



Think Inside the Triangle™

**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](mailto: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.

October 7, 2025

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 Kloepfer, 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

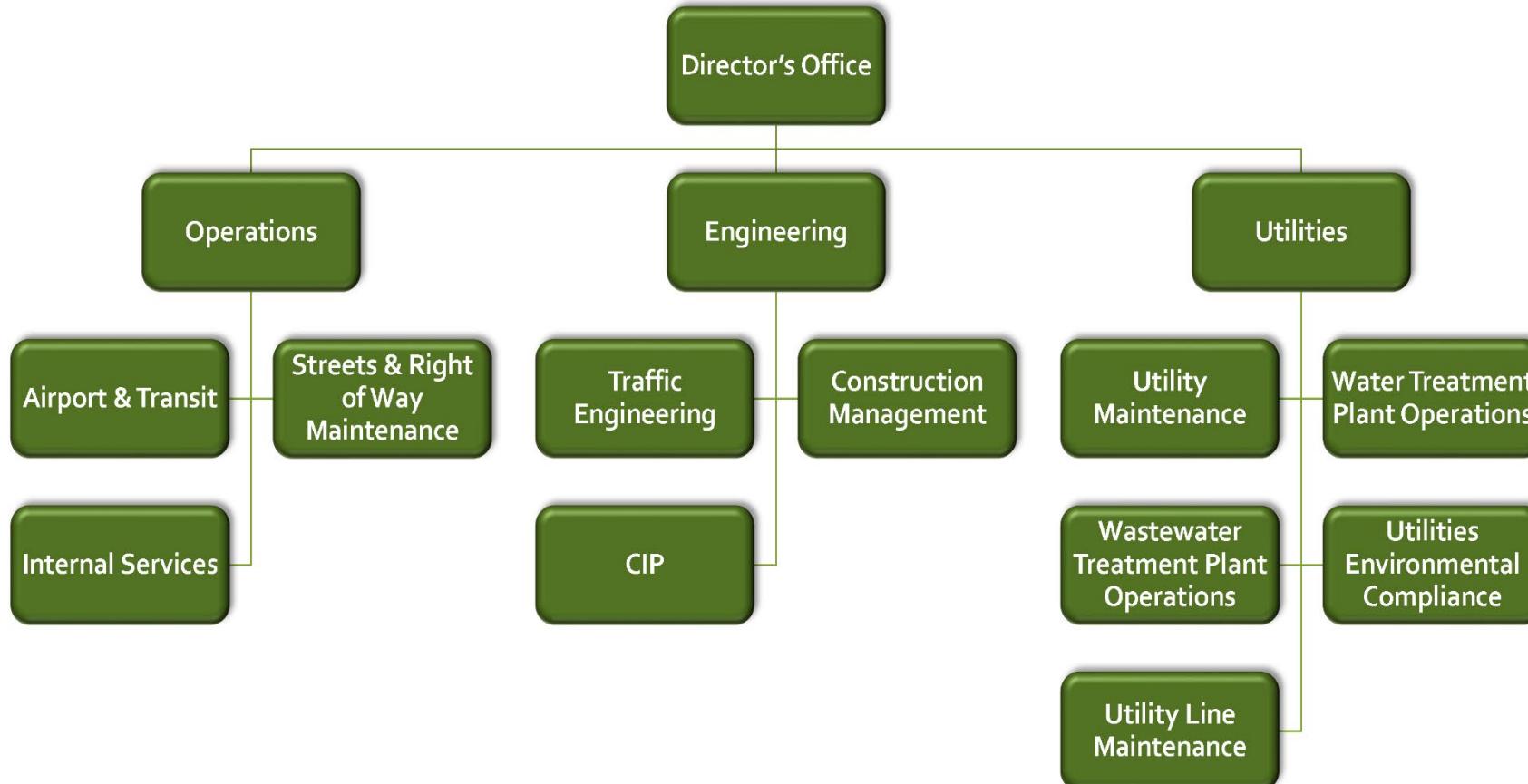
- Water System Overview
- What is a Rate Study and Why is it important?
- Set up the Framework: Financial Policies
- Define overall Needs: Revenue Requirement
- Cost of Service Analysis (Equity Evaluation)
- Rate Design
- Questions and Discussion

# 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
<i>Current Potable Supplies</i>						
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
<i>Anticipated Future Potable Supplies</i>						
Recycled Water Distribution Network and Exchange	100% Reliable	0	1,925	3,500	5,000	7,500
<b>Total Potable Supply</b>	--	<b>25,883</b>	<b>26,493</b>	<b>28,568</b>	<b>30,568</b>	<b>33,868</b>
<i>Anticipated Future Non-Potable Supplies</i>						
Recycled Water	100% Reliable	1,000	2,067	3,133	4,200	6,300
<b>Total Non-Potable Supply</b>	--	<b>1,000</b>	<b>2,067</b>	<b>3,133</b>	<b>4,200</b>	<b>6,300</b>
<b>Total Supply</b>	--	<b>26,883</b>	<b>28,560</b>	<b>31,701</b>	<b>34,768</b>	<b>40,168</b>

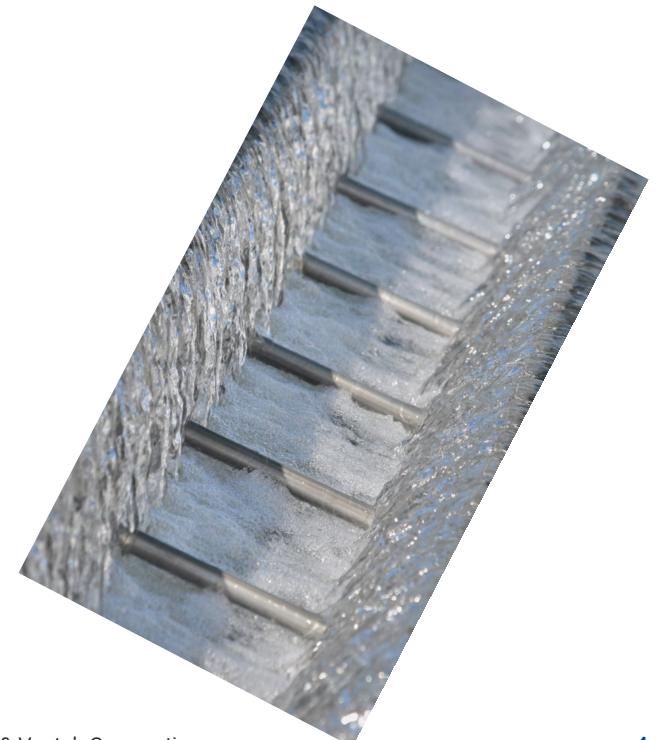
NOTES:

(a) Volumes are in units of AF.

