



CITY OF SALINAS FINANCE COMMITTEE STAFF REPORT

DATE: MARCH 4, 2025

DEPARTMENT: PUBLIC WORKS DEPARTMENT

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

BY: ADRIANA ROBLES, CITY ENGINEER

TITLE: SANITARY SEWER RATE STUDY

RECOMMENDED MOTION:

Receive the findings of the Sanitary Sewer Rate Analysis and recommend a rate scenario for City Council consideration.

EXECUTIVE SUMMARY:

Wallace Group was retained by the City of Salinas to develop a sanitary sewer rate study (“Study”) for the wastewater program. A draft Study is currently under review by City staff. The purpose of the Study is to develop a ten-year financial plan to help ensure that the wastewater fund will meet financial obligations for ongoing operations and maintenance, debt service, and capital improvements while maintaining prudent financial reserves. The financial plan provides an opportunity to assess the potential implications of future operating and maintenance costs, capital improvement program needs, current and future debt obligations, changing customer demands, and future development. Salinas’ wastewater program is a self-supporting enterprise of the City that includes the sanitary sewer system, staff, equipment, and supplies. That is, the utility service is expected to generate the revenues (through user fees) to cover the ongoing costs of operations, maintenance, administration, regulatory compliance, debt service, capital improvements and maintenance of prudent financial reserves.

Two scenarios have been developed that would address the financial obligations of the wastewater program. The full report describes in detail the assumptions, procedures, and results of the study, including conclusions and staff’s recommendation.

BACKGROUND:

The Sanitary Sewer System

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. M1W fees are adjusted annually. M1W fees are separate from the rate fees 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 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 a number of 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. (See CIP ranking tables of the SSMP (Attachment 1)). Costs for maintenance repairs and fixing existing hydraulic deficiencies are the sole responsibility of City rate payers.

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 City and the developers at varying percentages depending on the condition of the sewer system. (See Cost Sharing tables (Attachment 2)).

On September 24, 2024, City Council approved an amendment to the sanitary sewer impact fee (Resolution No. 23100). Impact fees are fees paid by developers to offset the impacts from development to the existing system. A nexus study prepared by Wallace's consultant, DTA,

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

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.

The SSMP developed a Sanitary Sewer Capital Improvement Program that identified capital improvement projects (CIP) to address both the existing maintenance repairs and deficiencies and upsizing for anticipated future conditions. Those projects were ranked based on priority. The criteria used for ranking and prioritizing existing system CIPs included impacts to water bodies, design standards, maintenance requirements, impact to the community, and proximity to monitoring manholes. For lift station CIPs, the criteria used to prioritize them included assessment of impacts to water bodies, inspection frequency, pumping capacity deficiency, peak hour emergency response time, bypass requirement, generator requirement, control or electronic update requirement, and impacts to the community. Possible impacts from future development were also analyzed for maintenance and lift station CIPs. Future CIPs required exclusively to upsize the sewer system to accommodate future development were not ranked in the SSMP as these improvements must be coordinated and timed with development.

On August 6, 2024, City Council approved a Tentative Map for a portion of the Central Area Specific Plan (CASP), comprised of 427 single family and multi-family residential lots and 10 park, open space, and public/semipublic lots on 189.27 acres (Resolution No. 23058). CASP is part of the FGA. Other developments within the FGA are currently in pre-application or early concept stages of development. (See Future Growth Area – North of Boronda (Attachment 3)). With the FGA developments moving forward and necessary sewer system improvements and upsizing required, a tentative schedule was developed for the CIPs. The tentative CIPs schedule for maintenance, lift stations and future CIPs was used to guide the projected need for funding for the CIPs in the Sanitary Sewer Rate Study, see CIP schedules (Attachment 4).

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 analysis. 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. (See DTA memorandum (Attachment 5)).

