



REVISED

NOTICE OF SPECIAL MEETING

Pursuant to Section 54956 of the Government Code of the State of California, a Special meeting of the **Tracy City Council** is hereby called for:

Date/Time: **Tuesday, October 7, 2025, 5:00 p.m.**
(or as soon thereafter as possible)

Location: **A quorum of the City Council will be in attendance at:**
Tracy City Hall, Council Chambers
333 Civic Center Plaza, Tracy, CA 95376
and
A Council Member will attend remotely at the following location:
Hotel Galería Plaza Reforma
Hamburgo 195, Juárez
Cuauhtémoc, 06600
Cuauhtémoc, CDMX, Mexico

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy City Council on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

This meeting will be open to the public for in-person and remote participation pursuant to Government Code Section 54953(e)

For Remote Public Comment:

During the Items from the Audience, public comment will be accepted via the options listed below. If you would like to comment remotely, please follow the protocols below:

- *Comments via:*
 - **Online by visiting** <https://cityoftracyevents.webex.com> and using the following **Event Number: 2558 124 2246** and **Event Password: TracyCC**
 - ***If you would like to participate in the public comment anonymously***, you may submit your comment via phone or in WebEx by typing “Anonymous” when prompted to provide a First and Last Name and inserting Anonymous@example.com when prompted to provide an email address.
 - Join by phone by dialing +1-408-418-9388, enter 25581242246#8722922# Press *3 to raise the Hand icon to speak on an item.
- *Protocols for commenting via WebEx:*
 - *If you wish to comment under “Items from the Audience/Public Comment” portion of the agenda:*
 - *Listen for the Mayor to open “Items from the Audience/Public Comment,” then raise your hand to speak by clicking on the Hand icon on the Participants panel to the right of your screen.*
 - *If you no longer wish to comment, you may lower your hand by clicking on the Hand icon again.*
 - *Comments for the “Items from the Audience/Public Comment” will be accepted until the public comment period is closed.*

1. Call to Order
2. Actions, by Motion, of City Council Pursuant to AB 2449, If Any
3. Roll Call and Declaration of Conflicts
4. Items from the Audience - *In accordance with Council Meeting Protocols and Rules of Procedure*, adopted by Resolution No. 2019-240, and last amended by Resolution No. 2021-049, a five-minute maximum time limit per speaker will apply to all individuals speaking during "Items from the Audience/Public Comment." For non-agendized items, Council Members may briefly respond to statements made or questions posed by individuals during public comment; ask questions for clarification; direct the individual to the appropriate staff member; or request that the matter be placed on a future agenda or that staff provide additional information to Council.
5. WORKSHOP ITEMS
 - 5.A. Staff recommends that the City Council:
 1. Conduct a workshop on the 2024 water rate and revenue study.
 2. Discuss and provide directions on the 2024 water rate and revenue study.
 - [5.A - Staff Report - Water Rate Study.pdf](#)
 - [5.A - Presentation - Water Rate Study.pdf](#)
6. Council Items and Comments
7. Adjournment

Posting Date: October 2, 2025

The City of Tracy is in compliance with the Americans with Disabilities Act and will make all reasonable accommodations for the disabled to participate in employment, programs, and facilities. Persons requiring assistance or auxiliary aids in order to participate, should contact the City Manager's Office at (209) 831-6000 at least 24 hours prior to the meeting.

Agenda Item 5.A

RECOMMENDATION

Staff recommends that the City Council:

- 1. Conduct a workshop on the 2024 water rate and revenue study.**
- 2. Discuss and provide directions on the 2024 water rate and revenue study.**

EXECUTIVE SUMMARY

The City of Tracy Utilities Division of the Public Works Department is responsible for the operations and maintenance of the City's public water supply and infrastructure. The City operates its Water utility as a self-supporting enterprise under the Water Fund (funds 511 and 513), which encompasses all fund revenues, operation and maintenance expenses, water supply costs, debt service requirements, capital improvement program, and other expenditures. A water rate and revenue study should be conducted every five years in order to ensure that existing rates are adequate to provide the necessary self-supporting structure of the water utility. As such, the City contracted with Black and Veatch to provide a five-year financial plan, a cost-of-service analysis, and design of new rates necessary to continue the self-supporting enterprise. This item requests that City Council through this workshop discuss and provide direction on the proposed analysis.

BACKGROUND AND LEGISLATIVE HISTORY

On August 23, 2023, Utilities Division staff followed established protocols, in accordance with Tracy Municipal Code Section 2.20.140, and conducted a Request for Proposal (RFP) to solicit experienced and qualified consultants to provide professional services for the FY2024 Water Rate and Revenue Study. On September 27, 2023, the City received three (3) proposals from Black and Veatch, Raftelis, and Bartle Wells Associates who were all qualified based on their experience, education, certification, and personnel. Black and Veatch's proposal most aligned with the City's goals to ensure a well-rounded and thorough rate and revenue study and had demonstrated the competence and professional qualifications necessary for the satisfactory performance to complete the required services. On March 5, 2024, City Council approved the award of the contract to Black and Veatch to provide these services.

The purpose of this study is (1) to project the future revenues of the Water Utility under existing rates and charges, project operating expenses and capital financing revenue requirements, and to examine the adequacy of projected revenues to meet these revenue requirements through FY 2031; (2) to allocate these revenue requirements, or costs of service, for a representative test year to the various customer types in accordance with the respective service requirements that each class places on the systems; and (3) to develop a suitable schedule of water rates that will produce revenues adequate to meet the financial needs of the utility on the basis that recognizes customer costs of service and practical bill impact considerations.

ANALYSIS

To ensure adequate information and consideration regarding the process for rate and revenue setting are fully transparent and have public input, staff along with Black and Veatch are conducting this in-person workshop. Black & Veatch are working with the City to develop a proposed financial plan over a five-year planning period beginning fiscal year 2026 and ending 2031, that will support the Water Utility's ongoing operating and capital costs, while minimizing impacts to customers.

The process for analyzing the Water Utility and ensuring that the enterprise fund is adequate to cover all associated expenditures requires not only looking back historically but looking ahead to forecast future needs. The Water Utility's financial plan encompasses all the funds revenues, operation and maintenance (O&M) expenses, water supply costs, debt service requirements, capital improvement program (CIP), and other expenditures.

The revenues incorporate projections of customer accounts and water consumption based on the City's historical data and estimates of growth. In addition, the Water Utility's forecast includes conservation goals established in the 2020 Urban Water Management Plan and Water Shortage Contingency Plan. The model further investigates the increased energy demands for the Tracy Hills Development Community in Zones 4, 5, and 6 and the recommended need for the addition of a surcharge to cover these fees.

The study reflects a balanced approach by the City to operate the Water Fund in a sustainable manner, while providing high quality services and minimizing customer bill impacts. Black and Veatch used industry standard principles for equitable cost-of-service allocations to calculate the proposed rates. The rate-setting methodology employed by Black & Veatch is consistent with industry guidelines established by AWWA's *Principles of Water Rates, Fees, and Charges*, M1 manual (M1 Manual). The manual is nationally recognized and provides recommendations and generally accepted practices in the water industry. The M1 Manual is used by rate practitioners as guidance on rate-making practices that can be used to address the unique circumstances of the communities served.

FISCAL IMPACT

The City's Water utility is primarily funded through customer revenues. A rate study is conducted to assess both operational and infrastructure requirements, ensuring that the water rates reflect the true cost of delivering reliable, high-quality service. Any future rate adjustments will also consider the need to maintain a minimum debt coverage ratio of 1.20 – an important factor in preserving the Water fund's strong credit rating and overall financial stability.

PUBLIC OUTREACH/ INTEREST

This City Council workshop serves as the first public outreach/interest in this water rate and revenue study.

COORDINATION

Public Works Utilities Division along with the Finance Department have coordinated efforts in this process.

CEQA DETERMINATION

This action is not a project under the California Environmental Quality Act (CEQA) and is therefore not subject to environmental review.

STRATEGIC PLAN

This item is in line with the City's goals and overall mission to preserve and improve the quality of life in Tracy by ensuring a safe and reliable public water supply.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council:

1. Conduct a workshop on the 2024 water rate and revenue study.
2. Discuss and provide directions on the 2024 water rate and revenue study.