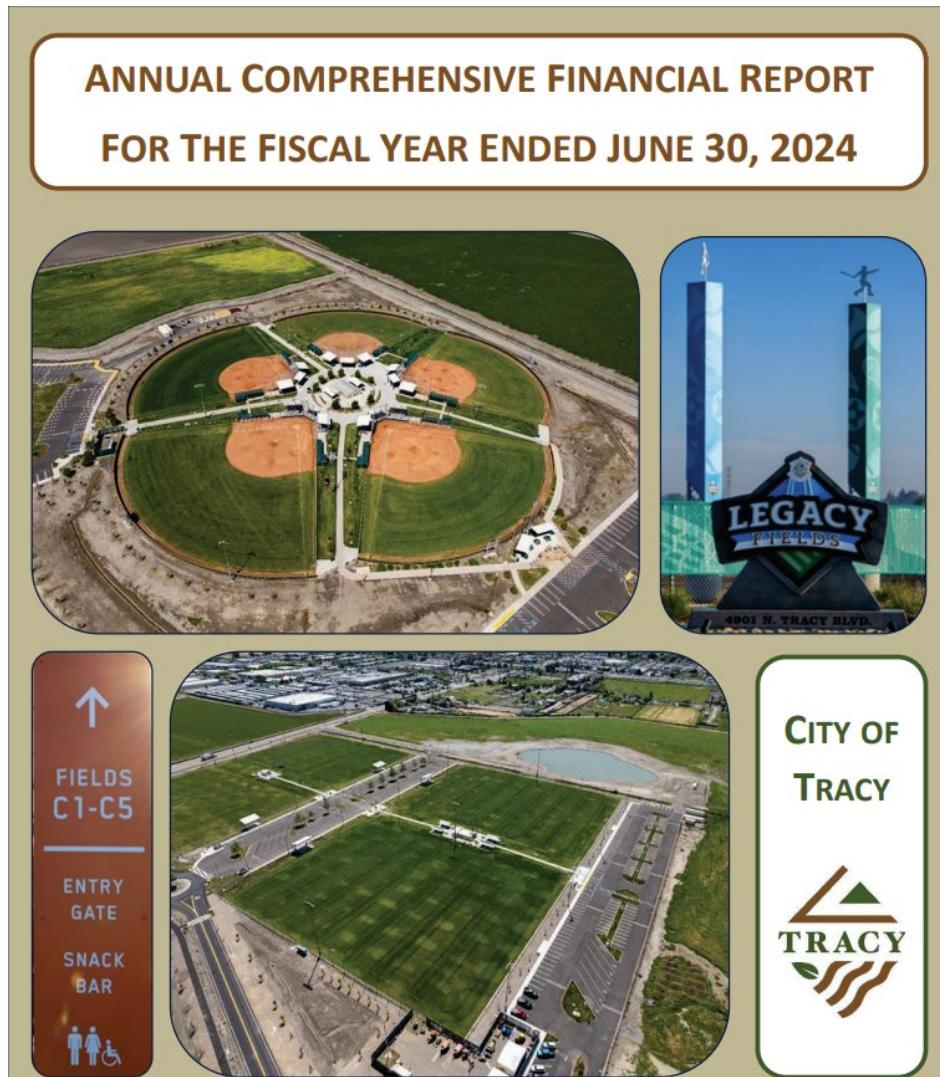
(b) Information provided by the City and SSJID. Recycled water and groundwater volumes assume the City investments in infrastructure and/or permitting.