Sanitary Sewer Rate Study

In November 2011, Salinas City Council received a Wastewater Financial Plan and Rate Study. At the time the sanitary sewer rates were \$4.46 per month for residential users and Monterey Regional Water Pollution Control Agency (now Monterey One Water (M1W)) rates were \$12.75 per month for residential users. M1W adjusts their rates annually and currently charge \$50.95 per month per EDU. The City's 2011 sanitary sewer rate study recommended an increase from \$4.46 per month to \$5.45 per month per EDU for Salinas rate payers for the City's sanitary sewer rates, effective February 1, 2012. Although the City Council adopted the General Plan in 2002, the 2011 rate study did not incorporate CIPs to address upsizing for future conditions. Since 2011, the City of Salinas has seen a population increase of 3.8% and a 41.2% cumulative inflation rate increase.

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. For reference, the existing rate of \$5.45 per EDU would need to be increased to \$9.54 to meet the 125% debt service coverage requirement on the existing bonds as well as to fund \$2 million for an O&M reserve fund as recommended by NHA Advisors, the City’s municipal advisor.

Additionally, sanitary sewer service rates need to be increased in order to incorporate the CIP. Two scenarios were modeled that would achieve this goal. The first proposes increasing the service rate to \$16.35, with an annual escalation rate of 2%, and the second proposes increasing the service rate to \$15.00, with an escalation rate of 4%. (See Sewer Rate Models (Attachment 6)).

Fiscal Responsibility

Several other Monterey County cities also discharge their sanitary sewage to M1W. Staff researched the sewer rates of these jurisdictions for comparison. Sanitary sewer service rates fund O&M and CIPs, therefore, rates collected can equate to the investment the cities are making to their system. Based on this, the City of Salinas rate payers are making the lowest investment in Salinas’s sanitary sewer system with less than \$0.02 raised for every mile of pipeline, while other jurisdictions invest up to \$0.60 per mile of pipeline. (See Table 1 for the complete comparison.)

Table 1: Other Jurisdictions

City	Population	Total Sewer Rate	City Sewer Rate	Sewer Pipeline	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

Sewer Water Operating and Debt Expenses

A financial model², was prepared by DTA, that 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. The financial model is based on current operating and maintenance costs and reflects future estimates influenced by growth assumptions and cost escalation, with the exceptions listed below.

- o Existing Debt Obligations – Existing long-term debt repayment obligations are included as Attachment 9 for the City’s Sewer debt. In FY 2025-26, the City’s annual debt service

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

(principal and interest) will be \$853,233 and will remain at approximately \$850,000 for the duration of the life of the bond. The debt obligation will be paid off in FY 2042-43.

New Long-Term Debt – The consultant provided two scenarios in their report with 2 rate increase scenarios. The debt for each scenario is summarized below.

- o Scenario 1 includes an initial rate increase to \$16.36 monthly per EDU. This financial plan also includes new debt in years 2 (FY 2026-2027), 5 (FY 2029-2030) and 8 (FY 232-2033), totaling \$88.6 million in bond issuances and assumes an interest rate of 5.0 percent with a repayment period of 30 years on each bond.
- o Scenario 2 includes an initial rate increase to \$15.00 monthly per EDU. This financial plan also includes new debt in years 2 (FY 2026-2027), 5 (FY 2029-2030) and 8 (FY 232-2033), totaling \$89.4 million in bond issuances and assumes an interest rate of 5.0 percent with a repayment period of 30 years on each bond.

It is also important to note that the City recently received a credit rating downgrade for its outstanding sanitary sewer system revenue debt. This lower rating does not currently affect the bond debt service, but could affect the interest rate for any future debt issuance. The downgrade was a function of decreasing financial health of the sanitary sewer enterprise fund primarily as a result of revenue increases not keeping up with the operating costs of the sewer collection system. The City has not increased sanitary sewer service rates since 2012 while continuing to experience increasing operating costs. 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.

For demonstration purposes, a downgrade by a major rating agency (“AA-“ to “BBB+”) would increase the annual debt service by \$250,000 per year for every \$20 million project (adding \$7.5M in extra interest payments over the course of 30 years).

