STAFF REPORT
CITY OF SOLANA BEACH

TO:	Honorable Mayor and City Councilmembers
FROM:	Alyssa Muto, City Manager
MEETING DATE:	May 7, 2025
ORIGINATING DEPT:	Finance Department – Rachel Jacobs, Finance Director
SUBJECT:	**Introduction (1st Reading) of Ordinance 538 Relating to the Annual Sewer Service Charge per Equivalent Dwelling Unit (EDU) for Fiscal Year 2026 through Fiscal Year 2030**

BACKGROUND:

The City of Solana Beach (City) provides for the collection, transportation, and treatment of sewage generated within the community and some properties adjacent to the City's boundaries in the cities of Del Mar and San Diego. The City assesses a sewer service charge that covers the administration, maintenance, debt service, and capital costs of the City's sewer system, while maintaining reserve levels consistent with City Council Policy and the costs of the San Elijo Joint Powers Authority (SEJPA) for wastewater treatment, laboratory services, ocean outfall, and maintenance of pump stations. The sewer service charge is based on historical and projected operating expenses, revenues, capital expenditures, and debt service obligations.

In 2020, the City, with assistance from Raftelis Financial Consultants, conducted a sewer rate and revenue study. As a result of that study and the impacts of COVID-19, the City Council directed Staff to hold sewer rates with 0% increase for Fiscal Years (FYs) 2021-2025. The current annual assessment per Equivalent Dwelling Units (EDU) is $682.30.

In October 2024, the City Manager executed a contract with Raftelis Financial Consultants of Los Angeles, California, to prepare an updated sewer rate and revenue study. The study is intended to analyze updated revenue and expenditure information and to develop alternative rate scenarios for City Council consideration, for a period of five years, through FY 2030.

At the March 12, 2025, Council meeting, Staff was directed to set a public hearing date for May 7, 2025, for the introduction and first reading of an ordinance to increase the annual Equivalent Dwelling Unit (EDU) rate for FY 2026 through 2030 as follows:

CITY COUNCIL ACTION: _____

_____

	2026	2027	2028	2029	2030
% inc	10%	10%	8%	7%	7%
Rate per EDU	$ 750.54	$ 825.58	$ 891.64	$ 954.04	$1,020.84
Annual $ inc	$ 68.24	$ 75.04	$ 66.06	$ 62.40	$ 66.80

The City prepared and coordinated the mailing of the Notice of Public Hearing pursuant to Proposition 218, which was mailed on March 19th, 2025. In addition, this public hearing was noticed on March 19th in the Union Tribune.

DISCUSSION:

The City's budget for sanitation services includes sewer service charges and other revenues and expenses for the administration, maintenance, debt service and capital costs of the City's Sanitation District (District) and the costs of the San Elijo JPA (SEJPA) including wastewater treatment, laboratory services, ocean outfall, pump stations, capital projects and debt service.

In 2020, the City, with assistance from Raftelis Financial Consultants, conducted a 5-year sewer rate and revenue study. The sewer rate increase history for the last ten fiscal years between FY 2016 to FY 2025 is illustrated in the following table:

Sewer Service Charge History

FY	per EDU	% increase
2016	618.14	2.5%
2017	633.59	2.5%
2018	649.43	2.5%
2019	665.67	2.5%
2020	682.30	2.5%
2021	682.30	0.0%
2022	682.30	0.0%
2023	682.30	0.0%
2024	682.30	0.0%
2025	682.30	0.0%

Per the direction of the City Council, there were no rate increases for FY 2021 through FY 2025. This direction was based on the results of the previous study for projected revenues, expenditures and reserve balances, and as a relief measure that could be provided to residents and businesses as related to the impacts of COVID-19. During these years, revenues and expenditures stayed fairly consistent, with a slight reduction to reserves. During this same period, the City maintained all bond obligations, while continuing to maintain a reserve balance well in excess of the target set by the Sanitation Reserve Policy.

The 2024 Sewer Rate Study with Raftelis uses financial data provided by the City and SEJPA. Raftelis then projected the City's sanitation revenues, expenses, and capital improvement project (CIP) costs for the next five-year period through FY 2030.

In preparing the five-year projection, consistent escalation factors, depending on the category of expense, were used to project operating expenses. These categories include salaries and fringe benefits, materials, supplies, and services, and internal service charges. These assumptions have been discussed with SEJPA for general concurrence based on preliminary budget information. The CIP costs used in this study were also provided by SEJPA based on the most current capital project planning available and debt service payments for the City's bond obligations were based on principal and interest payments listed in the bond's amortization tables.

The following growth factors were used to project the future increased Operating and Maintenance Cost for City Operations as determined by City Staff and verified by Raftelis:

Category	%increase
General	3.0%
Salaries & Benefits	7.0%
Utilites	6.3%
Capital	5.3%
Depreciation	3.5%

Actual known amounts were used for debt service payments, receivables for interest and principal payments due to the Sanitation Fund for the Stevens Loan, and available bond funds for CIP projects. For FY 2025, the amount due to be repaid to the Sanitation Fund from the General Fund will be approximately $445,600. This loan will be repaid in full in FY 2026.

Miscellaneous income remains flat in the analysis. Interest income from Chandler Investments is calculated on the FY 2025 budget with an inflation factor of 2%.

Fee Proposal – Council Selected

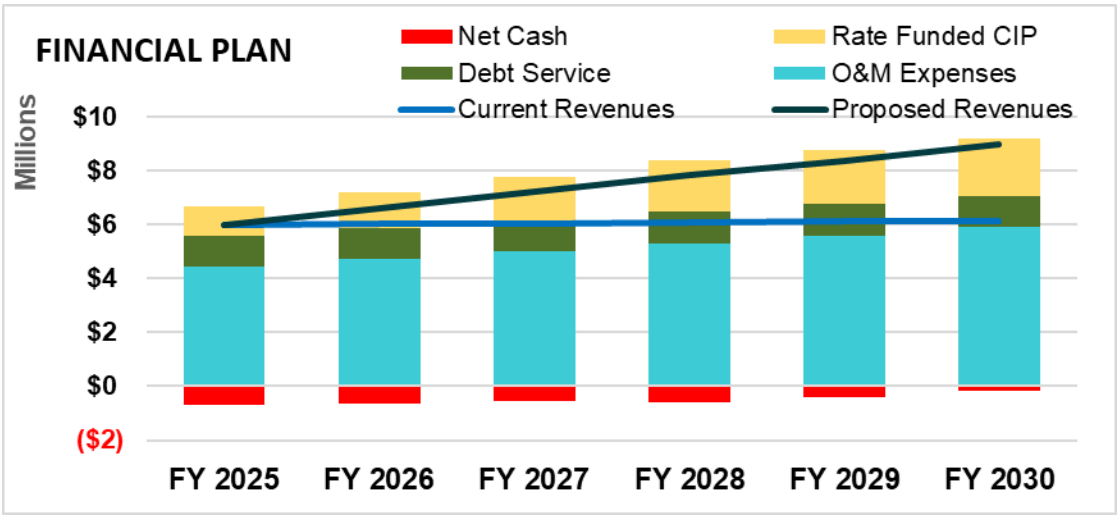
City Staff, along with Raftelis, prepared several scenarios for the Council to review when considering possible rate adjustments for the next five years. This included a variable, overall reduced expenditure by the City provided by SEJPA for the projected capital improvements needed based on preliminary capital planning currently underway by the SEJPA. The analysis included a forecasting of the Sanitation Fund's operating reserves for a five-year period from FY 2026 to FY 2030 for each scenario provided.

Ultimately, the City Council, selected a variable rate increase for Fiscal Year 2026-2030 and a gradual, overall reduced SEJPA Capital Improvement Program contribution for Fiscal Year 2026-2030 as shown below:

	2026	2027	2028	2029	2030
% Rate inc	10%	10%	8%	7%	7%
New Rate	$ 750.54	$ 825.58	$ 891.64	$ 954.04	$ 1,020.84
$ Rate inc	$ 68.24	$ 75.04	$ 66.06	$ 62.40	$ 66.80
Gradual, reduced SEJPA CIP	$ 950,000	$ 1,200,000	$ 1,516,103	$ 1,576,747	$ 1,639,817
Y-O-Y % inc	50.7%	26.3%	26.3%	4.0%	4.0%

