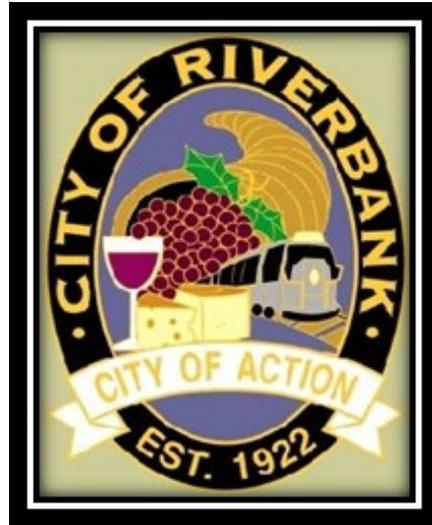

CITY OF RIVERBANK



SEWER RATE STUDY DRAFT REPORT

September 19, 2022



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

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BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

2625 Alcatraz Ave, #602
Berkeley, CA 94705
Tel 510 653 3399
www.bartlewells.com

September 20, 2022

City of Riverbank
6707 Third Street
Riverbank, CA 95367

Attn: Michael Riddell

Re: Sewer Rate Study

Bartle Wells Associates is pleased to submit to the City of Riverbank the attached Draft Sewer Rate Study. The study presents BWA's analysis of the operating and non-operating expenses of the City's sewer system and provides a five-year cash flow projection. The primary purpose of this study was to analyze the City's sewer enterprise and make recommendations that would achieve financial sustainability. Another important purpose of this study was to review rates to ensure that they adhere to the State's legal requirements.

BWA finds that the wastewater rates and charges proposed in our report to be based on the cost of service, follow generally accepted rate design criteria, and adhere to the substantive requirements of Proposition 218. BWA believes that the proposed rates are fair and reasonable to the City's customers.

We enjoyed working with you on the rate study and appreciate the assistance and cooperation of City staff throughout the project. Please contact us if you ever have any future questions about this study and the rate recommendations.

Sincerely,

Douglas Dove, PE, CIPMA
Principal/ President

Erik Helgeson, MBA
Assistant Vice President

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1 BACKGROUND & OBJECTIVES

1.1 Background & Wastewater Facility Improvements

The revenues from the City's sewer utility are primarily derived from charges for services. The City must establish rates and charges adequate to fund the cost of providing sewer services, including costs for operations and capital improvements needed to keep the City's utility infrastructure in safe and in reliable operating condition.

The City's wastewater utility is a financially self-supporting enterprise. Revenues are derived primarily from sewer service charges. As such, the City's sewer rates must be set at adequate levels to fund the costs of providing service and:

- Fund ongoing operating and maintenance expenses
- Address State mandates & wastewater regulatory requirements
- Fund the treatment plant project
- Provide funding for sewer collection system maintenance and upgrades

The prior sewer rate increases strengthened the financial condition of the sewer enterprise. However, current rates are not adequate to fund the needed wastewater facility improvements.

1.2 Goals & Objectives

In 2022, the City retained Bartle Wells Associates (BWA) via a competitive RFP process to develop a financial plan and rate study for the sewer enterprise. Key goals and objectives of the study include:

1. Develop a financial plan for the City's sewer enterprise that:
 - a. supports the City's sewer operating and capital programs
 - b. funds the wastewater treatment plant project
 - c. provides an ongoing funding stream for sewer collection system improvements
 - d. prudently uses sewer fund reserves to help minimize debt financing needs while maintaining an adequate level of fund reserves in future years
 - e. maintains the long-term financial sustainability of the sewer enterprise
2. Develop sewer rates that:
 - a. recover the City's costs of providing sewer service
 - b. are fair and equitable to all customer classes
 - c. are easy to understand and implement

- d. comply with the legal requirements of Proposition 218 and other California law
3. Aim for steady, gradual annual rate increases, to the extent possible, to help minimize the annual impact on customers.

BWA worked closely with City staff to incorporate information and input, evaluate alternatives, and develop recommendations. This report summarizes key findings and recommendations for sewer rates over the next five years.

1.3 Procedural Requirements of Proposition 218

Proposition 218, the “Right to Vote on Taxes Act”, was approved by California voters in November 1996 and is codified as Articles XIIC and XIID of the California Constitution. Proposition 218 establishes requirements for imposing any new or increasing any existing property-related fees and charges. For many years, there was no legal consensus on whether water and sewer service fees met the definition of “property-related fees.” In July 2007, the California Supreme Court essentially confirmed that Proposition 218 applies to water and sewer service fees.

The City must follow the procedural requirements of Proposition 218 for all sewer rate increases. These requirements include:

1. **Noticing Requirement** – The City must mail a notice of the proposed rate increases to all affected property owners or ratepayers. The notice must specify the amount of the fee, the basis upon which it was calculated, the reason for the fee, and the date/time/location of a public rate hearing at which the proposed rates will be considered/adopted.
2. **Public Hearing** – The City must hold a public hearing prior to adopting the proposed rate increases. The public hearing must be held not less than 45 days after the required notices are mailed.
3. **Rate Increases Subject to Majority Protest** - At the public hearing, the proposed rate increases are subject to majority protest. If more than 50% of affected property owners or ratepayers submit written protests against the proposed rate increases, the increases cannot be adopted.

