



CITY OF SALINAS

CITY COUNCIL STAFF REPORT

DATE: JULY 1, 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 directing staff to distribute Proposition 218 Public Hearing Notices for proposed sanitary sewer rate increases based on the updated Sewer Rate Study and revised Sewer Rate Schedule with the public hearing to be held on September 23, 2025.

EXECUTIVE SUMMARY:

On April 22, 2025, City Council approved a resolution accepting a Sewer Rate Study, approving Sewer Rate Schedule and setting the public hearing date for a sewer rate increase for June 17, 2025. Following distribution of the public hearing notices, some discrepancies were identified in the rate schedule. On June 17, 2025 staff presented a staff report identifying the discrepancies. This staff report provides the updated Sewer Rate Study and Sewer Rate Schedule and public hearing notices to be distributed in accordance with Proposition 218. The public hearing is proposed to be scheduled for the September 23, 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.

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

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

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 unit 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 \$335,000 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 for the next five years (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 \$77.6 million of bond proceeds to be used along with the estimated \$37.1 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.

On April 22, 2025 the City Council approved a resolution accepting the Sewer Rate Study and approving the Rate Schedule and directed staff to distribute Public Notices for the public hearing set for June 17, 2025. Following distribution of the public hearing notices, inaccuracies were identified in some rates and rate categories.

On June 17, 2025 staff identified the inaccuracies in the Rate Schedule to the City Council and set a new date to present the updated Sewer Rate Study and Rate Schedule. At that same meeting, the City Council approved a resolution establishing the procedures the City will follow for considering and responding to “objections” to the proposed rates in accordance with new law known as AB 2257 (Government Code sections 53759.1 and 53759.2). These procedures are in addition to the requirements under Proposition 218 for the City to also consider “protests” to the proposed rates.

Rate Study & Rate Schedule Changes

The primary changes required to be made to Rate Study and the Rate Schedule included identifying certain rate users as “special users” and changing the monthly rate for those users to be flow based consistent with the Monterey One Water (“M1W”) 2021 Wastewater Treatment Rate Update to

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

2017 Comprehensive Rate & Fee Study (see Attachment 4). M1W identifies “special user” as any establishment, which cannot be classified in any other category, based on individual flow and strength characteristics.

It is important to recognize the distinction between “special users” and all other users of the City’s sewer services. The City’s Sewer Rate Study follows M1W’s analysis of the estimated impacts from a range of user categories for residential and non-residential users of sewer services. Since each user category is assigned a different number of EDUs per Unit, based on the corresponding different level of estimated impacts for each Unit of use (based on the estimated flow of wastewater through the City’s sewer system), and the rate is based on those estimated impacts (EDUs), that analysis represents a reasonable estimate of those impacts and the rate calculation. It is only for the limited number of unique “special users,” for which the impacts on the sewer system vary widely, that M1W calculates impacts based on a measured strength and flow of wastewater and a formula to compare it to the estimated strength and flow of all other user categories. Therefore, the City matches the analysis used by M1W, and only special users are proposed to be charged a rate based on the amount of flow measured by M1W.

Residential Categories

M1W classifies all residential categories as dwelling units and each dwelling unit is charged based on a fixed monthly rate. M1W estimates residential wastewater flow per dwelling unit to be 150 gallons per day. As indicated previously, one EDU represents the wastewater demand of a typical residential dwelling unit. Given M1W’s use of estimated flow to calculate sewer rates for residential customers, it would not be feasible for the City to establish a different method of analyzing individual residential wastewater flows, nor would it be feasible for the City to conduct its own sewage billing, both of which would be required if specific residential unit types are to have differing sewer rates.

Residential Low Income Sewer Service Assistance Program

The FY 2025-2026 budget allocated \$150,000 from the General Fund for a sewer assistance program. A draft outline of the proposed assistance program was presented to City Council at its April 22, 2025 meeting. Staff is working on the specifics of the proposed program and will provide them to City Council in a future meeting by public hearing date.

Proposition 218 and AB 2257

Proposition 218 requires a public hearing to be held for the proposed rate increase. Upon receiving direction from City Council at this July 1 meeting, the Anticipated Schedule, set forth below, summarizes the actions previously taken for this matter as well as the planned actions leading to an updated public hearing notice to be mailed on July 11, 2025, for a public hearing proposed to be held on September 23, 2025, City Council meeting.

As noted above, at the public hearing, the City Council will consider any written objections that are received by the City Clerk by August 25 (45 days after the public hearing notice) in accordance with AB 2257. Under this process, property owners have the right to submit a written objection identifying a substantive reason the proposed rates do not comply with Proposition 218, and for each timely written objection, City staff will prepare a substantive written response. All written

objections and responses will be presented to City Council for consideration prior to taking action on the proposed rates.

This public hearing will also allow rate payers who oppose the rate increase to submit a written “protest” under Proposition 218. If rate payers representing less than 50% of the parcels served by the City’s sewer system submit written protests, then the City Council will be authorized to approve the proposed sewer rate increases to take effect on October 1, 2025 (See Public Hearing Notice, Attachment 3).

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 [continued to July 1]
July 1	City Council – Request approval of the updated Rate Study and Rate Schedule, authorization to initiate notices, set hearing date, and protest process as required by Proposition 218
July 11	Revised Notices to property owners mailed (45 days prior to hearing)
August 25	Deadline for City to receive written objections from property owners under AB 2257
September 23	City Council – Public hearing and sewer rate adoption
October 1	New rates effective

Rate Assistance Program

Also as directed, staff has been working on setting up a rate assistance program and the recently approved FY 2025-26 City Budget includes \$150,000 to stand up the program. As this Prop 218 process moves forward, staff will bring back the rate assistance program for consideration and approval.

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 updated Sewer Rate Study, approving the revised 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:

Resolution

Attachment 1 – Sewer Rate Study

Attachment 2 – Sewer Rate Schedule

Attachment 3 - Public Hearing Notice

Attachment 4 – Monterey One Water 2021 Wastewater Treatment Rate Update to 2017
Comprehensive Rate & Fee Study