



# City of San Bruno



## Water & Sewer Rate Study Background & Preliminary Findings

February 14, 2023



BARTLE WELLS ASSOCIATES  
INDEPENDENT PUBLIC FINANCE ADVISORS



# Presentation Overview



- **Utility Finances & Rates**
- **Regional Rate Surveys**
- **Water & Sewer Systems**
- **Rate Study Overview**
- **Financial Challenges**
- **Draft Rate Projections**
- **Next Steps**

**Purpose: Discuss findings & draft recommendations & receive input**



# Utility Finances



## ■ **Water & sewer utilities are financially self-supporting enterprises**

- Rates are main source of funding & need to be adequate to fund costs of providing service including replacing aging infrastructure
- 100% of rate revenues go to fund water & sewer system expenses

## ■ **City has provided strong financial management via adoption of gradual annual rate increases most years**

- Last adopted a 5-years of 5% water and sewer rate increases effective July 1, 2017 - 2021
- City cancelled the last rate increase scheduled for July 1, 2021 to provide rate relief during Covid
- No rate increases in 2022 based on staff recommendation
- No rate increases for past 2 years in a row



# Draft Recommendations

- **Recommend City resume its historical practice of gradual annual rate increases**

Projected Water Rate Increases						
July 1 2021	July 1 2022	January 1 2024	January 1 2025	January 1 2026	January 1 2027	January 1 2028
<del>5%</del> 0%	0%	6%	6%	6%	6%	6%

Projected Sewer Rate Increases						
July 1 2021	July 1 2022	July 1 2023	July 1 2024	July 1 2025	July 1 2026	July 1 2027
<del>5%</del> 0%	0%	5%	5%	5%	5%	5%

- **Prior 2017 Rate Study projected ongoing 5% annual water and sewer rate increases**
  - With no rate increases for past 2 years, projected rates will remain roughly 10% lower than estimated in the prior rate study



# Best Financial Management Practices

- **Long-term financial planning**
- **Maintain prudent levels of fund reserves**
  - Financial cushion for revenue shortfalls, unanticipated expenses, and emergencies; can accrue funds for major capital needs
- **Adequate funding for replacement of aging infrastructure**
- **Fund ongoing capital costs on a pay-as-you-go basis**
  - Use debt for spikes in capital costs to spread costs over time
- **Gradual annual rate increases based on long-term needs**
  - Keeps rates in line with the costs of providing service
- **Don't defer smaller annual rate increases**
  - Avoid need for larger, unpopular rate spikes



# Rates & Billing

- **City's water & sewer rates are in the middle range compared to other regional agencies in San Mateo County**
- **City bills customers via a bi-monthly bill that includes water rates, sewer rates and garbage rates**
  - Single large bill paid once every 2 months
  - Many other agencies bill for water or sewer only, or collect some charges on the property tax rolls



Historical Water Rates							
	July 1 2016	July 1 2017	July 1 2018	July 1 2019	July 1 2020	July 1 2021	
Rate Increase %		5%	5%	5%	5%	<del>5%</del>	
<b>MONTHLY SERVICE CHARGES</b>					<b>Currently in effect</b>	<b>Cancelled</b>	
<i>Fixed monthly charge based on meter size.</i>							
<u>Meter Size</u>							
3/4-inch	\$21.13	\$22.10	\$23.20	\$24.36	\$25.58	<del>\$26.86</del>	
1-inch	35.22	36.83	38.67	40.60	42.63	<del>44.76</del>	
1-1/2 inch	70.43	73.67	77.33	81.20	85.27	<del>89.53</del>	
2-inch	112.69	117.87	123.73	129.92	136.43	<del>143.25</del>	
3-inch	211.30	221.00	232.00	243.60	255.80	<del>268.59</del>	
4-inch	352.17	368.33	386.67	406.00	426.33	<del>447.65</del>	
6-inch	704.33	736.67	773.33	812.00	852.67	<del>895.30</del>	
8-inch	1,126.93	1,178.67	1,237.33	1,299.20	1,364.27	<del>1,432.47</del>	
10-inch	1,619.97	1,694.33	1,778.67	1,867.60	1,961.13	<del>2,059.18</del>	
<b>QUANTITY CHARGES</b>							
<i>Billed based on metered water consumption per hundred cubic feet (hcf); 1 hcf = approximately 748 gallons</i>							
a) Single-Family Residential							
	<u>Bi-Monthly Use</u>						
Tier 1	0 - 10 hcf	\$7.36	\$7.78	\$8.17	\$8.58	\$9.01	<del>\$9.46</del>
Tier 2	11 - 20 hcf	8.83	9.31	9.78	10.27	10.78	<del>11.32</del>
Tier 3	> 20 hcf	11.78	12.38	13.00	13.65	14.33	<del>15.05</del>
b) All Other Accounts (All Use)							
		8.32	8.73	9.17	9.63	10.11	<del>10.62</del>



