



CITY OF SALINAS CITY COUNCIL STAFF REPORT

DATE: APRIL 22, 2025

DEPARTMENT: PUBLIC WORKS DEPARTMENT

FROM: DAVID JACOBS, PUBLIC WORKS DIRECTOR
SELINA ANDREWS, FINANCE DIRECTOR

BY: ADRIANA ROBLES, CITY ENGINEER

TITLE: SANITARY SEWER RATE INCREASE

RECOMMENDED MOTION:

A motion to approve a Resolution accepting the Sewer Rate Study, approving the Sewer Rate Schedule, and directing staff to distribute Proposition 218 Public Hearing Notices for proposed sanitary sewer rate increases with the public hearing to be held on June 17, 2025.

EXECUTIVE SUMMARY:

Wallace Group was retained by the City of Salinas to develop a sanitary sewer rate study (“Study”) for the wastewater enterprise program. The Study developed a ten-year financial plan to help ensure that the wastewater enterprise fund will meet financial obligations for ongoing operations and maintenance, debt service, and capital improvements while maintaining prudent financial reserves. Salinas’ wastewater program is a self-supporting enterprise of the City that includes the sanitary sewer system, staff, equipment, and supplies. Rate payer fees fund ongoing costs of operations, maintenance, administration, regulatory compliance, debt service, capital improvements and maintenance of prudent financial reserves. The Study anticipates an increase to \$16.35 with a 2% annual escalation rate to meet the programmed capital improvement projects and maintenance costs.

Proposition 218 requires a public hearing to be held for the proposed rate increase. The public hearing is proposed to be scheduled for the June 17, 2025, City Council meeting.

BACKGROUND:

The City of Salinas owns and operates a municipal sanitary sewer system (“sewer system”) that services residents and businesses within its service area. The sanitary sewer system has a service area of approximately 12,430 acres, with over 280 miles of gravity sewer mains and eleven (11) lift stations¹ that convey sewage flows to the Regional Wastewater Treatment Plant, operated by Monterey One Water (M1W). M1W collects fees for the treatment of the sanitary sewage and their fees are adjusted annually. M1W fees are separate from the rates collected for the City through M1W. M1W currently collects \$50.95 for their wastewater treatment and \$5.45 for the City of Salinas’ sanitary sewer rate.

¹ Lift Station. In sanitary sewer systems, lift stations pump sewage from lower elevations to higher elevations.

In 2011, a Sanitary Sewer Master Plan was developed and the following year, a rate study was prepared that increased sewer rates to \$5.45 per month for residential users or equivalent dwelling unit (EDU). Sewer rates are used by the City of Salinas to provide the service required to maintain the City's sanitary sewer system (pipes, manholes, lift stations, and equipment). Sewer rates fund the entirety of the wastewater enterprise fund. The wastewater enterprise fund pays for the sanitary sewer system, staff, supplies, electricity and everything needed to keep the sanitary sewer system within the City of Salinas operational. The City's sanitary sewer rate has not changed since 2012. Over several years, the wastewater enterprise fund has had a funding shortfall. This has meant that necessary infrastructure repairs and upgrades have not been financially possible, leading to system failures and costly emergency repairs. Investment is required to meet regulatory mandates and to prevent additional untreated sewage discharges.

In February 2021, staff retained Wallace Group to update the Sanitary Sewer Master Plan (Resolution No. 22051). The Sanitary Sewer Master Plan Update (SSMP) included document review, data collection, field surveys, comprehensive lift station assessment, in-line sewer flow monitoring, wastewater flow projections, development and calibration of a hydraulic sewer model to identify collection system deficiencies for existing, and future build-out conditions and development of a Sanitary Sewer Capital Improvement Program.

On May 2, 2023, through Resolution No. 22648, City Council adopted the Salinas Sanitary Sewer Master Plan Update. The SSMP identified existing hydraulic deficiencies, operation and maintenance repairs, and lift station upgrades required to keep the existing sanitary sewer system operational. The SSMP estimates sewage flows at 10.46 million gallons per day from the existing sanitary sewer system. Required maintenance repairs and existing hydraulic deficiencies were ranked based on priority. Costs for maintenance repairs and fixing existing hydraulic deficiencies are funded by the City's rate payer fees. The SSMP estimates an additional 2.33 million gallons per day of sewage flows from the North of Boronda Future Growth Area (FGA) will be added to the existing system at build-out conditions. This will require upsizing the existing system to meet the additional demand. Costs to upsize the sewer system are the developers' responsibility. Several sanitary sewer mains require both repairs and upsizing to meet the anticipated future conditions. In these cases, the cost responsibilities are shared between the rate payers and the developers at varying percentages depending on the condition of the sewer system.

On September 24, 2024, City Council approved an amendment to the sanitary sewer impact fee (Resolution No. 23100). Impact fees are paid by developers to offset the impacts from development to the existing system. A nexus study prepared by Wallace's consultant, DTA, provided the justification for the adjustment to the impact fee to ensure that developers were covering the full cost of their fair share responsibilities to upsize sanitary sewer mains as identified in SSMP.

On April 23, 2024, an amendment to Wallace Group's contract was approved by City Council (Resolution No. 22947) allowing for the commencement of a sewer rate study ("Study"). Wallace Group partnered with DTA to evaluate potential rate structures and provide recommendations on how to address funding gaps for sanitary sewer system repairs, upgrades and future needs.