Proposition 218 also established substantive requirements that apply to sewer rates and charges, including:

1. **Cost of Service** - Revenues derived from the fee or charge cannot exceed the funds required to provide the service. In essence, fees cannot exceed the “cost of service”.
2. **Intended Purpose** - Revenues derived from the fee or charge can only be used for the purpose for which the fee was imposed.
3. **Proportional Cost Recovery** - The amount of the fee or charge levied on any customer shall not exceed the proportional cost of service attributable to that customer.

4. **Availability of Service** - No fee or charge may be imposed for a service unless that service is used by, or immediately available to, the owner of the property.
5. **General Government Services** - No fee or charge may be imposed for general governmental services where the service is available to the public at large.

Charges for water, sewer, and refuse collection are exempt from additional voting requirements of Proposition 218, provided the charges do not exceed the cost of providing service and are adopted pursuant to procedural requirements of Proposition 218

2 SEWER FINANCIAL OVERVIEW

2.1 Current Sewer Rates

Table 2 shows the City's current sewer rates.

Table 1. Current Sewer Rates

Proposed Rates		FY 21-22
		<i>Existing</i>
<i>Residential Sewer Rates</i>		
Monthly Fixed Rate		\$49.48
<i>Commercial Sewer Rates</i>		
Min. Monthly Base Charge		\$49.48
Volumetric Rates (\$/CF) for Usage Greater Than 1,000 Cubic Feet per Month		
Group 1	Schools w/o cafeterias, Offices	\$0.002512
Group 2	Commercial, hospitals, extended care facilities, markets (w/o deli's), automobile shops	\$0.003350
Group 3	Schools w/ cafeterias, Restaurants, Short order facilities, markets w/ deli's	\$0.004523
Group 4	Restaurants w/ full kitchens	\$0.007370

The City's sewer rate structure varies by customer class:

- **Residential** customers pay a fixed monthly charge per dwelling unit. These fixed charges reflect the system capacity needs for serving a typical residential unit. The City incurs a substantial amount of fixed costs ensuring that sewer system capacity is available at all times to meet customer needs on demand.

- **Commercial** and other non-residential customers pay the minimum monthly base charge then and pay volumetric sewer charges, per cubic foot of water used, for use greater than 7,480 cubic feet per month. Commercial customers are grouped into four customer classes rate classes with different volumetric rates. Customer classes with higher strength wastewater pay higher rates reflecting the higher costs of wastewater treatment.

2.2 Cost of Service Review

BWA conducted a review of the cost of service basis for the strength factors used to determine the commercial rates and found that the current allocation factors reflect the cost of service.

The cost of service analysis consisted of assigning wastewater system costs to functional cost components flow, BOD (biochemical oxygen demand), and TSS (total suspended solids). This process is intended to proportionately allocate costs to each customer based on how they utilize wastewater service.

Table 2. Cost of Service Allocation

			5-year Average			
Functional Allocation			Expenditures	Flow	BOD	TSS
Existing Debt			\$558,891		100.0%	
Treatment			\$1,399,391	33.3%	33.3%	33.3%
Collection			\$2,215,121	100.0%		
CIP			\$887,306	100.0%		
Avg.	WWTP	Cash				
Funding			\$3,200,000	33.3%	33.3%	33.3%
Allocation Amounts \$			\$8,260,709	\$4,635,864	\$2,091,868	\$1,532,977
Allocation Amounts %				56%	25%	19%
Allocation Factors (Rounded)				0.55	0.25	0.20
Commercial Rate						
Classes		Strength Factor	Class Characteristics			
			<i>Flow (gpd)</i>		<i>Strength (mg/l)</i>	
Group 1 - Low		0.75	250		135	
Group 2 - Domestic		1.00	250		250	
Group 3 - Medium		1.35	250		500	
Group 4 - High		2.20	250		1000	

2.3 Sewer Financial Overview

BWA conducted an independent evaluation of sewer enterprise finances. Key observations include:

- Previous rate increases have put the sewer enterprise in a sound financial position, but the City faces substantial financial challenges going forward.
- Sewer fund reserves are currently at healthy levels but are projected to be partially drawn down in upcoming years to help fund wastewater treatment facility improvements. Financial projections are designed to maintain a prudent minimum level of fund reserves in future years.
- The City will need to implement significant sewer rate increases over the next 5 years to support funding for a new wastewater treatment plant.

2.4 Financial Challenges / Key Drivers of Rate Increases

The sewer enterprise is facing a number of financial challenges that will require the City to increase sewer rates in upcoming years. Key drivers of future rate increases are summarized as follows.

2.4.1 Sewer Capital Upgrades & Maintenance

The largest capital expense the City is facing is the wastewater treatment plant project. Project scenarios will be explored later in this report. Excluding the wastewater treatment plant project, the City is anticipating \$5.66 million in capital improvement plan spending through FY 2026-27.

2.4.2 Ongoing Operating Cost Inflation

The City faces ongoing operating cost inflation due to annual increases in a range of expenses including staffing, utilities, chemicals, insurance, supplies, etc. Sewer cost inflation has historically been significantly higher than the Consumer Price Index (CPI) for consumer goods and services.

2.4.3 Sewer Reserve Funds

Maintaining a prudent minimal level of fund reserves provides a financial cushion for dealing with unanticipated expenses, revenue shortfalls, and non-catastrophic emergency capital repairs. BWA developed a financial plan designed to maintain prudent reserve levels.

2.4.4 Financial Plan Assumptions

The financial projections incorporate the latest information available and a number of reasonable and slightly conservative assumptions for planning purposes. Key assumptions include:

Revenue Assumptions

- Sewer rate revenues are based on estimated revenues for the current fiscal year. The City is anticipating 347 single family equivalent connection over the next five years based on current development projects.
- Future investment earnings are projected at 1.5% of beginning annual fund reserves.