Prepared by: Robin Kloepper, Management Analyst

Reviewed by: Stephanie Reyna-Hiestand, Assistant Director – Utilities
Anush Nejad, Public Works Director
Sara Castro, Finance Director
L. David Nefouse, City Attorney
Arturo M. Sanchez, Assistant City Manager

Approved by: Midori Lichtwardt, City Manager

Attachments:

Attachment A - PowerPoint Presentation by Black and Veatch

City of Tracy

Introduction to Water Rates

Greg Baird, Project Manager
Jorge Villalobos, Rate Analyst
Ann T. Bui, Project Director
October 7, 2025



Agenda

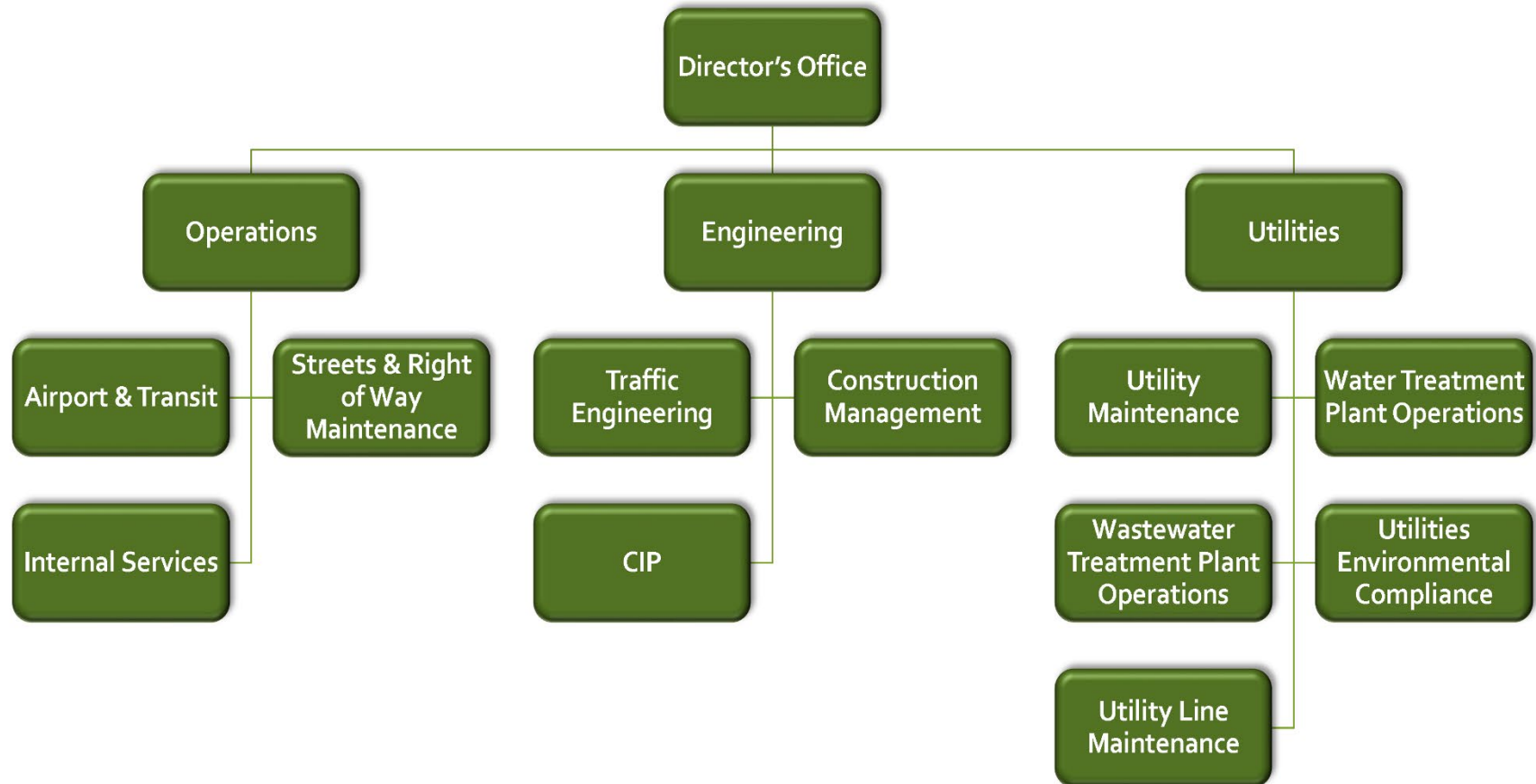
- **Water System Overview**
- **What is a Rate Study and Why is it important?**
- **Set up the Framework: Financial Policies**
- **Define overall Needs: Revenue Requirement**
- **Cost of Service Analysis (Equity Evaluation)**
- **Rate Design**
- **Questions and Discussion**

Water System Overview



Public Works Department

178 FTE



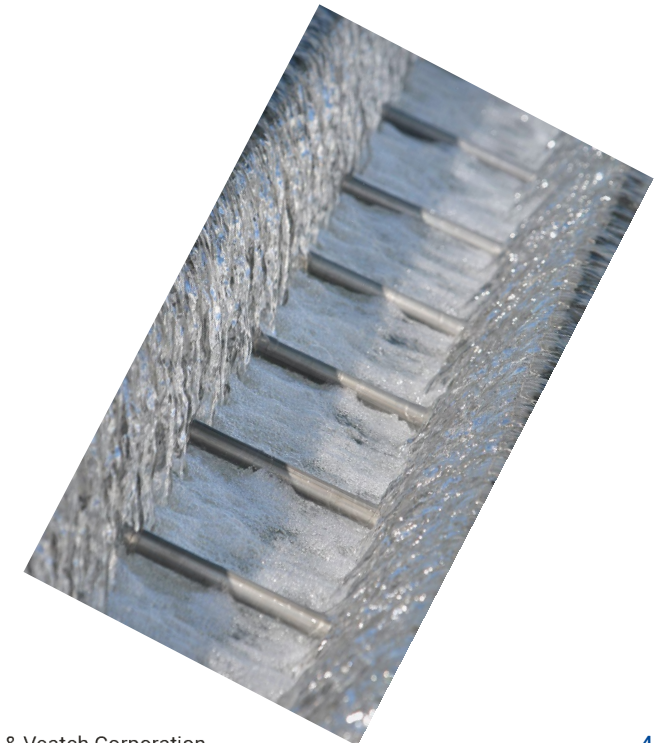
Water System

Table 7-2 Projected Water Supply in Normal Years (Responds to DWR Table 7-1)

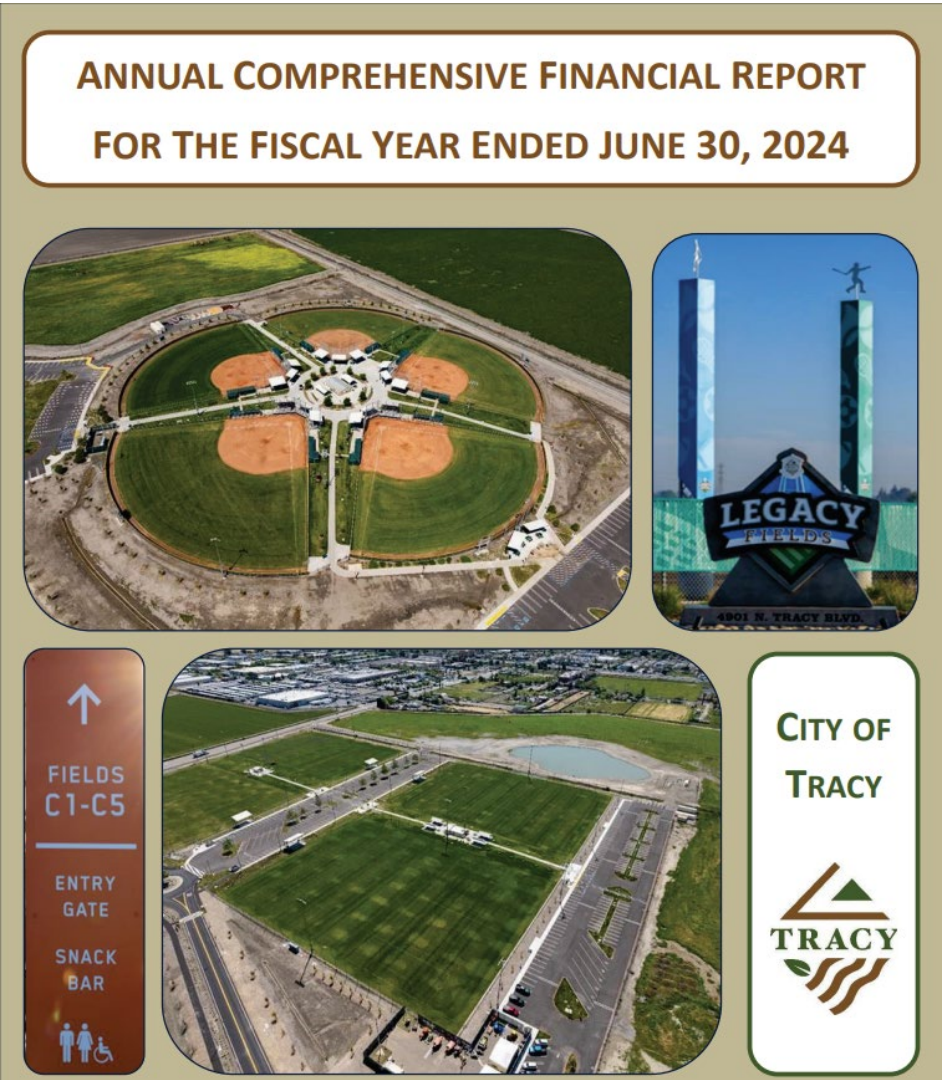
Water Supply	Allocation / Reliability	Supply Amount				
		2025	2030	2035	2040	2045
Current Potable Supplies						
CVP - USBR Tracy Contract	75% of Historical Use	4,448	4,448	4,448	4,448	4,448
CVP - USBR BCID & WSID Contract	50% of Contract	5,000	5,000	5,000	5,000	5,000
SCWSP - SSJID Contract	100% of Contract	13,135	11,120	11,120	11,120	11,120
BBID	100% of Tracy Hills Demand	800	1,500	2,000	2,500	3,300
Groundwater	100% Reliable	2,500	2,500	2,500	2,500	2,500
Anticipated Future Potable Supplies						
Recycled Water Distribution Network and Exchange	100% Reliable	0	1,925	3,500	5,000	7,500
Total Potable Supply	--	25,883	26,493	28,568	30,568	33,868
Anticipated Future Non-Potable Supplies						
Recycled Water	100% Reliable	1,000	2,067	3,133	4,200	6,300
Total Non-Potable Supply	--	1,000	2,067	3,133	4,200	6,300
Total Supply	--	26,883	28,560	31,701	34,768	40,168
NOTES:						
(a) Volumes are in units of AF.						
(b) Information provided by the City and SSJID. Recycled water and groundwater volumes assume the City investments in infrastructure and/or permitting.						

