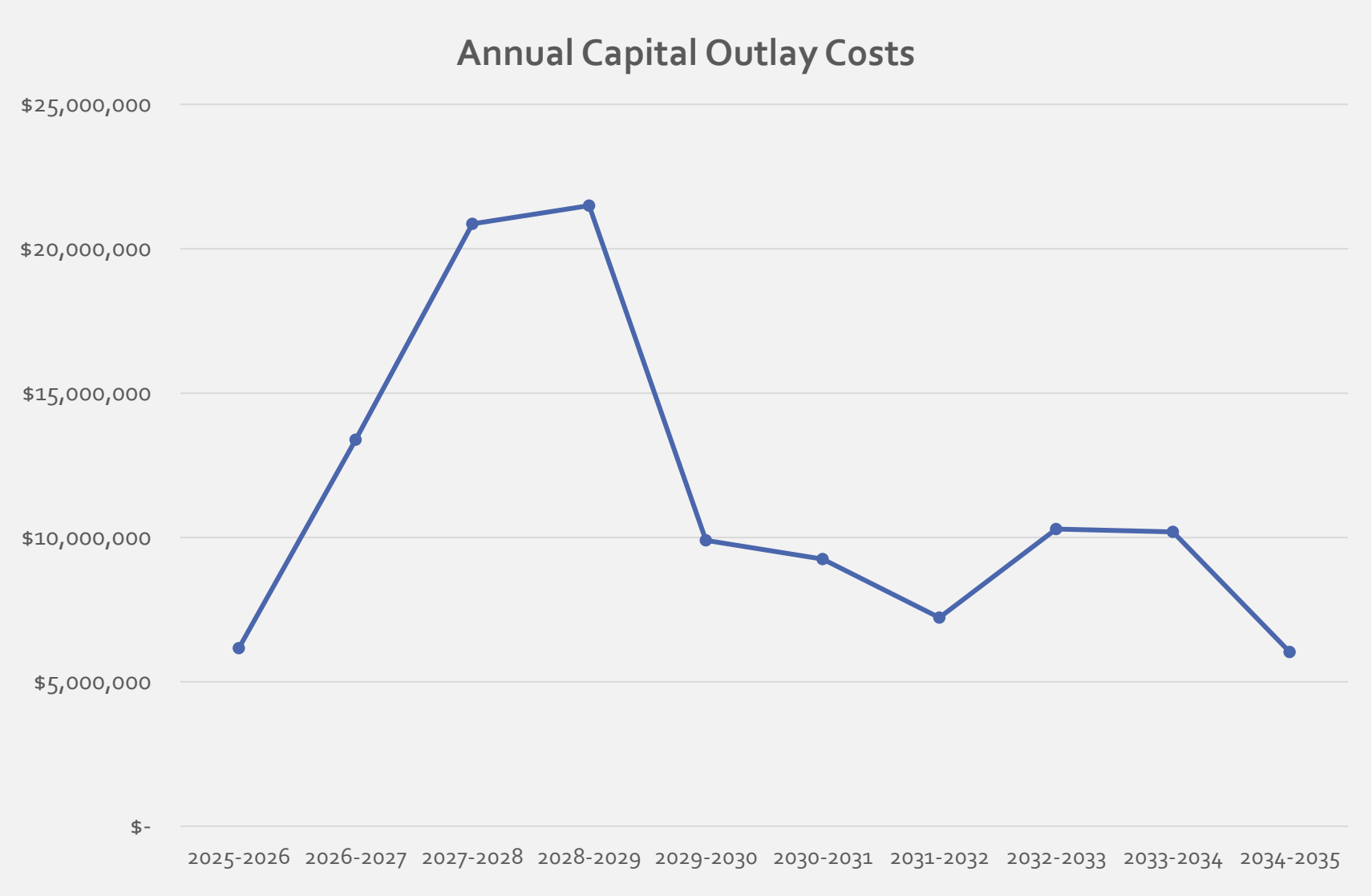
Operation and Maintenance Costs:

- Salaries & Benefits
- Supplies & Materials
- Outside Services
- Other Charges
- NPDES Allocation