Expense Assumptions

- Operating and maintenance costs are primarily based on the 2022/23 budget. Operating costs are projected to escalate at the annual rate of projected inflation. Inflation projections used in this report are 4.5% in FY 23/24 and 4.0% thereafter. Inflation is currently uncharacteristically high but the general economic consensus, including projections from the Federal Reserve, is that inflation will drop back to normal levels over the next two years.
- Based on feedback from City staff and City engineering consultants, the new wastewater treatment plant will increase operating costs by a net amount of about \$800,000 per year.
- Capital improvement plan costs (excluding the new wastewater treatment plant) were provided by the City. Capital costs are adjusted for inflation.

3 WASTEWATER TREATMENT PLANT SCENARIOS

The City needs to construct a new wastewater treatment plant to meet current and future treatment capacity needs. The City’s Engineering consultant developed three treatment plant options: Scenario 1 - The original recycled water treatment plant project, Scenario 2 - A phased recycled treatment plant project, and Scenario 3 – The minimum project (no recycled water and only serving existing capacity). A comparison of these scenarios is shown in the following table.

Table 3 – Treatment Plant Scenario Comparisons

Project Scenario Comparison	Estimated Cost	Max Residential	New Development	Recycled Water	Grant Funding
		Monthly Rate FY 26/27			
Original RW Project	\$112.4M	\$123.13	x	x	x
Phased RW Project Approach	\$90.4M	\$109.39	x	x	x
Min. Project for Existing Users	\$58.4M	\$92.72			

3.1 Treatment Plant Scenario Considerations

3.1.1 Maximum Rates

In order to be eligible for State Revolving Fund Loan financing the City must adopt rates which include no assumptions for grant financing. The rates shown in the following scenarios are the maximum rates the City can implement. However, the City can review the enterprise's financial position and may not need to raise rates to the maximum noticed amounts.

3.1.2 Recycled Water

Two of the treatment plant scenarios include the capability of producing recycled water. The benefits of producing recycled water are as follows:

- Improves groundwater quality and supply to both the City and adjacent agricultural users through continued percolation disposal and in-lieu recharge
- Allows for a portion of the operating cost to be defrayed based on recycled water delivery fees to users
 - Projected annual recycled water sales revenue \$100,000
- Recycled water component makes project eligible for grants.
 - State Water Resources Control Board Clean Water State Revolving Fund \$15 million recycled water grant likely, Title XVI grant funding for recycled water \$25 million grant possible, the City is also seeking other grant opportunities
- Provides for future opportunities for cost recovery under continuing water scarcity

3.1.3 Growth Capacity

Two of the treatment plant scenarios add capacity for new growth. New growth brings numerous benefits including more customers to defray utility costs and new connection fees. The City has engaged BWA to update the City's sewer capacity charges to ensure that new growth will pay for its share of the sewer system.

3.2 Scenario 1: Original Recycled Water Project

Scenario 1 is the original project as designed with reliability and redundancy to meet all current and projected future treatment capacity requirements. This project includes a full recycled water treatment system. This scenario allows for new growth, produces recycled water, is eligible for recycled water grants, and will not require additional construction to meet the capacity requirements of additional growth.

The Scenario 1 cashflow projections and maximum rates for a 218 notice are shown in the following tables.

Table 4 – Scenario 1 Sewer Cash Flow Projections

Draft Cashflow	Years Included in 218 Notice					FY 27-28	FY 28-29
	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27		
<i>New SFR Connections</i>	95	63	63	63	63		
Beginning Reserve Balance	\$10,490,000	\$11,066,317	\$14,182,489	\$10,547,187	\$6,618,446	\$6,665,806	\$9,246,730
<i>Rate Revenue Increase</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>20.0%</i>	<i>4.0%</i>	<i>4.0%</i>
Revenues							
Rate Revenue	\$4,600,000	\$5,526,770	\$6,637,511	\$7,971,477	\$9,573,530	\$11,496,304	\$11,956,156
Rate Increase Revenue	920,000	1,105,354	1,327,502	1,594,295	1,914,706	459,852	478,246
Rate Increase Timing Adj	-460,000						
Recycled Water Sales						50,594	101,188
Other Revenue							
DEVELOPER FEES	344,500	226,485	226,485	226,485	226,485		
INSPECTION FEES	7,500	7,500	7,500	7,500	7,500	7,500	7,500
FINES,	81,000	81,000	81,000	81,000	81,000	81,000	81,000
INTEREST INCOME	157,350	165,995	212,737	158,208	99,277	99,987	138,701
INDUSTRIAL PERMITS	20,000	20,000	20,000	20,000	20,000	20,000	20,000
TRANSFERS IN	\$81,421						
Total Revenue	\$5,751,771	\$7,133,103	\$8,512,735	\$10,058,966	\$11,922,498	\$12,215,237	\$12,782,791
Expenses							
O&M Expense	\$4,022,800	\$3,219,101	\$3,347,865	\$3,481,780	\$4,001,016	\$4,565,392	\$4,748,007
New O&M Recycled Plant				0	499,720	1,039,418	1,080,994
Rate Funded Capital	\$710,000	\$313,500	\$8,179,322	\$9,881,903	\$6,751,805	\$1,222,502	\$1,271,402
2013 Sewer Loan	\$335,780	\$335,780	\$335,780	\$335,780	\$335,780	\$335,780	\$335,780
Energy Financing	106,874	148,550	285,071	288,244	286,816	285,221	287,724
New WWTP Debt Service*	0	0	0	0	0	2,186,000	4,372,000
Total Expenses	\$5,175,454	\$4,016,931	\$12,148,038	\$13,987,707	\$11,875,137	\$9,634,313	\$12,095,908
Net Revenues	\$576,317	\$3,116,172	-\$3,635,302	-\$3,928,741	\$47,360	\$2,580,924	\$686,883
Ending Reserve Balance	\$11,066,317	\$14,182,489	\$10,547,187	\$6,618,446	\$6,665,806	\$9,246,730	\$9,933,614
Debt Coverage (Target 1.3)	3.91	8.08	8.32	10.54	11.92	2.35	1.39
*New WWTP debt assumptions: SRF loan, 30-year term, 2.5% interest rate, \$500,000 issuance cost							
Capital Funding							
Capital Expenditures							
WWTP Expenses			\$38,000,000	\$38,000,000	\$36,400,000		
CIP Expenses	\$710,000	\$313,500	\$179,322	\$1,881,903	\$1,351,805	\$1,222,502	\$1,271,402
Total Capital Expenditures	\$710,000	\$313,500	\$38,179,322	\$39,881,903	\$37,751,805	\$1,222,502	\$1,271,402
Capital Funding Source							
Use of Debt Proceeds			\$30,000,000	\$30,000,000	\$31,000,000		
Grant Revenue							
Rate Funded Capital	\$710,000	\$313,500	\$8,179,322	\$9,881,903	\$6,751,805	\$1,222,502	\$1,271,402
Total Capital Funding	\$710,000	\$313,500	\$38,179,322	\$39,881,903	\$37,751,805	\$1,222,502	\$1,271,402