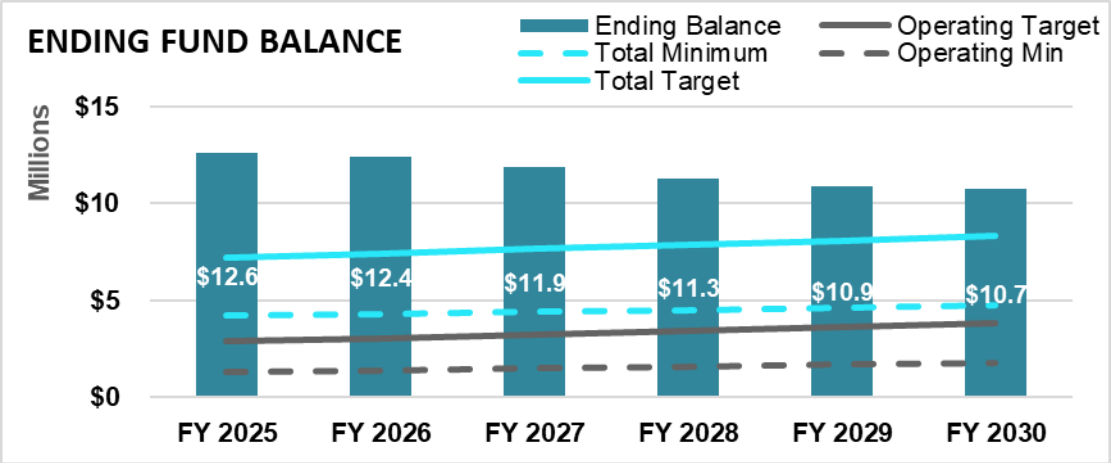
This scenario allows the District to maintain reserve levels above the target reserve levels set to allow flexibility to cover unexpected capital needs that may arise in the future, while ensuring adequate cash flow for the District's & San Elijo JPA's operating and maintenance expenses, debt service and capital improvement programing

The following table shows the operating financial plan. Total revenues at current rates are shown by the blue line compared to the proposed rates shown by the black lines. The various stacked bars show expenditures, including Operations and Maintenance (O&M), debt service, and rate-funded CIP. Net cashflow under proposed rates is shown by the red portion of the bar. The net cashflow is below the zero on the x-axis, which indicates negative cash flow, meaning the City is using reserves. The City is purposely using reserves as part of the proposed financial plan to minimize customer bill impacts and to trend toward target reserves.



The following table shows the fund balance impacts of the selected scenario. The City will be spending down reserves each year, due to negative cash flow. This graph shows the operating minimum, which is 30% of Operating Expenses, shown in the dotted grey line and the operating target, which is 65% of operating expenses, shown in the solid grey line. It also shows the total minimum which is 30% operating expenses plus 50% of annual debt service, shown in the dotted blue line and the total target, which is 65% of operating expenses and 100% of annual debt service, shown in the solid blue line.

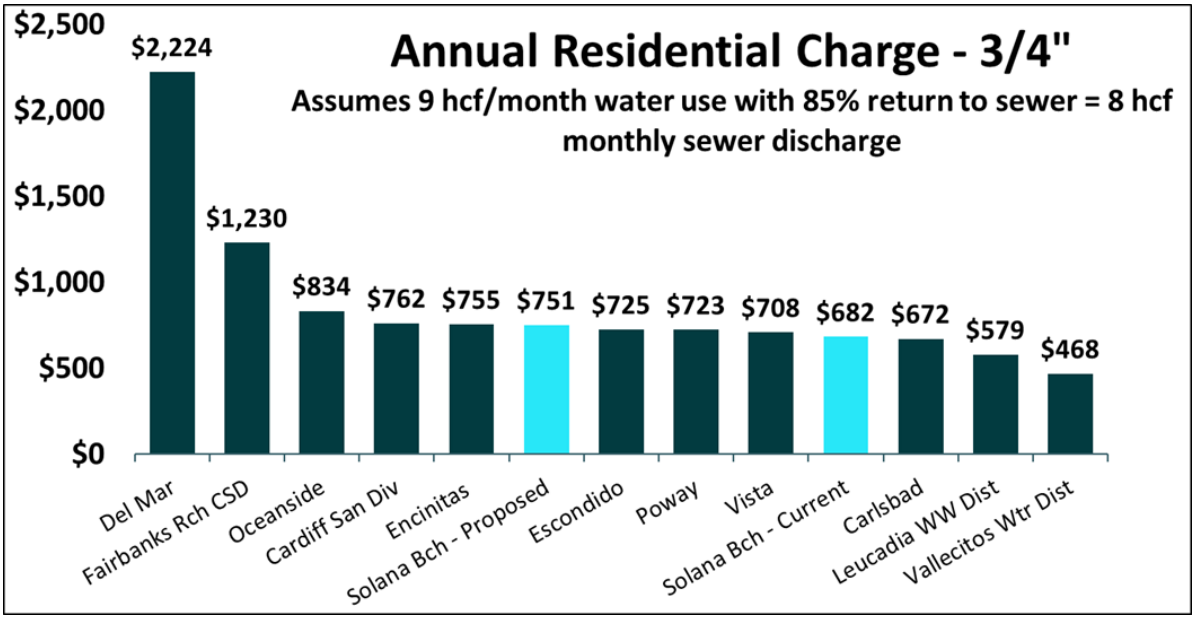
In FY 2030, the ending fund balance, with this variable rate increase for Fiscal Year 2026 – 2030, remains above our target reserve by approx. $2.4M.



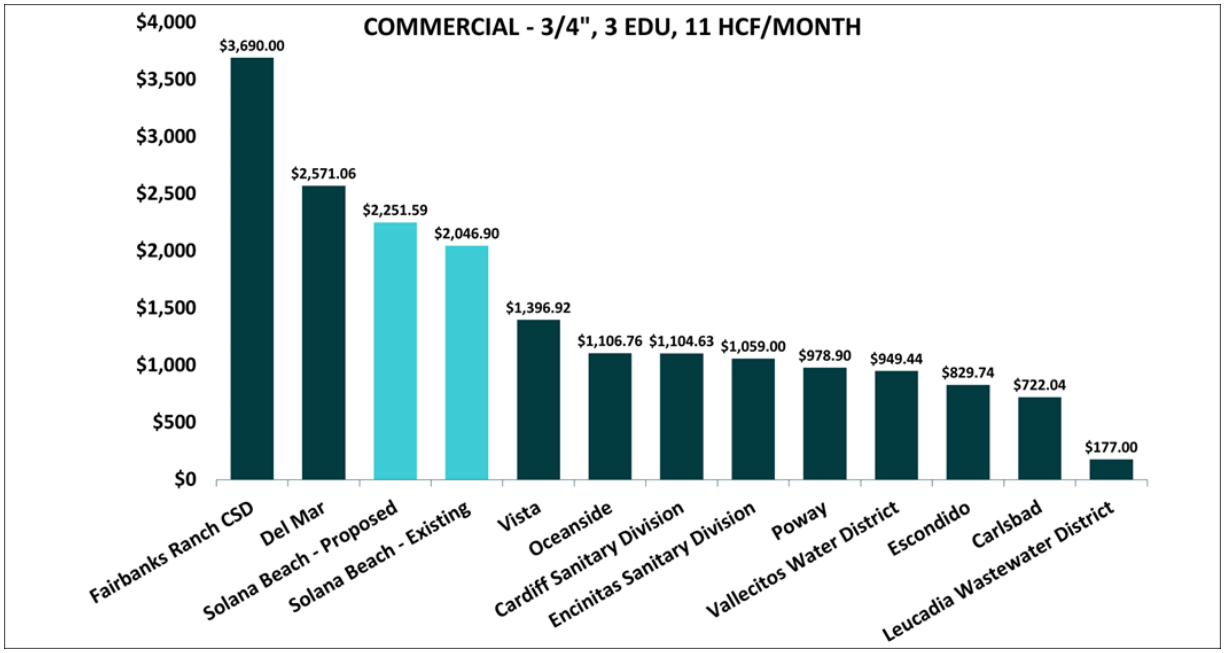
Fee Benchmarking

The cost per EDU existing and projected was compared against eleven neighboring jurisdictions in the San Diego region for benchmarking. Raftelis conducted a survey of July 2025 sewer rates showing a range of $468 to $2,224.

The graph below shows an annual residential sewer bill comparison for the current and proposed 10% rate increase for Fiscal Year 2026 against eleven neighboring jurisdictions:



The graph below shows an annual commercial sewer bill comparison for the current and proposed 10% rate increase for Fiscal Year 2026 against eleven neighboring jurisdictions:



Staff was directed at the March 24, 2025 Council meeting to use Scenario 8, Option B in setting the public hearing. With the proposed sewer rate variable increase, as shown below for Fiscal Year 2026 through Fiscal Year 2030:

	2026	**2027**	**2028**	**2029**	**2030**
% Rate inc	10%	10%	8%	7%	7%

Based on these variable rate increases, below are the proposed rates for Fiscal Year 2026 through Fiscal Year 2030:

Rate per Equivalent Dwelling Unit for Single Family Residential Home

Current	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
$682.30	$750.54	$825.58	$891.64	$954.04	$1,020.84

The results of the protest vote will be announced at the Council meeting.

CEQA COMPLIANCE STATEMENT:

Not a project as defined by CEQA.

FISCAL IMPACT:

An increase to the annual Sewer service charge will provide the necessary funding for the administration, maintenance, debt service and capital costs of the City's Sanitation District, and the costs of the San Elijo JPA operations, including the wastewater treatment, laboratory services, ocean outfall, pump stations, capital projects and debt service. The proposed rate increases will generate approximately $562,200 in additional revenues per year for FY 2026 through FY 2030.