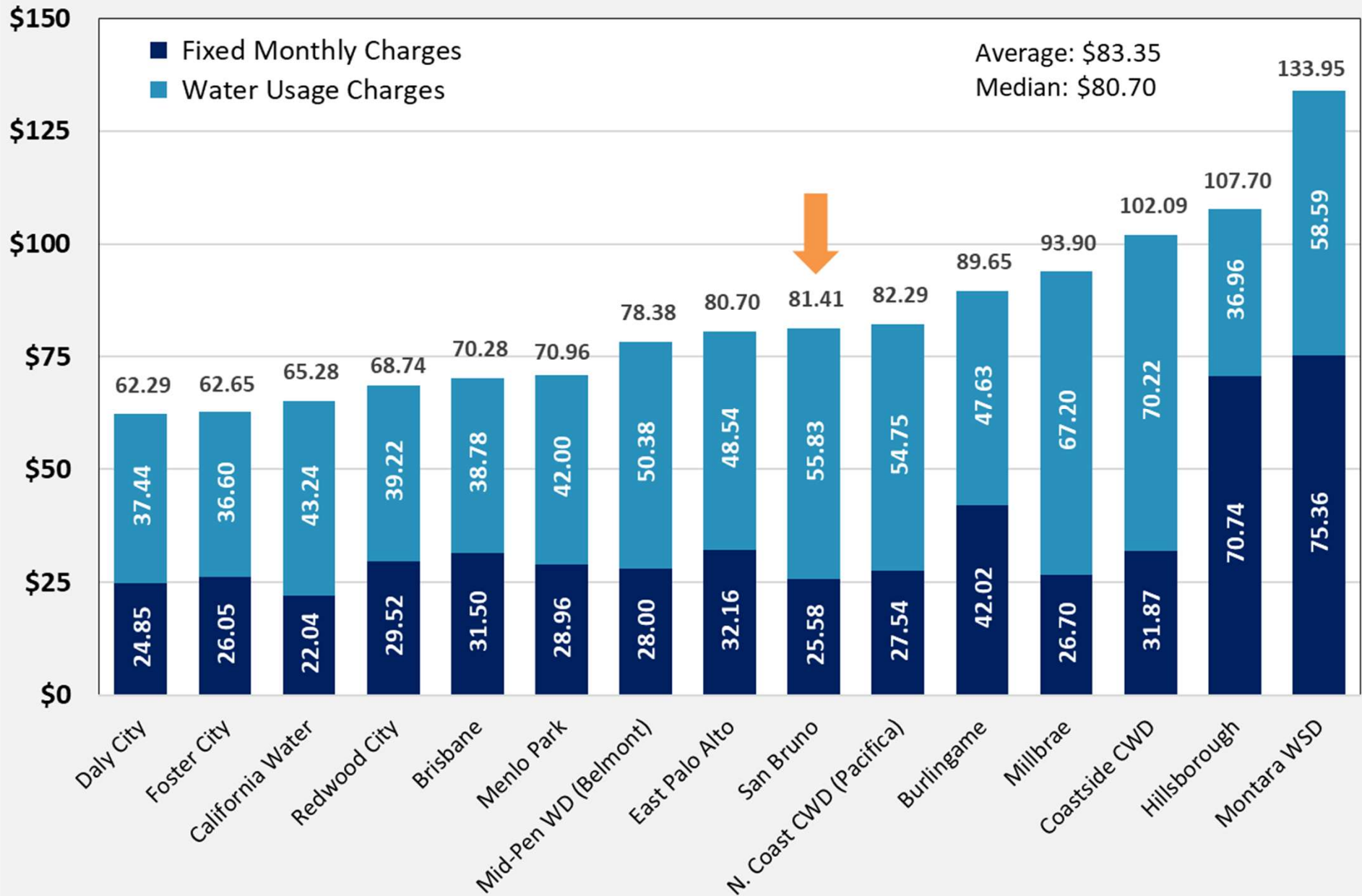
## Historical Sewer Rates

Wastewater Rates Effective July 1					
	2017	2018	2019	2020	2021
Rate Increase %	5%	5%	5%	5%	<del>5%</del>
<b>MONTHLY SERVICE CHARGES</b>					
<i>Fixed monthly charge per account</i>				Currently in effect	Cancelled
Single Family Residential	\$27.88	\$29.27	\$30.73	\$32.27	<del>\$33.88</del>
All Other Customers (Charge Based on Water Meter Size)					
<u>Meter Size</u>					
3/4-inch	\$27.88	\$29.27	\$30.73	\$32.27	<del>\$33.88</del>
1-inch	46.47	48.78	51.22	53.78	<del>56.47</del>
1-1/2 inch	92.93	97.57	102.43	107.57	<del>112.93</del>
2-inch	148.69	156.11	163.89	172.11	<del>180.69</del>
3-inch	278.80	292.70	307.30	322.70	<del>338.80</del>
4" & Larger	464.67	487.83	512.17	537.83	<del>564.67</del>
<b>QUANTITY CHARGES</b>					
<i>Billed per hundred cubic feet (hcf); 1 hcf = approximately 748 gallons</i>					
Residential (winter use)	\$10.69	\$11.22	\$11.78	\$12.37	<del>\$12.99</del>
Commercial					
C-1 Light Commercial	9.93	10.43	10.95	11.50	<del>12.08</del>
C-2 Medium Commercial	10.69	11.22	11.78	12.37	<del>12.99</del>
C-3 Heavy Commercial	15.21	15.97	16.77	17.61	<del>18.49</del>
C-4 Special Commercial	19.74	20.73	21.77	22.86	<del>24.00</del>
Governmental	10.69	11.22	11.78	12.37	<del>12.99</del>
Industrial					
I-1 Light Industrial	10.69	11.22	11.78	12.37	<del>12.99</del>



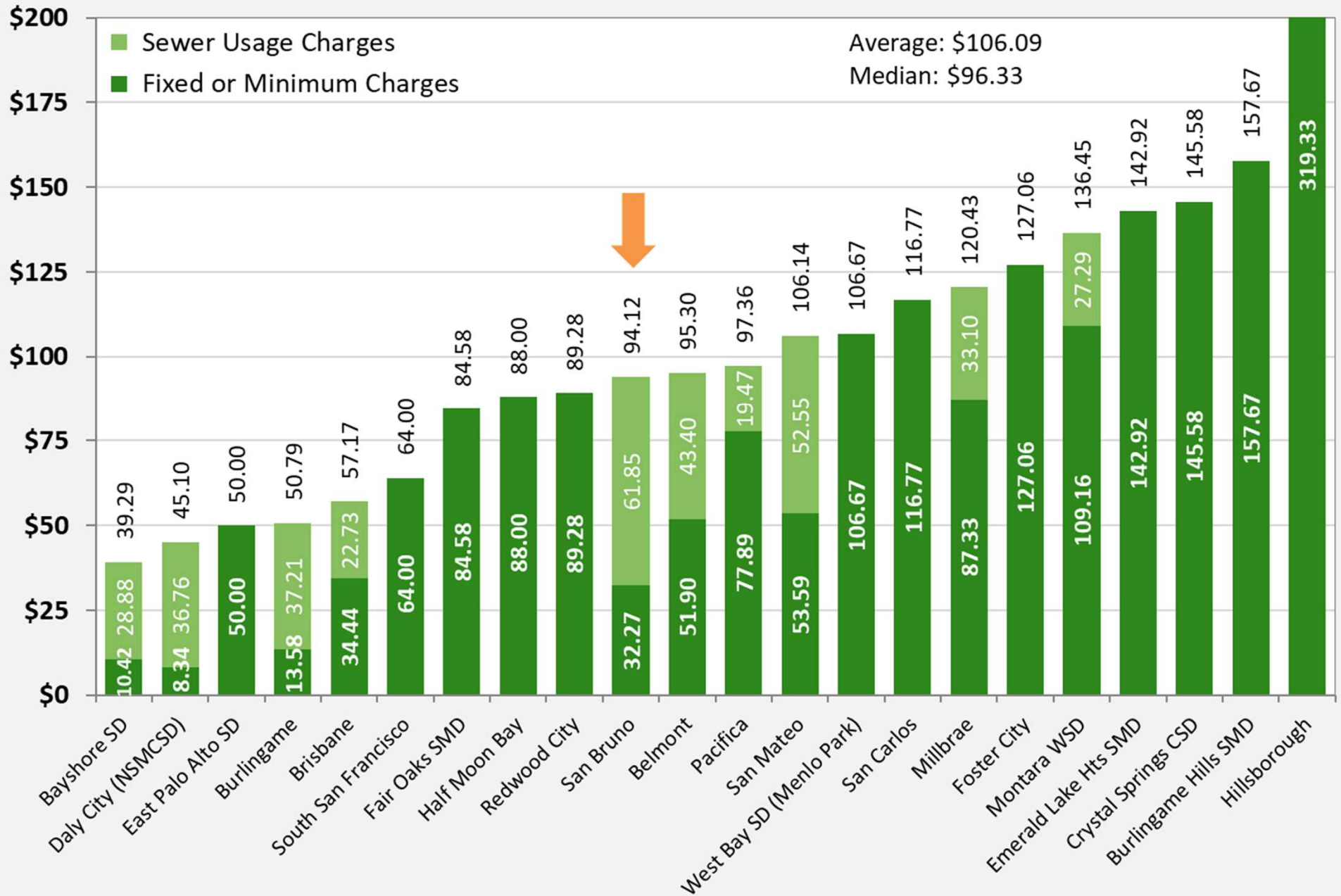
# Typical Single Family Residential Monthly Water Charges