The following table shows the recommended maximum rates for a 218 notice if the City chooses Scenario 1.

Table 5 – Scenario 1: Recommended Maximum Rates

Proposed Rates	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
	<i>Existing</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>
Residential Sewer Rates						
Monthly Fixed Rate	\$49.48	\$59.38	\$71.26	\$85.51	\$102.61	\$123.13
Commercial Sewer Rates						
Min. Monthly Base Charge	\$49.48	\$59.38	\$71.26	\$85.51	\$102.61	\$123.13
Volumetric Rates (\$/Gallon) for Usage Greater Than 7,480 Gallons per Month						
Schools w/o cafeterias, Offices	\$0.002512	\$0.003014	\$0.003617	\$0.004340	\$0.005208	\$0.006250
Commercial, hospitals, extended care facilities, markets (w/o deli's), automobile shops	\$0.003350	\$0.004020	\$0.004824	\$0.005789	\$0.006947	\$0.008336
Schools w/ cafeterias, Restaurants, Short order facilities, markets w/ deli's	\$0.004523	\$0.005428	\$0.006514	\$0.007817	\$0.009380	\$0.011256
Restaurants w/ full kitchens	\$0.007370	\$0.008844	\$0.010613	\$0.012736	\$0.015283	\$0.018340

3.3 Scenario 2: Phased-In Recycled Water Project

Scenario 2 is a phased-in version of the original project. It will require additional construction to meet projected future treatment capacity requirements. This project includes a recycled water treatment system. This scenario allows for new growth, produces recycled water, is eligible for recycled water grants but will require additional construction to meet the capacity requirements of additional growth.

The Scenario 2 cashflow projections and maximum rates for a 218 notice are shown in the following tables.

