



STAFF REPORT
10/14/2026

TO: Honorable Mayor and City Council Members

FROM: Castulo Estrada, Utilities Director

PREPARED BY: Castulo Estrada, Utilities Director

SUBJECT: Receive and File the Water and Wastewater Cost of Service and Rate Study Prepared by NewGen Strategies & Solutions and Authorize Staff to Initiate the Proposition 218 Notice and Public Hearing Process for Proposed Water and Wastewater Rates for Fiscal Years 2027 through 2031

STAFF RECOMMENDATION:

Staff recommends that Council review the Draft Water and Wastewater Cost of Service and Rate Studies prepared by NewGen Strategies & Solutions and approve the proposed five-year water and wastewater rate schedules for purposes of Proposition 218 noticing.

FISCAL IMPACT:

The Cost of Service and Rate Studies includes proposed rate increases which shall be considered each year. Recommended rates summarized in the Studies shall be implemented after a successful Proposition 218 process.

BACKGROUND:

The City of Coachella owns and operates the Utility System providing potable water service and wastewater service to the residents, businesses and industries within the City and its service areas. The cost of water and wastewater service is recovered through water and wastewater rates. The last Water Utility Revenue Rate Analysis (rate study) was finalized in 2009. In March of 2010, Ordinance No. 1016 adopted new rates commencing May 1, 2010. Ordinance No. 1016 adopted the following schedule:

Effective Date	5/1/2010	1/1/2011	1/1/2012	1/1/2013	1/1/2014	1/1/2015
<i>Monthly Meter Charge</i>						
5/8" – 3/4"	\$9.69	\$10.66	\$11.92	\$12.52	\$13.14	\$13.80
1"	\$13.57	\$14.93	\$16.69	\$17.53	\$18.40	\$19.32
1 1/2"	\$17.45	\$19.19	\$21.46	\$22.53	\$23.66	\$24.84
2"	\$28.11	\$30.92	\$34.57	\$36.30	\$38.12	\$40.02

Effective Date	5/1/2010	1/1/2011	1/1/2012	1/1/2013	1/1/2014	1/1/2015
3"	\$106.62	\$117.28	\$131.14	\$137.70	\$144.59	\$151.82
4"	\$135.70	\$149.27	\$166.91	\$175.26	\$184.02	\$193.22
6"	\$203.55	\$223.91	\$250.37	\$262.88	\$276.03	\$289.83
8"	\$281.09	\$309.20	\$345.74	\$363.03	\$381.18	\$400.24
<i>Consumption Charge (per HCF)</i>						
Block 1: 0 – 41 HCF	\$1.05	\$1.16	\$1.30	\$1.36	\$1.43	\$1.50
Block 2: Over 41 HCF	\$1.21	\$1.31	\$1.45	\$1.51	\$1.58	\$1.65

Per the above table, the last water rate increase was adopted on 1/1/2015. Water rates have not been adjusted since.

Similarly, the last Wastewater Rate Study for the Coachella Sanitary District (CSD) was finalized in November of 2017 and adopted a schedule of annual rate increases effective July 1, 2018 through July 1, 2021. The last sewer rate increase took effect on 7/1/2021, and sewer rates have not been adjusted since. The current single-family residential sewer charge is \$49.74 per month.

Council previously authorized a Professional Services Agreement with NewGen Strategies & Solutions (NewGen) to conduct a Comprehensive Water and Wastewater Rate Study. NewGen has completed a draft Water and Wastewater Cost of Service and Rate Study (Study) for the City, which is presented with this report.

Primary Drivers:

Operational and maintenance costs increase every year due to a number of factors including the cost of materials, inflation, increase in staff, and increase in infrastructure inventory. The 2023 Utility Operations Staffing Study prepared by Raftelis found the Utilities Department understaffed relative to peer agencies and recommended 10 new full-time positions across the water and wastewater utilities. The 2024 Base Compensation Study prepared by Arthur J. Gallagher & Co. found that the City's utility salaries were, on average, 12.2% below the market median. The Water and Wastewater Cost of Service Studies incorporate the findings of the Staffing and Compensation reports.

Wastewater operations face similar pressures. For the wastewater utility, the Study includes the phased addition of 3.5 wastewater treatment operator positions and one SCADA and instrumentation technician identified in the Staffing Study, the salary adjustments from the Compensation Study, and new funding of \$500,000 per year for depreciation beginning in FY 2027. CSD must also continue to meet its existing debt obligations and debt service coverage requirements.

