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DATE: June 2, 2025

TO: President and Members of the Estero Municipal Improvement District (EMID) Board of Directors

VIA: Stefan Chatwin, District Manager
Marlene Subhashini, Assistant District Manager

FROM: Andrew Brozyna, Public Works Director
Nate Cruz, Finance Director

DEPARTMENT: Public Works

SUBJECT: ESTABLISHING UPDATED WATER RATES EFFECTIVE JULY 1, 2025, WITH ANNUAL ADJUSTMENTS EACH JULY 1 THROUGH JULY 1, 2029

RECOMMENDATION

It is recommended that the Board of Directors of the Estero Municipal Improvement District (EMID):

1. Open the Public Hearing to receive comments on proposed updated Water Rates effective July 1, 2025, with annual adjustments each July 1 through 2029; and
2. After considering the staff report and the public testimony and determining that a majority protest does not exist, adopt the attached resolution amending the Master Fees and Service Charges Schedule establishing new Water Rates effective July 1, 2025.

EXECUTIVE SUMMARY

On March 24, 2025, the EMID Board held a Budget Study Session to consider an analysis of proposed water rates for a five-year period from FY 2025-2026 to FY 2029-2030 conducted by EMID's rate consultant, Bartle Wells Associates (BWA). Pursuant to direction received from the EMID Board at that meeting, staff prepared a public

hearing notice of the proposed adoption of maximum new water rates. At that meeting, the EMID Board also approved Rate Setting Procedures to allow property owners administrative remedies for submitting written objections to the proposed rates, in accordance with Government Code sections 53759.1 and 53759.2 (known as “AB 2257”).

In conformance with Proposition 218 and AB 2257, a public hearing notice with the proposed rates was mailed to all record property owners and customers of record on March 31, 2025.

The recommended rates include the following:

- FY 2025-2026 – 3% volumetric rate increase and a 8.5% meter charge increase. The average bill for a single-family home would increase by 5% which is equal to \$4.05 per month.
- FY 2026-2027- 3.2% volumetric rate increase and a 8% meter charge increase. The average bill for a single-family home would increase by 5% which is equal to \$4.26 a month per month.
- FY 2027-2028 – 3.8% volumetric rate increase and a 7% meter charge increase. The average bill for a single-family home would increase by 5% which is equal to \$4.51 per month.
- FY 2028-2029 – 3.6% volumetric rate increase and a 7.1% meter charge increase. The average bill for a single-family home would increase by 5% which is equal to \$4.71 per month.
- FY 2029-2030 – 3.6% volumetric rate increase and a 7% meter charge increase. The average bill for a single-family home would increase by 5% which is equal to \$4.94 per month.

The proposed water rates are designed to cover District operating and capital costs and maintain the operating fund above the 25% target reserve level.

BACKGROUND

EMID provides water service to a population of approximately 36,500. Over 80% of all water accounts utilize the smallest meter size (3/4”) which is typically associated with single family residential accounts. There are approximately 8,295 water accounts, including both water service and private fire protection service accounts.

Water bills are composed of a fixed monthly charge for water system availability that is based upon the water meter size for domestic accounts and the fire line size for fire line accounts, and a consumption charge calculated on the metered water use based on the cost of the water that is delivered to the account.

On March 24, 2025, the EMID Board held a Budget Study Session regarding updated water rates to be effective July 1, 2025, with annual increases through July 1, 2029. At the Budget Study Session, the EMID Board considered information developed by EMID's rate consultant, BWA, and approved the Rate Setting Procedures which incorporate and implement the requirements contained in Proposition 218 and the

procedures by which property owners/rate payers are required to exhaust administrative remedies as set forth in Government Code section 53759.1 and 53759.2 (AB 2257).

Pursuant to that direction and in conformance with Proposition 218, staff prepared and mailed the public hearing notice with the proposed rates by March 31, 2025.

ANALYSIS

The proposed rates will provide adequate revenue for operations, capital expenditures and transfers, account for water loss, and maintain the operating fund balance at or above target levels.