The City's current sanitary sewer rate of \$5.45 per residential user or equivalent dwelling unit (EDU) is intended to cover the City's annual operation and maintenance (O&M) costs, as well as

servicing existing debt obligations, but it does not. The City's sanitary sewer enterprise fund's expected revenue and annual budget is projected to experience a shortfall of approximately \$400,000 for FY 2024-25 and will not meet the required 125% debt service coverage requirement on the existing bonds. In addition, the current budget does not include capital improvements required for system replacements and upgrades. The Study estimates a total of \$114.8 million is required to make the necessary high priority improvements to the sewer system over the next ten years. The Study incorporated the revenue requirements and calculated the new sewer rates in compliance with Proposition 218 requirements. An increase to \$16.35 per EDU per month with a 2% annual escalation rate is recommended (See Sewer Study, Attachment 1).

The financial model², prepared by DTA, looks at the financial needs to keep the system operational (repairs, staffing and equipment) along with capital improvements outlined in the SSMP and debt obligations. Bonding is anticipated during years 2, 5, and 8 of the ten-year study period totaling \$79.4 million of bond proceeds to be used along with the estimated \$35.3 million of rate fees to cover the required \$114.8 million for capital improvement projects.

As indicated at the March 11, 2025, City Council meeting and preceding Finance Committee meeting, the City recently received a credit rating downgrade for its outstanding sanitary sewer system revenue debt. The downgrade was a function of decreasing financial health of the sanitary sewer enterprise fund primarily because of revenue increases not keeping up with the operating costs of the sewer collection system. Without increased sewer service rates, the City will not be able to fund scheduled repairs, identified capital improvement projects or meet the outstanding bond debt service covenants after FY 2024-25. If this happens, this may result in the bonds being called which may require the City having to pay off the remaining balance of \$12,180,000.

Past Actions

On March 11, 2025, the City Council, adhering to the recommendation of the Finance Committee, accepted the findings of the Study and recommended an increase to the sewer rate to \$16.35 with a 2% annual escalation rate.

On April 8, 2025, staff presented the draft Study and Rate Schedule to the Finance Committee. The Finance Committee unanimously recommended approval of the Study and Rate Schedule by the City Council.

Proposition 218

Proposition 218 requires a public hearing to be held for the proposed rate increase. The public hearing is proposed to be scheduled for the June 17, 2025, City Council meeting. This meeting will allow rate payers who oppose the rate increase to submit a "protest vote". Public hearing notices of the June 17, 2025, meeting will be mailed following authorization from the City Council to proceed with the notice of the rate increases. If less than 50% of the rate payers submit protest ballots, then the proposed sewer rate increases will take effect on July 1, 2025 (See Public Hearing Notice, Attachment 3).

² A financial model is a tool that is used to forecast future financial performance.

Residential Low Income Sewer Service Assistance Program

Both the Finance Committee and the City Council directed staff to research establishing an assistance program for qualified residents. Attachment 4 describes the program, which is similar to the one provided by Monterey 1 Water. Since this is already an established and familiar program, it makes sense to mirror this program and with City Council direction, staff will bring an assistance program back for City Council consideration.

Anticipated Schedule

March 4	Finance Committee - Presentation of rate analysis findings
March 11	City Council – Presentation of rate analysis findings
April 8	Finance Committee – Recommend approval of Rate Study and Rate Schedule
April 22	City Council – Request approval of the Rate Study and Rate Schedule, authorization to initiate notices, set hearing date, and protest process as required by Proposition 218
April 25	Notices to property owners mailed (45 days prior to hearing) Informational notices to residents
June 17	City Council – Public hearing and sewer rate adoption
July 1	New rates effective

CEQA CONSIDERATION:

Not a Project. City of Salinas has determined that the proposed action is not a project as defined by the California Environmental Quality Act (CEQA) pursuant to Sections 15378 and 15061(b)(3).

CALIFORNIA GOVERNMENT CODE §84308 APPLIES:

No

STRATEGIC PLAN INITIATIVE:

Updating sewer rates is consistent with the Council values of Fiscal Responsibility, Service and Responsiveness and Council Goals and Strategies of Economic Development, Housing, Infrastructure, and Public Safety by investing in existing facilities and infrastructure and by providing adequate funding for improvement needed to allow for growth.

DEPARTMENTAL COORDINATION:

Public Works staff have consulted with other firms including DTA as sewer rate consultant, Wallace Group as facilities engineer, and NHA Advisors as municipal advisor. Public Works has worked closely with the Finance Department through review of the financial model.

FISCAL AND SUSTAINABILITY IMPACT:

There is no direct fiscal impact associated with accepting the Sewer Rate Study, approving the Sewer Rate Schedule, and directing staff to distribute Proposition 218 Public Hearing Notices for proposed sanitary sewer rate increases.

Imposing and updating sewer service rates allows the City to be fiscally responsible and sustainable while addressing immediate critical infrastructure and future growth needs.

ATTACHMENTS:

Attachment 1 – Sewer Rate Study

Attachment 2 – Sewer Rate Schedule

Attachment 3 - Public Hearing Notice

Attachment 4 – Draft Sewer Service Assistance Program