Base meter size with 6 hcf of monthly water use



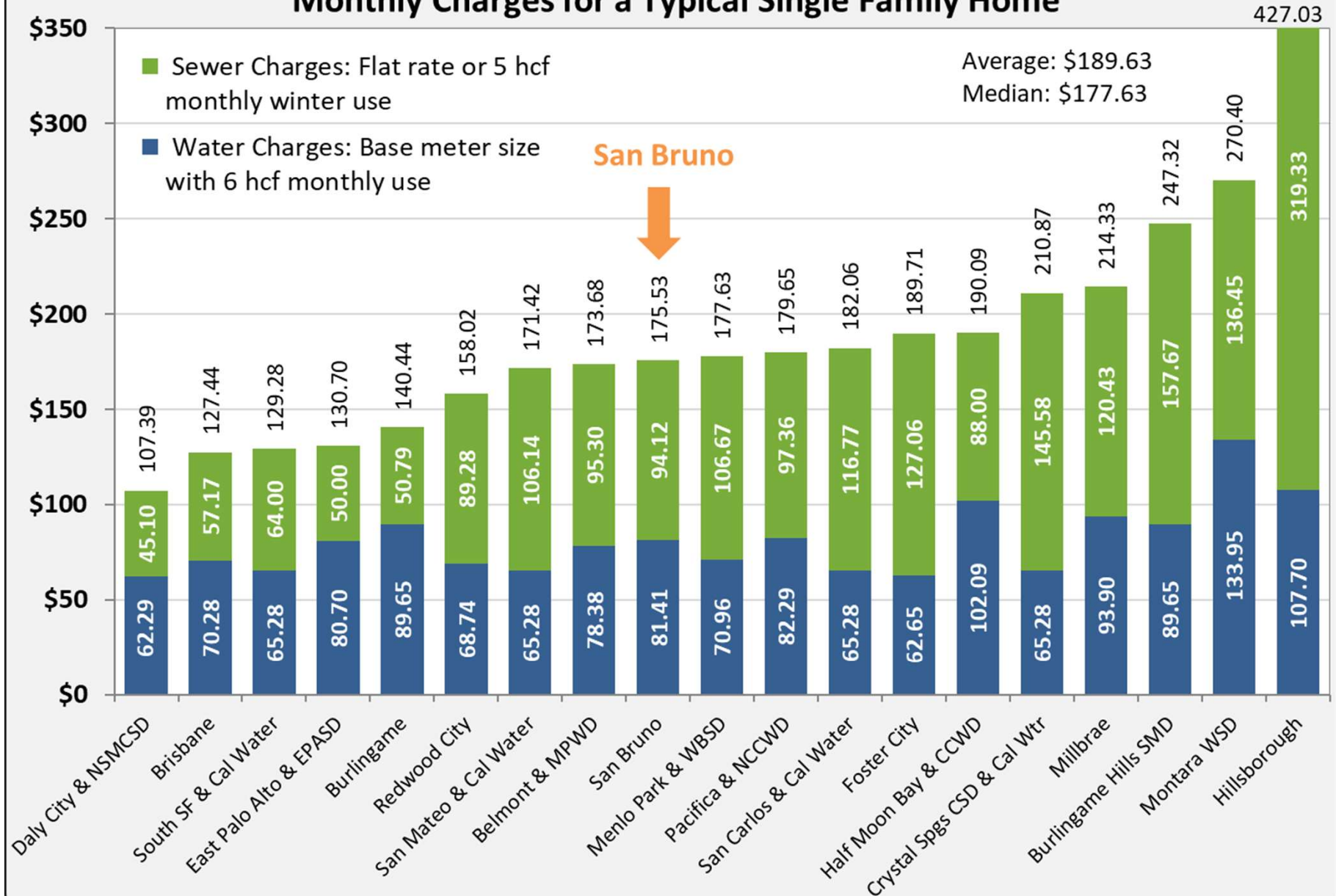
# Typical Single Family Residential Monthly Sewer Charges

Based on flat rate or 5 hcf of monthly winter water use



## Survey of Combined Water & Sewer Bills

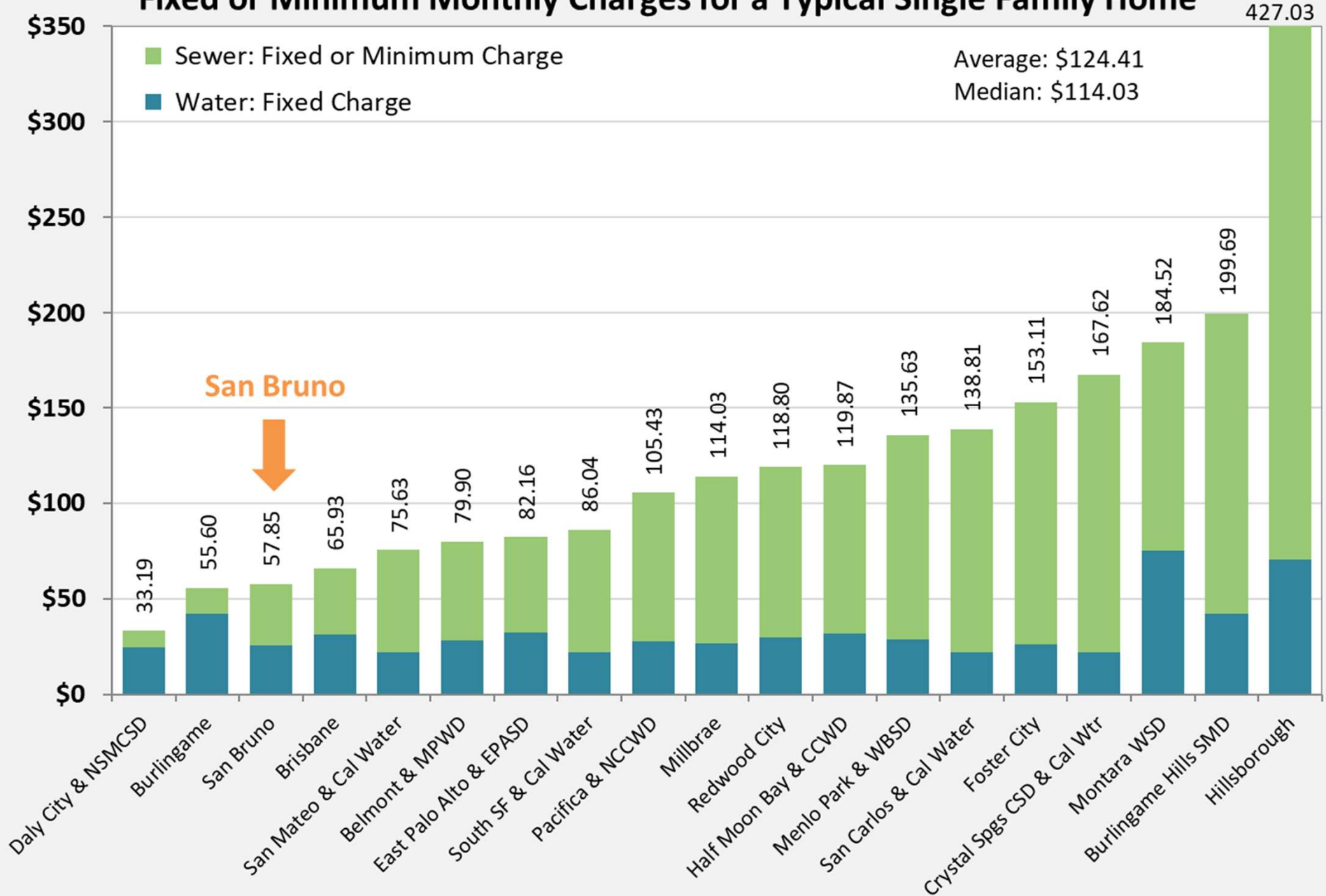
### Monthly Charges for a Typical Single Family Home