Water Infrastructure Includes:

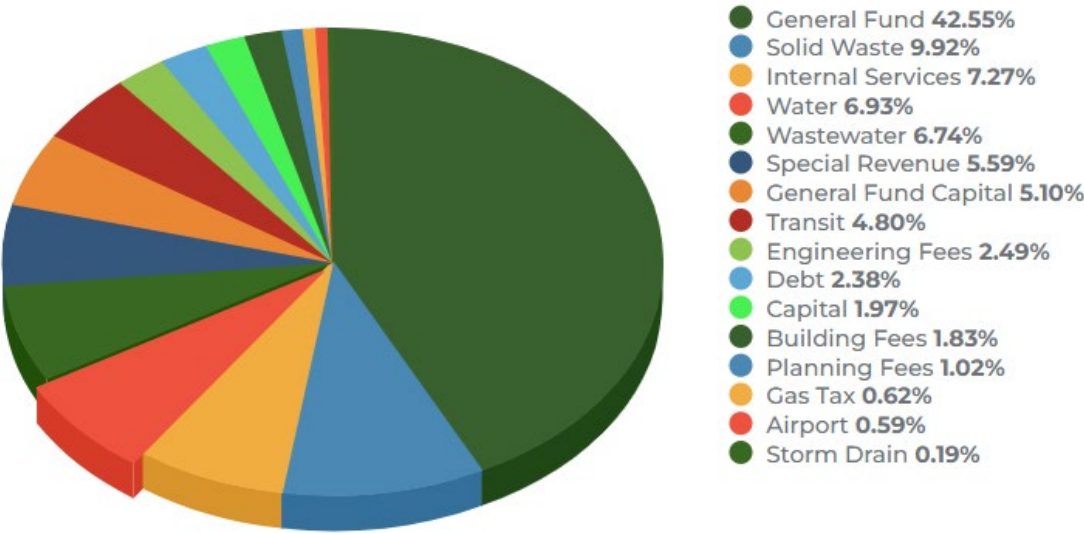
- John Jones Water Treatment Plant has a capacity to treat ~30MGD
- 5 storage reservoirs
- ~600 miles of underground pipes
- ~28,000 meters
- 8 wells
- 1 ASR



Financial – Water Enterprise Fund



Expense by Fund



Future Demand



CITY OF TRACY

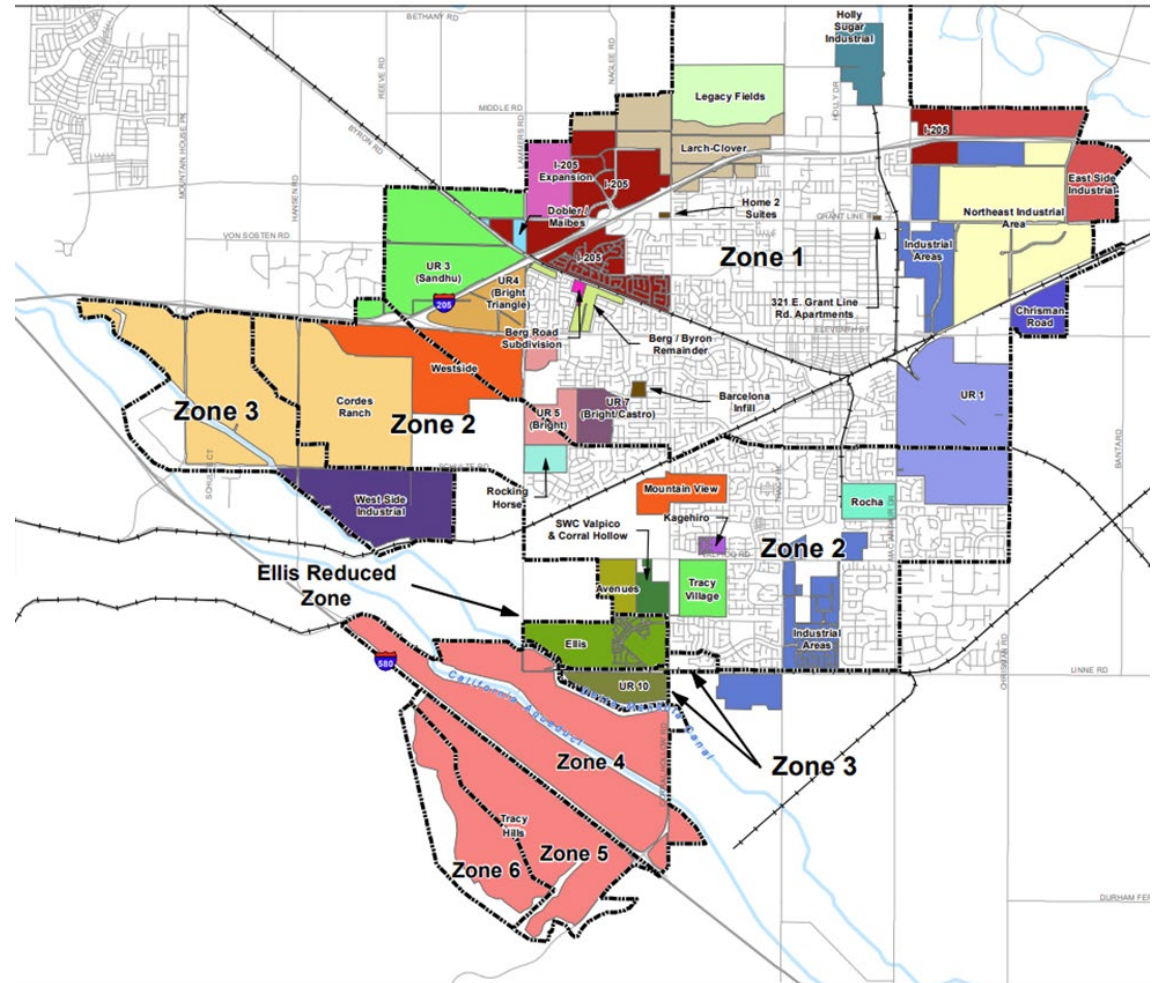
Citywide Water System Master Plan Update

FINAL REPORT

MAY 2023



Pressure Zones



Understanding Rate Studies

Purpose and Importance of Rate Studies

Ensuring Utility System Health

Rate studies maintain long-term health and integrity of utility systems by quantifying priorities and initiatives.

Evaluating Cost and Equity

They reveal true service costs and evaluate fairness among different customer groups for equitable billing.

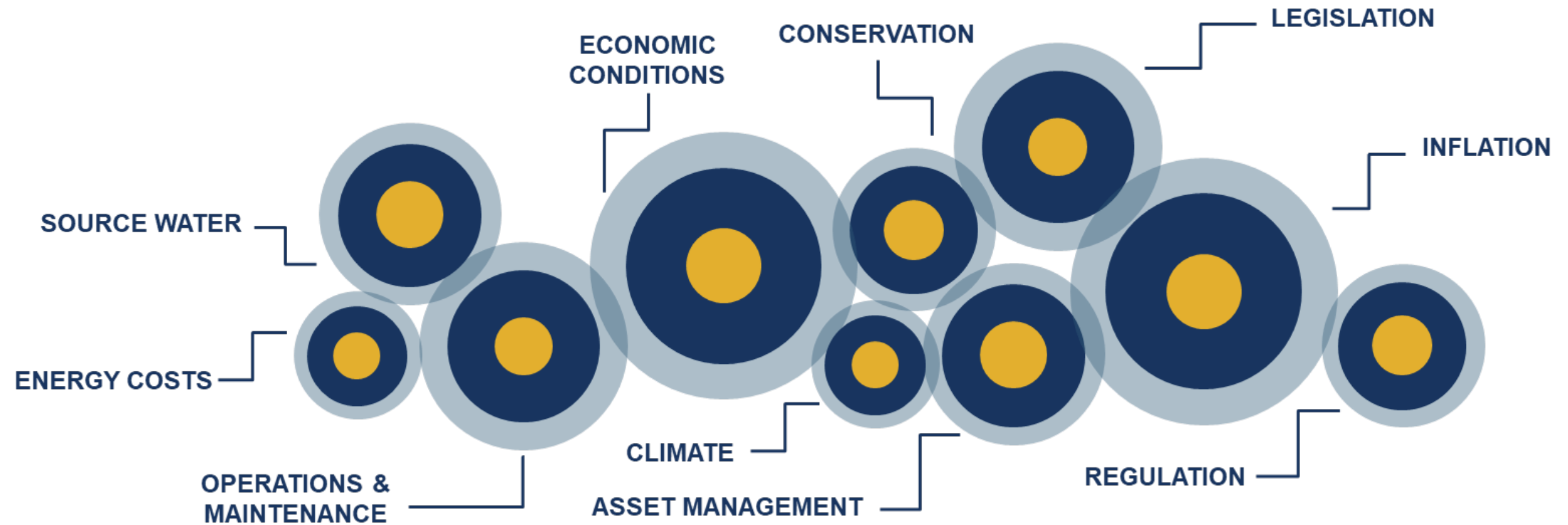
Supporting Informed Decisions

Rate studies support financial decisions and communication through integrated input from multiple departments and stakeholders.