On April 17, 2024, the State Water Resources Control Board re-adopted a Maximum Contaminant Level (MCL) of 10 parts per billion for hexavalent chromium (chromium-6), effective October 1, 2024. Chromium-6 occurs naturally in the groundwater of the Coachella Valley. All six of CWA's active wells exceed the new MCL, with average concentrations ranging from roughly 13 to 22 parts per billion, and Well 20 is also anticipated to require treatment. CWA's compliance plan was

accepted by the Division of Drinking Water on November 3, 2025, which, together with Senate Bill 466, extends the construction completion deadline to July 3, 2031.

Following bench- and pilot-scale testing, CWA selected reduction coagulation filtration as the treatment technology for all seven well sites. The preliminary estimated capital cost is \$54.1 million, including approximately \$5.0 million for design. These figures are preliminary estimates based on the Preliminary Design Report and are subject to change as design progresses. Once all treatment systems are operational, the new facilities are expected to add approximately \$891,000 per year in operating and maintenance costs.

The Study develops a five-year financial plan for Fiscal Years (FY) 2027 through 2031 accommodating both staffing demands as well as the Chrome 6 related expenditures. Proposed rates would take effect on January 1 of each year from 2027 through 2031.

DISCUSSION/ANALYSIS:

Water Rates

Revenue Requirement. The Study projects that CWA's net revenue requirement will increase from approximately \$9.4 million in FY 2026 to \$15.8 million in FY 2031. The increase is front-loaded: the net revenue requirement rises 42.7% in FY 2027 as pay-as-you-go capital spending begins and staffing costs increase, then by 5.8%, 5.1%, 5.3%, and 0.7% in the following four years. The Study conservatively assumes CWA will fund the entire chromium-6 construction program with revenue bonds, adding approximately \$2.5 million in annual debt service beginning in FY 2030.

Financial Condition. At current rates, CWA's debt service coverage ratio is projected at 0.07x in FY 2026, below the 1.10x required by its bond covenants. Under the proposed rates, coverage recovers to 1.37x in FY 2027 and remains at or above 1.28x in each year of the forecast. The water fund balance is also projected to decline to approximately \$1.7 million in FY 2027, about \$548,000 below the recommended reserve level. Projected rates assure that the expected fund balance meets or exceeds the recommended level in each year thereafter.

Rate Structure. CWA's current rates consist of a fixed monthly meter charge and a two-tier volumetric rate that applies equally to all customers. The Study recommends a fixed monthly meter charge that scales with meter size and a three-tier volumetric rate.

Rate Component	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029	Jan 1, 2030	Jan 1, 2031
<i>Monthly Meter Charge</i>					
5/8" – 3/4"	\$19.67	\$20.81	\$21.87	\$23.02	\$23.19
1"	\$26.88	\$28.43	\$29.88	\$31.45	\$31.68
1 1/2"	\$44.89	\$47.49	\$49.90	\$52.52	\$52.91
2"	\$66.51	\$70.36	\$73.93	\$77.82	\$78.39

Rate Component	Jan 1, 2027	Jan 1, 2028	Jan 1, 2029	Jan 1, 2030	Jan 1, 2031
3"	\$134.97	\$142.77	\$150.02	\$157.91	\$159.07
4"	\$225.04	\$238.06	\$250.14	\$263.30	\$265.23
6"	\$495.27	\$523.91	\$550.50	\$579.46	\$583.72
8"	\$585.34	\$619.19	\$650.62	\$684.84	\$689.88
Consumption Charge (per HCF)					
Tier 1: 0 – 8 HCF	\$2.89	\$3.06	\$3.21	\$3.38	\$3.41
Tier 2: 9 – 17 HCF	\$3.08	\$3.25	\$3.42	\$3.60	\$3.63
Tier 3: Over 17 HCF	\$3.84	\$4.06	\$4.27	\$4.49	\$4.52

Customer Bill Impacts. A single-family residential customer with a ¾-inch meter using 21 hundred cubic feet (HCF) per month currently pays \$45.30 per month. That bill would increase to \$85.83 on January 1, 2027, an 89.5% increase, and then by 5.8%, 5.1%, 5.3%, and 0.7% in the following four years, reaching \$101.16 in FY 2031. First-year increases for other sample customers range from 100.5% for multi-family residential to 128.4% for high-use commercial. Even with the proposed increase, CWA's estimated FY 2028 bill of \$90.80 for the same single-family customer is below the \$104.72 average of 18 regional water agencies surveyed.