Note: Survey assumes same level of water use for all agencies for comparative purposes. Agencies in northern San Mateo County and on the Pacific Coast tend to have lower water use per home than agencies in central and southern San Mateo County.

# Survey of Fixed Monthly Water & Sewer Charges Only

## Fixed or Minimum Monthly Charges for a Typical Single Family Home





# Water System

## ■ Water Supply

- Groundwater via 5 wells (roughly 2/3rds of supply)
- SFPUC wholesale water (roughly 1/3 of supply)

## ■ Water Distribution System

- Roughly 120 miles of water main pipelines
- Most are original metal pipes with life expectancy of 50 years
- Many are 70–100 years old & subject to frequent leaks & breaks
- In past 5 years, City averages about 100 main breaks per year
- 8 water storage tanks & pump stations
- Aging infrastructure requires significant rehabilitation, seismic retrofits, and replacement

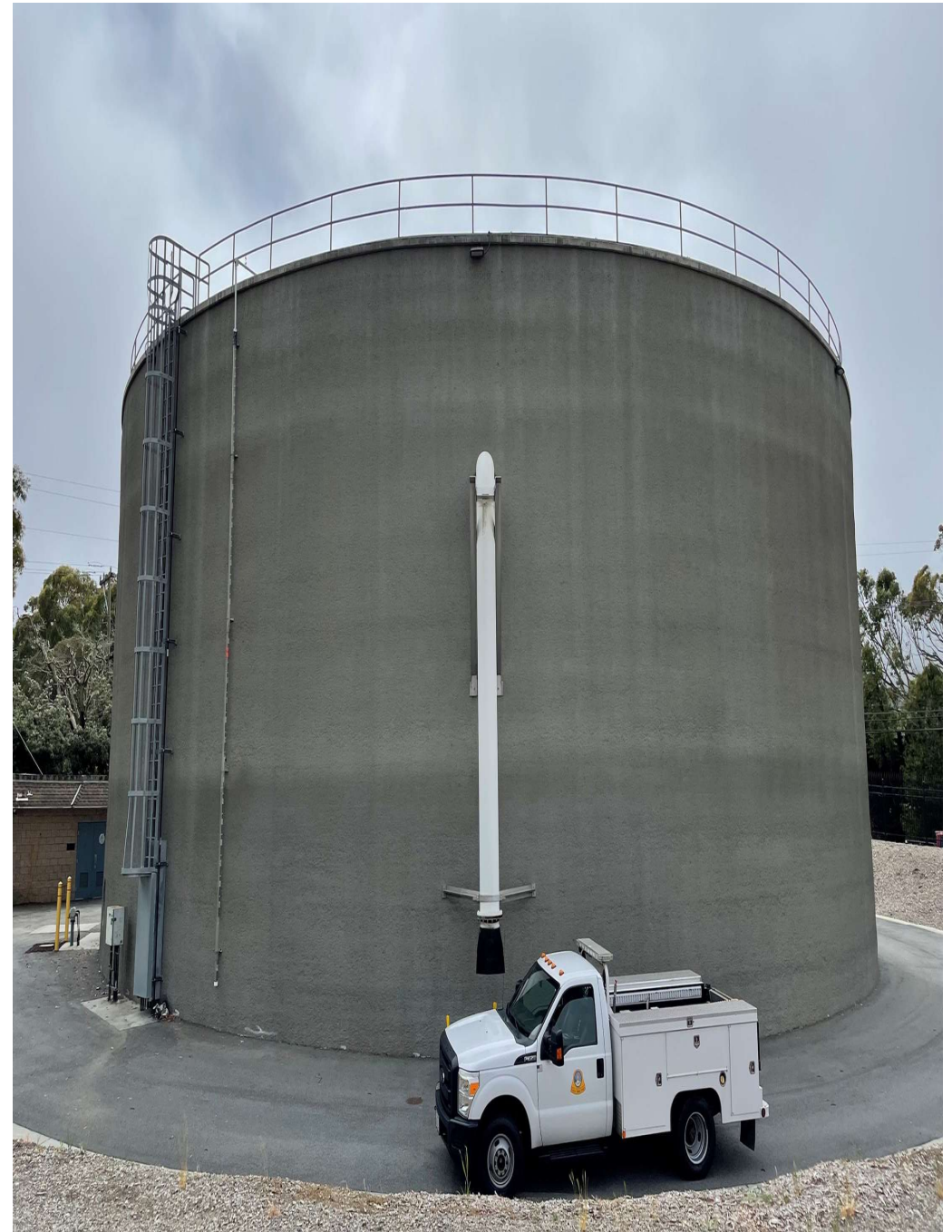














# Sewer System

## ■ Sewer Collection System

- Roughly 90 miles of sewer pipelines (2,415 pipe segments)
- 6 sewer pump stations
- Aging infrastructure in need of rehab & replacement



## ■ Wastewater Treatment Plant

- Sewage conveyed to jointly-owned South San Francisco – San Bruno Water Quality Control Plant (WQCP) for treatment
- Treated effluent disposal to San Francisco Bay
- San Bruno funds roughly 25% of WQCP capital improvements



# Capital Improvement Funding

- **City has substantially increased funding for pipeline replacements and other capital needs over past decade**
- **In recent years, some projects were temporarily deferred due to staffing limitations and other factors**
  - Resulted in temporary buildup of fund reserves
- **City in process of designing and initiating some major capital improvements**
  - e.g. rebuild and upgrade old water tanks
- **Fund reserves expected to be partially drawn down in upcoming years as capital projects are funded**