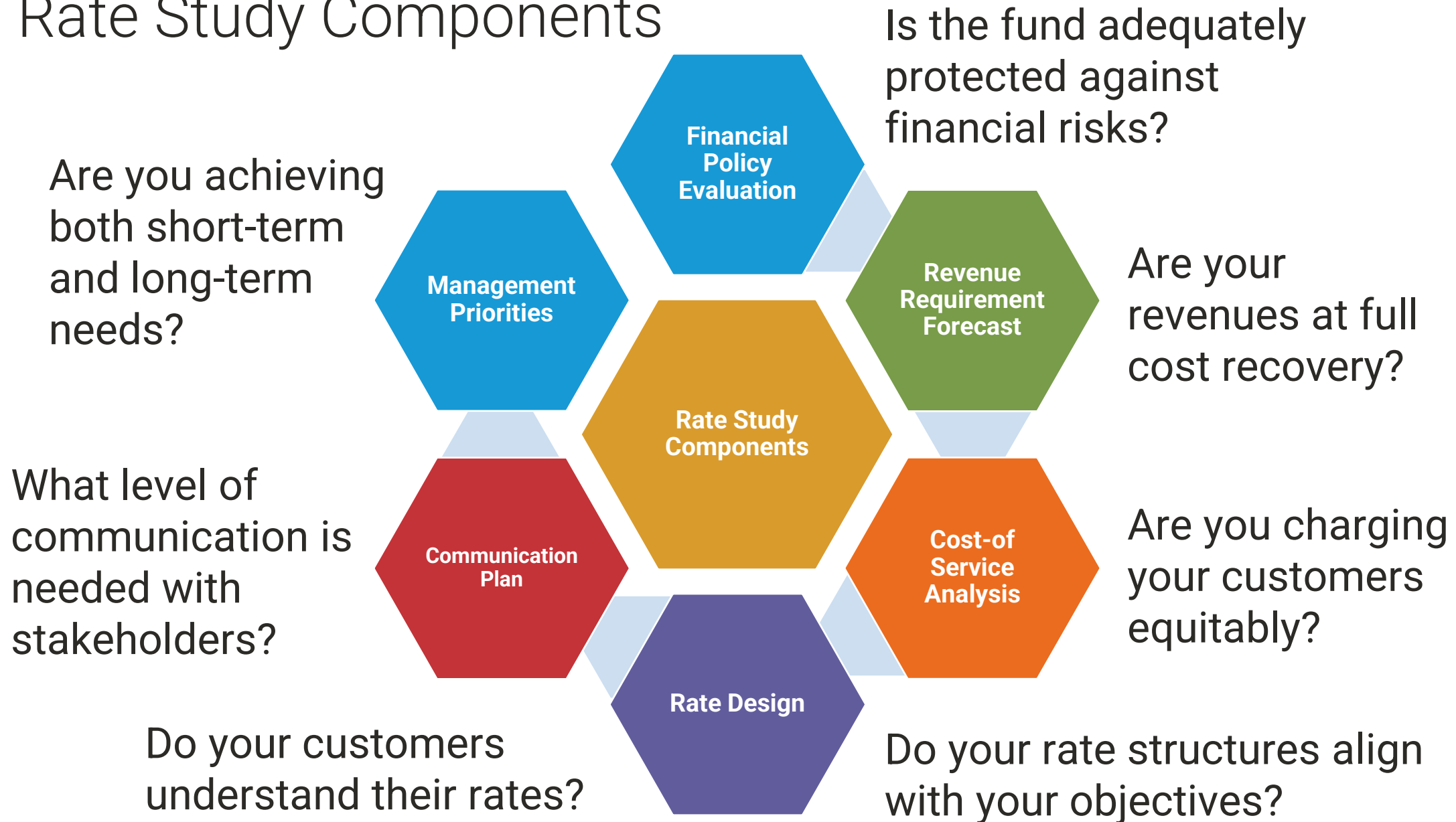


- Quantifies Policies and Priorities
- Communicates Financial Decisions
- Management and Planning Tool

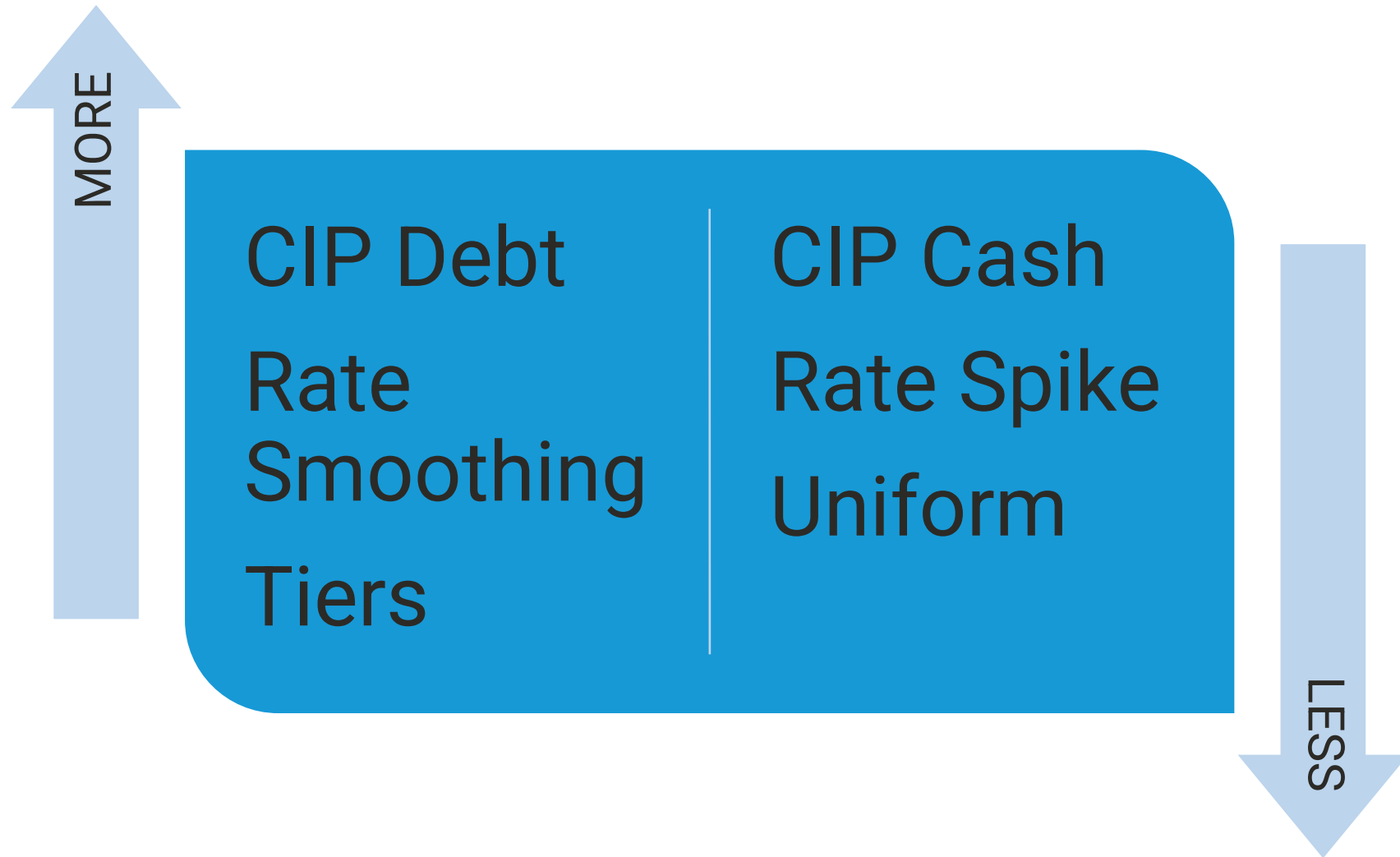
Why are Rate Studies Needed?



Rate Study Components



Understanding and Balancing Management Priorities



Financial Policies and Risk Mitigation

Establishing Financial Policies

Purpose of Financial Policies

Financial policies promote stability, manage disruptions, and guide consistent rate decisions over time.

Reserve Funds Importance

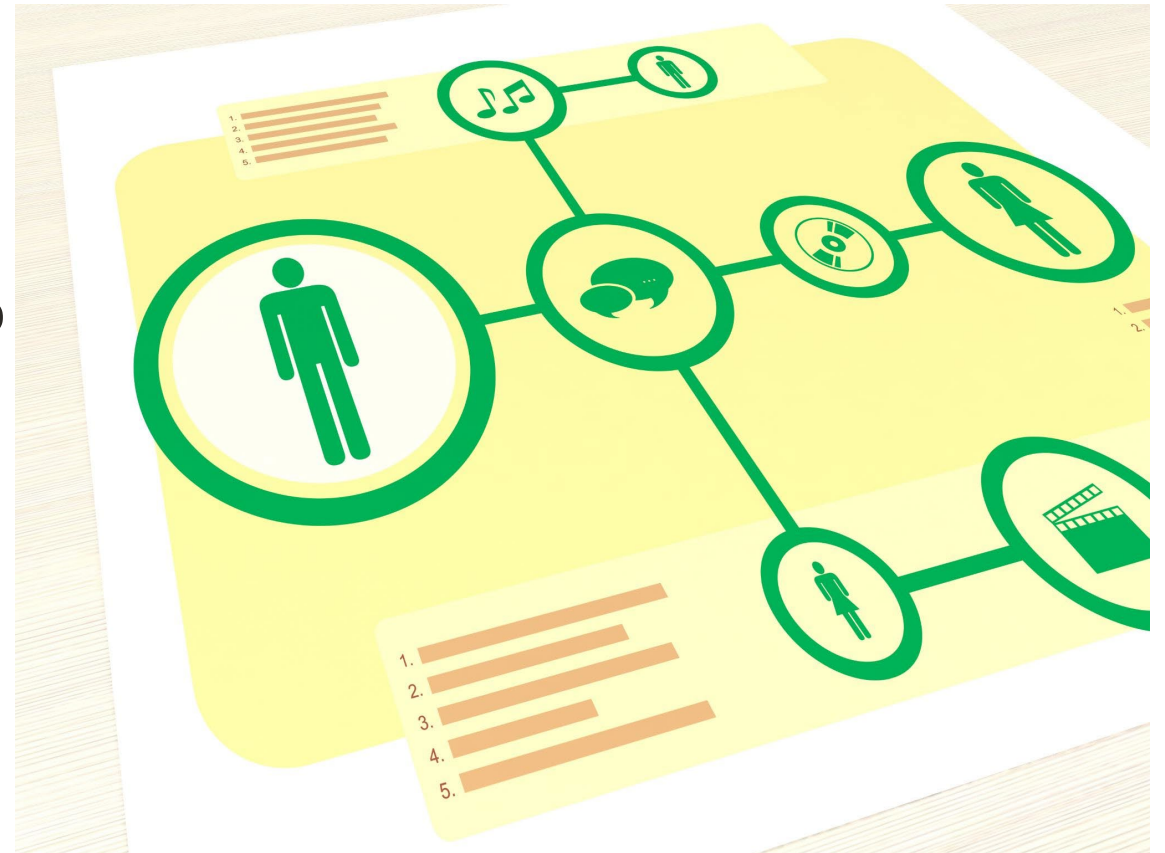
Operating and capital contingency reserves help manage cash flow and emergencies effectively.