The primary drivers for the proposed rates include the following:

- Cost of Wholesale Water from the San Francisco Public Utilities Commission (SFPUC). The primary driver for the proposed rate increases is projected increases in the SFPUC wholesale water rate. At the time of the Rate Study development, the SFPUC, the sole source of water supply for the District, projected the current rate of \$5.67 per hundred cubic feet (hcf, also abbreviated as ccf) in FY 2025 will increase 2.1% to \$5.79 in FY 2026, 1% to \$5.85 in FY 2027, 1% to \$5.91 in FY 2028, 5.2% to \$6.22 in FY 2029, and 8% to \$6.72 in FY 2030. The FY 2026 rate was approved by SFPUC on May 13 at \$5.80, the one cent difference does not result in a change to the EMID rates. The proposed water rates are designed to phase in District rate increases over time to avoid sharp increases. Any increases implemented by SFPUC above these values are recommended to be passed through to District customers via Government Code section 53756, referred to as the “pass through” adjustment. EMID customers will be notified of any such pass-through adjustments at least 30 days prior to the change in rates (on or after each July 1 of the 5-year period). The rate model includes an escalator estimating SFPUC water use charges, and the pass through provision would only be implemented if the wholesale rate increase was in excess of the estimate. If the rate comes in lower than anticipated, the additional proceeds would be transferred to reserves to help smooth rates in the future.
- Bay Area Water Supply and Conservation Agency (BAWSCA) Surcharge. The District will continue to make annual payments to BAWSCA for capital improvement costs associated with the \$4.8 billion Water System Improvement Project (WSIP) to upgrade the Hetch Hetchy Water System. The bond surcharge for each BAWSCA agency is typically a fixed annual amount that is adopted each fiscal year by the BAWSCA Board to ensure collection of necessary revenue to pay that year’s obligated debt service.
- System Water Losses. Water utilities incur real losses from pipeline leakage and apparent losses when customer water consumption is not properly

measured or billed. The current water rates are calculated with an assumption of 10.0% water loss based on the Water Division's records. The proposed water rates are designed to cover the water loss and fund projects, such as water meter replacements, that reduce water loss.

- **Capital Funding.** EMID's strategy for funding long-term capital water improvements calls for an annual transfer from water operating revenues to the City's Capital Improvement Fund to fund projects over the next 15 years. The proposed rate projections allocate approximately \$12 million to the Capital Improvement Account over the next five years to support critical water infrastructure projects, including water tank lining, structural retrofitting, and an emergency bypass transmission main. In addition to annual transfers, BWA anticipates the need to secure \$4 million in short term debt financing in Fiscal Year 2027- 2028 to provide the necessary cash to fund these improvements. While the specific funding source has not yet been identified, current planning assumptions estimate a 30-year loan at a 6% interest rate with 1.5% transaction costs. By securing financing instead of immediately raising rates, the EMID can ensure that cash flow needs are met while allowing funds to be replenished over time. Should staff determine that debt financing is recommended in FY 2027-2028, the recommendation will be presented to the EMID Board for approval.
- **Conservation Costs.** District staff is recommending that the EMID Board of Directors continue to allocate \$200,000 annually to the Water Sustainability Rebate Program to encourage voluntary water conservation efforts and provide funding for the District water leakage detection and repair program.
- **Operational Costs.** BWA projections for operations and maintenance costs assume 4.0% annual increases in personnel costs, and an allowance for additional staff positions that may be needed over the 5-year term to support water enterprise projects subject to EMID Board approval. Annual increases of 2.5% in all other costs (excluding wholesale water purchases) have been assumed to keep revenues in line with operating expenses.

Table 7 from the BWA analysis provides a comparison of current water rates to proposed rates.

Table 7
 City of Foster City / Estero Municipal Improvement District
 Proposed Water Rates - Two Tier Hybrid Model