WORK PLAN: N/A

OPTIONS:

1. Approve and Introduce Ordinance 538 as drafted
2. Approve and Introduce Ordinance 538 with modifications
3. Provide other direction to Staff related to Sewer Rate increases

CITY STAFF RECOMMENDATION:

Staff recommends that the City Council:

1. Conduct the Public Hearing:
    a. Open the public hearing,
    b. Report Council disclosures,
    c. Receive public testimony,
    d. Report any protest(s) received,
    e. Close the public hearing.

2. Introduce Ordinance 538 amending Section 14.08.060 of Chapter 14.08 of the Solana Beach Municipal Code Relating to the Annual Sewer Service Charge per Equivalent Dwelling Unit (EDU) and Adopt by Reference by the City of Solana Beach for Fiscal Year 2026 through Fiscal Year 2030.



For Alyssa Muto, City Manager

Attachments:
1. Sewer Rate and Revenue Plan Study
2. Proposition 218 Notice – Rate Increase 2025
3. Ordinance 538

City of

Solana Beach

Sewer Rate and Revenue Plan Study

Final Report / April 18, 2025

RAFTELIS

ATTACHMENT 1

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RAFTELIS

April 18, 2024

Rachel Jacobs
Finance Director/Treasurer
City of Solana Beach
635 S. Highway 101
Solana Beach, CA 92075

Subject: Sewer Rate and Revenue Plan Study Report

Dear Ms. Jacobs,

Raftelis is pleased to provide this Sewer Rate and Revenue Plan Study Report (Report) for the City of Solana Beach (City). This Report includes a five year-year financial plan for fiscal years (FY) 2026 to FY 2030.

The Study objectives include the following:

1. Prepare a Sewer Utility five-year financial plan to ensure revenues are sufficient to cover operation and maintenance (O&M) costs and fund necessary capital expenditures
2. Calculate sewer rates for FY 2026 through FY 2030
3. Conduct a customer impact analysis for the proposed rates
4. Conduct a rate survey of sewer rates and charges for nearby sewer utilities

It has been a pleasure working with you, and other City staff during this Study.

Sincerely,



Steve Gagnon, PE (AZ)
Vice President



Cameron Okie
Manager

611 Wilshire Boulevard
Suite 900
Los Angeles, CA 90017
www.raftelis.com

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1. Executive Summary

In 2024, the City of Solana Beach engaged Raftelis to conduct a Sewer Rate and Revenue Plan Study (Study) consisting of a financial plan update and rate derivation for fiscal years (FY) 2026 through FY 2030, known as the Study period. This report describes the resulting proposed sewer rates for implementation on July 1st of each fiscal year in the Study period.

1.1. Proposed Financial Plan and Revenue Adjustments

The City is a partner in the San Elijo Join Powers Authority (SEJPA) whereby the City conveys its sewage to the SEJPA and SEJPA treat's the City's sewage. The proposed financial plan enables the City to set rates and charges to generate sewer revenue to meet the City's short-term and long-term obligations, including its share of operating and capital costs in the SEJPA. This financial plan recommends revenues that will maintain appropriate reserves while minimizing customer bill impacts.

Table 1-1 shows the proposed revenue adjustments. The proposed financial plan implements revenue increases on July 1 of each year. The revenue increases are necessary to cover the cost of providing sewer service and to build and meet City reserve targets within the 5-year Study period. The revenue increases shown fund the City's capital projects as well as its share in the SEJPA operating and capital expenses.

Table 1-1: Proposed Revenue Adjustments and Capital Accomplishment Rate

Line	Fiscal Year	Proposed Sewer Rate Increase	Proposed Capital Accomplishment Rate
1	FY 2026	10.0%	100%
2	FY 2027	10.0%	100%
3	FY 2028	8.0%	100%
4	FY 2029	7.0%	100%
5	FY 2030	7.0%	100%

Figure 1-1 graphically illustrates the operating financial plan. It compares the resulting net cashflow[1] under proposed rates (proposed revenues less expenses, shown by the red portion of the bar). Total revenues at current and proposed rates are shown by the blue and black lines, respectively. The various stacked bars show expenses, including Operations and Maintenance (O&M), debt service, and rate-funded CIP. When the red portion depicting net cashflow is below zero on the x-axis, this indicates that the City is using reserves. If the red portion is above zero on the x-axis, this indicates that the City is building reserves. The City is purposely using reserves as part of the proposed financial plan to minimize customer bill impacts and to trend toward target reserves as shown in Figure 1-2.

[1] Equal to total revenues less O&M, debt, and rate-funded capital expenses, shown in red portion of the bars of Figure 1-1.

Figure 1-1: Proposed Financial Plan

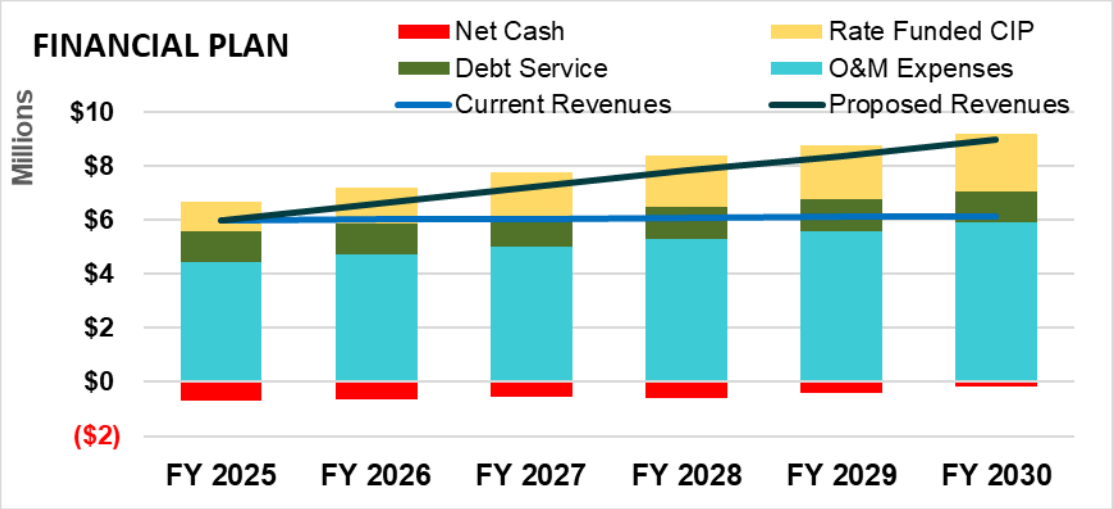
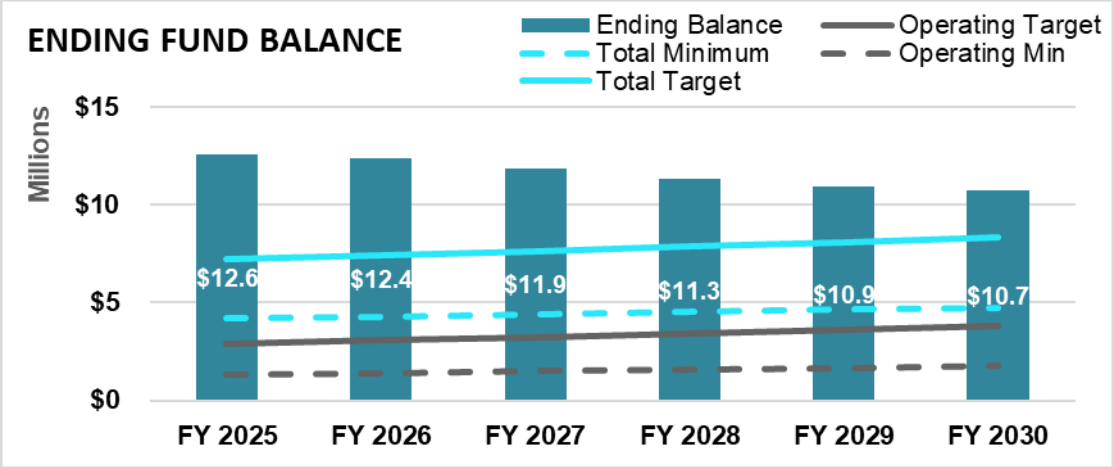


Figure 1-2 shows the projected ending reserve balances and reserve targets. The operating reserve target and minimum are shown as a solid grey line and dotted grey line, respectively, and these reserves are described in the first item of the below list. The total target and total minimum target are shown as a solid light blue line and a dotted light blue line, respectively. The total target and total minimum target are made up of the sum of target or minimum components of the operating, debt service, emergency capital & equipment, and asset replacement reserves as follows:

1. Operating Reserve – a target equal to 65% of annual operating expenses with a minimum of 30% of operating expenses
2. Debt Service Reserve – a target equal to 100% of annual debt service payments with a minimum of 50% of debt service payments
3. Emergency Capital & Equipment Reserve – a target equal to 15% of total depreciable assets with a minimum of 10% of total depreciable assets
4. Asset Replacement Reserve - a target equal to 115% of annual asset depreciation with a minimum of 105% of annual asset depreciation

The bars represent the projected ending reserve balances **with** the proposed rate increases shown previously in Table 1-1. As shown below, the City will slowly spend reserves in FY 2026 through FY 2030. With the proposed rate revenue increases, the City is projected to be slightly above its target ending balances in FY 2026 through FY 2030.