Funding Shortfall Impacts

To understand the effects caused by underfunding of the sanitary sewer system, we only need to look at the sanitary sewer system itself. Many of the over 280 miles of sanitary sewer mains and manholes, particularly those in Districts 2 and 3, date back over 100 years. They are often cracked, full of roots, clogged with grease and dirt, and broken. (See Existing System Photos (Attachment 7)). Equipment in the lift stations is 60 years old at the end of its service life, making it difficult to service and maintain as parts are no longer available for them. As infrastructure ages, failures become more frequent.

In 2021, a failure of the aging sanitary sewer system caused a wastewater backup and release of untreated sewage at East Lake Street and Bridge Street requiring replacement of approximately 500 feet of sanitary sewer main and costing over \$4.5 million in emergency repairs, thereby depleting the sanitary sewer funds.

In April 2022, a spill of over 53,000 gallons of untreated sewage into Natividad Creek caught the attention of the California Regional Water Quality Control Board (“Regional Board”) as this was

a violation of the City’s sanitary sewer discharge permit. In July 2023, the City signed a settlement agreement with the Regional Board agreeing to pay \$193,879 in fines and agreeing to make system repairs.

In September 2024, the main discharge pipe from the Lake Street lift station detached filling the station with raw sewage. Again, repair of this failure, required emergency repairs to keep the sanitary sewer system operational. The Lake Street lift station is the largest lift station in the City and is located in the heart of the City at East Rossi Street and Wong Way/Lake Street. With its centralized location, the lift station pumps an estimated 5,770 gallons per minute (gpm) of raw sewage from Districts 1, 2, 4, and 6. Development of the FGA will require an increase flow from the Lake Street pump station to approximately 11,242 gpm, making maintenance of this lift station even more critical. (See Lake Street lift station sewer map (Attachment 8)).

Next Steps

In order to properly address existing system deficiencies and funding shortfalls, it is imperative that sanitary sewer service rates are properly adjusted. To do so, staff recommends increasing the sewer rates in accordance with Scenario 1 which increases the sewer rates from \$5.45 per EDU to \$16.35 per EDU with an annual escalation rate of 2%. As an alternative, sewer rates can be adjusted according to the Scenario 2 which would increase from \$5.45 per EDU to \$15.00 per EDU with an annual escalation of 4%. Adjustment of the sanitary sewer rates will require compliance with the Proposition 218 process. The schedule below provides the anticipated timeline for noticing required.

Anticipated Schedule

March 4	Finance Committee - Presentation of rate analysis findings
March 11	City Council – Presentation of rate analysis findings
March 25	City Council – Request authorization to initiate notices, set hearing date, and protest process as required by Proposition 218
March 28	Notices to property owners mailed (45 days prior to hearing) Informational notices to residents
May 20	City Council – Public hearing and sewer rate adoption
July 1	New rates effective

Outreach

Following review and consultation with the Finance Committee, staff will prepare and distribute information to property owners, residents, and the business industry.

Outreach will focus on maintenance needs, development opportunities and how these may be addressed, focusing on the required investment needed to maintain and expand the system.

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).

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 fiscal impact related to receiving the findings of the Sanitary Sewer Rate Analysis and recommending a rate scenario for City Council consideration. Imposing and updating sewer service rates allows the City to be fiscally responsible and sustainable while addressing immediate infrastructure and future growth needs.

ATTACHMENTS:

- Attachment 1 – CIP ranking tables (Table 7-2 & 7-3)
- Attachment 2 – CIP cost sharing tables
- Attachment 3 – Future Growth Area – North of Boronda
- Attachment 4 – CIP Schedule
- Attachment 5 – DTA memorandum dated February 26, 2025
- Attachment 6 – Sewer Rate Model
- Attachment 7 – Existing System Photos
- Attachment 8 – Lake St Lift Station service area
- Attachment 9 – 2020A Wastewater Revenue Refunding Bonds Schedule