# Rate Study Overview

## ■ 10-Year Water & Sewer Financial Plans

- Develop 10-year financial projections to identify future operating, capital, and debt service funding needs of the City's water enterprise
- Phase in rate increases as gradually as possible to minimize the annual impact on customers

## ■ Rate Structure Evaluation

- Review water & sewer rate structures & recommend rates that:
  - a. Recover the City's costs of providing service
  - b. Are fair and equitable to all customers, and
  - c. Comply with the legal requirements of Proposition 218

## ■ Water & sewer enterprises in good financial shape but face financial challenges that will require rate increases





# Financial Challenges

## ■ Capital Improvement Needs of Aging Infrastructure

- Improvements needed to address existing deficiencies, rehab and/or replace aging infrastructure, and support safe and reliable service
- **5-Year Water CIP = \$85 million** to rebuild 3 water storage tanks, fund rehab & replacement of pipelines, wells, pump stations & other facilities
- **5-Year Sewer CIP = \$68 million** to fund rehab & replacement of pipelines, pump stations, & City's share of Water Quality Control Plant improvements

## ■ Historical Council priority to proactively replace aging infrastructure to support safe & reliable service

# Water Capital Improvement Program

	2022/23	2023/24	2024/25	2025/26	2026/27	5-Yr Total
Main Imprvt & Replacement Program	7,630,000		6,300,000	2,800,000	9,000,000	25,730,000
Pump Station Imprvt & Repl Program	5,900,000	950,000	950,000			7,800,000
Water Tank Imprvt & Replacement Program						0
Commodore Tank Installation	2,250,000			17,750,000		20,000,000
Cunningham Drive Tank Replacements	542,000		9,000,000			9,542,000
Princeton Tank Replacement	1,200,000				2,000,000	3,200,000
Sweeney Ridge Tank Replacement	890,000		9,500,000			10,390,000
Advanced Water Meter	504,000					504,000
Acappella Well Project	4,032,000					4,032,000
Pressure Reg Station Impvt & Repl Program	1,211,000	450,000	450,000			2,111,000
Well Rehabilitation	529,000	200,000	200,000	200,000	200,000	1,329,000
Wtr Qual Well Syst & Sweeny Rdg Tk Upgrds	600,000					600,000
<b>Total Capital Funding</b>	<b>25,288,000</b>	<b>1,600,000</b>	<b>26,400,000</b>	<b>20,750,000</b>	<b>11,200,000</b>	<b>85,238,000</b>

- Average annual funding requirement = \$17 million per year
- After 5 years, Water CIP projected at \$7.5 million per year + 3% cost escalation
- Higher levels of funding needs over next 5 years will likely require use of debt
- Financial projections assume \$24 million of debt issued in 2025

# Sewer Capital Improvement Program

	2022/23	2023/24	2024/25	2025/26	2026/27	5-Yr Total
<b>SEWER COLLECTION SYSTEM</b>						
Main Improvement & Replacement Program	10,166,000	7,500,000	11,200,000	3,750,000	6,000,000	38,616,000
Pump Station Imprvt & Replacement Program	5,303,000					5,303,000
Subtotal Sewer Collection System	15,469,000	7,500,000	11,200,000	3,750,000	6,000,000	43,919,000
<b>WATER POLLUTION CONTROL PLANT</b>						
Water Quality Control Plant Annual Imprvts	2,500,000	2,000,000	2,000,000	2,000,000	2,000,000	10,500,000
WQCP Biosolids Handling Imprvts (est) [1]					14,000,000	14,000,000
Subtotal WQCP Improvements	2,500,000	2,000,000	2,000,000	2,000,000	16,000,000	24,500,000
<b>Total Capital Funding</b>	<b>17,969,000</b>	<b>9,500,000</b>	<b>13,200,000</b>	<b>5,750,000</b>	<b>22,000,000</b>	<b>68,419,000</b>

1 South San Francisco anticipates financing with long-term debt.

- Average annual funding = \$10.8 million per year (excluding WQCP Biosolids)
- Assumes San Bruno's \$14 million share of WQCP Biosolids is financed by debt
- After 5 years, City Sewer CIP projected at \$7.5 million per year + 3% escalation
- After 5 years, share of WQCP projects est at \$2.5 million per year + 3% escalation





# Financial Challenges *continued*

## ■ SFPUC Wholesale Water Rate Increases

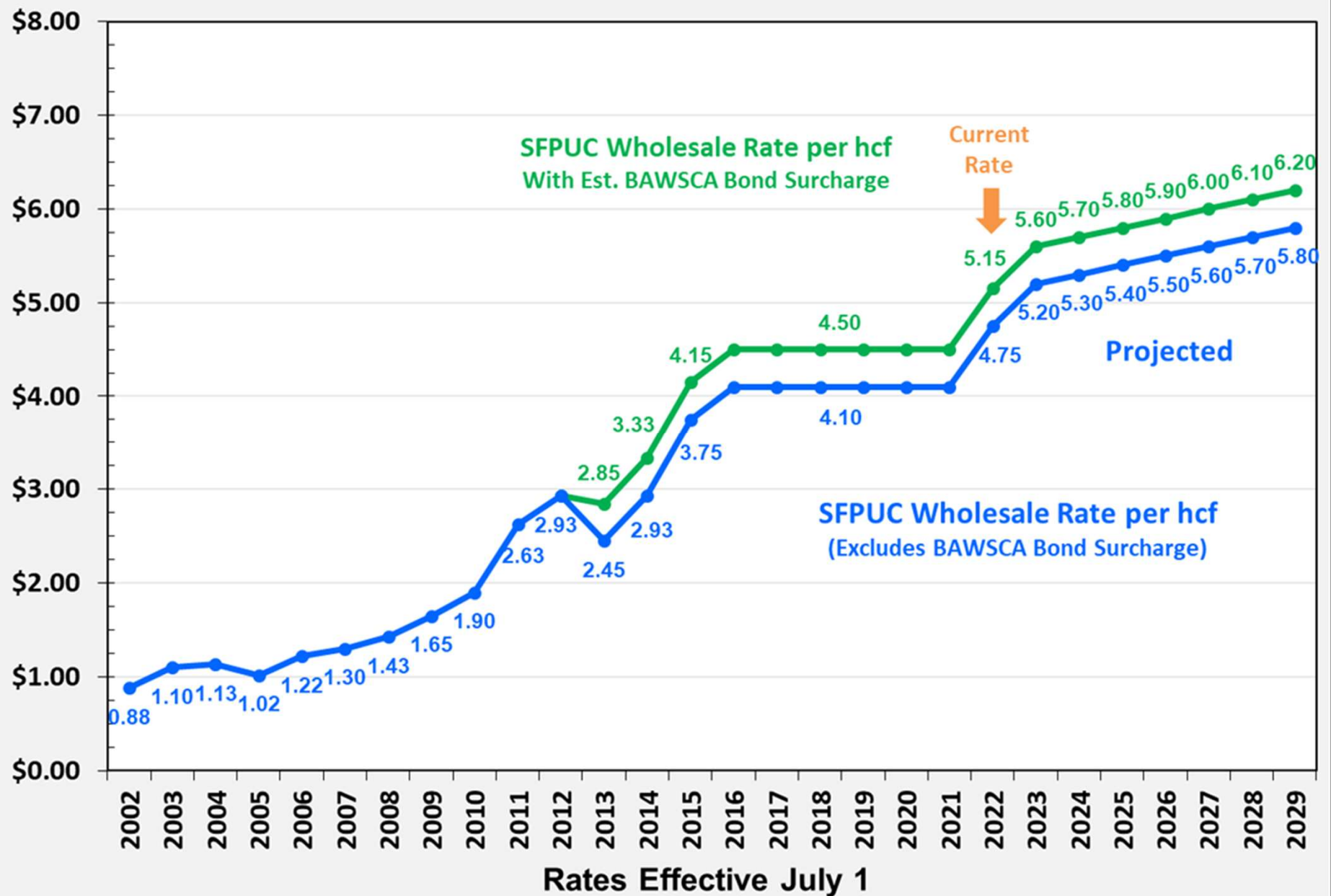
- SFPUC wholesale rates increased 16% on July 1, 2022
- Additional wholesale water rate increases projected in future years