		TWO TIER HYBRID MODEL									
Recommended Rates	Current Rates	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Monthly Meter Charge											
3/4"	\$28.85	\$31.30	\$33.80	\$36.15	\$38.70	\$41.40	\$43.05	\$44.75	\$46.55	\$48.40	\$50.35
1"	48.08	52.17	56.33	60.25	64.50	69.00	71.75	74.58	77.58	80.67	83.92
1-1/2"	115.40	125.20	135.20	144.60	154.80	165.60	172.20	179.00	186.20	193.60	201.40
2"	153.87	166.93	180.27	192.80	206.40	220.80	229.60	238.67	248.27	258.13	268.53
3"	336.58	365.17	394.33	421.75	451.50	483.00	502.25	522.08	543.08	564.67	587.42
4"	605.85	657.30	709.80	759.15	812.70	869.40	904.05	939.75	977.55	1,016.40	1,057.35
6"	1,346.33	1,460.67	1,577.33	1,687.00	1,806.00	1,932.00	2,009.00	2,088.33	2,172.33	2,258.67	2,349.67
8" or greater	2,308.00	2,504.00	2,704.00	2,892.00	3,096.00	3,312.00	3,444.00	3,580.00	3,724.00	3,872.00	4,028.00
Conservation-Based Water Rate Model (based on bi-monthly allotments)*											
Single Family Residential											
Tier 1 0-20 per ccf	6.60	6.80	7.02	7.29	7.56	7.84	8.17	8.44	8.72	9.01	9.31
Tier 2 Over 20 ccf	7.33	7.56	7.79	8.08	8.34	8.59	8.92	9.19	9.46	9.75	10.05
Multi-Family Residential (per living unit)											
Tier 1 0-10 ccf per living unit	6.60	6.80	7.02	7.29	7.56	7.84	8.17	8.44	8.72	9.01	9.31
Tier 2 Over 10 ccf per living unit	7.36	7.54	7.77	8.06	8.32	8.57	8.90	9.17	9.44	9.73	10.03
Irrigation Customers											
Tier 1 <=100% of annual budget	6.60	6.80	7.02	7.29	7.56	7.84	8.17	8.44	8.72	9.01	9.31
Tier 2 >100% of annual budget	7.80	7.76	8.00	8.29	8.55	8.79	9.12	9.39	9.66	9.95	10.24
Commercial and Fire Line Customers											
Base Consumption Rate	6.72	6.92	7.14	7.41	7.68	7.96	8.29	8.56	8.83	9.12	9.42
Monthly Fire Meter Charge											
1-1/2" & below	40.39	43.82	47.32	50.61	54.18	57.96	60.27	62.65	65.17	67.76	70.49
2"	53.95	58.53	63.21	67.60	72.37	77.42	80.50	83.68	87.05	90.51	94.15
3"	117.71	127.70	137.90	147.49	157.90	168.91	175.64	182.58	189.92	197.47	205.43
4"	212.05	230.06	248.43	265.70	284.45	304.29	316.42	328.91	342.14	355.74	370.07
6"	471.12	511.13	551.95	590.33	631.97	676.06	703.01	730.77	760.16	790.37	822.22
8" or greater	807.80	876.40	946.40	1,012.20	1,083.60	1,159.20	1,205.40	1,253.00	1,303.40	1,355.20	1,409.80

*Recommended SFPUC wholesale rate pass through formula: (Additional SFPUC \$ Amount Per HCF Above Study) / (0.9) added to each volumetric rate.
 0.9 Accounts for 10% Water loss

The EMID Board has implemented a long-term rate smoothing model that considers long-range projections for wholesale water rates and significant capital improvements and maintains rate increases at no greater than 10% per year. The proposed rates were prepared using a 15-year model, which has proven to be successful in dampening rate spikes.

Table 9 - Projected Water Rate Impacts provides projections for future rate impacts for single family ratepayers.

Table 9
 Foster City / Estero Municipal Improvement District
 Projected Water Rate Impacts

Projected Water Bills	Current	Fiscal Year Ending June 30					Extended Year Projection				
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Two Tier Hybrid Model											
Single Family Residential Monthly Rate	\$81.65	\$85.70	\$89.96	\$94.47	\$99.18	\$104.12	\$108.41	\$112.27	\$116.31	\$120.48	\$124.83
\$ Increase		4.05	4.26	4.51	4.71	4.94	4.29	3.86	4.04	4.17	4.35
% Increase		5.0%	5.0%	5.0%	5.0%	5.0%	4.1%	3.6%	3.6%	3.6%	3.6%

Based on Single Family Residential Use of 8 ccf

Rate Survey

BWA surveyed communities along the San Francisco Peninsula to compare EMID's typical residential monthly water bill with neighboring communities. Since it is unknown

what the comparator agencies will be proposing for FY 2025-2026, the District compares its current monthly residential water bills to the current rates of the neighboring agencies. The survey indicates the District's water rates remain among the lowest on the Peninsula. For FY 2024-2025, the average monthly water bill for the region (based on 8 hcf of water for monthly usage) is \$116.09 per month and the District's average monthly residential water bill is \$81.65 per month, or about 30% less than the current average of neighboring communities. Since the proposed increase is also less than the FY 2025 average, it is likely that EMID customers will continue to pay lower than average water bills.