Debt Service Coverage

Debt service coverage ensures compliance with financial covenants and maintains credit worthiness.

Rate Setting and Revenue Sufficiency

Multi-year financial planning and rate setting ensure revenues cover all obligations and reserves.



Financial Policies and Credit Agency Metrics

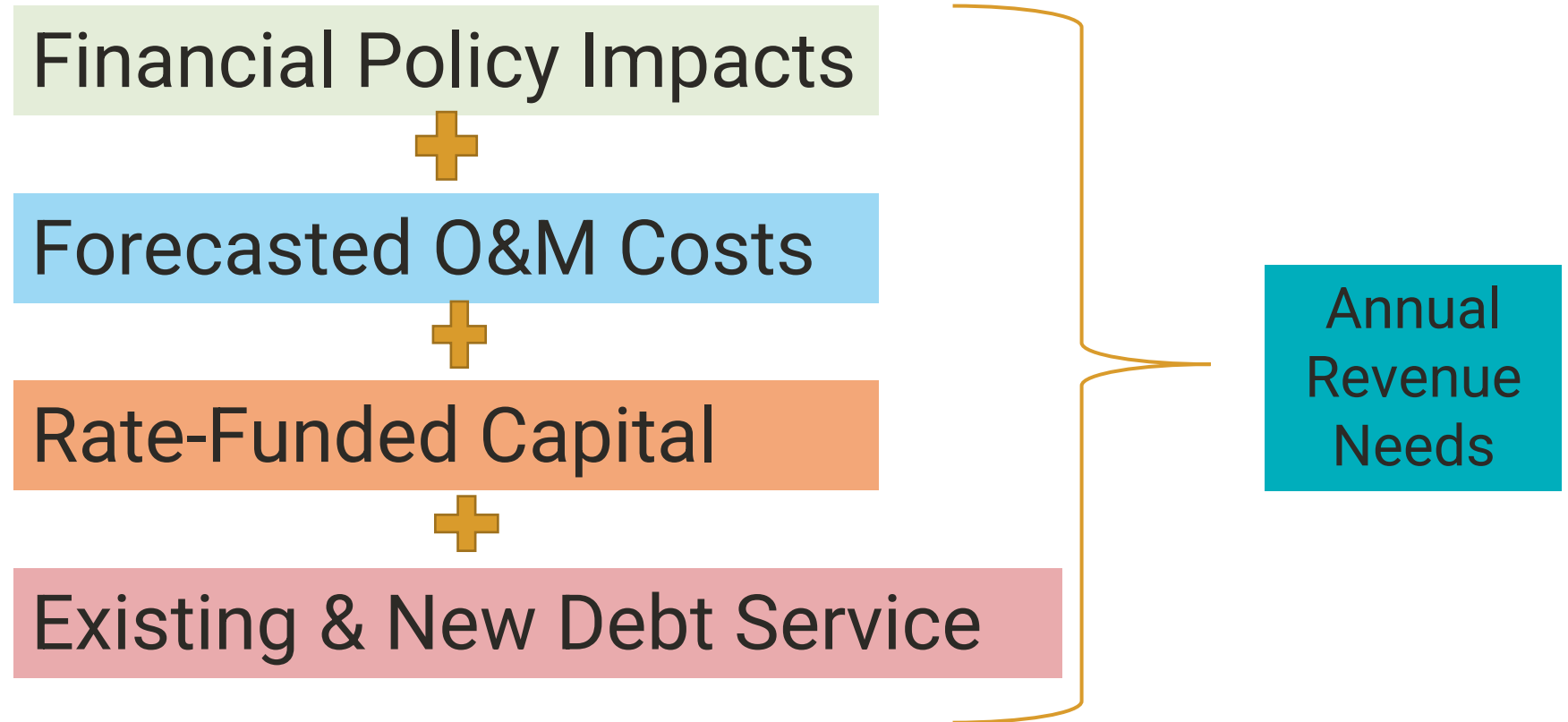
- **Aligning rate structures with priorities**
- **Risk mitigation and financial stability**

Key policy elements:

- **Operating reserves**
- **Capital contingency reserves**
- **Capital replacement funding**
- **Equipment reserves**
- **Debt service coverage**
- **Multi-year financial planning**
- **Revenue sufficiency**

Revenue Requirement

How Much Revenue is Needed?



Two Key Cost Areas

Operations & Maintenance

Regular, ongoing activities
Highly time/schedule sensitive
More predictable spending patterns
More predictable funding sources

Capital Infrastructure

Large, discrete projects
Limited time/schedule sensitivity
Less predictable spending patterns
Less predictable funding sources

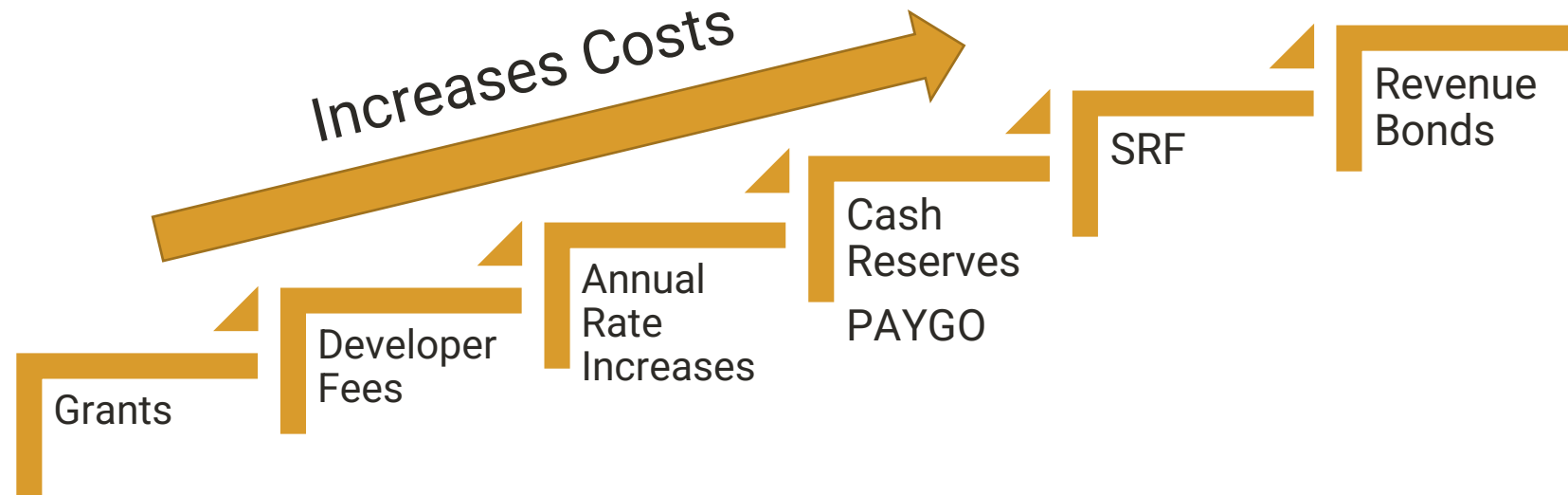


Capital Funding

Capital Funding Considerations

Understanding nature of capital projects can determine if funding should be cash, debt or a combination

- Debt financing spreads costs between existing and future ratepayers (Intergenerational equity for long-term assets)
- Existing customers should pay for assets currently in use - appropriate to rate (cash) fund



Revenue Requirement Key Assumptions

Developed a projection of water rate revenues

- Based on current adopted rates and recent customer characteristics

O&M projections are based on the adopted budget

- Projected over the 10-year period using historical inflationary factors

Capital funding analysis is based on current capital plans

- Includes long-term borrowing to fund capital needs
- Includes funding from annual rate funded capital and available reserves

Meet target financial planning metrics

- Target ending reserve levels (operating and capital funds)
- Maintain adequate debt service coverage ratios

Overview of the Revenue Requirements

Compares utility revenues to expenses

- Determines the level of revenue (rate) adjustment necessary

Uses prudent financial planning criteria

- Maintaining sufficient ending reserve balances
- Attaining target debt service coverage (DSC) ratio

Reviews a specific time period

- Five-year rate schedule; ten-year financial plan

Utility is analyzed on a “stand-alone basis”

- No transfer of funds from other City funds
- Rates support each utility’s operations and capital

Utilizes the “cash basis” methodology

- Generally accepted method for municipal utilities

Cost of Service Analysis

Overview of the Cost of Service

What is cost of service?