## ■ Keep Up with Cost Inflation

- City's utilities face ongoing inflationary cost increases
- Annual rate increases needed to keep up with cost inflation



## SFPUC Wholesale Water Rates (\$ per hcf)



Based on SFPUC wholesale rate projections for July 1, 2023 and gradual annual increases thereafter.



# Projected Rate Increases

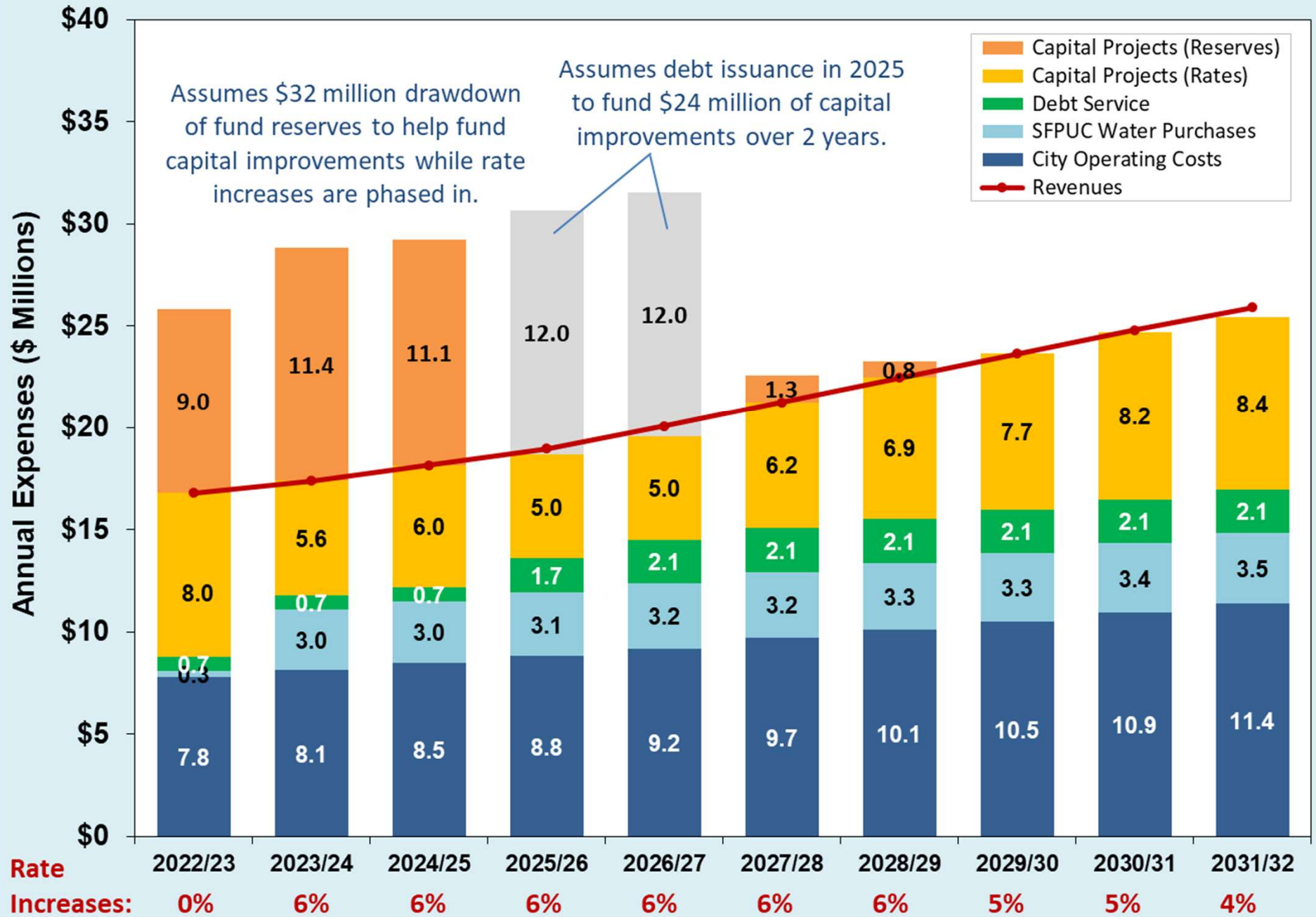
Projected Water Rate Increases						
July 1 2021	July 1 2022	January 1 2024	January 1 2025	January 1 2026	January 1 2027	January 1 2028
<del>5%</del> 0%	0%	6%	6%	6%	6%	6%

Projected Sewer Rate Increases						
July 1 2021	July 1 2022	July 1 2023	July 1 2024	July 1 2025	July 1 2026	July 1 2027
<del>5%</del> 0%	0%	5%	5%	5%	5%	5%

- Actual billing impacts may vary a little due to update of rate structures
- Water rate increases on January 1 (when water use is low) starting 2024
- Sewer rate increases on July 1 starting this year
- Accounting for cancellation & deferral of rate increases over past 2 years, rates will remain roughly 10% below previously projected levels