Table 6 – Scenario 2 Sewer Cash Flow Projections

Draft Cashflow	Years Included in 218 Notice					FY 27-28	FY 28-29
	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27		
New SFR Connections	95	63	63	63	63		
Beginning Reserve Balance	\$10,490,000	\$11,020,317	\$13,916,439	\$11,885,238	\$9,278,339	\$7,082,963	\$8,789,268
<i>Rate Revenue Increase</i>	<i>18.0%</i>	<i>18.0%</i>	<i>18.0%</i>	<i>17.0%</i>	<i>15.0%</i>	<i>4.0%</i>	<i>4.0%</i>
Revenues							
Rate Revenue	\$4,600,000	\$5,434,546	\$6,417,886	\$7,579,098	\$8,874,436	\$10,212,769	\$10,621,279
Rate Increase Revenue	828,000	978,218	1,155,219	1,288,447	1,331,165	408,511	424,851
Rate Increase Timing Ac	-414,000						
Recycled Water Sales						50,594	101,188
Other Revenue							
DEVELOPER FEES	344,500	226,485	226,485	226,485	226,485		
INSPECTION FEES	7,500	7,500	7,500	7,500	7,500	7,500	7,500
FINES,	81,000	81,000	81,000	81,000	81,000	81,000	81,000
INTEREST INCOME	157,350	165,305	208,747	178,279	139,175	106,244	131,839
INDUSTRIAL PERMITS	20,000	20,000	20,000	20,000	20,000	20,000	20,000
TRANSFERS IN	\$81,421						
Total Revenue	\$5,705,771	\$6,913,053	\$8,116,837	\$9,380,808	\$10,679,761	\$10,886,618	\$11,387,658
Expenses							
O&M Expense	\$4,022,800	\$3,219,101	\$3,347,865	\$3,481,780	\$4,001,016	\$4,565,392	\$4,748,007
New O&M Recycled Plant				0	499,720	1,039,418	1,080,994
Rate Funded Capital	\$710,000	\$313,500	\$6,179,322	\$7,881,903	\$7,751,805	\$1,222,502	\$1,271,402
2013 Sewer Loan	\$335,780	\$335,780	\$335,780	\$335,780	\$335,780	\$335,780	\$335,780
Energy Financing	106,874	148,550	285,071	288,244	286,816	285,221	287,724
New WWTP Debt Service	0	0	0	0	0	1,732,000	3,464,000
Total Expenses	\$5,175,454	\$4,016,931	\$10,148,038	\$11,987,707	\$12,875,137	\$9,180,313	\$11,187,908
Net Revenues	\$530,317	\$2,896,122	-\$2,031,201	-\$2,606,899	-\$2,195,376	\$1,706,305	\$199,750
Ending Reserve Balance	\$11,020,317	\$13,916,439	\$11,885,238	\$9,278,339	\$7,082,963	\$8,789,268	\$8,989,018
Debt Coverage (Target 1.3)	3.80	7.63	7.68	9.45	9.92	2.24	1.36
*New WWTP debt assumptions: SRF loan, 30-year term, 2.5% interest rate, \$500,000 issuance cost							
Capital Funding							
Capital Expenditures							
WWTP Expenses			\$30,000,000	\$30,000,000	\$30,400,000		
CIP Expenses	<u>\$710,000</u>	<u>\$313,500</u>	<u>\$179,322</u>	<u>\$1,881,903</u>	<u>\$1,351,805</u>	<u>\$1,222,502</u>	<u>\$1,271,402</u>
Total Capital Expenditures	\$710,000	\$313,500	\$30,179,322	\$31,881,903	\$31,751,805	\$1,222,502	\$1,271,402
Capital Funding Source							
Use of Debt Proceeds			\$24,000,000	\$24,000,000	\$24,000,000		
Grant Revenue							
Rate Funded Capital	\$710,000	\$313,500	\$6,179,322	\$7,881,903	\$7,751,805	\$1,222,502	\$1,271,402
Total Capital Funding	\$710,000	\$313,500	\$30,179,322	\$31,881,903	\$31,751,805	\$1,222,502	\$1,271,402

The following table shows the recommended maximum rates for a 218 notice if the City chooses Scenario 2.

Table 7 – Scenario 2: Recommended Maximum Rates

Proposed Rates	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
	<i>Existing</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>
Residential Sewer Rates						
Monthly Fixed Rate	\$49.48	\$58.39	\$68.90	\$81.30	\$95.12	\$109.39
Commercial Sewer Rates						
Min. Monthly Base Charge	\$49.48	\$58.39	\$68.90	\$81.30	\$95.12	\$109.39
Volumetric Rates (\$/Gallon) for Usage Greater Than 7,480 Gallons per Month						
Schools w/o cafeterias, Offices	\$0.002512	\$0.002964	\$0.003498	\$0.004128	\$0.004830	\$0.005555
Commercial, hospitals, extended care facilities, markets (w/o deli's), automobile shops	\$0.003350	\$0.003953	\$0.004665	\$0.005505	\$0.006441	\$0.007407
Schools w/ cafeterias, Restaurants, Short order facilities, markets w/ deli's	\$0.004523	\$0.005337	\$0.006298	\$0.007432	\$0.008695	\$0.009999
Restaurants w/ full kitchens	\$0.007370	\$0.008697	\$0.010262	\$0.012109	\$0.014168	\$0.016293

3.4 Scenario 3: Minimum Project

Scenario 3 is the minimum plant required to meet the needs of existing capacity. It will require additional construction to meet projected future treatment capacity requirements. This project does not include a recycled water treatment system. This scenario does not allow for new growth, produces no recycled water, is not eligible for recycled water grants and will require additional construction to meet the capacity requirements of additional growth.

The Scenario 3 cashflow projections and maximum rates for a 218 notice are shown in the following tables.