Figure 1-2: Projected Fund Ending Balances



1.2. Current Rates

The City's current rate structure is an annual charge per equivalent dwelling unit (EDU) for all customer types, as shown in Table 1-2. The City currently bills its customers once a year based on the number of EDUs per account.

Table 1-2: Current Sewer Rate ($/EDU)

Description	FY 2025 (Current)
Annual Charge per EDU	$682.30

1.3. Proposed Five-Year Rates

1.3.1. PROPOSED ANNUAL SEWER CHARGES PER EDU

Table 1-3 shows the proposed annual sewer charges per EDU.

Table 1-3: Proposed Bi-Monthly Fixed Sewer Service Charges by Class

Description	FYE 2025 (Current)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Annual Charge per EDU*	$682.30	$750.54	$825.58	$891.64	$954.04	$1,020.84

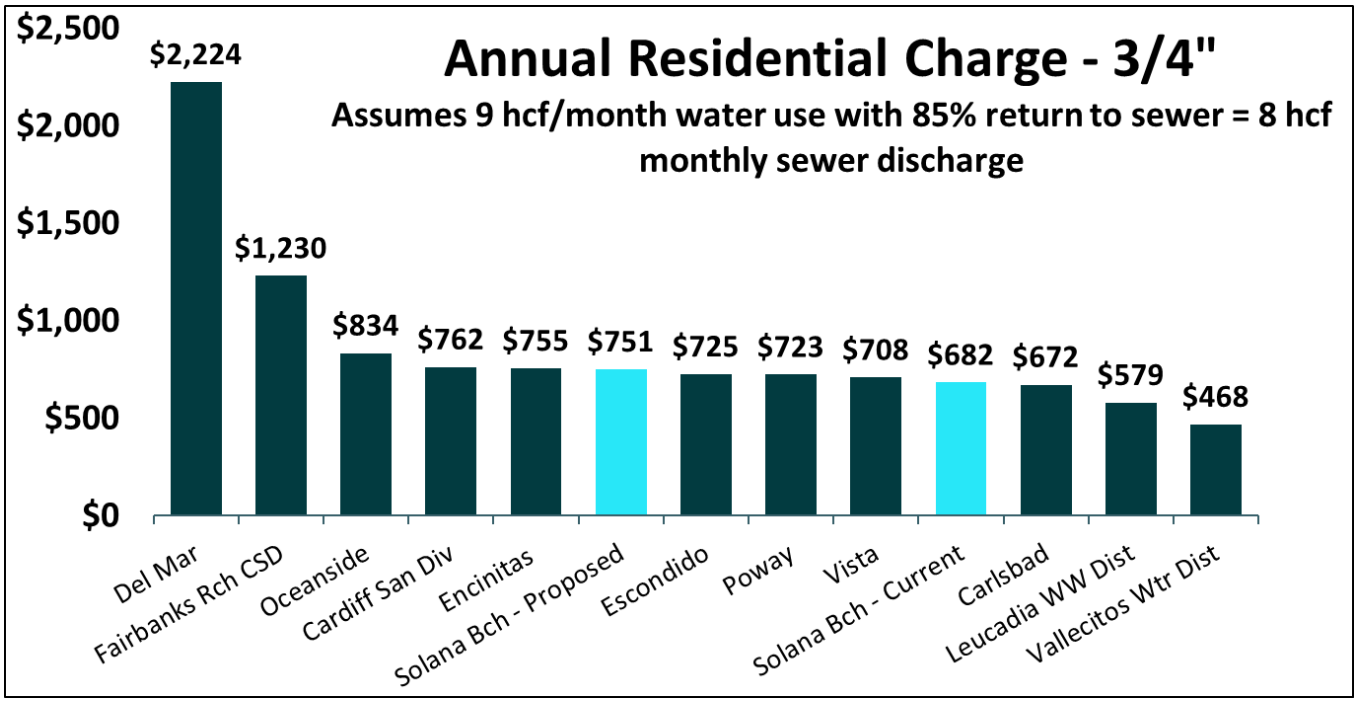
*Rates are rounded up to the nearest even cent amount for County Tax Role Purposes

1.3.2. SEWER RATE SURVEY

Raftelis conducted a rate survey of current and proposed sewer charges against eleven neighboring sewer-service providers. While a useful benchmark, it is worth noting that such comparisons only paint a partial picture since many factors, such as infrastructure age and capital replacement needs, changes in elevation, revenue sources (some agencies receive property tax revenue while others do not), and other local conditions, affect the total cost of providing sewer services.

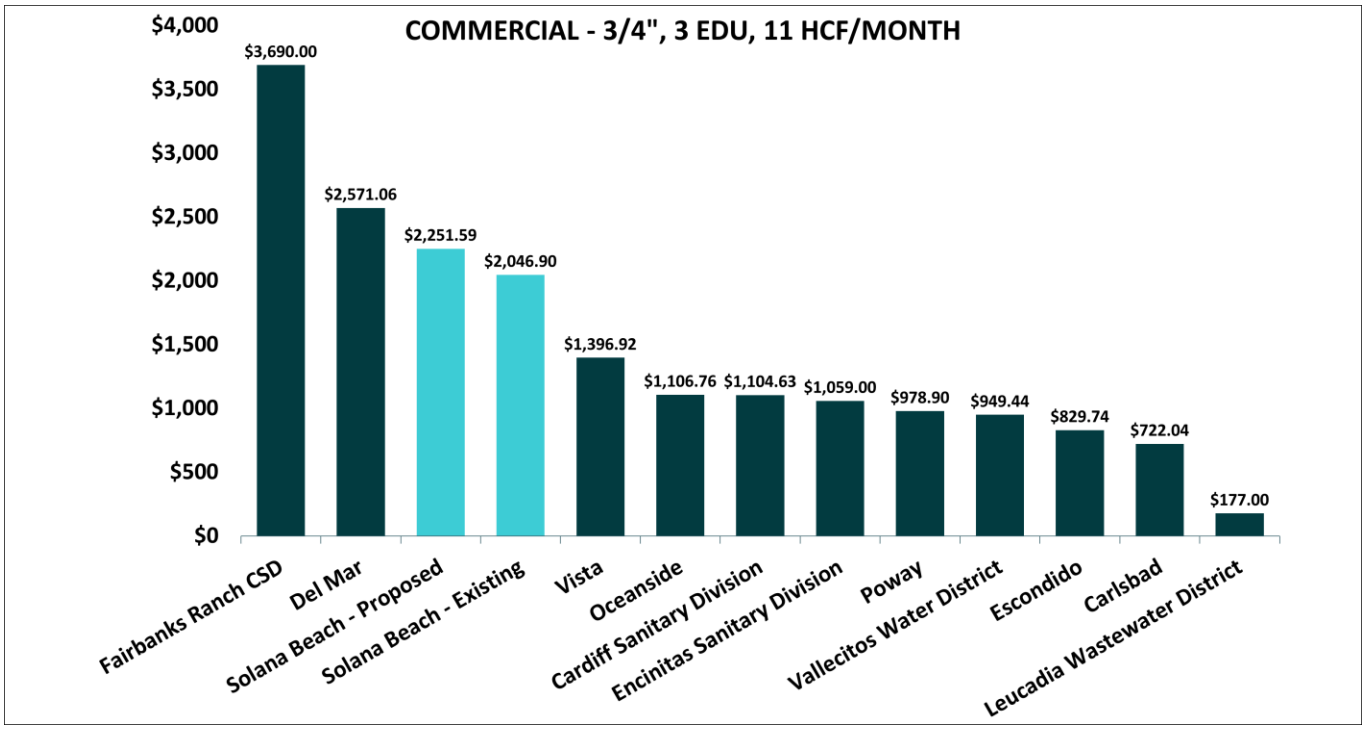
Figure 3-1 shows an annual[2] residential sewer bill comparison for the current and proposed rates against eleven neighboring agencies. This survey assumes a single-family residential customer consuming 9 HCF of potable water per month and discharging 85% of that amount to a wastewater system. The potable volume is reduced by 15% to take into account water consumption which does not enter a wastewater system such as irrigation to arrive at wastewater volume. Figure 1-4 shows an annual[3] commercial sewer bill comparison for the current and proposed rates. This survey assumes a commercial customer discharging 11 HCF of wastewater per month or 3 EDUs. These surveys were conducted in March 2025 and when possible show rates effective July 1, 2025; however, not all agencies have rates for this date at this time. This survey should only be used as a reference point or as a snapshot in time. The agencies shown may also be performing rate studies, which would change the City's position and would be reflected after the start of the new fiscal year (July).

Figure 1-3: Annual Residential Bill Comparison for Neighboring Agencies



[2] Agencies with a monthly or bi-monthly billing cycle are adjusted to an annual billing cycle by multiplying fixed charges by 12 or 6, respectively.
[3] Agencies with a monthly or bi-monthly billing cycle are adjusted to an annual billing cycle by multiplying fixed charges by 12 or 6, respectively.