Public Notice

Article XIII D, Section 6(a), added to the Constitution by Proposition 218, allows agencies to adopt property-related fees, like water rates, if they issue a notice of public hearing to all ratepayers no less than forty-five (45) days prior to the date of the public hearing. In addition to ongoing compliance with the requirements of Proposition 218, the Rate Setting Procedures approved at the March 24, 2025 EMID Board meeting also incorporate the optional requirements under AB 2257 (Government Code sections 53759.1 and 53759.2, effective January 1, 2025, AB 2257). AB 2257 allows EMID to establish a supplemental process intended to provide an opportunity for property owners to submit a written *objection* regarding a new or increased water rate to EMID's attention early in the rate consideration process. Accordingly, this provides an opportunity for EMID to address or resolve any objections before the EMID Board makes a final decision on whether to adopt a proposed rate pursuant to Proposition 218. Unlike written *protests* under Proposition 218, written *objections* under AB 2257 must specify the grounds for alleging the proposed rates do not comply with Proposition 218, among other requirements. Since written objections are required to provide more detail and be submitted earlier than written protests, written objections will also serve as written protests; however, written protests will not serve as written objections.

Instituting AB 2257 prohibits a person or entity from bringing a judicial action or proceeding alleging noncompliance with Proposition 218 (Article XIII D of the California Constitution) for those water rates, unless that person or entity has timely submitted to EMID a written objection to that rate that specifies the grounds for alleging noncompliance with Proposition 218.

Attachment 3 is the Mailing Transaction Receipt for the Notice of Public Hearing that was prepared and mailed out by March 31, 2025, to property owners of record and non-owner account holders served by EMID. EMID may adopt rates lower than the rates included in the Proposition 218 public hearing notice, but it may not adopt rates higher than those in the public hearing notice.

Per the requirements of Proposition 218, if more than a majority of parcels receiving water services protest any proposed rate increase, the EMID Board may not implement the increases. The City Clerk/District Secretary may only count the submitted written protests. As of May 19, 2025, the District had received two (2) written protests. Protests may be submitted up to the close of the Public Hearing. A final number of protests will be reported at the EMID Board meeting, and if there is not a majority protest, then the

EMID Board may adopt the noticed rates. The deadline for objections was set as May 15, 2025. No written objections have been received.

Public Notices for this meeting were advertised in compliance with applicable State statutes and local ordinances. Ratepayers were notified of the proposed water rate increases by mail. If the EMID Board approves the proposed water rates, no further notices will be sent to ratepayers other than a note on the bills indicating that rates were approved and will be effective on July 1, 2025, and that more information can be found on the District's website or by calling the District. Thereafter, for each annual update to the water rates authorized by the recommended resolution through July 1, 2029, a supplemental note on the bill will be provided by the District to rate payers at least 30 days prior to the effective date of each update.

CALIFORNIA ENVIRONMENTAL QUALITY ACT

- CEQA Guidelines Section 15273 – Rates, Tolls, Fares, and Charges
- Exempt per General Rule, Section 15061 (b) (3)

FISCAL IMPACT

Proposed water rates will cover the projected system expenditures while adhering to budget policy objectives established by the EMID Board related to enterprise funds. All fiscal impacts for the water system are borne by water system customers. There is no General Fund impact.

Staff prepared the attached resolutions to incorporate the rate changes into the Master Fees and Service Charge Schedule by reference, which were adopted on April 21, 2025. The proposed rates are based upon the data that was reviewed by, and direction received from, the EMID Board at its March 24, 2025 meeting.

CITY COUNCIL VISION, MISSION, AND VALUE/PRIORITY AREA

Facilities and Infrastructure
Innovation and Sustainability
Smart Planning, Development, and the Local Economy

ATTACHMENTS:

Attachment 1 – Resolution
Exhibit A – Bartle Wells Associates Water Rate Study Analysis
Exhibit B – Rate Setting Procedures
Exhibit C – Prop 218 Notice
Exhibit D – Water Rate Schedule
Attachment 2 – Mailing Transaction Receipt