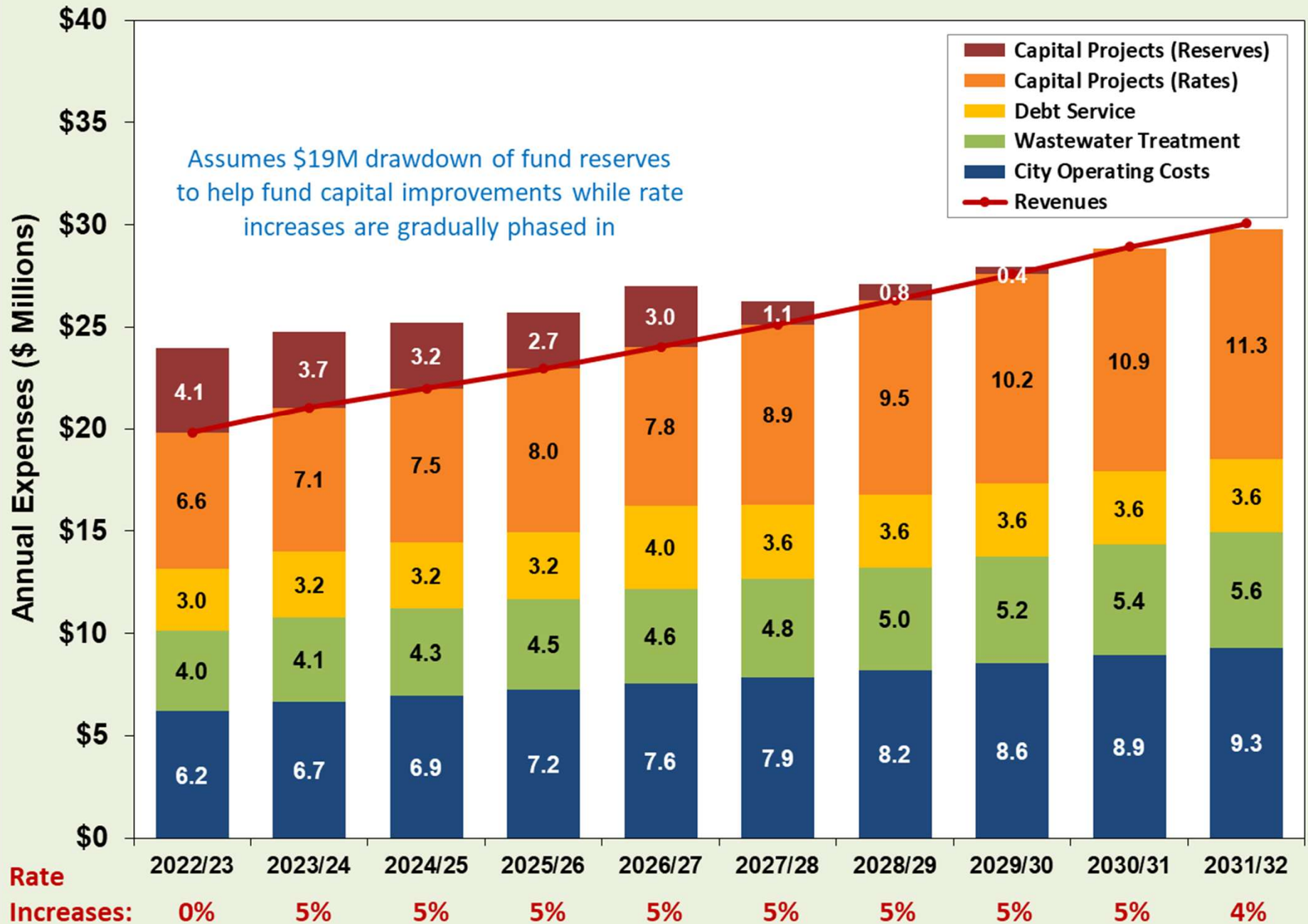
# City of San Bruno

## Water Utility Projected Revenues & Expenses



# City of San Bruno

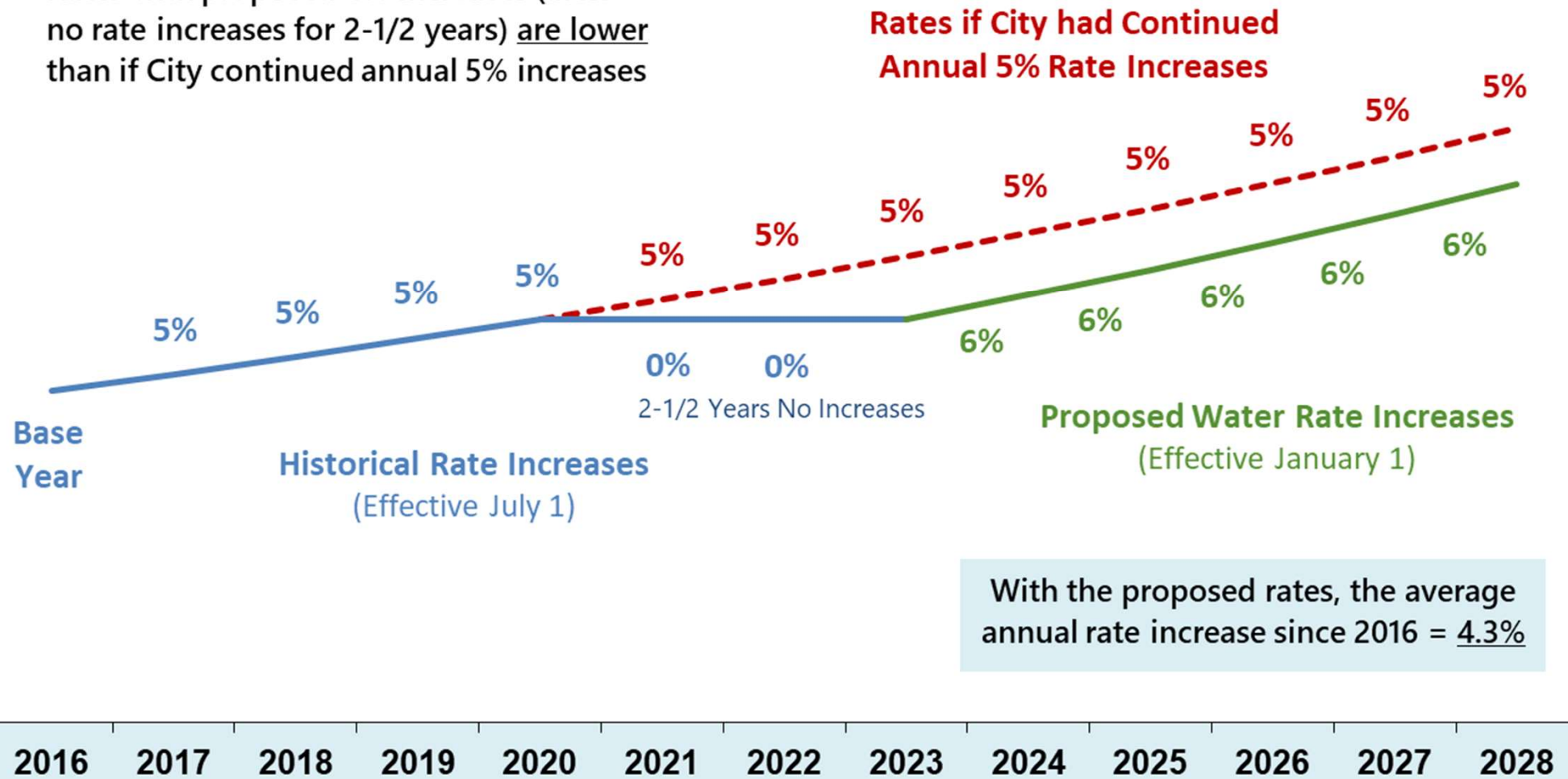
## Sewer Utility Projected Revenues & Expenses