- Analysis to proportionally distribute the revenue requirement to the customer classes of service

Why cost of service

- Avoids interclass subsidies
- Revenues reflect costs
- Meet the proportionality requirements of Proposition 218

Objectives of Cost of Service

- Determine if subsidies exist
- Develop average unit costs

Analyzing Customer Class Cost Shares



Cost-of-Service Analysis

This analysis allocates costs based on utility data, usage, and facility needs to ensure equity.



Customer Classes and Usage

Different customer classes show unique usage patterns, peak demands, and fire flow requirements.



Equitable Rate Structures

Understanding cost shares helps design fair rates supporting sound financial planning.

Designing Rate Structures

Purpose of Rate Design

Rate design aims to recover revenue and clearly communicate pricing to customers while aligning with utility goals.

Fixed and Variable Charges

Fixed charges ensure revenue stability, while variable charges encourage conservation by varying with usage.

Rate Structure Examples

Examples include tiered rates, flat charges, and differentiated rates based on customer class and usage strength.

Financial Sustainability

- Sufficient and predictable revenue to recover costs
- Stable and predictable impacts to customers
- Adaptable to changing demands

Conservation and Efficiency

- Promote conservation and efficiency of use
- Protect natural resources

Transparency and Simplicity

- Easy to understand, explain and administer
- Compatible with billing system / meter reading

Fairness and Equity

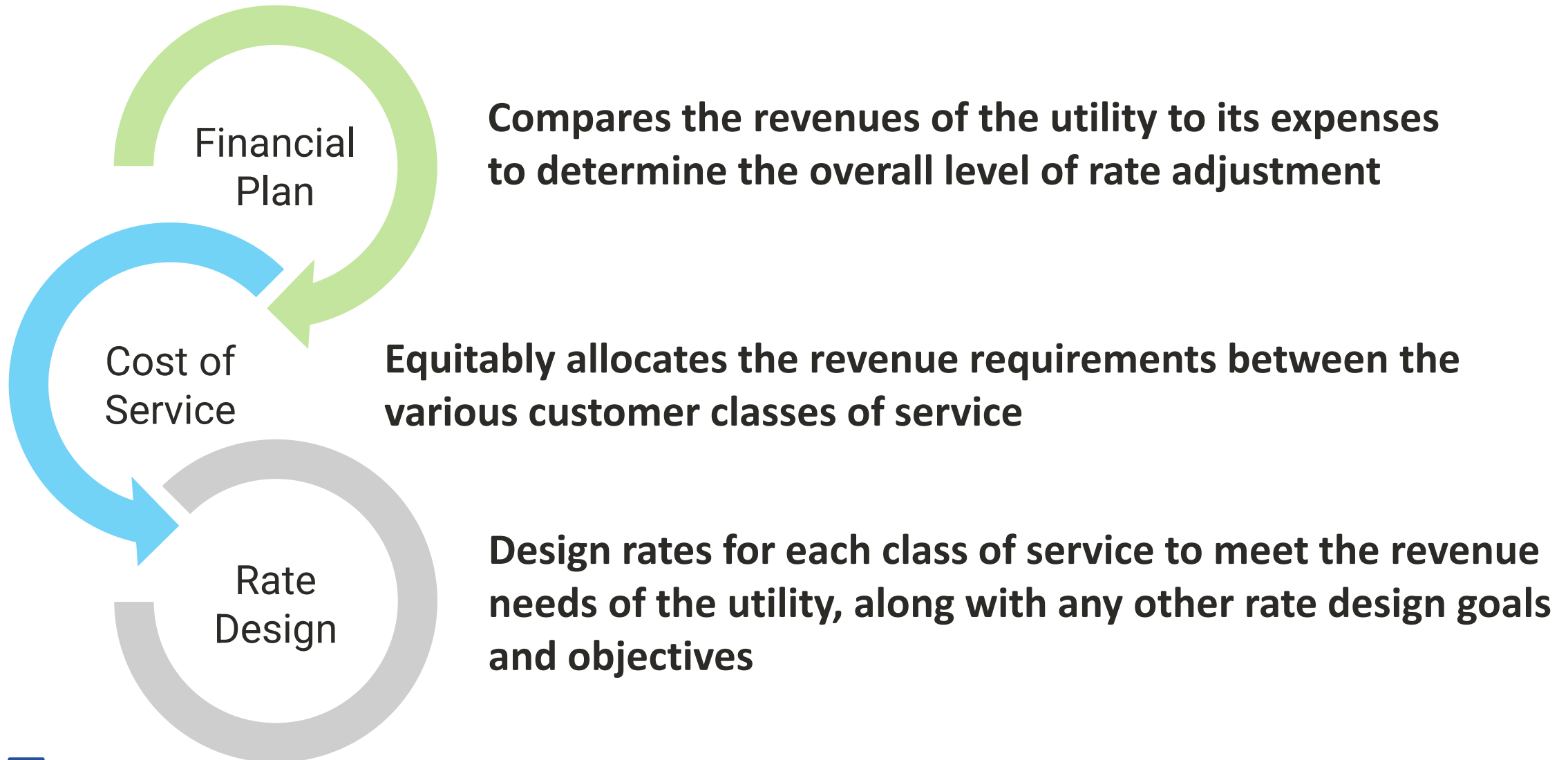
- Correlation of rates with costs
- Reflect customer usage patterns and service requirements

Affordability

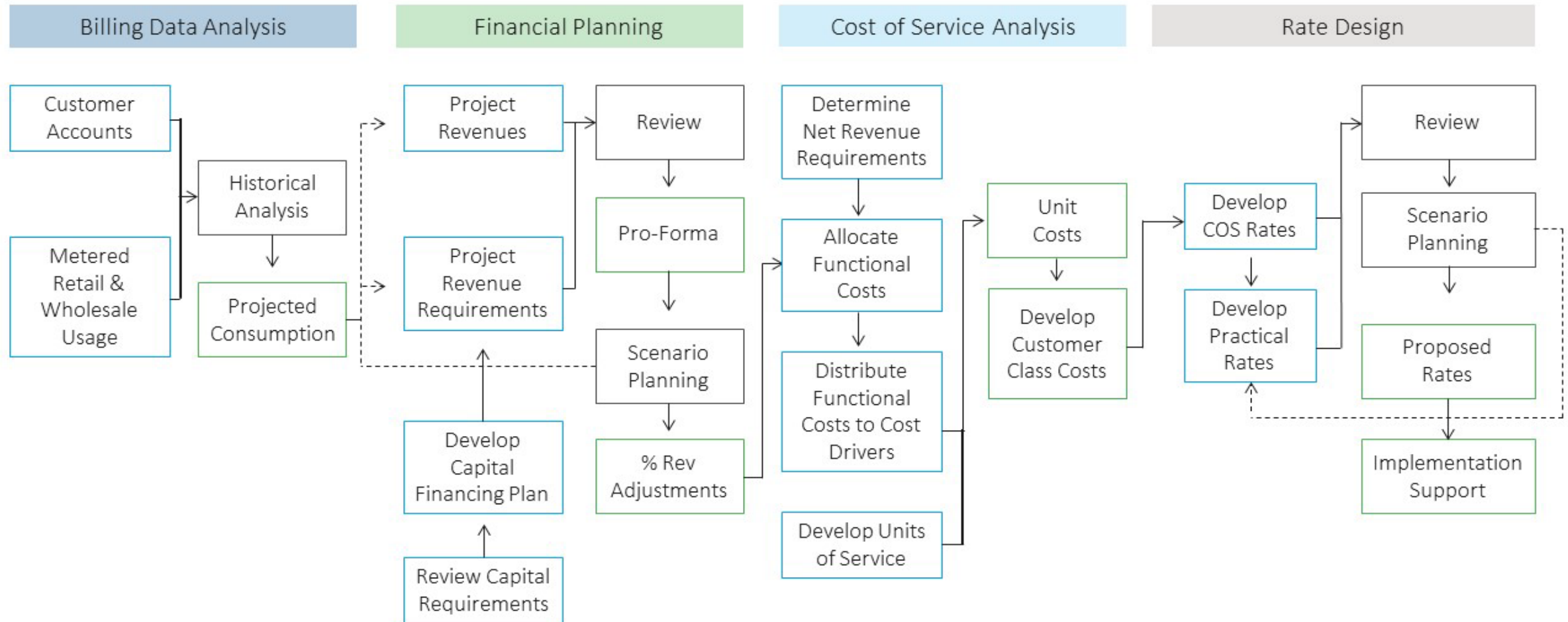
- Provide affordable water to “lifeline” users
- Support economic development / preservation