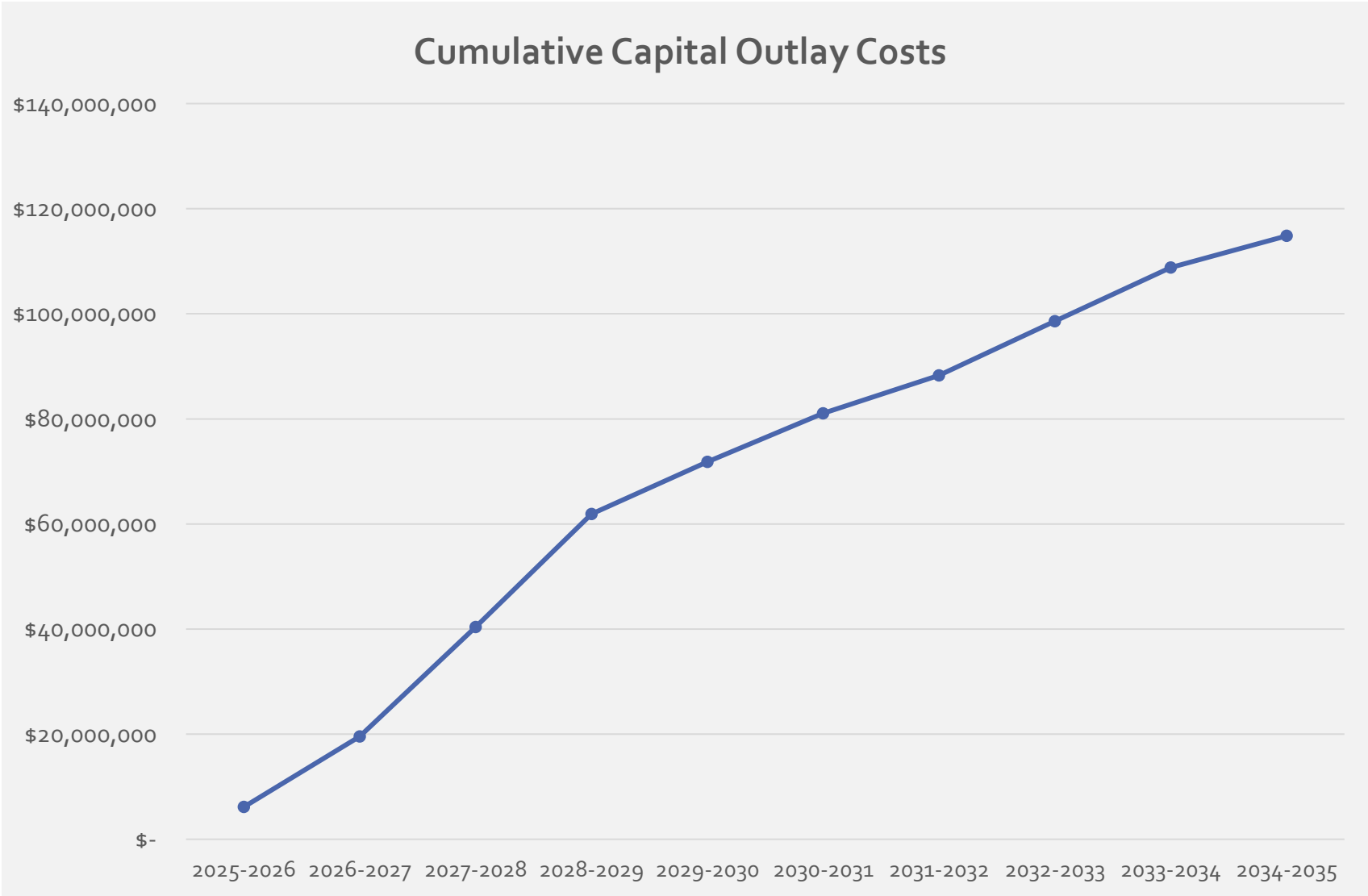
Annual O&M Costs



Rate Study Findings



Rate Study Findings



Rate Study Findings

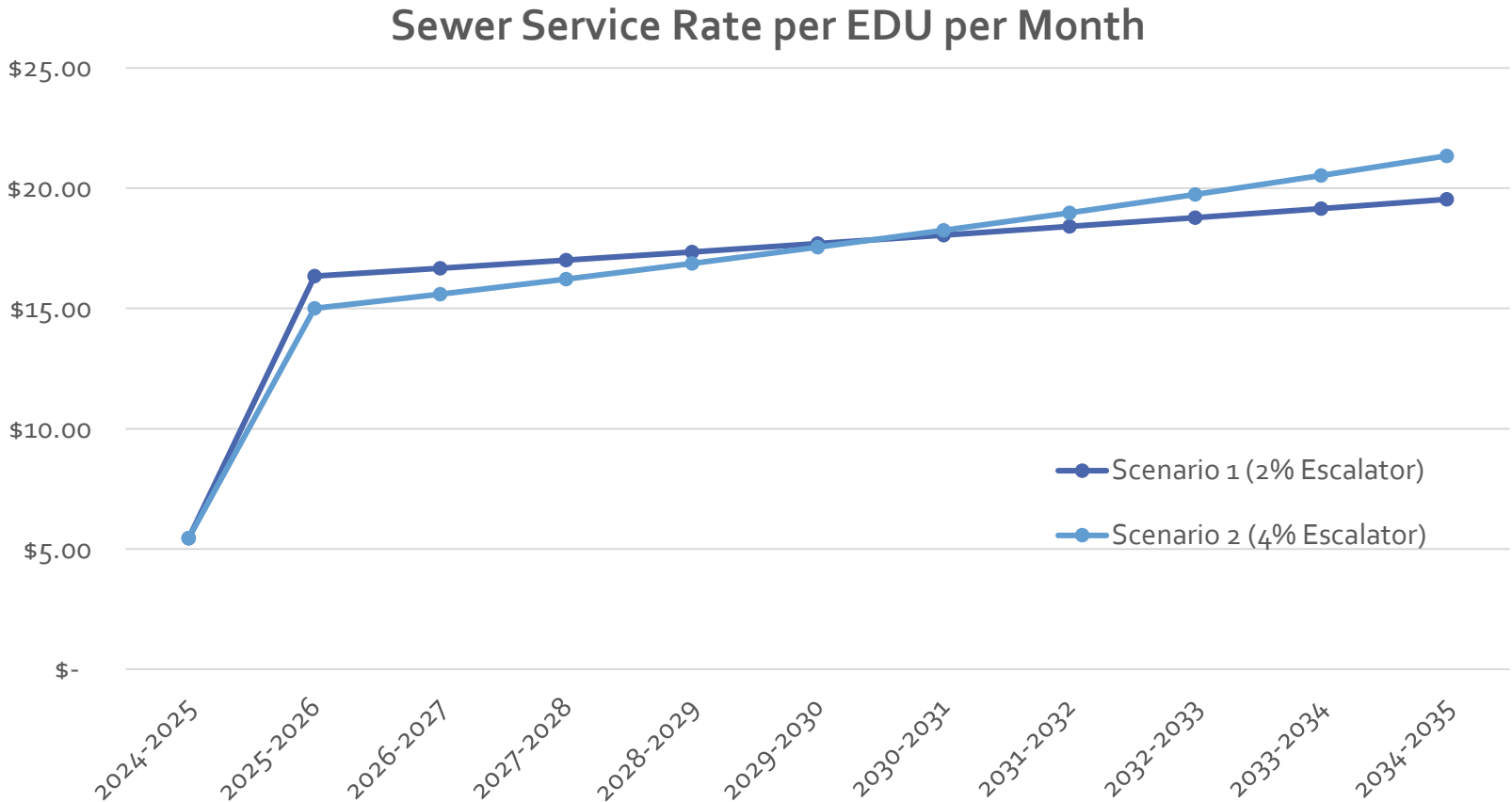
Rates are structured based on EDUs:

- 60,000 EDUs based on data provided by Monterey One Water
- Single Family Residence = 1 EDU
- Other land uses have different EDU factors (i.e., hotel/motel rooms at 0.43 EDUs)
- Growth rate for future development (EDUs) assumed at 1.0% per year

