



AGENDA REPORT

Department: Engineering
Prepared by: Ricardo Rodriguez, Assistant Engineer-Civil
Meeting Date: Tuesday, May 6, 2025
Approved by: Scott W. Huth, Interim City Manager

SUBJECT:

Public Hearing and Introduction of an Ordinance of the City Council of the City of National City, Repealing Ordinance No. 2023-2521 and Adopting an Ordinance Establishing Sewer Service Charges for FY 2025-2026, 2026-2027, 2027-2028, 2028-2029, 2029-2030.

RECOMMENDATION:

Hold Public Hearing, Consider and Count the Number of Protest Votes Received, and Introduce Ordinance Titled, "An Ordinance of the City Council of the City of National City, California, Repealing Ordinance No. 2017-2442, as Amended by Ordinance No. 2023-2521, and Adopting an Ordinance Establishing Sewer Service Charges for Fiscal Years 2025-2026, 2026-2027, 2027-2028, 2028-2029, and 2029-2030."

BOARD/COMMISSION/COMMITTEE PRIOR ACTION:

Not Applicable.

EXPLANATION:

On March 4, 2025, The City Council adopted Resolution 2025-21 Entitled: "Resolution of the City Council of the City of National City, California, 1) Accepting the Sewer Rate Study; 2) Approving Revisions to Policy No. 201, Maintenance of Reserve Funds; and 3) Scheduling a Public Hearing and Directing Staff to Mail Out a Notice of Public Hearing as Required by Proposition 218." The Notice of Public Hearing was mailed out with a public hearing date of May 6, 2025 at 6:00 pm.

The City of National City provides wastewater service to more than 17,000 customers within the incorporated area of the City. The City owns and operates approximately 100 miles of sewer pipeline, 2,000 manholes, and 2 lift stations. With this municipal sewer system, the City collects and conveys wastewater flows originating from residential and commercial properties within the City, and connects to the City of San Diego Metropolitan Wastewater System (Metro) to ultimately arrive at San Diego's Point Loma Treatment Plant for treatment and disposal. The City endeavors to operate the sewage system in a safe and efficient manner while meeting the needs of its customers as well as all State and Federal regulatory requirements. These include, but are not limited to, State Wastewater Discharge Requirements (WDRs), imposed by the California State Water Resources Control Board (SWRCB), and others by the U.S. Environmental Protection Agency (US EPA). Complying with these regulations and resulting mandates creates a large share of the cost burden on the City's system.

In order to confirm that the revenue received by the City in the form of sewer service charges is sufficient to cover the cost of operation and capital improvements, as well as meet the target reserve level, on a regular basis it must evaluate the need to increase rates by conducting a Sewer Rate Study. Pursuant to Proposition 218, the City must hold a Public Hearing to receive input as it considers a rate adjustment for sewer service charges to National City residences and

businesses. The Notice of Public Hearing that was mailed out to all property owners who receive sewer service from the City on March 12, 2025 is included as Exhibit A.

On December 19, 2017, the City Council adopted Ordinance No. 2017-2442, following the Proposition 218 process, establishing sewer service charges for 5 years from Fiscal Year (FY) 2018 (2017-2018) through FY 2023. The service charges included increases of 9.8% for each of those years with the anticipation that the financial picture of the wastewater system for the City would stabilize during that time. The actual revenues received from the projected rates matched the model well and costs experienced during this time were also similar. The City Council then adopted Ordinance No. 2023-2521 on June 6, 2023, which amended Ordinance No. 2017-2442 and maintained the sewer service charges at the same level with no increase for FY 2024 and FY 2025. This was done via a public hearing without Prop. 218 noticing since there were no increases adopted.

In the Fall of 2024, the City hired Ardurra Group, Inc. (Ardurra) as a subconsultant to Anser Advisory to complete a full Sewer Rate Study report through a review of expected revenue and expenditures for the next five fiscal years. Ardurra completed the assessment and the full report is included in Exhibit B. Further background on the City's agreement with Metro for treatment and disposal is provided there.