## City of San Bruno Historical & Projected Water Rate Increases

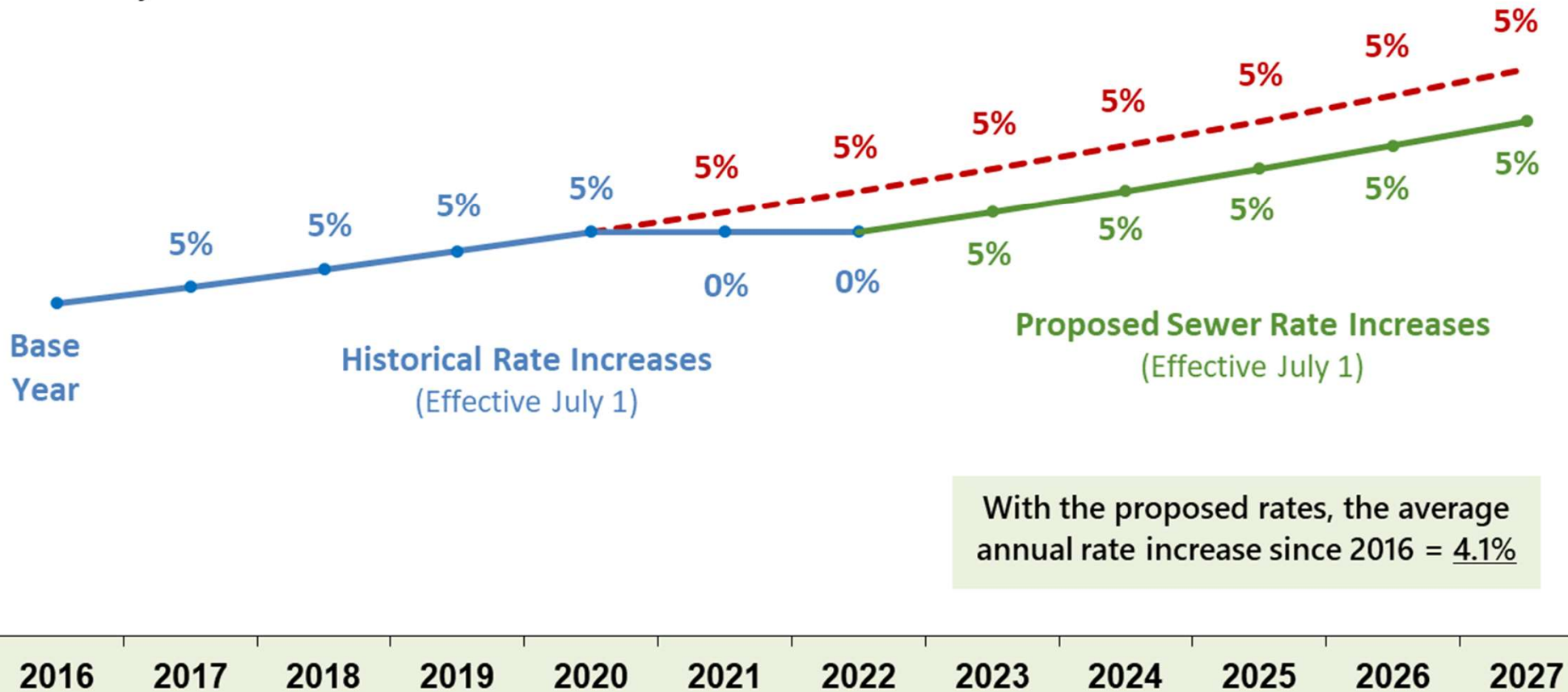
Rates with proposed 6% increases (after no rate increases for 2-1/2 years) are lower than if City continued annual 5% increases



## City of San Bruno Historical & Projected Sewer Rate Increases

Rates with proposed 5% increases (after no rate increases for 2 years) are lower than if the City continued annual 5% increases

**Rates if City had Continued Annual 5% Rate Increases**







# Other Agencies Also Raising Rates

## ■ Many other regional agencies are increasing rates

- Burlingame in 2<sup>nd</sup> of 3 years of 9% sewer rate increases
- Millbrae in 1<sup>st</sup> of 5 years of 6% sewer rate increases and in 2<sup>nd</sup> of 4 years of approx. 5% water rate increases
- South San Fran in 1<sup>st</sup> of 5 yrs of 3% sewer rate increases
- Belmont planning 5 years of 5.5% sewer rate increases
- Pacifica in 1<sup>st</sup> of 5 years of 3.5% sewer rate increases
- Coastside CWD planning 6% water rate increase
- San Carlos conducting sewer rate study
- Montara WSD conducting water & sewer rate study
- San Mateo conducting sewer rate study



## ■ San Bruno's Water & Sewer charges projected to remain in the middle range compared to other regional agencies



# Rate Increase Options

## ■ Multi-Year Rate Increases (Recommended / Best Practice)

- City has historically adopted 5-year rate increases
- Avoids need to go through the rate increase process every year
- Widely used industry standard practice (used by many regional agencies)
- Recognized as a good financial management practice by rating agencies
- Rates adopted by Prop 218 process are maximum authorized rates
- City always maintains flexibility to implement lower rates if warranted

## ■ Annual Rate Increases (Not Recommended)

- Would require City to go through the full Prop 218 rate increase process every year
- Need to send Notices of Rate Increases to all customers every year
- Big effort & additional costs every year
- Requires Council to vote on rate increases every year



# Sewer Bills on Property Tax Rolls?

## ■ Option for City Consideration

- Removes sewer charges from combined bi-monthly utility bills
- County on Teeter Plan, provides City with 100% of billings

## ■ California Health & Safety Code 5473

- Must adopt a list of charges for all parcels for County tax rolls each year
- First year must mail notice to property owners & holding a public hearing

## ■ Many other local agencies collect sewer charges on tax rolls

- South San Francisco, Pacifica, San Mateo, Colma, San Carlos, Hillsborough, East Palo Alto Sanitary District, Montara Water & San Dist. West Bay Sanitary District (Menlo Park), Redwood City, Belmont



# Next Steps



## DRAFT SCHEDULE

- FEB** Present draft findings & receive input
- MAR** Present revised rate recommendations & seek direction to move forward with Prop 218 process
- MAR** Mail Prop 218 Notices 45+ days before Public Hearing
- MAY** Hold Public Hearing & consider rate increases
- JUL** New sewer rates become effective July 1, 2023
- JAN** New water rates become effective January 1, 2024

# Questions & Discussion