Figure 1-4: Annual Commercial Bill Comparison for Neighboring Agencies



2. Introduction

2.1. Study Background

The City of Solana Beach (City) with a population of approximately 13,000, provides sewer services to customers in the City. The City's Sewer Department is a collection-only sewer service agency and transfers sewage to the SEJPA water reclamation facility for treatment. The City's sewer infrastructure consists of 50 miles of collection lines. The majority of the system flows are driven by gravity, except for 3 sewer pump stations and 3 force mains.

The City is currently operating at a small deficit and therefore the City conducted this sewer rate study to ensure that sewer rates and charges are sufficient to meet sewer enterprise revenue requirements.

In 2024, the City of Solana Beach engaged Raftelis to conduct this Study consisting of a financial plan update and five-year rate calculation for FY 2026 through FY 2030. This Report presents the financial plan and the resulting rates for implementation on July 1st of each fiscal year in the five-year Study period.

2.2. Methodology

The rate-setting process used includes the following key steps:

1. **Revenue Requirement Determination:** The rate-setting process starts by determining the "test-year" (rate-setting year) revenue requirement from rates. The revenue requirement should sufficiently fund the utility's O&M, capital expenses, and other identified costs with funding to reserves (positive cash) or using reserves (negative cash), all based on a long-term financial plan.

2. **Rate Design/Rate Calculations:** The City has charges for sewage on a per EDU basis. EDUs are determined by the City of Solana Beach municipal code Chapter 14.08 Sewer Connection Fees and Sewer Service Charges, Section 14.08.060 Equivalent Dwelling Unit Determination.

3. Sewer Financial Plan

This section describes the Sewer Financial Plan and the assumptions used to project operating and capital expenses, as well as reserve policies, that determine the overall rate increases needed for a sustainable sewer enterprise.

3.1. Study Assumptions

The first step in a rate study is a financial plan. The financial plan projects revenue and expenses. Raftelis projected expenses by inflating the FY 2025 budget using the inflation factors shown in Table 3-1. Inflationary assumptions were developed in consultation with City Staff and historical data. Utility inflation was determined by reviewing historical power costs.

Table 3-1: Cost Escalation Factors

Line	Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	General	3.0%	3.0%	3.0%	3.0%	3.0%
2	Salary	7.0%	7.0%	7.0%	7.0%	7.0%
3	Benefits	7.0%	7.0%	7.0%	7.0%	7.0%
4	Retirement	7.0%	7.0%	7.0%	7.0%	7.0%
5	Utilities	6.3%	6.3%	6.3%	6.3%	6.3%
6	Capital	4.0%	4.0%	4.0%	4.0%	4.0%

3.1.1. ACCOUNT GROWTH ASSUMPTIONS

Growth in City sewer EDUs affects future sewer rate revenue and future charges per EDU. Table 3-2 shows the financial plan assumptions for sewer EDU growth for all years in the rate setting period (FY 2026-FY 2030). As shown below, the study assumes minimal EDU growth.

Table 3-2: Sewer EDU Growth Rate

Line	Description	FY 2026
1	Sewer EDU Growth	0.5%

Table 3-3 shows the projected number of sewer EDUs for the study period. The City provided FY 2024 actual sewer EDUs; Raftelis used this and the EDU growth rate shown in Table 3-2 to project the number of EDUs for future years.

Table 3-3: Projected EDUs

Line	Description	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Sewer EDUs	8,199	8,240	8,281	8,322	8,364	8,406

3.2. Reserve Policies

The City maintains an operating reserve and three capital reserves. The operating reserve helps the City meet its operational needs; the capital reserves provide additional cash on-hand for both planned and emergency capital repairs.

The reserve targets for each are as follows:

1. Operating Reserve – a target equal to 65% of annual operating expenses with a minimum of 30% of operating expenses
2. Debt Service Reserve – a target equal to 100% of annual debt service payments with a minimum of 50% of debt service payments
3. Emergency Capital & Equipment Reserve – a target equal to 15% of total depreciable assets with a minimum of 10% of total depreciable assets
4. Asset Replacement Reserve - a target equal to 115% of annual asset depreciation with a minimum of 105% of annual asset depreciation

3.3. Capital Improvement Program

Table 3-4 summarizes the City's five-year CIP which includes City capital projects for sewer pipeline rehabilitation (line 1) and capital expense the City pays to SEJPA for wastewater treatment and pump stations capital expenses. The City will need to fund approximately $8.6 Million in capital expenditures over five years. These repairs are necessary to maintain the structural and functional integrity of the City's sewer system. The City plans to fund all capital projects with rate revenue and existing cash reserves (also known as PAY-GO funding). The Capital Improvement Plan below is adjusted for inflation[4].

Table 3-4: Proposed Capital Improvement Plan

Line	Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Solana Beach	$350,000	$350,000	$350,000	$350,000	$350,000
2	SEJPA	$950,000	$1,200,000	$1,516,103	$1,576,747	$1,639,817
3	**Total**	**$1,300,000**	**$1,550,000**	**$1,866,103**	**$1,926,747**	**$1,989,817**

3.4. Financial Plan without Revenue Adjustments

Table 3-5 discusses each line in the financial plan which is shown in Table 3-6 and Table 3-8. Table 3-6 shows the financial plan without revenue adjustments. The purpose of showing the financial plan without revenue increases is to show that revenue is not sufficient to cover costs as shown by the net cashflow in line 15.

[4] Capital inflation percentages are shown in Table 3-1.

Table 3-5: Description of Line Items in Financial Plan Cashflow

Category	Line(s)	Description
Revenues		
Revenue from Current Rates	2	All revenues from CURRENT rates.
Revenue from Rate Increases	3	There are no revenues from rate increases in the status quo plan, which only considers CURRENT revenues. In the proposed financial plan, this represents the additional revenues to be collected with rate increases.
Miscellaneous Revenues	4	Miscellaneous revenue includes non-rate revenues such as property tax, equity earnings, connection fees, etc. Interest revenue is excluded in the status quo financial plan, as the negative balance yields no interest.
Expenses		
O&M Expenses	8-9	Costs associated with maintenance and operations (O&M) for the City.
Debt	10	The City has wastewater revenue bonds and SEJPA revenue bonds which require principal and interest payments.
CIP	11-12	Costs associated with the capital repair and replacement projects required to maintain a functional sewer utility.
Net Cashflow	15	Equal to total revenues less total expenses (line 5 – line 13). Indicates positive or negative cashflow with respect to reserves.

As shown in Table 3-6, the resulting net cashflow under current rates is negative in the first year of the study (FY 2026) and for all remaining years of the study. This demonstrates the need for additional rate increases to meet operating and capital costs.

3.5. Operating and Maintenance Expenses

Table 3-5 discusses each line in the financial plan which is shown in Table 3-6 and Table 3-8. The City's O&M budget is shown as the Solana Beach O&M expenses and SEJPA related O&M in Table 3-6 and Table 3-8. As described earlier, Table 3-6 shows the financial plan without revenue adjustments. In Table 3-6, the O&M budget line items use the inflationary factors from Table 3-1 to project costs in future years. The purpose of showing the financial plan without revenue increases is to show that revenue is not sufficient to cover costs as shown by the net cashflow in line 15 of Table 3-6. Rate increases are required to continue meeting these operational costs.

3.6. Debt Service

The City has existing debt service in the form of 2017 wastewater revenue bonds and a portion, approximately 50%, of SEJPA Revenue Bonds. Annual debt service payments that the City pays equal approximately $1.18 million, see line 10 of Table 3-6 and Table 3-8.

Table 3-6: Financial Plan Cashflow *without* Revenue Adjustments

Line	Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	**Revenues**					
2	Revenues from Existing Rates	$5,622,005	$5,650,115	$5,678,365	$5,706,757	$5,735,291
3	Revenue from Rate Adjustments	$0	$0	$0	$0	$0
4	Miscellaneous Revenues	$400,059	$403,500	$407,010	$410,590	$414,242
5	**Subtotal - Revenues**	**$6,022,063**	**$6,053,614**	**$6,085,375**	**$6,117,347**	**$6,149,533**
6						
7	**Expenses**					
8	Solana Beach O&M Expenses	$2,271,267	$2,391,796	$2,519,605	$2,655,170	$2,798,998
9	SEJPA Related O&M	$2,442,081	$2,613,026	$2,782,873	$2,949,845	$3,112,087
10	Debt Service	$1,173,144	$1,172,069	$1,175,569	$1,171,019	$1,171,519
11	Solana Beach CIP	$368,585	$388,156	$408,767	$430,473	$453,330
12	SEJPA CIP	$950,000	$1,200,000	$1,516,103	$1,576,747	$1,639,817
13	**Subtotal - Expenses**	**$7,205,077**	**$7,765,047**	**$8,402,917**	**$8,783,254**	**$9,175,751**
14						
15	**Net Cashflow**	**($1,183,013)**	**($1,711,433)**	**($2,317,542)**	**($2,665,907)**	**($3,026,218)**

3.7. Proposed Financial Plan with Revenue Adjustments

Table 3-7 shows the proposed revenue adjustments which help to cover increasing expenses of the sewer utility and maintain reserves balances as shown in Figure 1-2 and Figure 3-3.