Proposed Sewer Service Rates:

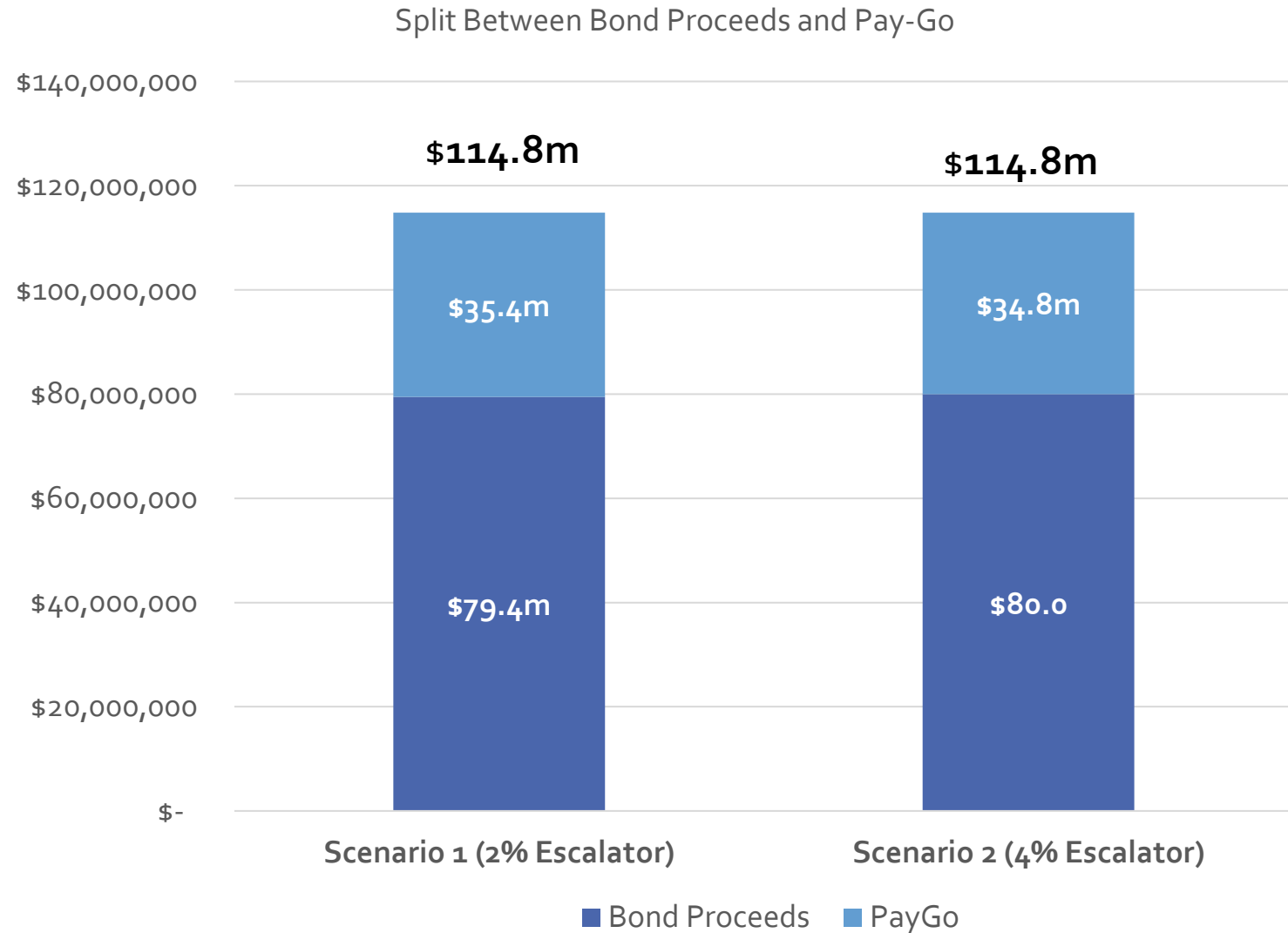
- Sewer rate to fund annual O&M and capital facilities
- Fund \$2 million O&M operating reserve fund
- Ending balance in Year 10 of \$7.5 million in the Capital Replacement Fund for future capital costs
- Scenario 1: \$16.35, 2% Annual rate escalation
- Scenario 2: \$15.00, 4% annual rate escalation

Proposed Sewer Service Rate



Funding Scenario Analysis

Proposed Pay-as-you-go funds and bond proceeds under each scenario:



Bond Rating

Sewer service rate increase is needed so that City meets 125% debt service requirement.