## 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



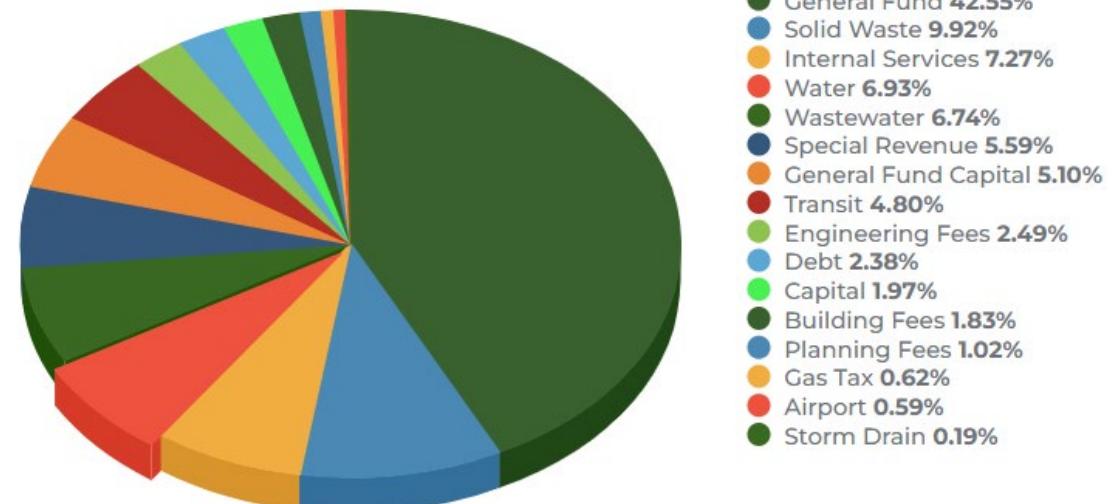
# Financial – Water Enterprise Fund



powered by ClearGov

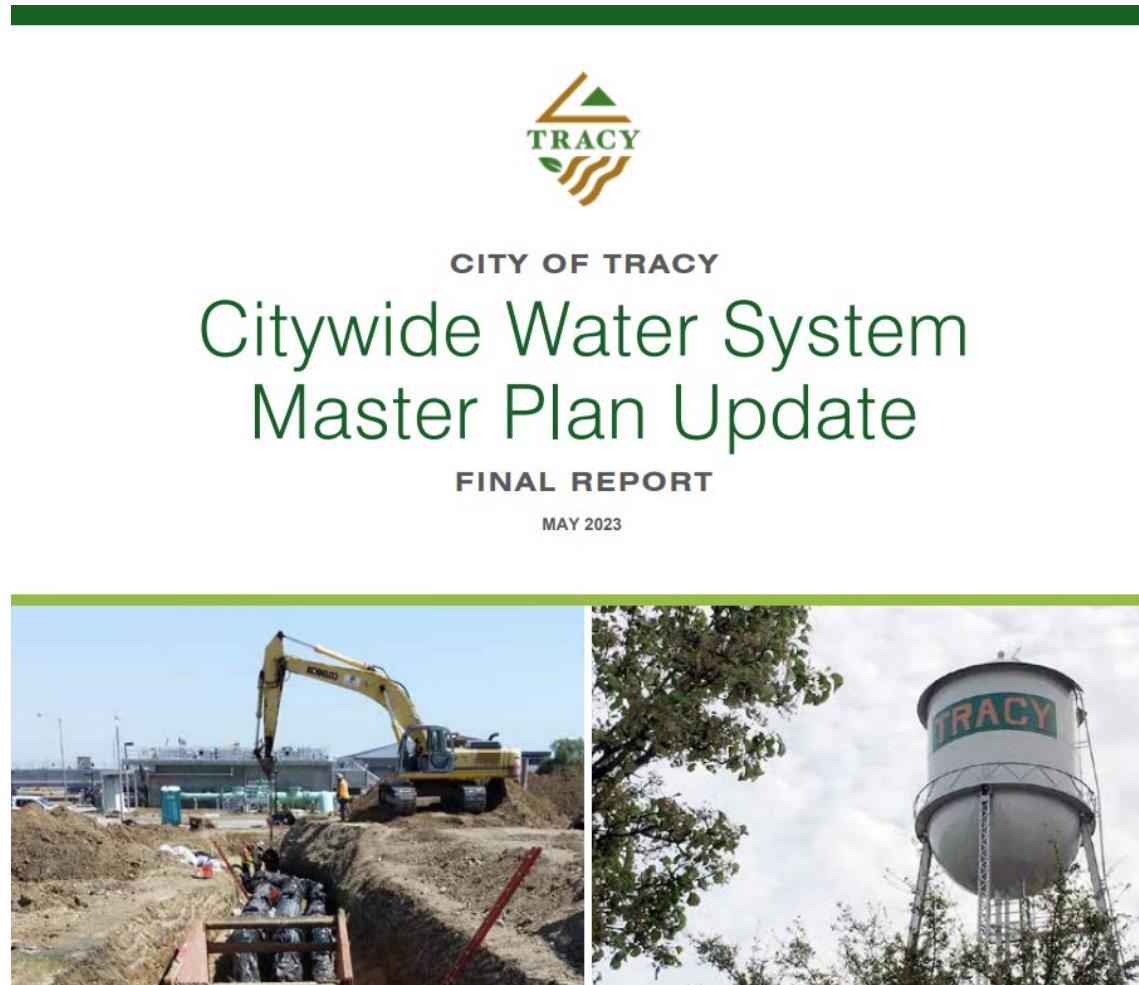


## Expense by Fund

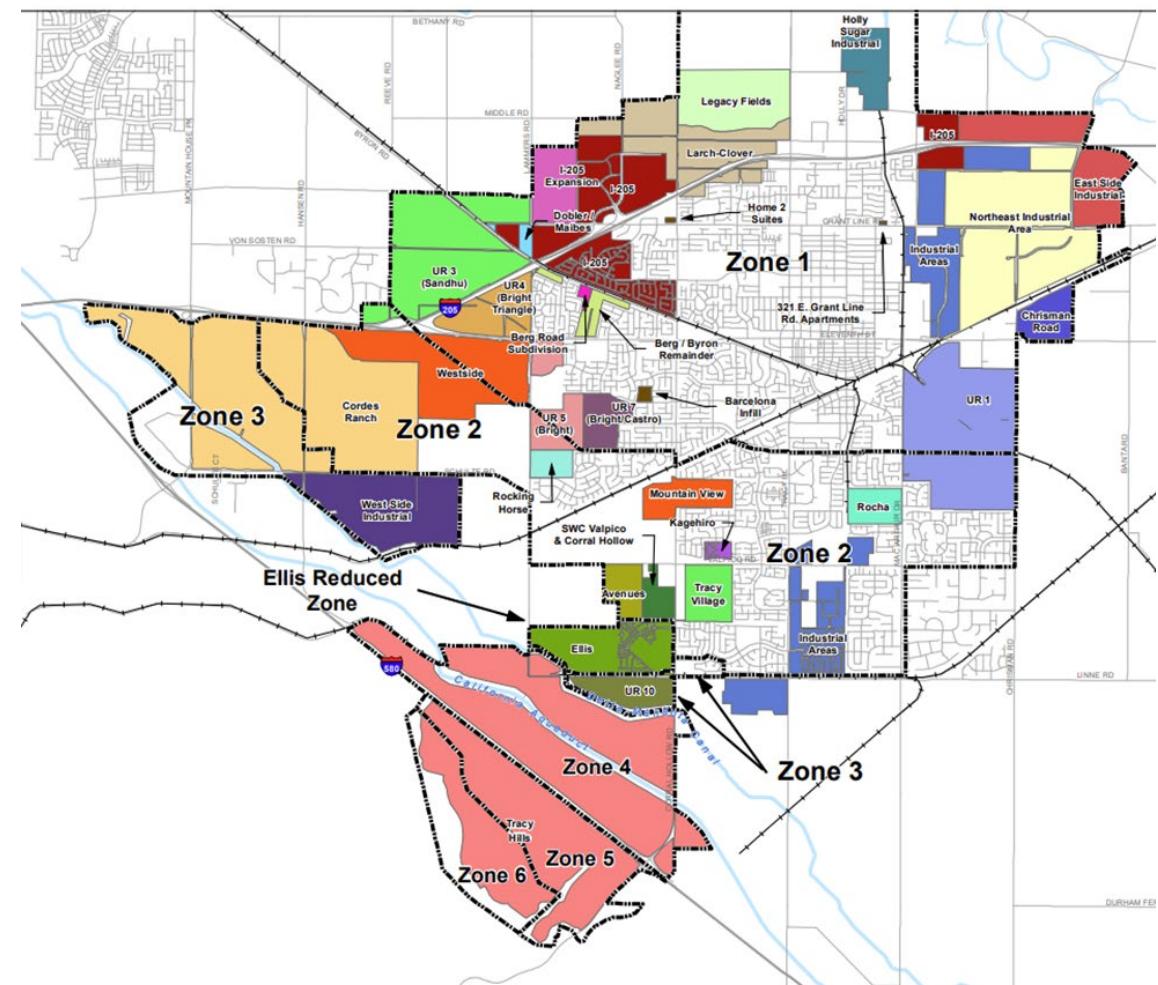


# Water Capital Planning

## Future Demand



# 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.

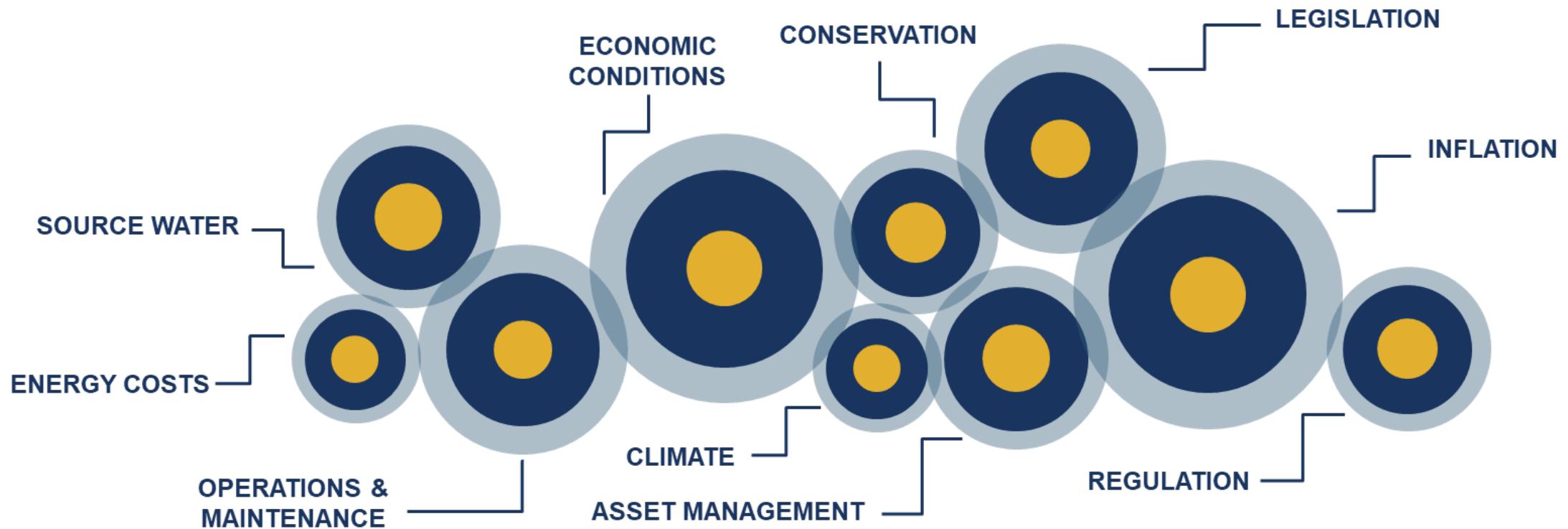
## **Supporting Informed Decisions**

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

Are you achieving both short-term and long-term needs?

What level of communication is needed with stakeholders?

Do your customers understand their rates?



Is the fund adequately protected against financial risks?

Are your revenues at full cost recovery?

Are you charging your customers equitably?

Do your rate structures align with your objectives?