Table 3-7: Proposed Revenue Adjustments

Fiscal Year	Proposed Sewer Rate Increase
FY 2026	10.0%
FY 2027	10.0%
FY 2028	8.0%
FY 2029	7.0%
FY 2030	7.0%

Table 3-8 shows the proposed financial plan incorporating the proposed revenue adjustments in Table 3-7 which are applied to the revenue at existing rates (line 2) to arrive at revenue from rate adjustments (line 3).

As shown below, the City will continue operating at a reduced deficit throughout the Study period (FY 2026-FY 2030), to purposely use reserves and slowly reach reserve targets. At the end of the Study period (FY 2030) reserves are projected to be sufficient, see Figure 1-2 or Figure 3-3 below. Reserve targets were specified earlier in Section 3.2.

Table 3-8: *Proposed* Financial Plan Cashflow *with* Revenue Adjustments

Line	Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	**Revenues**					
2	Revenues from Existing Rates	$5,622,005	$5,650,115	$5,678,365	$5,706,757	$5,735,291
3	Revenue from Rate Adjustments	$562,200	$1,186,524	$1,742,122	$2,272,864	$2,845,595
4	Miscellaneous Revenues	$400,059	$403,500	$407,010	$410,590	$414,242
5	**Subtotal - Revenues**	**$6,584,264**	**$7,240,139**	**$7,827,497**	**$8,390,211**	**$8,995,128**
6						
7	**Expenses**					
8	Solana Beach O&M Expenses	$2,271,267	$2,391,796	$2,519,605	$2,655,170	$2,798,998
9	SEJPA Related O&M	$2,442,081	$2,613,026	$2,782,873	$2,949,845	$3,112,087
10	Debt Service	$1,173,144	$1,172,069	$1,175,569	$1,171,019	$1,171,519
11	Solana Beach CIP	$368,585	$388,156	$408,767	$430,473	$453,330
12	SEJPA CIP	$950,000	$1,200,000	$1,516,103	$1,576,747	$1,639,817
13	**Subtotal - Expenses**	**$7,205,076**	**$7,765,047**	**$8,402,918**	**$8,783,254**	**$9,175,751**
14						
15	**Net Cashflow**	**($620,812)**	**($524,909)**	**($575,420)**	**($393,043)**	**($180,623)**

Figure 3-1 shows the proposed financial plan graphically. Total revenues at existing and proposed rates are shown by the blue and black lines, respectively. The various stacked bars show expenses, including O&M, rate-funded CIP, and debt service. Net cashflow under proposed rates (proposed revenues less expenses) is shown by the red portion of the bars. The City will maintain a consistent, slight negative net cashflow throughout the Study period which will be offset by City reserves.

Figure 3-1: Proposed Financial Plan

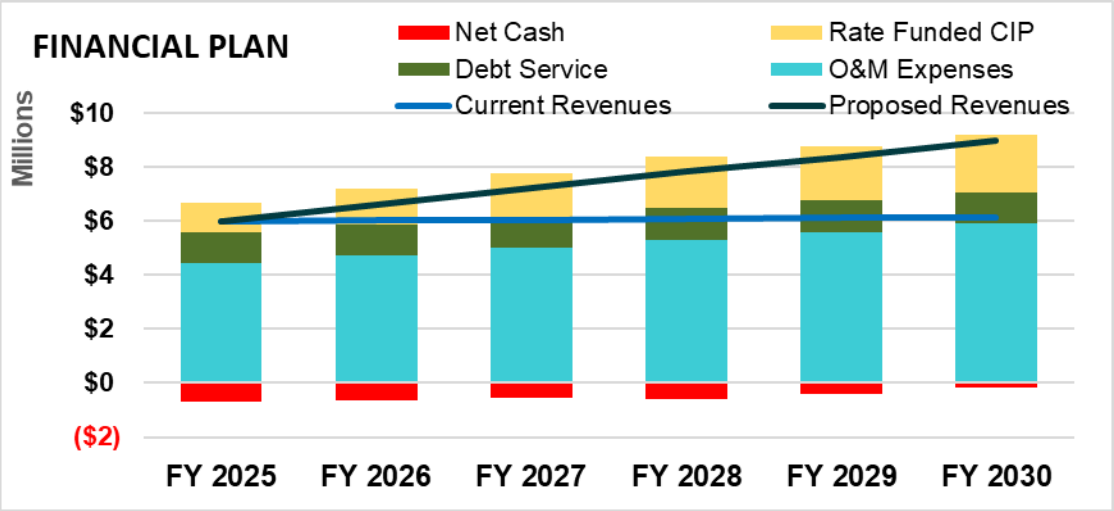


Figure 3-2 summarizes projected CIP expenses. The CIP is funded via debt service and rate revenue. The CIP expenses are inflated per the escalation factor found in Table 3-1.

Figure 3-2: Proposed Capital Financing Plan

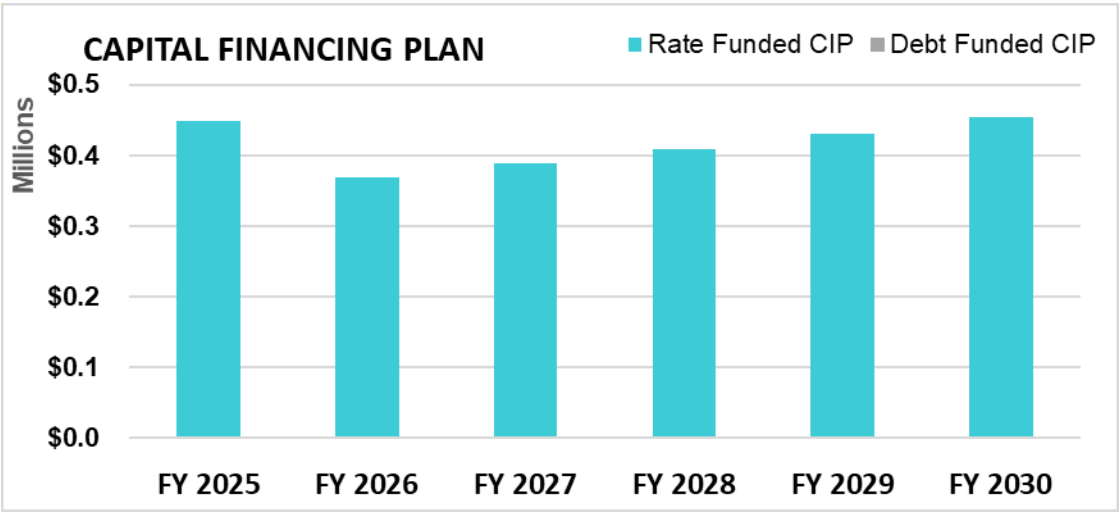
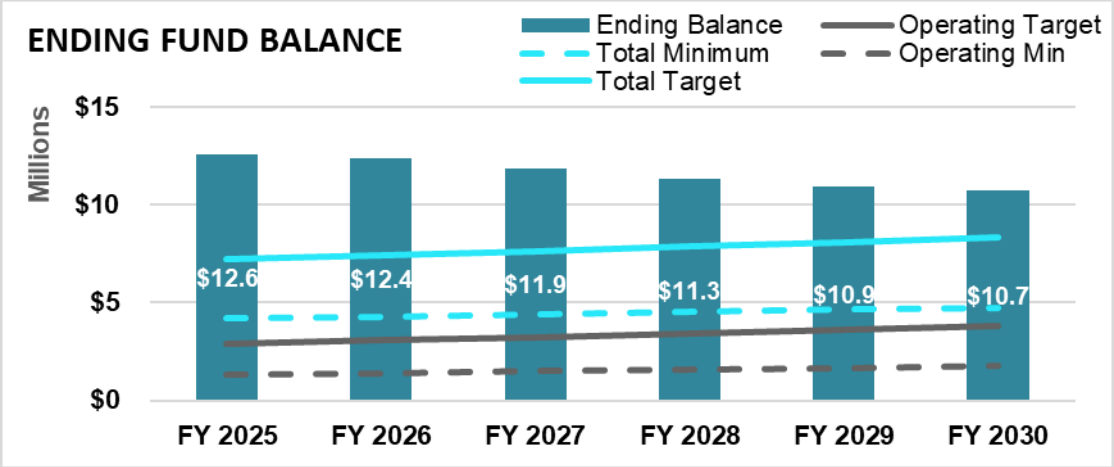


Figure 3-3 shows the projected Sewer Fund ending balances **with** the proposed rate increases shown previously in Table 1-1 and Table 3-7. As shown below, the City will slowly spend reserves in FY 2026 through FY 2030. With the proposed rate revenue increases, the City is projected to be slightly above its target ending balances in FY 2026 through FY 2030. The City selected the revenue increases shown in Table 1-1 and Table 3-7 to minimize customer bill increases during the Study period while maintaining reserve targets.