December 23, 2024: S&P Global Ratings lowered its long-term rating four notches to 'BBB+' from 'AA-' on Salinas' sanitary sewer enterprise fund revenue debt

- “...weak financial performance trend based on weak cost recovery practices.”
- The system's all-in coverage has declined below its 1.2x rate covenant for fiscal 2023 and below 1.0x for fiscal 2024 (unaudited).

Key Takeaways

- Aging infrastructure deteriorates and needs to be repaired or replaced
- Costs to maintain the system have increased significantly
- Sewer system upgrades/upsizing are required for future growth
- The Sewer Service Rate has not been updated since 2012, leading to a funding shortfall
- Two funding scenarios have been presented to stabilize the Sewer Enterprise Fund (\$16.35@2% or \$15.00@4%)
- Bonding obligations require the City to financially stabilize the Sewer Enterprise Fund

Next Steps

Outreach

Inform Property Owners, the Business Community & Public
In-Person Presentations, Website, News Releases and Social Media

Tentative Timeline

- March 4 Present Findings to Finance Committee
- March 11 Present Findings to City Council
- April 8 Request Authorization to Proceed with the Proposition 218 Process, Set Public Hearing Date and Protest Process (45-day Notice)
- June 3 City Council Meeting for Public Hearing
- July 1 New Rates Effective