# 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

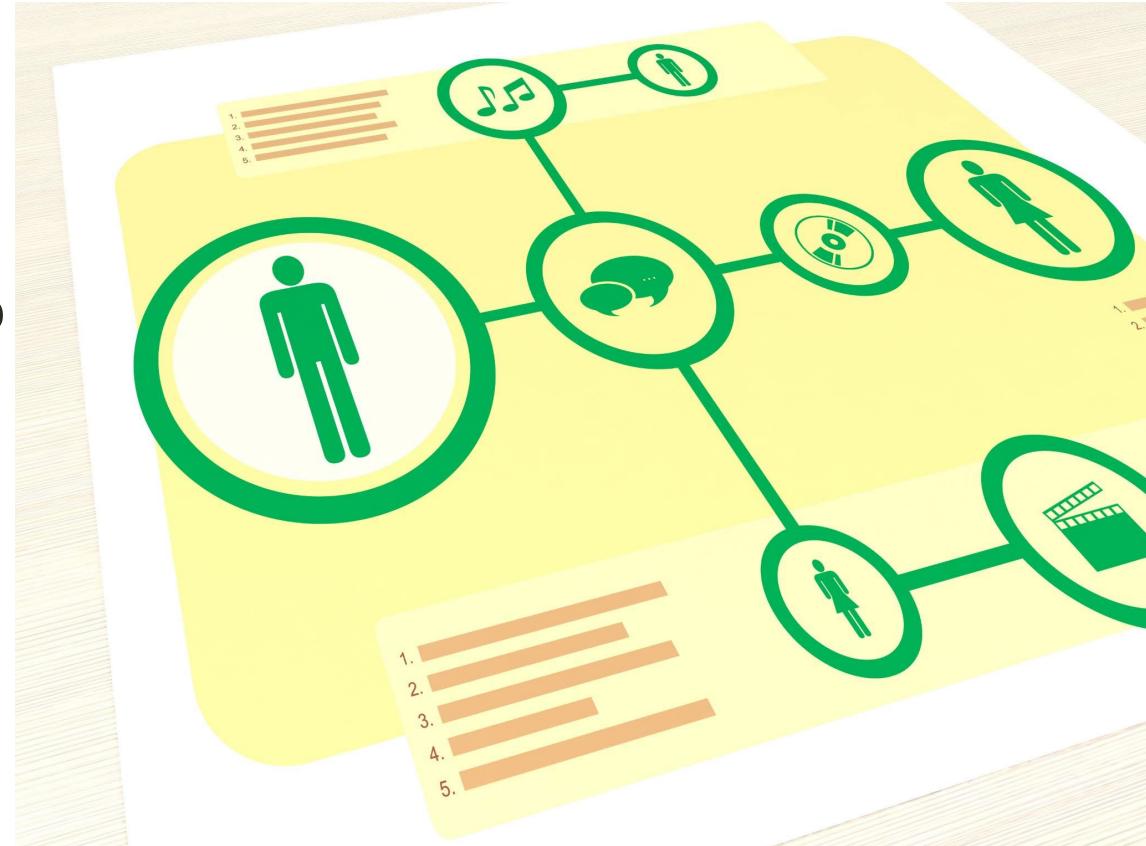
Operating and capital contingency reserves help manage cash flow and emergencies effectively.

## 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

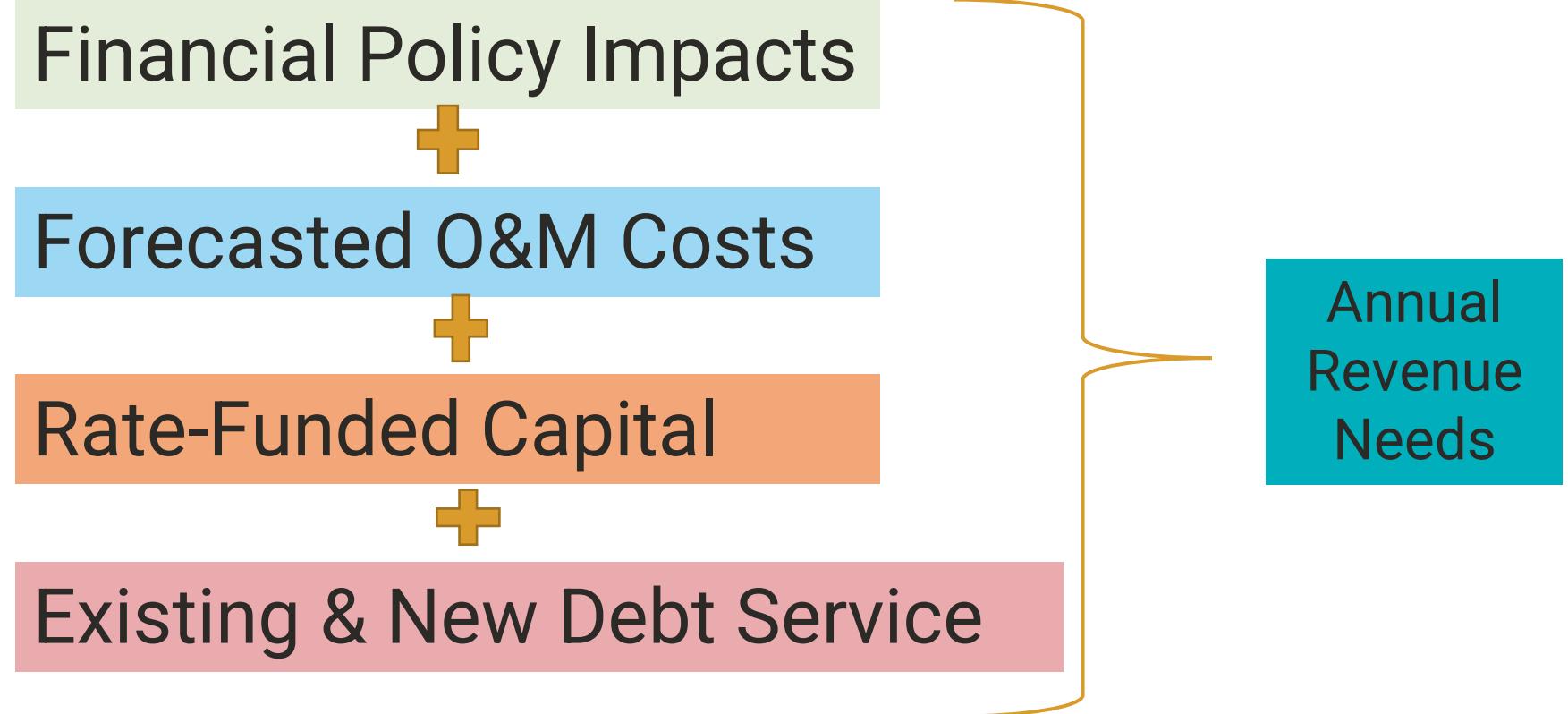
- Aligning rate structures with priorities
- Risk mitigation and financial stability