Figure 3-3: Projected Fund Ending Balances



4. Sewer Charges

This section calculates sewer rates based on the financial plan results from Section 3.

4.1. Existing Rate Structure and Rates

The City's current rate structure is an annual charge per EDU for all customer types, as shown in Table 4-1. The City currently bills its customers once a year based on the number of EDUs per account.

Table 4-1: Current Sewer Rates ($/EDU)

Description	FY 2025 (Current)
Annual Charge per EDU	$682.30

4.2. Derivation of Rates

Table 4-2 contains the derivation of the sewer rates per EDU. Lines 2-5 contain the City's expenses. Line 6 contains the net cash flow of the proposed financial plan from Table 3-8. Line 7 sums lines 2-6 to arrive at the gross revenue requirement. Line 9 contains the miscellaneous City revenue (i.e., non-rate revenue). The revenue requirement from rates in line 11 is calculated by subtracting the miscellaneous City revenue (line 9) from the gross revenue requirement (line 7). Line 13 contains the projected number of City EDUs previously listed in Table 3-3. Line 15 contains the sewer rate per EDU which is calculated by dividing the revenue requirement from rates (line 11) by the number of EDUs (line 13). The rate values are stated in annual terms and are rounded up to the nearest even cent for county tax roll purposes.

Table 4-2: Derivation of Proposed Rates

Line	Description	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	**Expenses**					
2	Solana Beach O&M Expenses	$2,271,267	$2,391,796	$2,519,605	$2,655,170	$2,798,998
3	SEJPA Related O&M	$2,442,081	$2,613,026	$2,782,873	$2,949,845	$3,112,087
3	Debt Service	$1,173,144	$1,172,069	$1,175,569	$1,171,019	$1,171,519
4	Solana Beach CIP	$368,585	$388,156	$408,767	$430,473	$453,330
5	SEJPA CIP	$950,000	$1,200,000	$1,516,103	$1,576,747	$1,639,817
6	Net Cashflow	($620,812)	($524,909)	($575,420)	($393,043)	($180,623)
7	**Gross Revenue Requirement**	$6,584,265	$7,240,138	$7,827,497	$8,390,211	$8,995,128
8						
9	Miscellaneous Revenues	$400,059	$403,500	$407,010	$410,590	$414,242
10						
11	**Revenue Requirement from Rates**	**$6,184,205**	**$6,836,639**	**$7,420,488**	**$7,979,621**	**$8,580,886**
12						
13	Projected Sewer EDUs	8,240	8,281	8,322	8,364	8,406
14						
15	**Sewer Rate per EDU**	**$750.54**	**$825.58**	**$891.64**	**$954.04**	**$1,020.84**

5. Sewer Bill Impacts

This section discusses customer bill impacts. Note that customer bill impacts will vary with each customer's EDUs. This section shows the bill impacts for customers with 1 to 5 EDUs.

5.1. Customer Bill Impacts

Table 5-1 shows the bill increase for customers with 1 to 5 EDUs under current and proposed rates. All rate values are stated in annual terms and are rounded to the nearest even cent.

Table 5-1: Bill Impacts for Single Family Residence

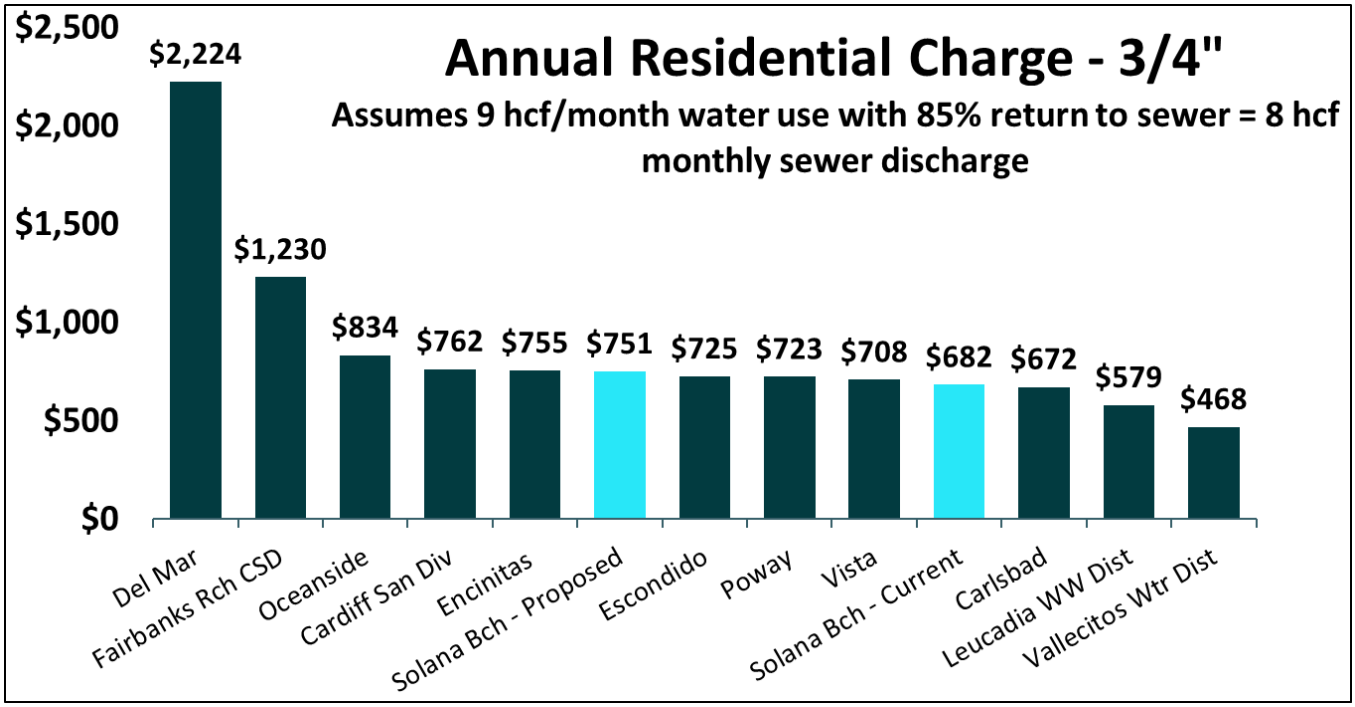
Line	Number of EDUs	Current Charge	Proposed Charge	Difference ($)
1	1	$682.30	$750.54	$68.24
2	2	$1,364.60	$1,501.08	$136.48
3	3	$2,046.90	$2,251.62	$204.72
4	4	$2,729.20	$3,002.16	$272.96
5	5	$3,411.50	$3,752.70	$341.20

6. Sewer Rate Survey

Raftelis conducted a rate survey to compare current and proposed sewer rates against eleven neighboring sewer-service providers. While a useful comparison, it is worth noting that such comparisons only paint a partial picture since many factors, such as infrastructure age and capital replacement needs, changes in elevation, revenue sources (some agencies receive property tax revenue while others do not), and other local conditions, affect the total cost of providing sewer services.