The report identified the following key elements based on system needs that impact the analysis and determination of rates:

1. While the City's current reserves may seem high compared to required reserve levels, the City has many costs that will occur over the next few years. They include some items that have certainty in cost and some for which the final fiscal impact is still unknown, such as:
 - a. Final Audited and true up Metro costs for the past 4 years have not yet been completed while the actual known costs of the Pure Water Phase I have increased.
 - b. The final negotiations of the Second Amended and Restated Metro agreement have not happened and thus the final costs due to Phase I Pure Water Program and the offloading of the system from the East County Joint Power Authority's Advanced Purified Water program are not yet known. Pure Water Phase 2 is just beginning the planning phase and final costs are uncertain.
 - c. Final Metro costs for several of their sewer spills over the past 2 years have not yet been negotiated and finalized.
2. Inflation is affecting the City's Capital Improvement Program (CIP) costs. Construction costs are still vastly outpacing inflation.
3. Significant CIPs have been identified through recent sewer system modeling and investigation.
4. The City is undertaking a comprehensive CCTV evaluation of the pipes in the system. This may identify other improvements needed in the aging system.
5. Small rate increases will help revenue keep up with inflation while a focus on CIP projects will draw down reserves.
6. Government Code section 53756 allows an agency providing water, wastewater, sewer, or refuse collection service to adopt a schedule of fees or charges authorizing automatic adjustments that pass-through increases in wholesale charges for water, sewage treatment, or wastewater treatment or adjustments for inflation. Given the uncertainty of the costs to be incurred from the City of San Diego, adopting a pass-through ordinance as part of the rates is recommended. This allows an adjustment if the costs from Metro are more than what is currently anticipated.

While no significant changes have occurred in the flow characteristics and distribution of flows or billing classifications in the past 7 years, some minor changes have occurred. It has been determined that mobile home rates should not increase as much as single family rates as their

water use has dropped more than for single family properties, and commercial rates should be increased more than residential rates to keep the proportion of the fees appropriate over time due to the increased costs of treatment for the effluent generated by commercial properties.

The City’s sewer utility was evaluated on a ‘stand-alone’ basis, meaning that no subsidies by other City funds occur in order to cover the costs of running the system. By viewing the utility on a stand-alone basis, the need to adequately fund both operations and maintenance (O&M) and CIP must be balanced against the rate impacts on utility customers. The sewer system utility does pay other departments for shared resources that provide administrative support.

The City is still developing the details of the five-year CIP, but the estimates included in the rate study are based upon existing information with a projection for future needs.

The largest component of the City of National City’s revenue requirement is the cost associated with transportation, treatment and disposal of the City’s wastewater by the Metro facilities. A summary of the projected City collection system O&M, CIP and Metro expenses compared to proposed sewer rates is included in the rate study and summarized in the charts below.

Based on cost of service and projected revenue requirements, the City proposes new sewer service charges. The following table shows the recommended monthly and unit charges in dollars and compares them to existing charges:

Annual Sewer Service Charges for FY 2025-2026 to FY 2029-2030

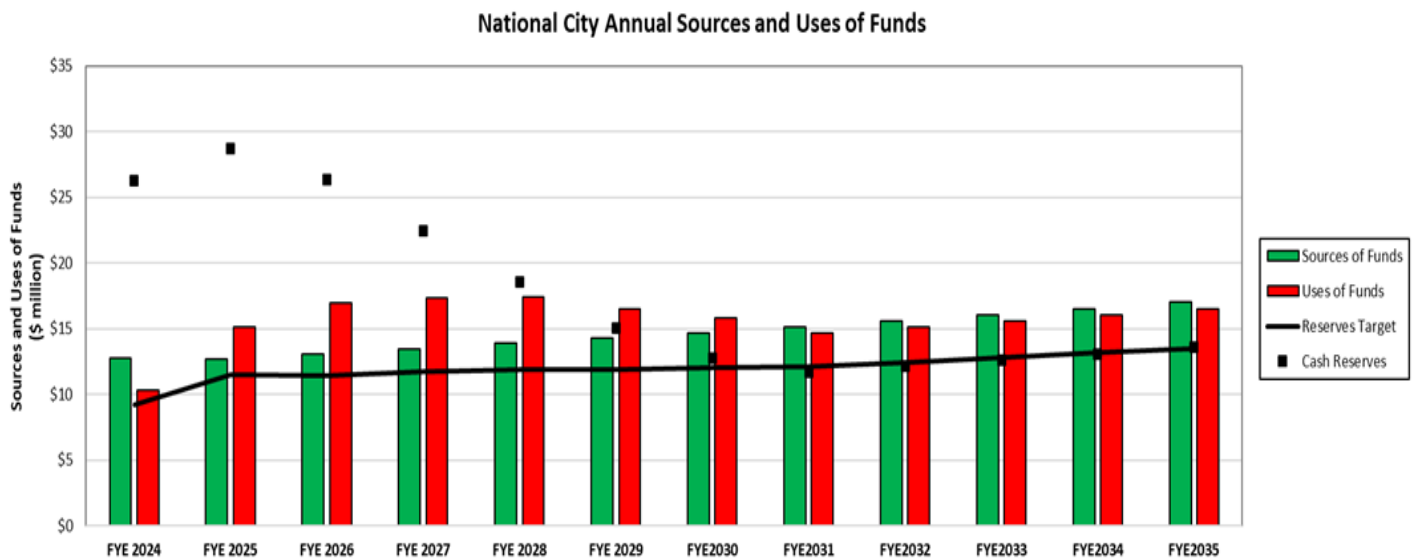
	EXISTING					
	2024-2025	2025-2026	2026-2027	2027-2028	2028-2029	2029-2030
Residential: \$ Per Month						
Single Family	\$ 51.18	\$ 52.72	\$ 54.30	\$ 55.93	\$ 57.60	\$ 59.33
Multi-family/Condo	\$ 39.92	\$ 41.12	\$ 42.35	\$ 43.62	\$ 44.93	\$ 46.28
Mobile Homes	\$ 31.22	\$ 31.53	\$ 31.85	\$ 32.17	\$ 32.49	\$ 32.81
Non-Residential: \$ Per HCF						
Commercial - Low	\$ 5.25	\$ 5.67	\$ 6.12	\$ 6.61	\$ 7.14	\$ 7.71
Commercial - Medium Low	\$ 5.66	\$ 6.06	\$ 6.48	\$ 6.93	\$ 7.42	\$ 7.94
Commercial - Medium	\$ 6.80	\$ 7.28	\$ 7.79	\$ 8.33	\$ 8.91	\$ 9.54
Commercial - Medium High	\$ 7.95	\$ 8.43	\$ 8.93	\$ 9.47	\$ 10.04	\$ 10.64
Commercial - High	\$ 9.88	\$ 10.42	\$ 11.00	\$ 11.60	\$ 12.24	\$ 12.91