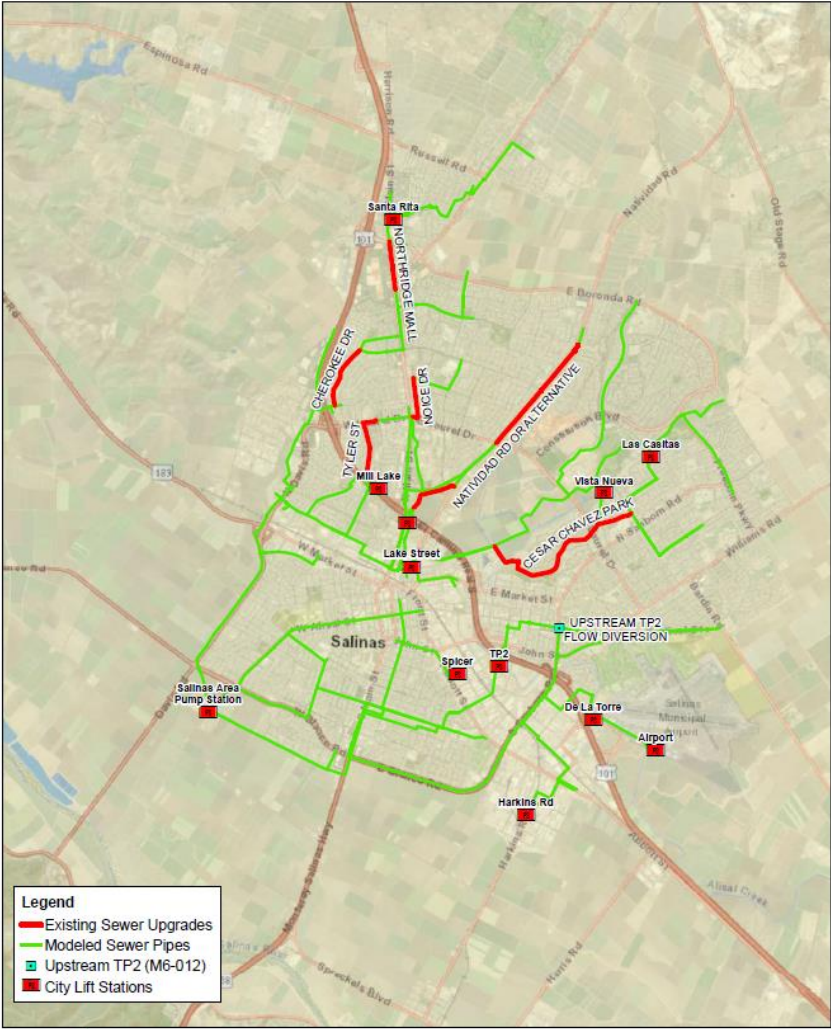


Recommended Motion

Accept the Findings of the Sanitary Sewer Rate
Study and Recommend a Rate Study Scenario



Questions



SALINAS SEWER MASTER PLAN UPDATE

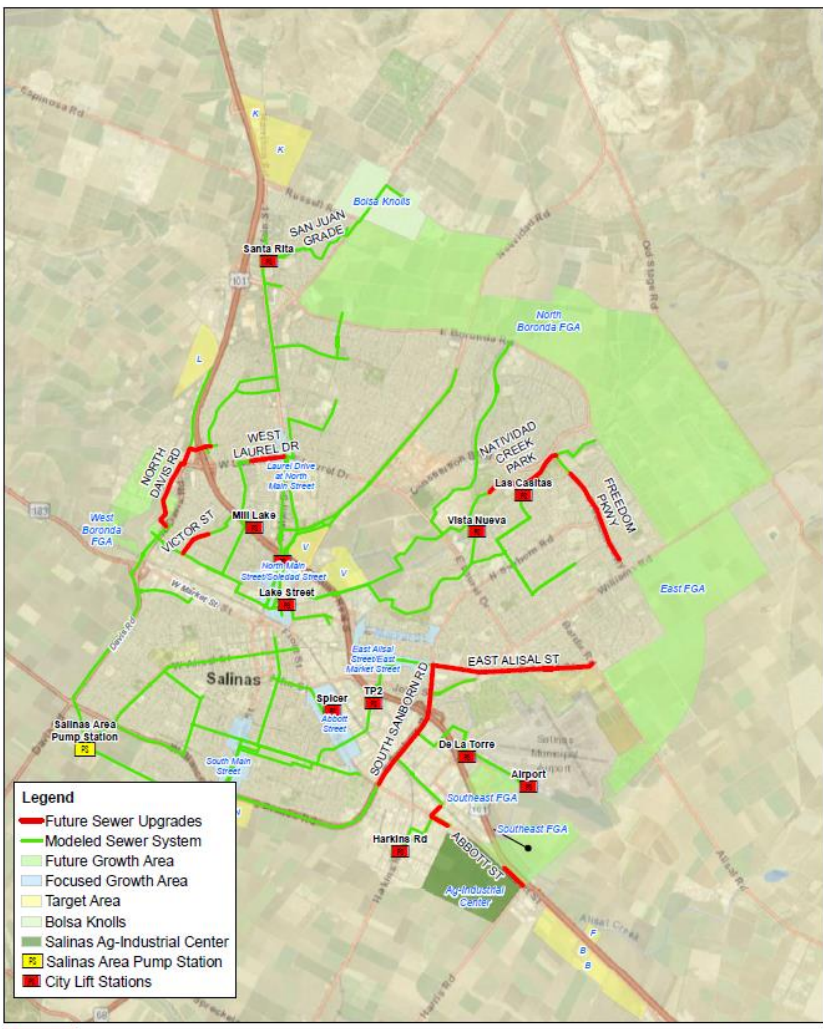
**FIGURE 6-4
EXISTING SEWER
UPGRADE PROJECTS**

NOTES:
ESRI BASE MAP
WALLACE GROUP DID
NOT PERFORM BOUNDARY
SURVEY SERVICES FOR THIS
MAP. NOT A LEGAL DOCUMENT.
MAP PRODUCED FEBRUARY 2023.

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1 inch = 5,000 feet

SALINAS



SALINAS SEWER MASTER PLAN UPDATE

**FIGURE 6-7
FUTURE SEWER
UPGRADE PROJECTS**

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