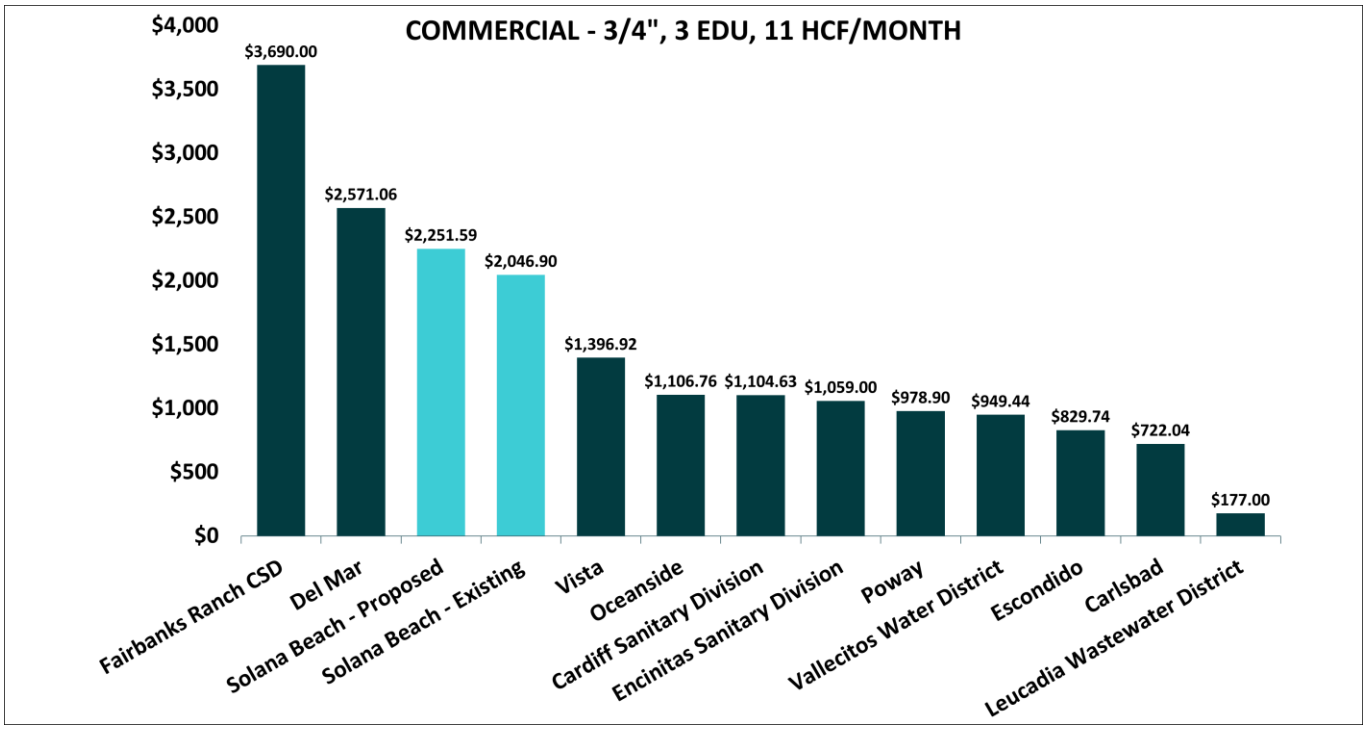
Figure 6-1 shows an annual[5] residential sewer bill comparison for the current and proposed rates against eleven neighboring agencies. This survey assumes a single-family residential customer consuming 9 HCF of potable water per month and discharging 85% of that amount to a wastewater system. The potable volume is reduced by 15% to take into account water consumption which does not enter a wastewater system such as irrigation to arrive at wastewater volume. Figure 6-2 shows an annual[6] commercial sewer bill comparison for the current and proposed rates. This survey assumes a commercial customer discharging 11 HCF of wastewater per month or 3 EDUs. These surveys were conducted in March 2025 and sought to collect rates effective July 1, 2025; however, not all agencies have rates for this date at this time. This survey should only be used as a reference point or as a snapshot in time. The agencies shown may also be performing rate studies, which would change the City's position and would be reflected after the start of the new fiscal year (July).

Figure 6-1: Annual Residential Bill Comparison for Neighboring Agencies



[5] Agencies with a monthly or bi-monthly billing cycle are adjusted to an annual billing cycle by multiplying fixed charges by 12 or 6, respectively.
[6] Agencies with a monthly or bi-monthly billing cycle are adjusted to an annual billing cycle by multiplying fixed charges by 12 or 6, respectively.

Figure 6-2: Annual Commercial Bill Comparison for Neighboring Agencies



City of Solana Beach Sanitation District
635 S Hwy 101
Solana Beach, California 92075

Proposition 218 Notification
NOTICE TO PROPERTY OWNERS OF PROPOSED SEWER RATES AND PUBLIC HEARING PROCEEDINGS

NOTICE IS HEREBY GIVEN, pursuant to Article XIII(D) of the California Constitution, that the City of Solana Beach Sanitation District (District) is proposing to increase its rates for sewer operations and maintenance services. The City Council will conduct a public hearing on this matter. Details are as follows:

Event: **Public Hearing on Proposed Sewer Rates**
Date: **May 7, 2025**
Time: **6:00 PM**
Location: **City of Solana Beach, City Hall - Council Chambers**

The public hearing will review the proposed increase for sewer rates. At the time of the public hearing, the City Council will hear and consider all protests and objections concerning these matters. This notice has been sent to all sewer customers and property owners, if different, as of the last address available. If there is no majority protest, the City Council will consider adoption of the increased rates at the regular Board meeting on May 21, 2025.

Why is a Rate Increase Necessary?

The District has not increased sewer rates for the past five years and is currently experiencing an operating deficit of about $691,000 this year. Costs for administration, operations and maintenance, and capital costs of the District have increased and are projected to continue to increase in the coming years. Without a rate increase, District reserve funds will be drawn down well below our target limits within a few years. The District is self-supporting and does not have any other way to fund operations than through its own rates and fees.

Sewer Rate Calculations & Proposed Rate Increase

The rates were calculated using a weighted factor called equivalent dwelling units (EDU). Each parcel of land was assigned an EDU in proportion to the average usage factors that the parcel receives relative to other parcels within the city. The single family detached residential property (SFD) has been selected as the basic unit for calculating rates; therefore a SFD equals one EDU. All other parcel land usages were compared to a SFD and assigned a corresponding EDU, pursuant to Solana Beach Municipal Code Chapter 14.08.060: EDU determination. Rates were developed according to the Sewer Cost of Service Rate Study performed by Raftelis. The proposed rates, shown below, will be effective July 1, 2025.

	2026	2027	2028	2029	2030
% inc	10%	10%	8%	7%	7%
Rate per EDU	$ 750.54	$ 825.58	$ 891.64	$ 954.04	$1,020.84
Annual $ inc	$ 68.24	$ 75.04	$ 66.06	$ 62.40	$ 66.80

Public Notice and Majority Protest Process

In accordance with California state law, the City of Solana Beach will hold a Public Hearing to hear comments for or against the proposed rate increases on **May 7, 2025 at 6:00 pm in the Council Chambers, 635 S Hwy 101**.

As the owner of record of a parcel identified to be subject to the proposed rate increases, you may submit a written protest prior to the close of the public hearing. If the identified parcel has more than one owner of record, only one written protest will be counted. Each protest must (1) be in writing; (2) provide the location of the identified parcel (by account number, assessor's parcel number, or street address); and (3) include the original signature of the owner of record submitting the protest. Protests submitted by e-mail, facsimile, or other electronic means will not be accepted. If written protests are submitted by a majority of the affected parcel owners, the proposed rate changes cannot be imposed. Written protests may be submitted by mail or in person to the following address:

City of Solana Beach
ATTN: City Clerk's Office - Public Hearing on the Proposed Increase to Sewer Rates
635 S Hwy 101
Solana Beach, CA 92075

If you have questions regarding the protest process, please call the City Clerk's office at (858) 720-2400.

ATTACHMENT 2

ORDINANCE 538

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF SOLANA BEACH, CALIFORNIA, AMENDING SECTION 14.08.060 OF CHAPTER 14.08 OF THE SOLANA BEACH MUNICIPAL CODE RELATING TO THE ANNUAL SEWER SERVICE CHARGE PER EQUIVALENT DWELLING UNIT FOR FISCAL YEAR 2026 THROUGH FISCAL YEAR 2030

WHEREAS, the City's Capital Improvement Program Budget contains sanitary sewer projects which are important to maintain health and safety standards, and which are identified in the Council's Work Plan; and

WHEREAS, the City of Solana Beach hired Raftelis Financial Consultants to prepare a Sewer Rate and Revenue Update in order to recommend a proposed rate increase to provide sufficient funding for the Capital Improvement projects, and support the operations and the debt service requirements of the Solana Beach Sanitation District; and

WHEREAS, the rates support the administration, maintenance, debt service and capital costs of the Solana Beach Sanitation District; and

WHEREAS, the rates also support the operations, maintenance, and Capital Improvement Program costs associated with the San Elijo JPA for the collection, transportation and treatment of sewage for the sanitary sewer system; and

WHEREAS, the City Council has selected a gradual, reduced Capital Improvement Program contribution to the San Elijo JPA; and

WHEREAS, the City of Solana Beach has complied with the notice and majority protest provisions of section 6 (a) of Article XIII D of the California Constitution; and

WHEREAS, the City Council has held a duly noticed public hearing on May 7, 2025; and

WHEREAS, the City Council did not receive a majority protest from the owners of the parcels that are affected by the proposed rate increases to the annual sewer charges.

NOW THEREFORE, THE CITY COUNCIL OF THE CITY OF SOLANA BEACH DOES ORDAIN AS FOLLOWS:

Section 1. The City Council hereby declares:

Section 14.08.060 of Chapter 14.08 of the Solana Beach Municipal Code is hereby amended to reflect the increase to the annual sewer service charge for each equivalent dwelling unit to the following for Fiscal Year 2026 through Fiscal Year 2030.

FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
$750.54	$825.58	$891.64	$954.04	$1,020.84

EFFECTIVE DATE: This Ordinance shall be effective thirty (30) days after its adoption. Within fifteen (15) days after its adoption, the City Clerk of the City of Solana Beach shall cause this Ordinance to be published pursuant to the provisions of Government Code §36933.

INTRODUCED AND FIRST READ at a regular meeting of the City Council of the City of Solana Beach, California, on the 7th day of May 2025 and

THEREAFTER ADOPTED at a regular meeting of the City Council of the City of Solana Beach held on the ___ day of May 2025 by the following vote:

AYES: COUNCILMEMBERS –
NOES: COUNCILMEMBERS –
ABSTAIN: COUNCILMEMBERS –
ABSENT: COUNCILMEMBERS –

_____
LESA HEEBNER, Mayor

APPROVED AS TO FORM:

_____
JOHANNA N. CANLAS, City Attorney

ATTEST:

_____
ANGELA IVEY, City Clerk