Overview of Rate Making Process

Components of Rate Setting



Rate Making Process



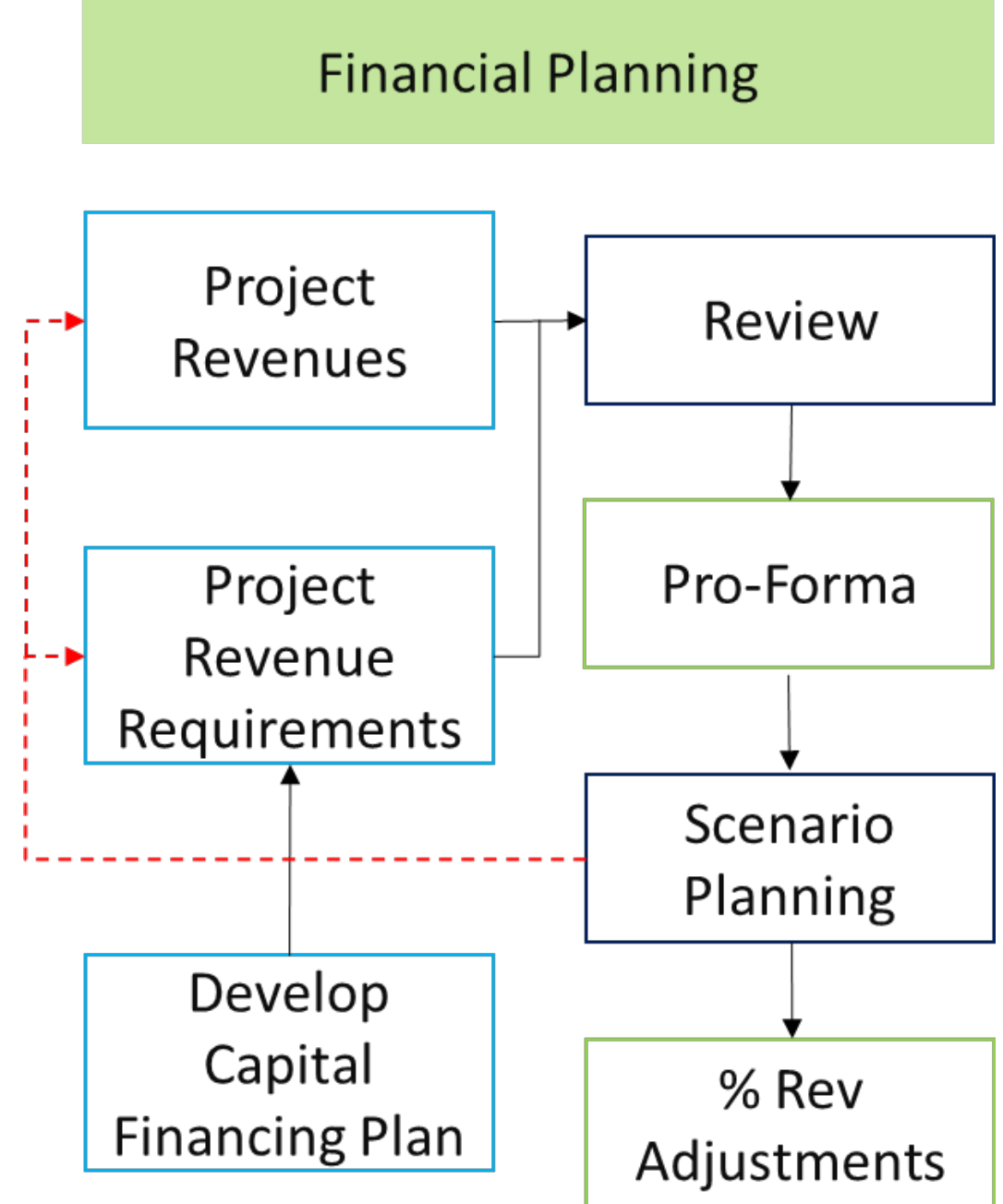
Financial Planning

Objective:

- Provide adequate funding for future utility operating and capital program needs
- Set a path for timely revenue adjustments

Considerations:

- Factors that impact revenue generation
- Factors that impact revenue requirements
- Appropriateness of operating and capital reserves
- Financial performance targets to be achieved



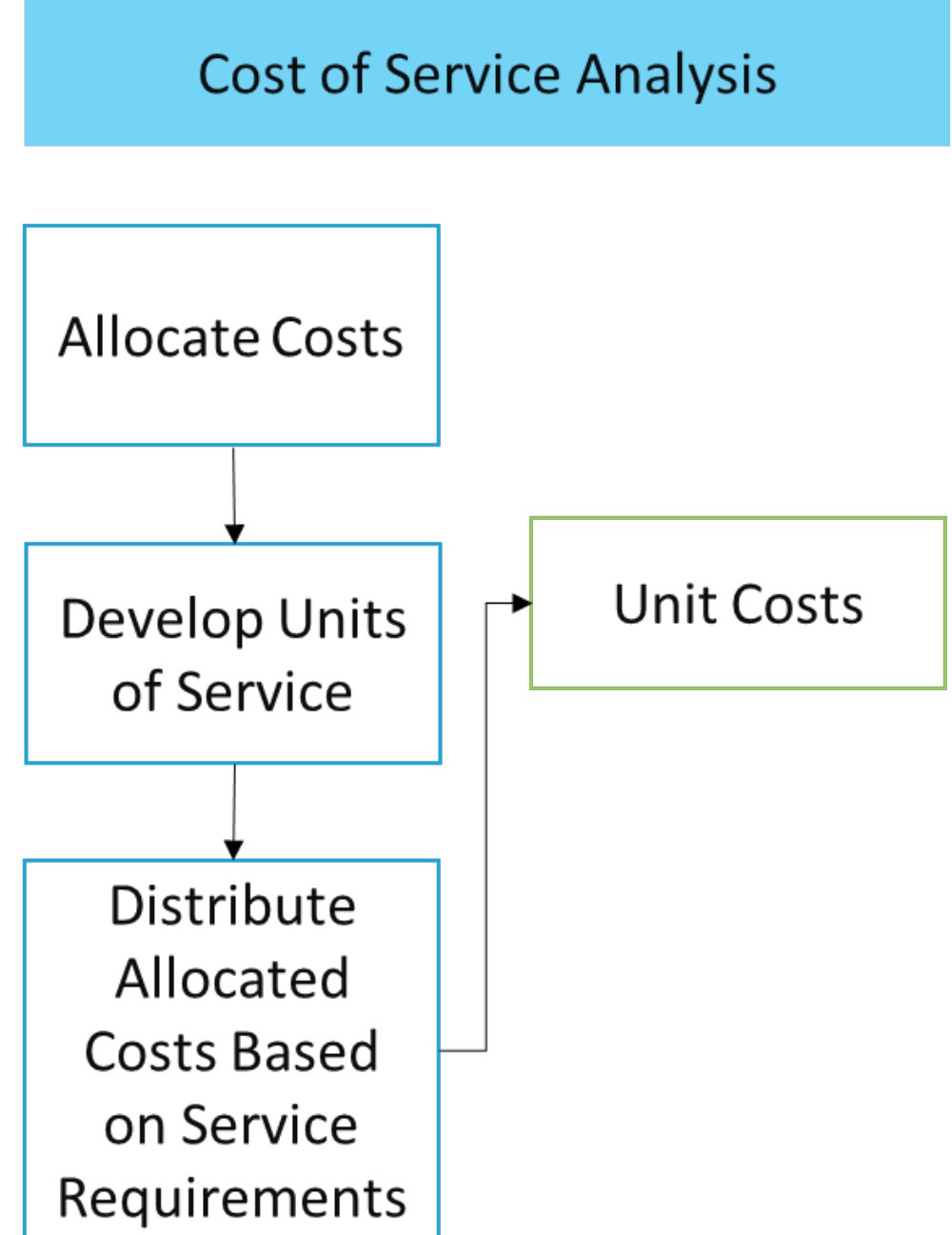
Cost of Service Methodology

Objective:

- Recognize the cost-of-service responsibility for each customer class

Industry Accepted Methodologies:

- American Water Works Association, Principles of Water Rates, Fee and Charges



Water cost functions and cost causative parameters

Separate O&M and Capital Costs into Cost Functions



Distribute O&M and Capital Costs into Cost Causative Parameters



COST ALLOCATION



Functionalize
and Allocate

- Allocate costs to utility functions according to cost causative parameters

Distribute

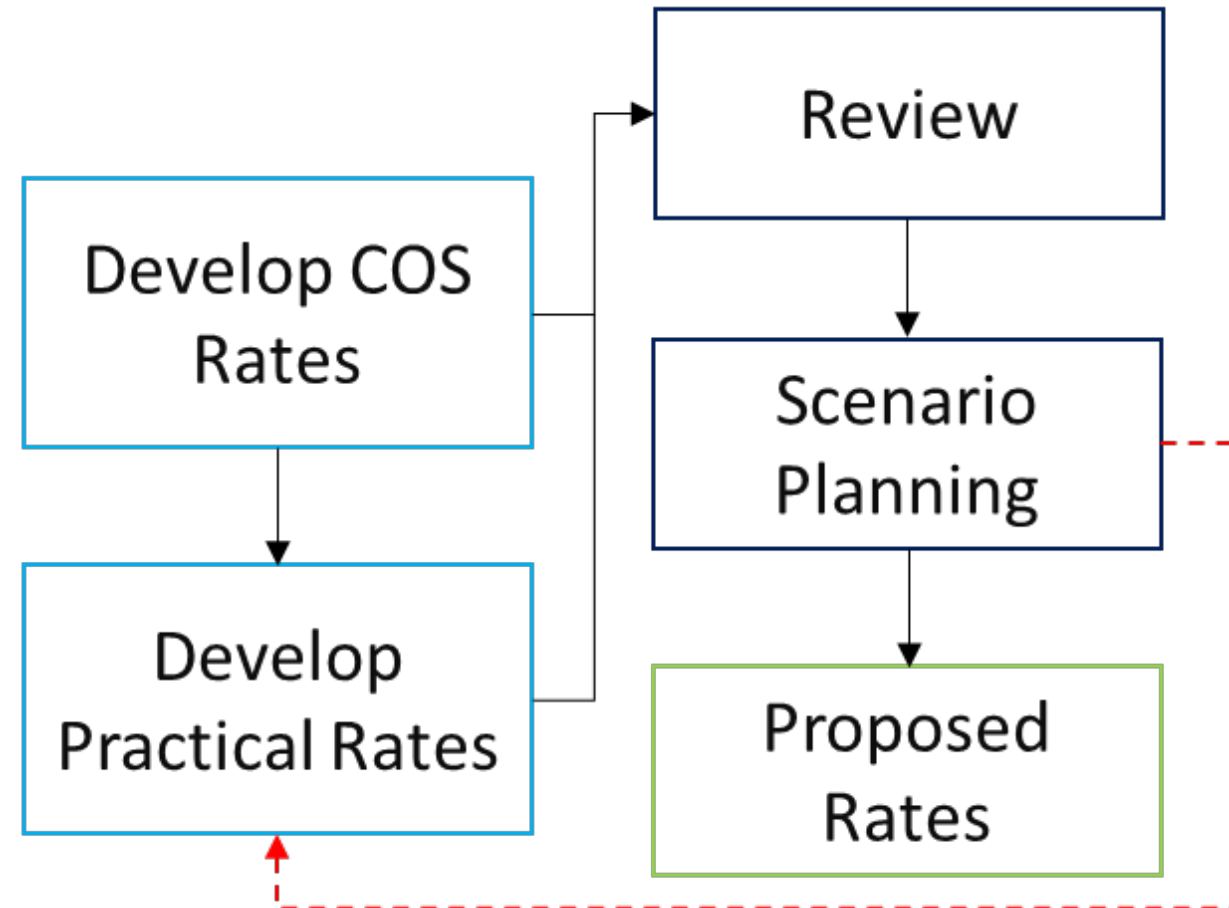
- Estimate total customer class service requirements for each cost function
- Divide costs by requirements for each function to get unit costs of service
- Distribute costs to each customer class based on its share of total requirements for each cost function