* Duplexes or a single family with a single ADU on one property are charged one single family rate and one multi-family rate.

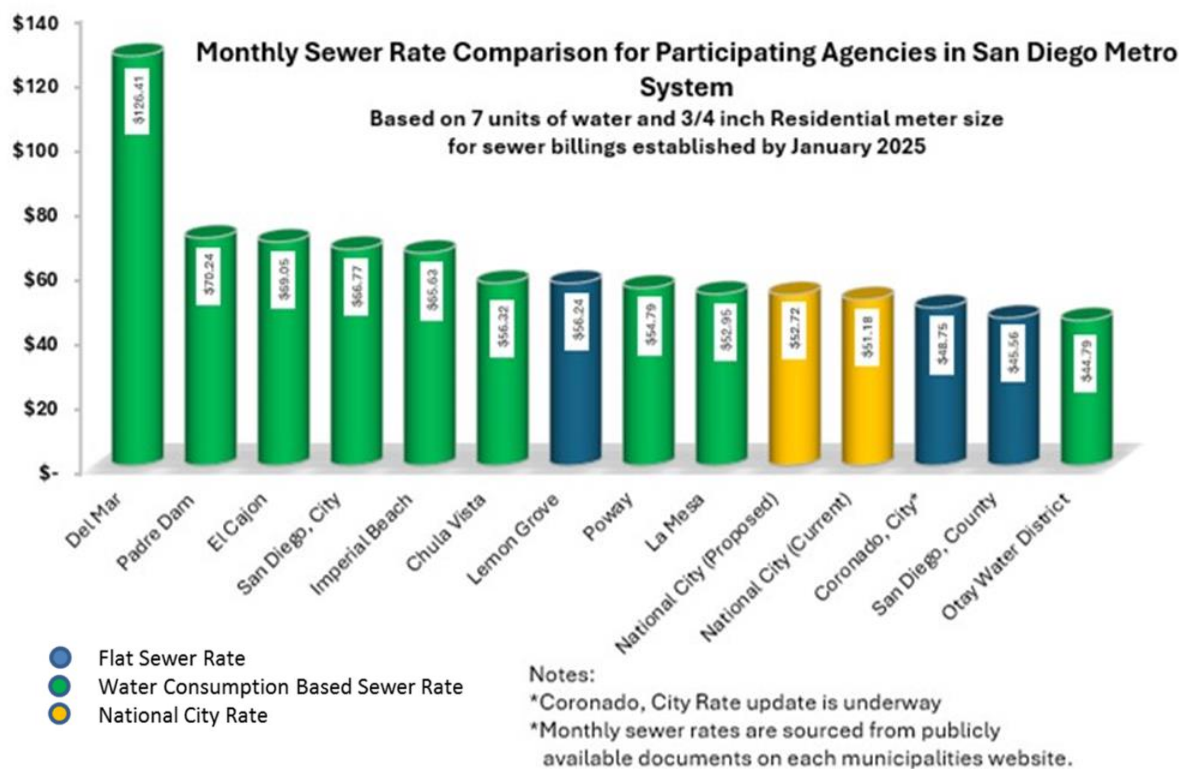
The recommended rate increases, on a percentage basis, are as follows:

Recommended Percentage Rate Revenue Adjustments					
Fiscal Year	FYE2026	FYE2027	FYE2028	FYE2029	FYE2030
Effective Month	July	July	July	July	July
Residential:					
Single Family	3%	3%	3%	3%	3%
Multi-family/Condo	3%	3%	3%	3%	3%
Mobile Homes	1%	1%	1%	1%	1%
Non-Residential:					
Commercial - Low	8%	8%	8%	8%	8%
Commercial - Medium Low	7%	7%	7%	7%	7%
Commercial - Medium	7%	7%	7%	7%	7%
Commercial - Medium High	6%	6%	6%	6%	6%
Commercial - High	5.5%	5.5%	5.5%	5.5%	5.5%

The following chart presents a long-term forecast of revenues versus expenditures and reserves. The intent is to provide the potential financial picture of the Sewer Service Fund over the next 10 years based upon the inclusion of proposed sewer rate increases (revenues), total expenses, and operational & Capital Reserves. The rate study is only for five years, but it shows the need to have the rates gradually increased while reserves are drawn down, otherwise the rate increases would be substantial in future years to catch up. The forecast in the second five-year period is with rates and inflation generally being consistent, but show a matching of the cash reserves and the reserve targets with reduced system CIP needs.



The following chart represents a monthly sewer rate comparison for other Participating Agencies of the San Diego Metro system before and after the FYE 2026 proposed rate increase. With the rate increase for FYE 2026, National City would still be among the lowest sewer rates.



For the recommendation that the City consider implementing a pass through of inflation and City of San Diego wastewater treatment costs, the rates being adopted are in conformance with Government Code section 53756. It specifically reads as follows:

An agency providing water, wastewater, sewer, or refuse collection service may adopt a schedule of fees or charges authorizing automatic adjustments that pass through increases in wholesale charges for water, sewage treatment, or wastewater treatment or adjustments for inflation, if it complies with all of the following:

- (a) It adopts the schedule of fees or charges for a property-related service for a period not to exceed five years pursuant to Section 53755.
- (b) The schedule of fees or charges may include a schedule of adjustments, including a clearly defined formula for adjusting for inflation. Any inflation adjustment to a fee or charge for a property-related service shall not exceed the cost of providing that service.
- (c) The schedule of fees or charges for an agency that purchases wholesale water, sewage treatment, or wastewater treatment from a public agency may provide for automatic adjustments that pass through the adopted increases or decreases in the wholesale charges for water, sewage treatment, or wastewater treatment established by the other agency.
- (d) Notice of any adjustment pursuant to the schedule shall be given pursuant to subdivision (a) of Section 53755, not less than 30 days before the effective date of the adjustment.

The recommended fees are in compliance with the above statute in that they are established for not more than five years, the fees are based on an assumption that the Consumer Price Index inflation rate for San Diego does not increase more than 3% per year for each year of the rate study, and the City does pay wholesale costs to the City of San Diego for wastewater treatment. Therefore, the ordinance does include a reference to the above statute that, if necessary, allows for the City to pass through any increases for inflation or treatment above what is included in the rate study.

The City did receive comments and protest votes as part of the noticing process. One comment received did note that the rate study report referenced Best Management Practices (BMP's) established by the State of California on page 3-6. That reference instead should be to the State of California's Waste Discharge Requirements (WDR's) that require that the City have a source of revenue to allow for the appropriate maintenance of the City's wastewater system. This administrative, non-substantive clarification does not result in any changes to the rates developed and does not require a revised report.

In summary, staff recommends that Council hold a public hearing, receive public comment and count any protests received and if a majority of protests are not received, approve the Ordinance. If authorized to continue, a second public hearing and recommendation to adopt the Ordinance will be held on May 20, 2025.

FINANCIAL STATEMENT:

Increasing the existing sewer fees for Fiscal Years 2025-2026 to 2029-2030 will maintain the reserve levels set by the City Council and allow for the on-going maintenance, operation, and repair/replacement of the sewer system.

RELATED CITY COUNCIL 2020-2025 STRATEGIC PLAN GOAL:

Transportation Choices and Infrastructure

ENVIRONMENTAL REVIEW:

This is not a project under CEQA, and is therefore, not subject to environmental review. CCR15378; PRC 21065.

PUBLIC NOTIFICATION:

The Agenda Report was posted at least 72 hours before the Regular Meeting date and time, and 24 hours before a Special Meeting in accordance with the Ralph M. Brown Act

ORDINANCE:

First Reading

EXHIBITS:

Exhibit A – Notice of Public Hearing

Exhibit B – Sewer Rate Study

Exhibit C – Ordinance