## 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

## Capital Infrastructure

**Regular, ongoing activities**

**Highly time/schedule sensitive**

**More predictable spending patterns**

**More predictable funding sources**

**Large, discrete projects**

**Limited time/schedule sensitivity**

**Less predictable spending patterns**

**Less predictable funding sources**

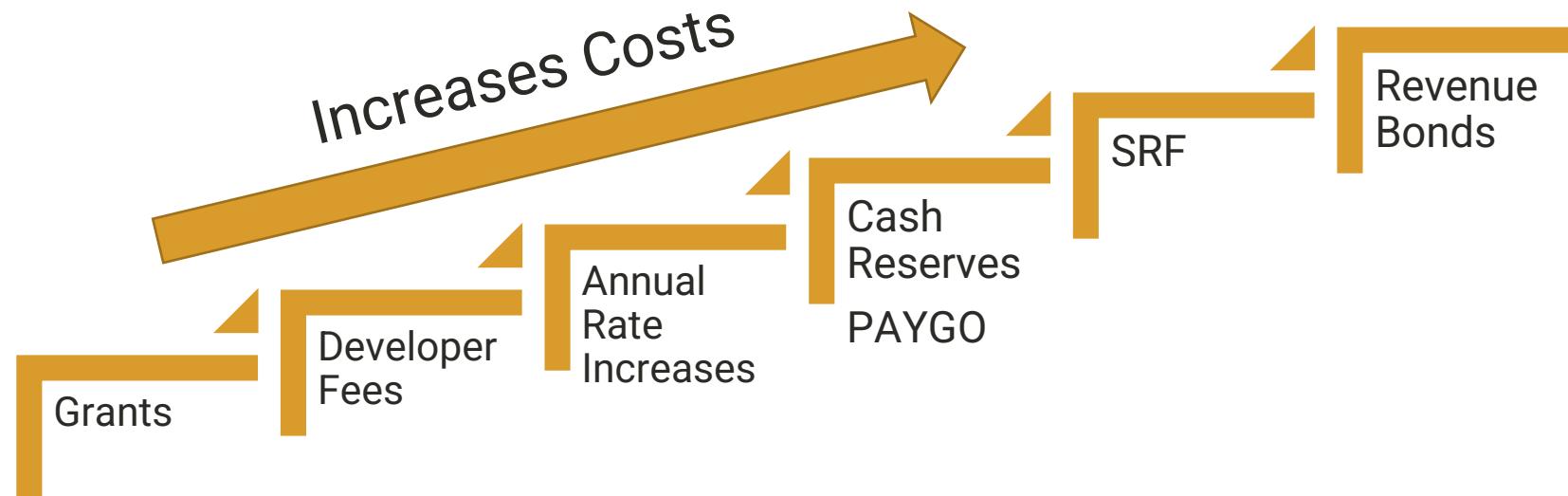


# Capital Funding

# 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

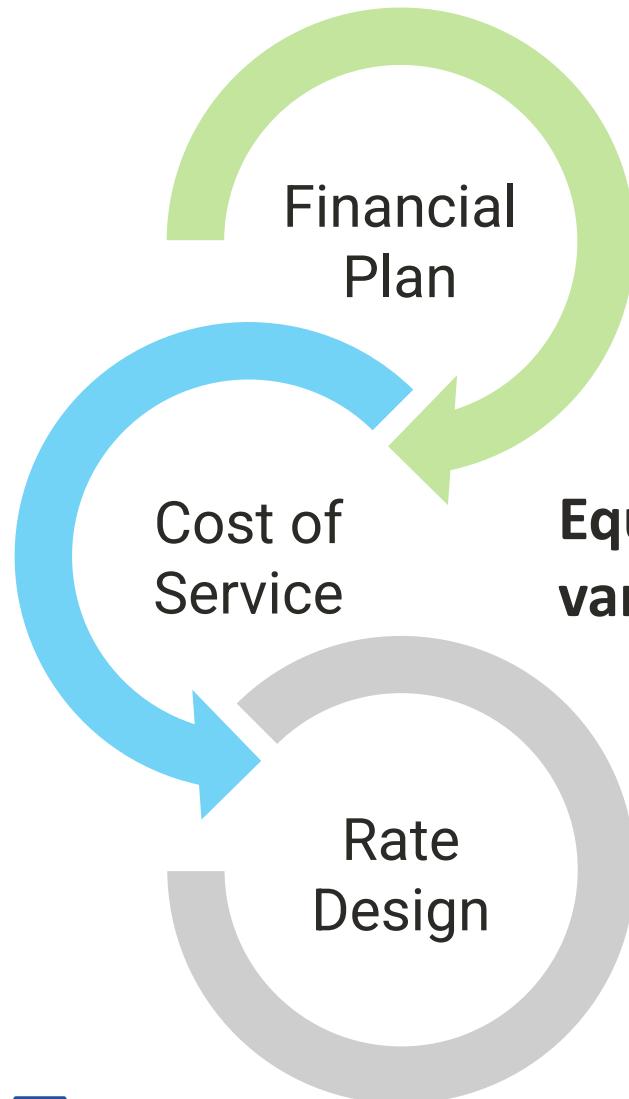
- Correlation of rates with costs
- Reflect customer usage patterns and service requirements

### Affordability

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

# Overview of Rate Making Process

# Components of Rate Setting

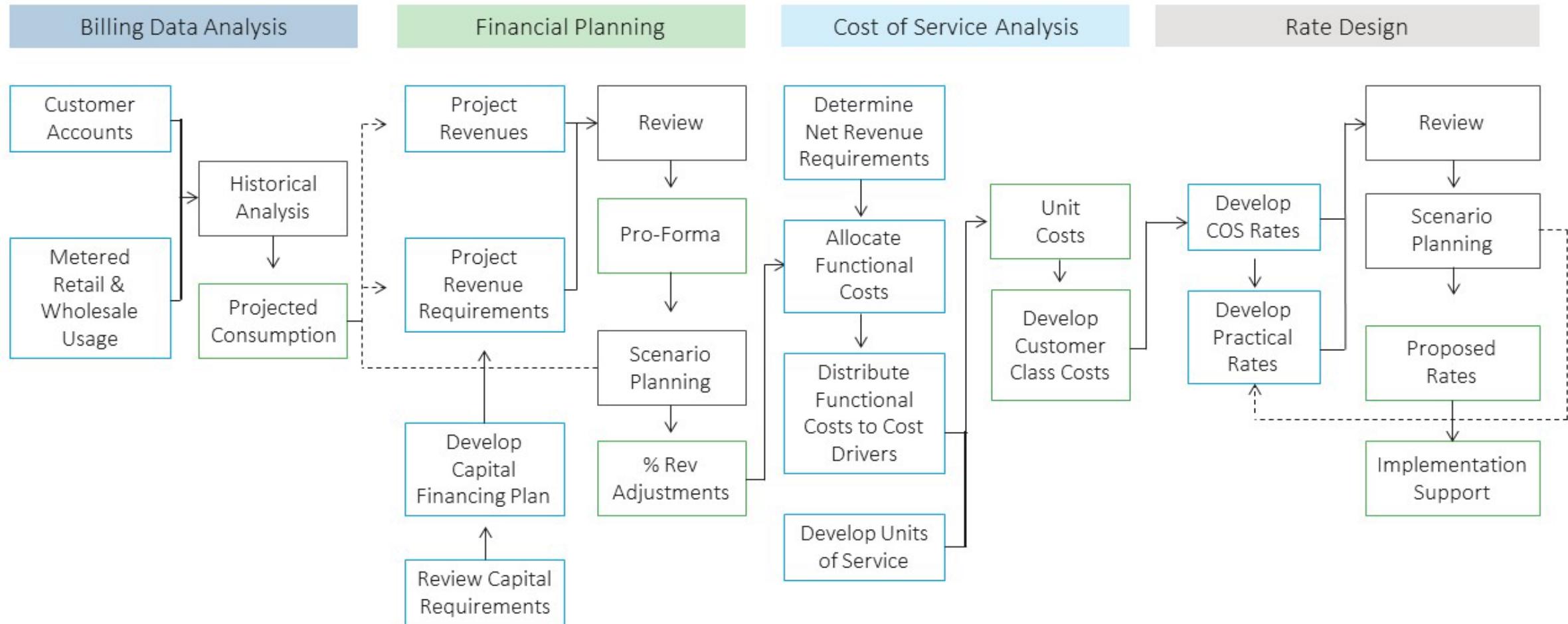


**Compares the revenues of the utility to its expenses to determine the overall level of rate adjustment**

**Equitably allocates the revenue requirements between the various customer classes of service**

**Design rates for each class of service to meet the revenue needs of the utility, along with any other rate design goals and objectives**