Table 8 – Scenario 3 Sewer Cash Flow Projections

Draft Cashflow	Years Included in 218 Notice					FY 27-28	FY 28-29
	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27		
New SFR Connections	95	63	63	63	63		
Beginning Reserve Balance	\$10,490,000	\$10,951,317	\$13,297,805	\$11,467,434	\$9,617,049	\$8,643,585	\$9,323,618
<i>Rate Revenue Increase</i>	<i>15.0%</i>	<i>15.0%</i>	<i>15.0%</i>	<i>12.0%</i>	<i>10.0%</i>	<i>4.0%</i>	<i>4.0%</i>
Revenues							
Rate Revenue	\$4,600,000	\$5,296,217	\$6,095,391	\$7,015,010	\$7,862,652	\$8,654,992	\$9,001,192
Rate Increase Revenue	690,000	794,433	914,309	841,801	786,265	346,200	360,048
Rate Increase Timing Adju	-345,000						
Recycled Water Sales							
Other Revenue							
DEVELOPER FEES	344,500						
INSPECTION FEES	7,500	7,500	7,500	7,500	7,500	7,500	7,500
FINES,	81,000	81,000	81,000	81,000	81,000	81,000	81,000
INTEREST INCOME	157,350	164,270	199,467	172,012	144,256	129,654	139,854
INDUSTRIAL PERMITS	20,000	20,000	20,000	20,000	20,000	20,000	20,000
TRANSFERS IN	\$81,421						
Total Revenue	\$5,636,771	\$6,363,419	\$7,317,666	\$8,137,322	\$8,901,673	\$9,239,346	\$9,609,594
Expenses							
O&M Expense	\$4,022,800	\$3,219,101	\$3,347,865	\$3,481,780	\$4,001,016	\$4,565,392	\$4,748,007
New O&M Recycled Plant				0	499,720	1,039,418	1,080,994
Rate Funded Capital	\$710,000	\$313,500	\$5,179,322	\$5,881,903	\$4,751,805	\$1,222,502	\$1,271,402
2013 Sewer Loan	\$335,780	\$335,780	\$335,780	\$335,780	\$335,780	\$335,780	\$335,780
Energy Financing	106,874	148,550	285,071	288,244	286,816	285,221	287,724
New WWTP Debt Service*	0	0	0	0	0	1,111,000	2,222,000
Total Expenses	\$5,175,454	\$4,016,931	\$9,148,038	\$9,987,707	\$9,875,137	\$8,559,313	\$9,945,908
Net Revenues	\$461,317	\$2,346,488	-\$1,830,371	-\$1,850,385	-\$973,464	\$680,033	-\$336,314
Ending Reserve Balance	\$10,951,317	\$13,297,805	\$11,467,434	\$9,617,049	\$8,643,585	\$9,323,618	\$8,987,304
Debt Coverage (Target 1.3)	3.65	6.49	6.39	7.46	7.07	2.10	1.33
*New WWTP debt assumptions: SRF loan, 30-year term, 2.5% interest rate, \$500,000 issuance cost							
Capital Funding							
Capital Expenditures							
WWTP Expenses			\$20,000,000	\$20,000,000	\$18,400,000		
CIP Expenses	\$710,000	\$313,500	\$179,322	\$1,881,903	\$1,351,805	\$1,222,502	\$1,271,402
Total Capital Expenditures	\$710,000	\$313,500	\$20,179,322	\$21,881,903	\$19,751,805	\$1,222,502	\$1,271,402
Capital Funding Source							
Use of Debt Proceeds			\$15,000,000	\$16,000,000	\$15,000,000		
Grant Revenue							
Rate Funded Capital	\$710,000	\$313,500	\$5,179,322	\$5,881,903	\$4,751,805	\$1,222,502	\$1,271,402
Total Capital Funding	\$710,000	\$313,500	\$20,179,322	\$21,881,903	\$19,751,805	\$1,222,502	\$1,271,402

The following table shows the recommended maximum rates for a 218 notice if the City chooses Scenario 3.

Table 9 – Scenario 3: Recommended Maximum Rates

Proposed Rates	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27
	<i>Existing</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>	<i>Proposed</i>
Residential Sewer Rates						
Monthly Fixed Rate	\$49.48	\$56.90	\$65.44	\$75.26	\$84.29	\$92.72
Commercial Sewer Rates						
Min. Monthly Base Charge	\$49.48	\$56.90	\$65.44	\$75.26	\$84.29	\$92.72
Volumetric Rates (\$/Gallon) for Usage Greater Than 7,480 Gallons per Month						
Schools w/o cafeterias, Offices	\$0.002512	\$0.002889	\$0.003322	\$0.003820	\$0.004278	\$0.004706
Commercial, hospitals, extended care facilities, markets (w/o deli's), automobile shops	\$0.003350	\$0.003853	\$0.004431	\$0.005096	\$0.005708	\$0.006279
Schools w/ cafeterias, Restaurants, Short order facilities, markets w/ deli's	\$0.004523	\$0.005201	\$0.005981	\$0.006878	\$0.007703	\$0.008473
Restaurants w/ full kitchens	\$0.007370	\$0.008476	\$0.009747	\$0.011209	\$0.012554	\$0.013809

4 CONCLUSION AND RECOMMENDATIONS

Rates were developed as part of a collaborative process that included Staff and the City's engineering consultant KSN. This rate study report presents a comprehensive review of the City of Riverbank's sewer revenue requirements and rates. The City will need regular annual rate increases to keep up with cost inflation and be able to complete necessary capital projects while maintaining prudent reserves. Current rates will need to be updated to reflect the cost of service.

4.1 Conclusion

The City practices sound financial planning that has provided for the financial health of the sewer enterprise. However, the City is facing large capital expenditures which require rates to increase more than inflation. Adoption of rates corresponding to the treatment plant scenario selected by the City reflect the City's commitment to stewarding financially sound utilities and providing reliable, high quality water service that will benefit the community many years into the future.

4.2 Recommendations

BWA recommends that the City adopt the rates shown in this report which reflect the treatment plant scenario selected by the City. BWA recommends reviewing the financial position of the wastewater enterprise in FY 24/25 to assess if rates in FY 25/26 and FY 26/27 need to be raised to the maximum notices amounts. At minimum, BWA recommends that the City review and update its sewer rate study every five years and/or concurrent with Master Plan Updates. Proposition 218 allows public agencies to adopt rates over a five-year planning period. Any further rate increases must be supported by a comprehensive rate study.