Wastewater Rates

Revenue Requirement. Wastewater revenue requirement is expected to expand from \$8.0 million in FY 2026 to \$10.3 million in FY 2031. Operation and maintenance expense is projected to increase from approximately \$6.1 million in FY 2026 to \$9.5 million over this forecast period, driven by general cost escalation, the staffing and compensation adjustments described above, and funding for depreciation. Rate-funded debt service remains stable, while the \$7.9 million capital improvement program is almost entirely growth-related and is funded from connection fees. The Study accommodate the expansion in required revenues by recommending revenue adjustments of 5.3%, 9.8%, 6.8%, 4.8%, and 3.9%, effective January 1 of each year from 2027 through 2031.

Financial Condition. The sewer operating fund begins in a stable position with over \$11.0 million in reserves, but will need to use some of it's balance to account for capital projects. The operating fund will transfer approximately \$4.55 million to the connection fee fund to assure that the growth fund remains solvent while growth-related projects are concluded. These transfers will be made from existing reserves, will not affect sewer rates, and will be repaid as future connection fee revenue is received. Under the proposed rates, the operating fund balance is projected to decline from approximately \$11.0 million at the end of FY 2026 to approximately \$6.7 million at the end of FY 2031, remaining above the minimum reserve requirement in every year. Debt service coverage ranges from 2.49x to 4.38x, well above the 1.25x target. The Study applies the same reserve policy as the water utility: 90 days of operation and maintenance expense plus 30 days of capital spending.

Rate Structure. NewGen reviewed CSD's existing rate structure and recommends keeping it. Single-family residential customers would continue to pay a flat monthly charge, and all other customers would continue to pay a fixed monthly charge based on meter size plus a volumetric

charge per HCF of water use that varies by customer class to reflect wastewater strength. The proposed rates realign each charge with the cost of service. Proposed rates are summarized below; the full schedule for all meter sizes is included as an attachment.

Rate Component	Current	1/1/2027	1/1/2028	1/1/2029	1/1/2030	1/1/2031
Single-Family (flat)	\$49.74	\$54.73	\$60.21	\$63.23	\$66.38	\$68.32
¾-inch Fixed Charge	\$24.08	\$26.34	\$30.07	\$32.05	\$33.63	\$34.65
Multi-Family (\$/HCF)	\$3.55	\$3.93	\$4.17	\$4.31	\$4.53	\$4.66
Comm. Low (\$/HCF)	\$3.09	\$3.13	\$3.32	\$3.44	\$3.61	\$3.72
Comm. Medium (\$/HCF)	\$4.00	\$4.78	\$5.08	\$5.26	\$5.52	\$5.68
Comm. High (\$/HCF)	\$8.90	\$12.57	\$13.35	\$13.81	\$14.51	\$14.92
Institutional (\$/HCF)	\$3.04	\$3.05	\$3.24	\$3.35	\$3.52	\$3.62

Customer Bill Impacts. The single-family residential monthly sewer charge would increase from \$49.74 to \$54.73 on January 1, 2027, a 10.0% increase, and would reach \$68.32 in FY 2031. Because the Study found that single-family, multi-family, and medium- and high-strength commercial customers were not previously paying their full share of cost of service expenses, first-year increases vary by class: 38.6% for high-strength commercial, 18.9% for medium-strength commercial, 10.3% for multi-family, and approximately 2% for low-strength commercial and institutional customers. After FY 2028, annual increases range from approximately 3% to 5% for all classes. The current single-family charge of \$49.74 is about 2% below the \$50.78 average of 18 regional agencies surveyed. The estimated FY 2028 charge of \$60.21 would be above the current average, although the comparison does not reflect increases other agencies may adopt by then.

Proposition 218 Process. If Council approves the recommended action, staff will mail written notice of the proposed water and wastewater rates to all affected property owners and customers of record at least 45 days before the public hearing. Council may adopt the proposed rates following the public hearing unless written protests are received from a majority of affected parcels. Adopting rates would also allow CWA to submit a complete DWSRF financing application for the chromium-6 program.

Attachments

1. Draft Water Cost of Service and Rate Study (NewGen Strategies & Solutions, October, 2026)
2. Draft Wastewater Cost of Service and Rate Study (NewGen Strategies & Solutions, October, 2026)
3. CWA_Prop 218 Notice_DRAFT-ENG-final
4. CSD_Prop 218 Notice_DRAFT-ENG-final