UTILITY BOARD
STAFF REPORT

Item 4
October 28, 2025
Regular Business

AGENDA ITEM INFORMATION

TITLE:	2026 Storm Water Rate Discussion/Recommendation	☐ Discussion Only ☒ Action Needed: ☒ Motion ☐ Ordinance ☐ Resolution
RECOMMENDED ACTION:	Review the proposed 6% utility rate increase for storm water services for fiscal year 2026.	

STAFF:	Ben Schumacher, Financial Analyst II Matt Mornick, Finance Director
COUNCIL LIAISON:	Wendy Weiker
EXHIBITS:	1. 2025-2030 Projected Storm Water Utility Cash Flow

BACKGROUND

As part of the 2025-2026 mid-biennial budget process, staff seeks a recommendation from the Utility Board regarding the Storm Water Utility rate adjustment for the upcoming fiscal year. The operating and capital budgets presented in this memo include adopted and amended figures through May 20, 2025.

Staff from Public Works and Finance worked with an outside consultant team to update the smoothed rate model based on 2025 budget actuals through July, capital work already underway, and emerging reinvestment needs in the storm water system through the current biennium and beyond. As a result of this updated analysis, staff recommends a 6% increase to the Storm Water Utility rates for 2026 as proposed in the smoothed rate model, down 2% from the projected 2026 rate adjustment as modeled during the fall of 2024.

2025-2026 OPERATING BUDGET

The operating budget for the Storm Water Utility is presented in Table 1.

Operating Expenditures	**2023**	**2024**	**2025**	**2026**	**Percent Change**	
($ in thousands)	**Actual**	**Actual**	**Budget**	**Budget**	**24-25**	**25-26**
Salary & Benefits	$1,212	$1,145	$1,339	$1,402	16.9%	4.8%
Contractual Services	$687	$354	$565	$532	59.7%	-5.8%
Other Services and Charges	$484	$568	$781	$890	37.5%	13.8%
TOTAL	**$2,383**	**$2,067**	**$2,685**	**$2,824**	**29.9%**	**5.2%**

Table 1

The combined total employee compensation costs in 2026 are increasing 4.8% as compared to 2025. The increase is a result of two factors: first, the cost-of-living adjustment (COLA) per the City's collective bargaining agreement of 2.3% in 2026. The COLA applied in 2025 was 4.2%. Second, City staff observed high cost increases for employee benefits.

Additionally, in June 2024, the City Council adopted a new Compensation Plan (see AB 6491) with a new classification system and established salary schedule for non-represented employees, who make up approximately half of the City's workforce.

Contractual services for 2026 reflect anticipated costs for Closed Circuit Television (CCTV) stormwater pipe video inspections, catch basin cleaning & repairs, storm pipe replacement & slip lining repairs. This contracted work is critical to comply with National Pollutant Discharge Elimination System (NPDES) requirements.

Other Services and Charges include all other costs of operations including supplies, insurance, and City administration costs. Administration costs include the Storm Water Fund's share of administrative support provided by the City Attorney's Office, City Manager's Office, Finance and Human Resources staff.

On May 21, 2024, the City Council adopted a new overhead cost allocation model (see AB 6475) that was implemented citywide to allocate indirect or internal services for each allocable City program, external service, operating department, and/ or fund, including the Storm Water Utility.

DISCUSSION

CAPITAL REINVESTMENT PROJECTS

Planned capital reinvestment work in 2025 and 2026 is shown in Table 2. Capital investment costs are the primary driver of the proposed Storm Water rate increases for 2025-2030.

Storm Water Utility Capital Program 2025-2026 ($ in thousands)			
Project ID	**Description**	**2025**	**2026**
90.35.0001	Emergency SW Conveyance Replacement	$50	$52
90.35.0002	Street Related Storm Drainage Improvements	150	156
90.35.0003	Conveyence Condition Assessment	100	104
90.35.0004	Stormwater System Improvements	400	415
90.35.0005	SW Monitoring Instrumentation	60	62
90.35.0006	WMW Culvert Replacements	100	467
90.35.0007	Watercourse Condition Update	250	
90.35.0008	SB 22.1 & 25b.2 Watercourse Improvements	380	
90.35.0009	SB 46a.3 Watercourse Improvements		544
90.35.0014	SB 23.2 Watercourse Improvements	300	
90.35.0015	SB 25b Neighborhood Drainage Improvements	425	
90.35.0016	SB 46a.3 Watercourse Stabilization	50	
90.35.0017	SB 29.3 Watercourse Stabilization	132	
90.35.0018	SB 18C Drainage Improvement	50	
Storm Water Utility CIP Total		**$2,447**	**$1,799**

Table 2

STORM WATER RATE PROPOSAL

In the fall of 2024, staff projected a 2026 local storm water rate adjustment of 8.0%. At the time, this projection was based on partially completed year of 2024 expenditure actuals and a fully staffed project manager/engineering team in the Public Works department.

Since then, staff from Public Works and Finance worked with the outside consultant team to update the smoothed rate model based on 2025 budget actuals through July, capital work already underway, and emerging reinvestment needs for the sewer conveyance system through the current biennium and beyond. Staff also incorporated a realization factor, which take into account staffing levels in the current biennium and estimates expenditure actuals based on historical and current year actuals relative to the total authorized budget between 2025 through 2030.

As a result of this analysis, staff recommends a reduced 6.0% Storm Water Utility rate adjustment for 2026.

The Storm Water fund has an operating reserve target of 45 days of operating and maintenance costs, and a capital reserve target of 1.0 percent of capital assets. The 1% target was established by the Utility Board in 2006 as a prudent measure to protect the City's multi-million-dollar investments in its utility assets. This 1-2% capital reserve target enables the City to support future replacement needs without extraordinary rate increases, while recognizing the responsibility of new development, existing customers, and future customers to fund both current and future reinvestment needs.

The 6.0% rate increase in 2026 will ensure that the Storm Water fund has adequate resources to complete the critical capital project work detailed above and into the future, as well as meet established guidelines, as highlighted in Exhibit 1. Exhibit 1 also details an additional LTGO debt issuance estimated to be $2 M in 2027.

Table 3 provides a summary comparing proposed rates from the most recent rate model updates (2020-2024) as compared to the "2025-2026 Rate Proposal" presented in the second row.

Rate Recommendations	2023	2024	2025	2026	2027	2028	2029	2030
2025-2026 Rate Proposal			8.00%	**6.00%**	6.00%	6.00%	6.00%	6.00%
2023-2024 Rate Update	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%		
2021-2022 Rate Update	5.50%	5.50%	5.50%	5.50%				
2020 Rate Update	3.20%	3.20%						

Table 3

NEXT STEPS

Staff seeks to answer the Utility Board's questions about the 2026 rate adjustment, follow up with additional information as required, and receive the Utility Board's recommendation for the adoption of the proposed utility rate adjustment for storm water service for fiscal year 2026.

The 2026 Storm Water Utility rate adjustment will be included in the City's fee schedule update at the December 2, 2025 City Council meeting. Staff will return during the 2027-2028 budget process with new information to inform potential annual rate adjustments for fiscal year 2027 and beyond.

RECOMMENDED ACTION

Accept staff's recommendation of a 6.0% utility rate increase for storm water services for fiscal year 2026.