Rate Design

Rate Design

Rate Setting Principles:

- Equitability
- Revenue Stability
- Provides Appropriate Price Signals
- Recognizes Customer Usage Patterns & Demands
- Easy to Understand and Administer
- Customer Acceptance
- Consistent with City Policies
- Legally Acceptable / Defensible



Current Water Bill

Existing Water Rates

Non-Residential Water Service Charge

METER	RATE
5/8" and 3/4" Meters	\$18.50 per month
1" Meter	\$30.90 per month
1.5" Meter	\$61.61 per month
2" Meter	\$98.61 per month
3" Meter	\$185.00 per month
4" Meter	\$308.40 per month
6" Meter	\$616.61 per month
8" Meter	\$986.61 per month
10" Meter	\$1,418.40 per month

Usage Rates by User Classes

USER CLASS	RATE
Residential Multifamily	\$2.01
Commercial	\$2.18
High User	\$1.59
Irrigation	\$2.40

*All prices per unit: 1 unit = 100 cubic feet

Residential Water Service Charge

METER	RATE
5/8" and 3/4" Meters	\$18.50 per month
1" Meter	\$30.90 per month

Seasonal Water Rates

Summer Rates (May-October)

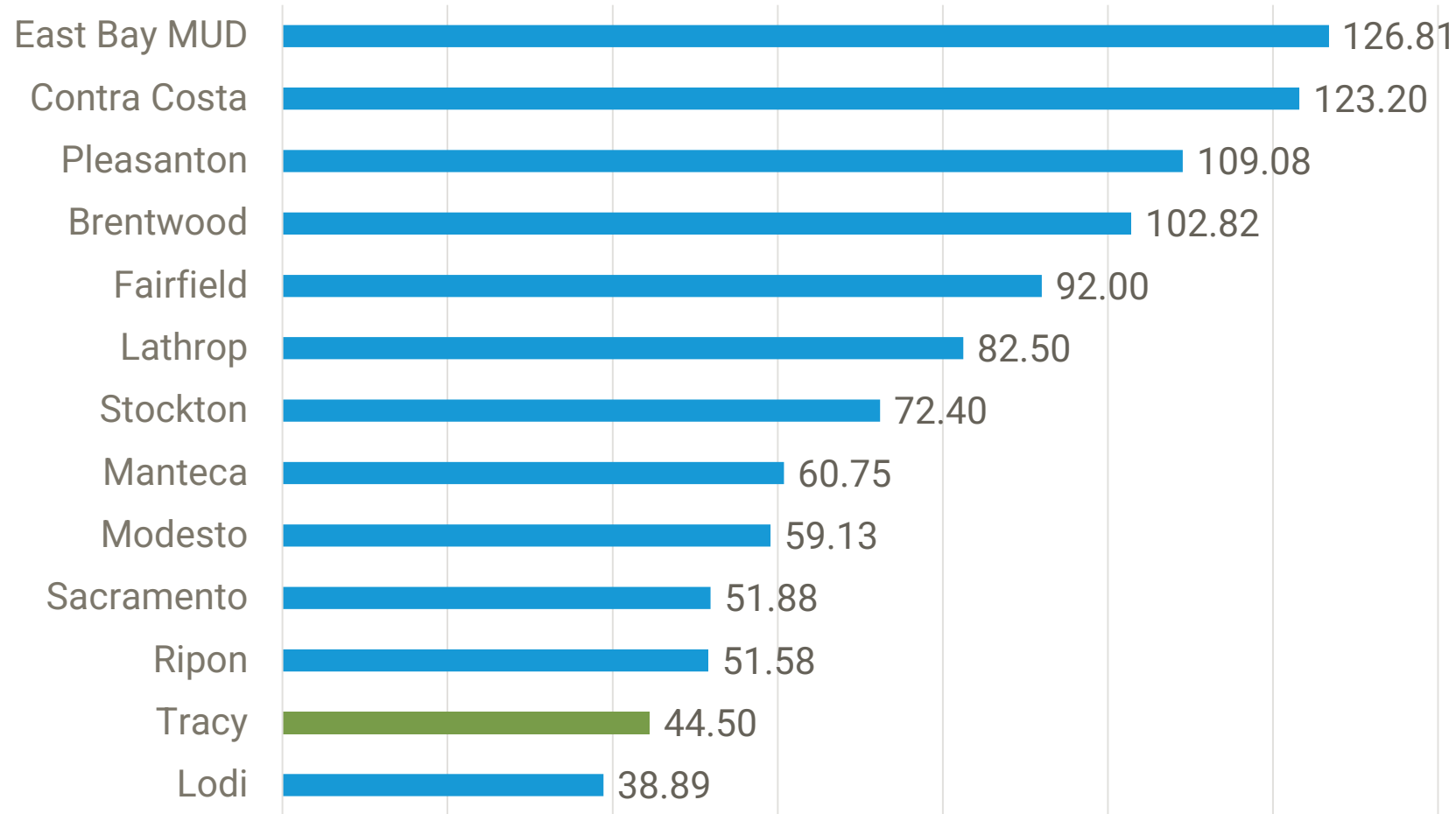
UNITS	RATE
0 – 18 units	\$1.50
19 – 29 units	\$2.00
30 – 50 units	\$2.17
Over 50 units	\$2.33

Winter Rates (November – April)

UNITS	RATE
0 – 12 units	\$1.50
13 – 19 units	\$2.00
20 – 40 units	\$2.17
Over 40 units	\$2.33

*All prices per unit: 1 unit = 100 cubic feet

Typical Monthly Residential Bill

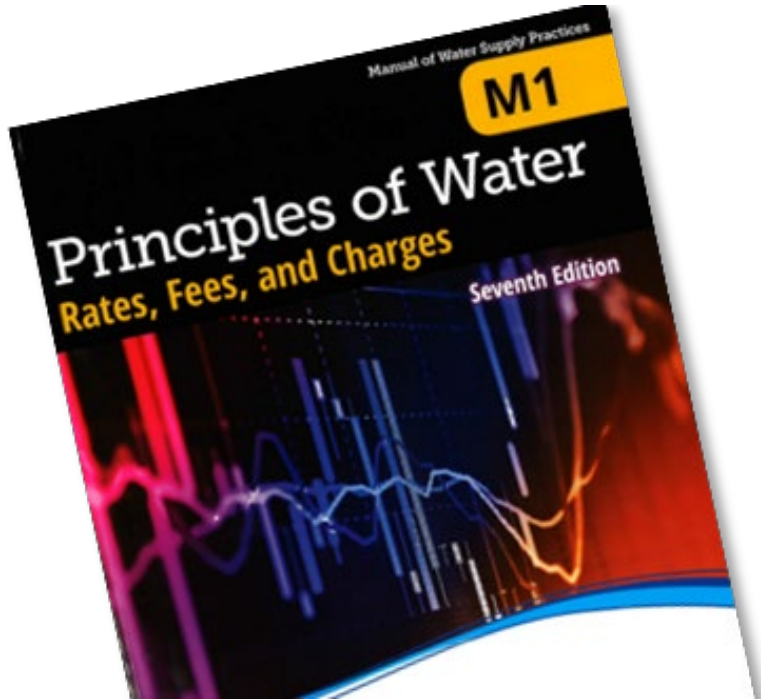


Typical Residential Customer:

- 3/4" Meter
- 16 ccf/month

Overview of Proposition 218

Purpose of Rate Study



- Provides sufficient revenue to operate and maintain City's water and wastewater infrastructure
- Develop equitable, proportional, and cost-based water and sewer rates

Meet the requirements of Proposition 218

- Develop the study using generally accepted methodologies
Tailored to the City's systems and customer characteristics
- Reflect prudent financial planning criteria
 - Adequate rate funding of capital projects
 - Meet target reserve ending balances
 - Maintain legally required debt service coverage ratios for credit worthiness

Overview of the Proposition 218

- Provides the requirement for setting and implementing property related rates and fees
 - ✓ California constitution Article XIII D
- Requires a cost basis for establishing the level of the rates
 - ✓ “Fees shall not exceed the reasonable cost of providing the service”
 - ✓ “Fees shall not exceed the proportional cost of providing the service attributable to the parcel which it is imposed”
- Requires a customer notification process and protest hearing
- Proposed rates are the maximum rates that can be charged for the specified time period

Next Steps, Questions