APPENDIX A

Sewer Rate Study Tables



Table 1
City of Riverbank
Projected Operating Expenses
Sewer Rate Study

Expenses ¹	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28
	<i>Actual</i>	<i>Budgeted</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
<i>General Inflation Factor</i>			<i>4.5%</i>	<i>4.0%</i>	<i>4.0%</i>	<i>4.0%</i>	<i>4.0%</i>
Treatment							
PERSONNEL REGULAR	\$222,500	\$240,600	\$251,427	\$261,484	\$271,943	\$282,821	\$294,134
PERSONNEL OVERTIME	\$36,000	\$36,000	\$37,620	\$39,125	\$40,690	\$42,317	\$44,010
SALARY REQUEST	\$0	\$90,900	\$94,991	\$98,790	\$102,742	\$106,851	\$111,125
MAINT. OPERATION EQUIP	\$65,000	\$65,000	\$67,925	\$70,642	\$73,468	\$76,406	\$79,463
RENTS & LEASES	\$35,000	\$35,000	\$36,575	\$38,038	\$39,560	\$41,142	\$42,788
PROFESSIONAL/SPECIAL SERV	\$172,700	\$175,000	\$182,875	\$190,190	\$197,798	\$205,710	\$213,938
OTHER CONTRACT SERVICES	\$696,000	\$621,000					
PIRTS & APPRAISALS,TAXES	\$2,500	\$2,500	\$2,613	\$2,717	\$2,826	\$2,939	\$3,056
OFFICE EXPENSE	\$5,000	\$5,000	\$5,225	\$5,434	\$5,651	\$5,877	\$6,113
CHEMICALS	\$5,700	\$5,700	\$5,957	\$6,195	\$6,443	\$6,721	\$7,010
UTILITIES	\$220,000	\$220,000	\$229,900	\$239,096	\$248,660	\$142,330	\$36,000
COMMUNICATIONS	\$1,700	\$1,700	\$1,777	\$1,848	\$1,921	\$1,998	\$2,078
MISCELLANEOUS EXPENSE	\$2,800	\$2,800	\$2,926	\$3,043	\$3,165	\$3,291	\$3,423
BOOT & JACKET ALLOWANCE	\$600	\$1,000	\$1,045	\$1,087	\$1,130	\$1,175	\$1,223
SMALL TOOLS	\$3,000	\$3,000	\$3,135	\$3,260	\$3,391	\$3,526	\$3,668
MAIN OF BLDG/STRUCTURES/GRDS	\$35,000	\$35,000	\$36,575	\$38,038	\$39,560	\$41,142	\$42,788
MEMBERSHIPS,DUES,BOOKS,ETC	\$3,500	\$3,500	\$3,658	\$3,804	\$3,956	\$4,114	\$4,279
STAFF DEVELOPMENT	\$4,500	\$4,500	\$4,703	\$4,891	\$5,086	\$5,290	\$5,501
SAFETY EQUIPMENT	\$3,300	\$3,300	\$3,449	\$3,586	\$3,730	\$3,879	\$4,034
LEVEE REPAIR AND A.C.	\$10,000	\$10,000	\$10,450	\$10,868	\$11,303	\$11,755	\$12,225
UNIFORMS & RAGS	\$2,000	\$2,500	\$2,613	\$2,717	\$2,826	\$2,939	\$3,056
BOND INTEREST EXPENSE	\$600	\$600	\$627	\$652	\$678	\$705	\$734
CAPITAL EXPENDITURES	\$66,300	\$0	\$0	\$0	\$0	\$0	\$0
MEDICARE	\$3,100	\$3,500	\$3,658	\$3,804	\$3,956	\$4,114	\$4,279
PERS RETIREMENT	\$46,600	\$54,200	\$56,639	\$58,905	\$61,261	\$63,711	\$66,260
PAYROLL TAXES	\$1,000	\$800	\$836	\$869	\$904	\$940	\$978
HEALTH DENTAL VISION INSURANCE	\$39,300	\$44,700	\$46,712	\$48,580	\$50,523	\$52,544	\$54,646
NATIONAL RETIREMENT	\$14,200	\$14,200	\$14,839	\$15,433	\$16,050	\$16,692	\$17,360
SELF INS. PREMIUM	\$32,100	\$36,700	\$38,352	\$39,886	\$41,481	\$43,140	\$44,866
DEFERRED COMPENSATION	\$3,400	\$5,000	\$5,225	\$5,434	\$5,651	\$5,877	\$6,113
Project Additional O&M						\$499,720	\$1,039,418