# Rate Making Process



# Financial Planning

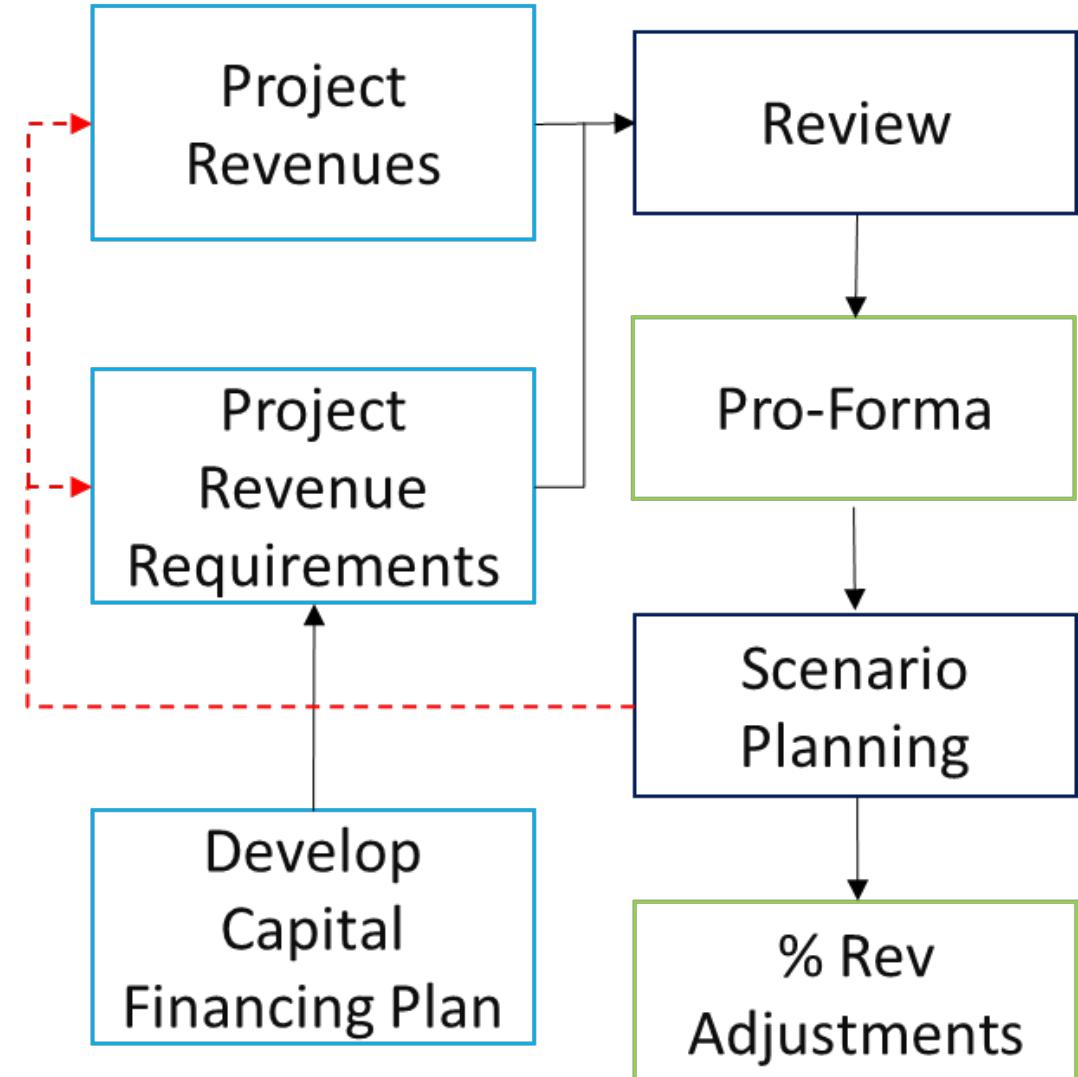
## Objective:

- 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

## Financial Planning



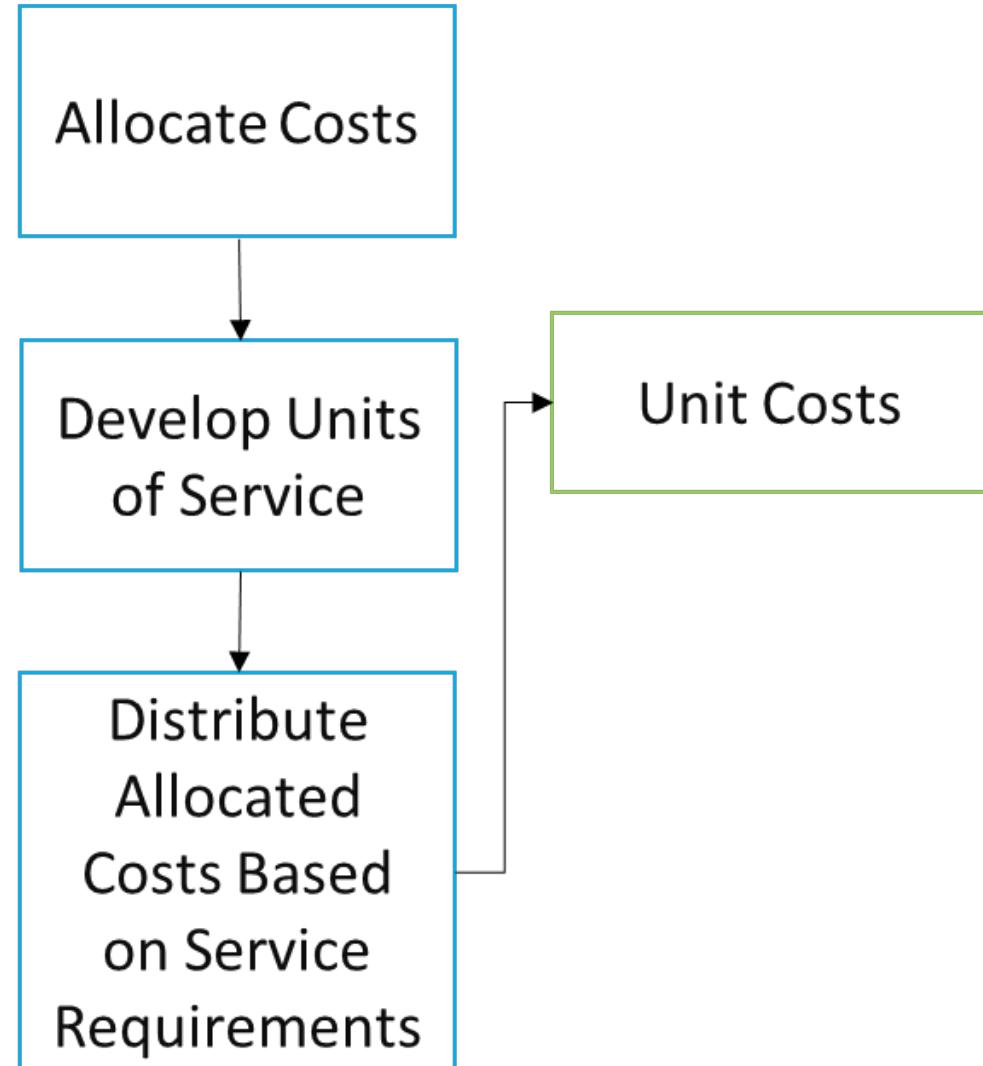
# Cost of Service Methodology

### Objective:

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

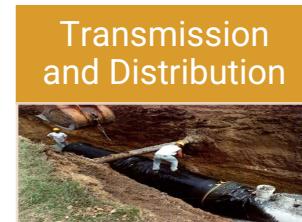
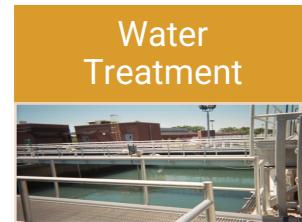
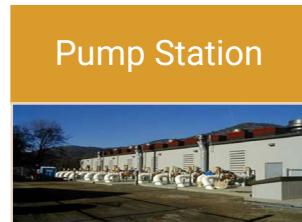
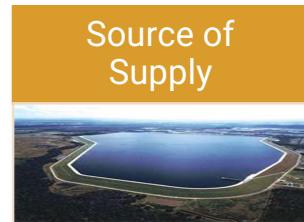
### Industry Accepted Methodologies:

- 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

Average Day



Max Day



Max Hour



Customer Billing

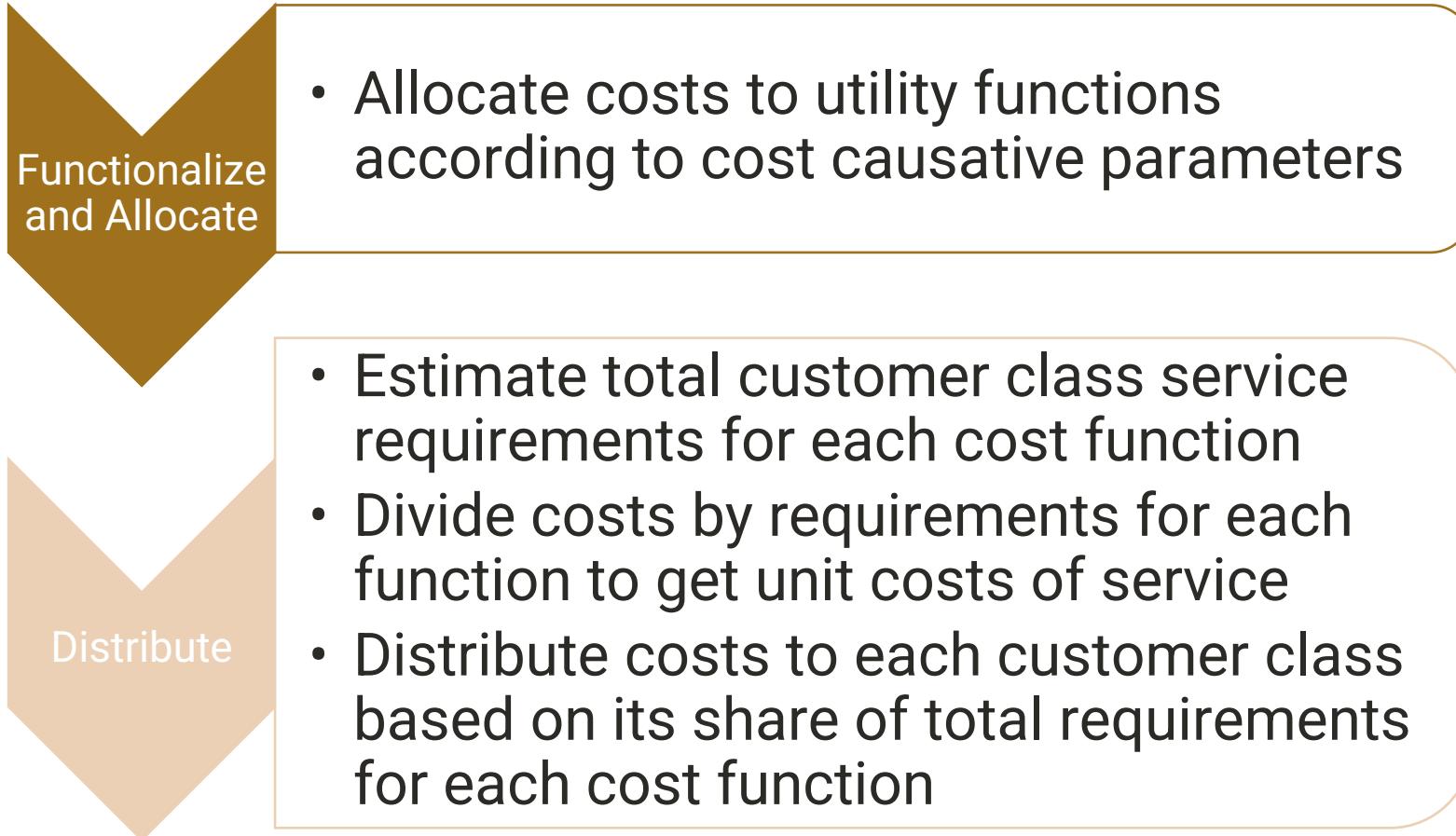


Adequate Fire Flow



Extra Capacity Costs

# COST ALLOCATION



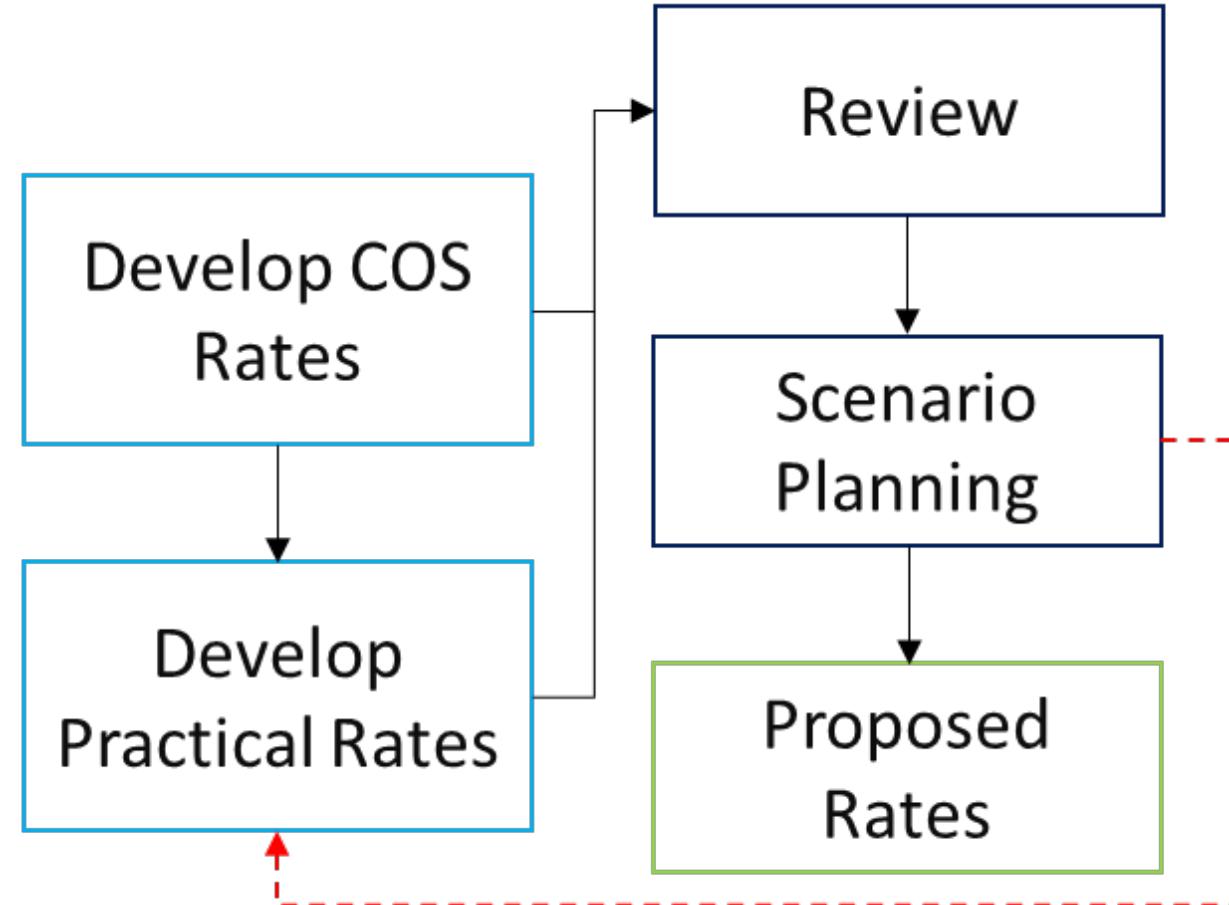
# Rate Design

# 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

## Rate Design



# 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)

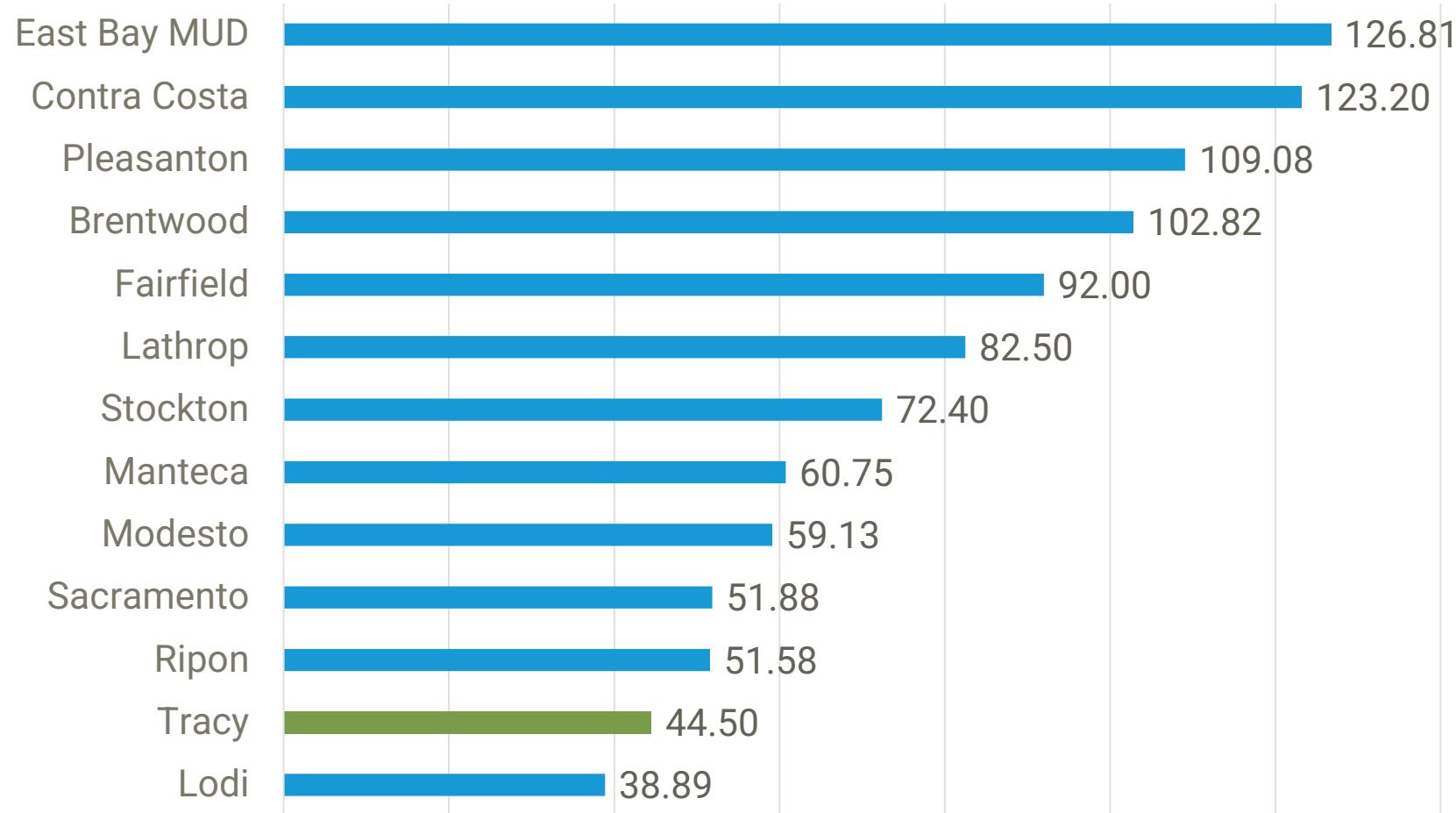
UNITS	RATE
0 – 18 units	\$1.50
19 – 29 units	\$2.00
30 – 50 units	\$2.17
Over 50 units	\$2.33

### 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

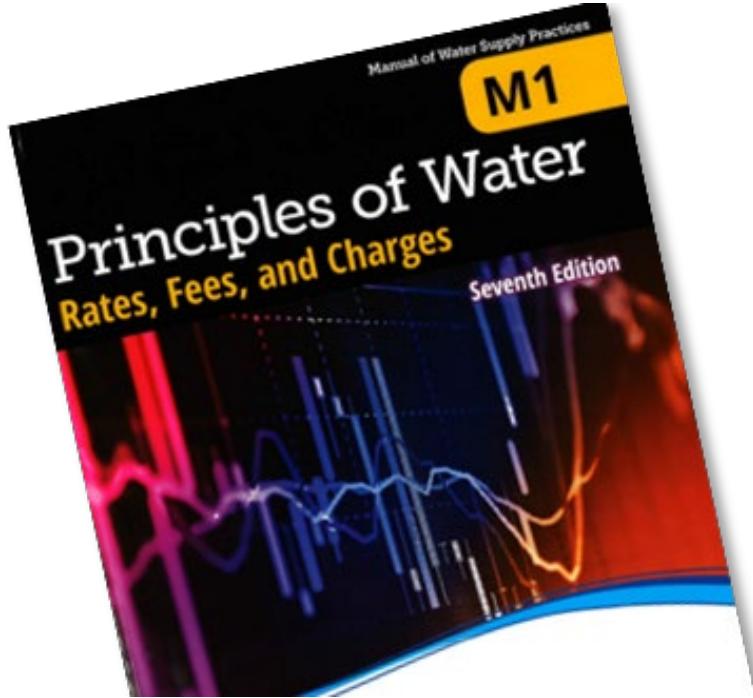
# Overview of Proposition 218

# 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