Table 1
City of Riverbank
Projected Operating Expenses
Sewer Rate Study

Expenses ¹	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28
	<i>Actual</i>	<i>Budgeted</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
<i>General Inflation Factor</i>			4.5%	4.0%	4.0%	4.0%	4.0%
Collection							
PERSONNEL REGULAR	\$104,000	\$109,500	\$114,428	\$119,005	\$123,765	\$128,715	\$133,864
PERSONNEL OVERTIME	\$1,000	\$1,000	\$1,045	\$1,087	\$1,130	\$1,175	\$1,223
STANDBY PAY	\$15,000	\$15,000	\$15,675	\$16,302	\$16,954	\$17,632	\$18,338
SALARY REQUEST	\$0	\$87,200	\$91,124	\$94,769	\$98,560	\$102,502	\$106,602
MAINT. OPERATION EQUIP	\$15,000	\$15,000	\$15,675	\$16,302	\$16,954	\$17,632	\$18,338
RENTS & LEASES	\$40,000	\$40,000	\$41,800	\$43,472	\$45,211	\$47,019	\$48,900
PROFESSIONAL/SPECIAL SERV	\$38,700	\$38,700	\$40,442	\$42,059	\$43,742	\$45,491	\$47,311
OTHER CONTRACT SERVICES	\$40,000	\$41,000	\$42,845	\$44,559	\$46,341	\$48,195	\$50,123
ADVERTISING	\$300	\$300	\$314	\$326	\$339	\$353	\$367
POSTAGE	\$7,200	\$7,200	\$7,524	\$7,825	\$8,138	\$8,463	\$8,802
OFFICE EXPENSE	\$2,000	\$2,000	\$2,090	\$2,174	\$2,261	\$2,351	\$2,445
CHEMICALS	\$1,500	\$1,500	\$1,568	\$1,630	\$1,695	\$1,763	\$1,834
URAP	\$7,500	\$7,500	\$7,838	\$8,151	\$8,477	\$8,816	\$9,169
UTILITIES	\$32,000	\$32,000	\$33,440	\$34,778	\$36,169	\$37,615	\$39,120
COMMUNICATIONS	\$4,000	\$4,000	\$4,180	\$4,347	\$4,521	\$4,702	\$4,890
MISCELLANEOUS EXPENSE	\$2,000	\$2,500	\$2,613	\$2,717	\$2,826	\$2,939	\$3,056
BOOT & JACKET ALLOWANCE	\$400	\$1,500	\$1,568	\$1,630	\$1,695	\$1,763	\$1,834
SMALL TOOLS	\$1,000	\$1,000	\$1,045	\$1,087	\$1,130	\$1,175	\$1,223
MAIN OF BLDG/STRUCTURES/GRDS	\$21,400	\$21,400	\$22,363	\$23,258	\$24,188	\$25,155	\$26,162
MEMBERSHIPS, DUES, BOOKS, ETC	\$500	\$500	\$523	\$543	\$565	\$588	\$611
CONFERENCES & MEETINGS	\$0	\$1,000	\$1,045	\$1,087	\$1,130	\$1,175	\$1,223
STAFF DEVELOPMENT	\$2,000	\$2,000	\$2,090	\$2,174	\$2,261	\$2,351	\$2,445
SAFETY EQUIPMENT	\$2,000	\$2,000	\$2,090	\$2,174	\$2,261	\$2,351	\$2,445
STATE/COUNTY FEES	\$4,000	\$4,000	\$4,180	\$4,347	\$4,521	\$4,702	\$4,890
DEBT SERVICE	\$74,000	\$74,000	\$77,330	\$80,423	\$83,640	\$86,986	\$90,465
UNIFORMS & RAGS	\$800	\$1,600	\$1,672	\$1,739	\$1,808	\$1,881	\$1,956
EQUIPMENT/PROJECTS	\$449,900	\$0	\$0	\$0	\$0	\$0	\$0
MEDICARE	\$1,500	\$1,600	\$1,672	\$1,739	\$1,808	\$1,881	\$1,956
PERS RETIREMENT	\$21,600	\$23,500	\$24,558	\$25,540	\$26,561	\$27,624	\$28,729
PAYROLL TAXES	\$700	\$500	\$523	\$543	\$565	\$588	\$611
HEALTH DENTAL VISION INSURANCE	\$30,200	\$27,300	\$28,529	\$29,670	\$30,856	\$32,091	\$33,374
NATIONAL RETIREMENT	\$9,400	\$9,400	\$9,823	\$10,216	\$10,625	\$11,050	\$11,492
SELF INS. PREMIUM	\$15,900	\$16,700	\$17,452	\$18,150	\$18,876	\$19,631	\$20,416
TRANSFERS OUT	\$1,573,250	\$1,706,700	\$1,447,722	\$1,505,630	\$1,565,856	\$1,628,490	\$1,693,629
Total Operating Expenses	\$4,252,150	\$4,022,800	\$3,219,101	\$3,347,865	\$3,481,780	\$4,001,016	\$4,565,392
<i>% Change from Previous Year</i>		-5.4%	-20.0%	4.0%	4.0%	14.9%	14.1%

¹Based on City Budget

Table 2
City of Riverbank
Capital Improvement Costs
Sewer Rate Study

Project Description	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	FY 26-27	FY 27-28
	<i>Budgeted</i>	<i>Actual</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>	<i>Projected</i>
CIP (Current Dollars)*							
Utility Service Separation	\$36,000						
Cross Connection Reduction							
Biolac System	\$3,549,843						
6" SS, Stanislaus - Sierra Alley from 1st to 3rd		\$90,000					
6" SS, Sierra - Patterson Alley from 1st to 8th		\$325,000					
6" SS, Topeka - 108 Alley 4th to 5th		\$65,000					
6" SS, Topeka - Santa Fe Alley 7th to 8th		\$65,000					
6" SS, Santa Fe - Stanislaus Alley 7th to 8th		\$65,000					
6" SS, Terminal from Kentucky to Castle Park Drive			\$100,000				
6" SS, Texas - Kansas Alley from 8th to Chief Tucker			\$100,000				
8" SS, Galaxy to Jackson Ave.				\$65,000			
6" & 8" SS, 7 State Streets from Terminal to 8th					\$1,250,000		
8" SS, Oakdale Road from Patterson to Cedarwood					\$165,000		
6" SS in Cedarwood from Oakdale Road to Wood Haven					\$150,000		
6" SS, Orange Ave from Bruneyville to 2nd St.						\$1,000,000	
CCTV all sanitary sewer lines city wide							
Upgrade all electrical panels on SS lift stations		\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	
Survey all lift stations						\$50,000	
General CIP							\$1,000,000
Total CIP (Current Dollars)	\$3,585,843	\$710,000	\$300,000	\$165,000	\$1,665,000	\$1,150,000	\$1,000,000
*CIP does not include treatment plant project costs. Projected treatment plant project costs shown in cashflow.							
CIP (Escalated for Inflation)							
Annual Inflation Rate			4.5%	4.0%	4.0%	4.0%	4.0%
Total CIP (Escalated for Inflation)	\$36,000	\$710,000	\$313,500	\$179,322	\$1,881,903	\$1,351,805	\$1,222,502