Agenda Item No: 1.c

PLACENTIA CITY COUNCIL AGENDA REPORT

Meeting Date: October 21, 2025

Submitted by: Gabriel Guerrero-Gabany

From: Public Works

Subject:
SECOND READING OF ORDINANCE NO. O-2025-09, AND ADOPTING REVISED SEWER SYSTEM SERVICE RATES

Financial Impact:
Fiscal Impact:
There is no direct fiscal impact to the City's General Fund Budget associated with the recommended action. City Council approval of the proposed sewer rate adjustments will generate additional revenue into the City's Sewer Enterprise Fund that will help fund the ongoing maintenance and operation of the City's sewer utility, as well as provide additional funds for needed capital improvements to the sewer collection system.

Summary:
The Public Works Department is responsible for administering over 84 miles of gravity sanitary sewer pipeline. In 2021, the City approved a sewer rate increase. This increase was meant to provide sufficient funding to maintain the existing sewer system and budget necessary capital improvements identified in the adopted 2018 Sewer Master Plan. The adopted sewer rate provided an annual increase of 3% per year to account for inflation over five years. The annual increase is set to expire at the end of FY 2025-26, after which fees will remain flat until a new sewer fee schedule is adopted. Since that time, the Sewer Enterprise Fund has provided sufficient budget for routine maintenance, but not for capital improvements.

On July 15, 2025, the City Council adopted Resolution Nos. R-2025-40 and R-2025-41, which approved the initiation of the Proposition 218 public hearing process; set a public hearing for October 7, 2025, and adopted written protest procedures. On Friday, August 15, 2025, the required 45-day notice was mailed to 12,930 affected property owners in the City. The notice informed property owners about the proposed rate increases, the scheduled public hearing, and procedures for submitting a written protest. On October 7, 2025, the public hearing was held, and the total number of tabulated results of protests received was four (4). Since no majority protest was established, the City Council voted to approve the first reading of the ordinance to adopt a six-year sewer rate increase effective November 20, 2025. Approval of the second reading will formally adopt the ordinance which will be published in the newspaper within 15 days.

Recommendation:
Recommended Action: It is recommended that the City Council:

Waive full reading, by title only, and adopt Ordinance No. O-2025-09, an Ordinance of the City Council of the City of Placentia, California, adopting revised Sewer System Service Rates for Sanitary Sewer Service and amending sections of Chapter 5.24 of the Placentia Municipal Code pertaining to the Sewer System Service Fees.

Strategic Plan Statement:
This item is consistent with the City Council approved Five Year Strategic Plan Goal 1: Ensuring Long-Term Fiscal Sustainability and Strategic Goal 5: Implementing Public Infrastructure to Meet Community Needs.

Discussion:
Operation and maintenance costs of the City's sewer collection system have been sufficiently covered by the current sewer collection rate adopted in 2021. However, revenues have not been sufficient to cover the capital needs identified in the 2018 Sewer Master Plan. The City, therefore, has a deferred backlog of much needed sewer system capital improvements.

Increases to the rates are recommended in order to provide sufficient funding to expand the capacity of the existing collection system, provide for much needed sewer rehabilitation and to ensure the Sewer Enterprise Fund remains financially solvent.

Background:
The City currently maintains 84 miles of gravity sanitary sewer pipelines and approximately 600 manholes. The City's wastewater is transferred into the Orange County Sanitation District's (OCSD) collection system via 35 separate connections for treatment. The Yorba Linda Water District (YWLD) owns and maintains 10 miles of sewer lines within the City's borders.

On April 26, 2002, the Santa Ana Regional Water Quality Control Board (RWQCB) issued Board Order (Order) No. R8-2002-0014, which prohibited the discharge of untreated sewage to any surface water storm or drainage system. This Order included numerous provisions, including the requirement for every agency to prepare a Sewer System Management Plan (SSMP) to address all requirements of the Order by September 30, 2005. In 2005, the City adopted a sanitary sewer fee and established the Sewer Maintenance Enterprise Fund to meet the increased costs and to comply with regulations adopted by the Santa Ana RWQCB.

The City adjusted the sanitary sewer fee rates in March 2005 while costs associated with maintaining the City's sewer system continued to rise. In 2021 the City adopted a revised sewer service fee structure, shown below.

User Class	**FY 2021-22 (per CCF)**	**FY 2022-23 (per CCF)**	**FY 2023-24 (per CCF)**	**FY 2024-25 (per CCF)**	**FY 2025-26 (per CCF)**
Single Family Residential	$0.72	$0.74	$0.76	$0.79	$0.81
Multi-Family Residential	$0.82	$0.84	$0.87	$0.89	$0.92
Commercial	$0.96	$0.99	$1.02	$1.05	$1.08
Industrial	$0.96	$0.99	$1.02	$1.05	$1.08
Institutional	$0.53	$0.54	$0.56	$0.58	$0.59

Government & Public	$0.72	$0.74	$0.76	$0.79	$0.81

The established fees increased at 3% per fiscal year to account for inflation. The annual increase is set to expire after this fiscal year on June 30, 2026, at which point the fee will remain flat until a new sewer fee is established. While the fee revenues have provided sufficient funding for maintenance needs, they have not provided sufficient funding for the ongoing capital improvement needs. Based on the 2018 Sewer Master Plan adopted by City Council, the estimated deferred sewer capital improvement costs are approximately $19 million.

2025 Sewer Cost Recovery Fee Rate Study:
The completed analysis reviewed a six-year cost of service to continue ongoing maintenance while providing sufficient funding for capital improvements identified in the 2018 Sewer Master Plan to be completed over the next six (6) years. To mitigate the effects of variable water usage, which led to the unreliability of the current fee structure, Staff is recommending a flat CIP fee be applied to each user category, with multi-family residential users tiered based on a range of units. This would provide a reliable revenue source to ensure capital sewer improvements could be completed. The proposed fee structure will continue to include a portion of the sewer fee based on water consumption per user category and charged on a per hundred cubic foot (CCF) unit.

The analysis was presented to the Sewer Utility, Refuse, and Recycling Ad-Hoc Committee (SURR Committee) at their June 10, 2025, meeting. Staff presented their recommendations and proposed an updated sewer rate structure. Upon a thorough review, the Committee provided Staff direction and recommended that the rates be forwarded to City Council for consideration.

The City Council conducted a Study Session on July 15, 2025, and directed Staff to set the public hearing date and initiate the Proposition 218 process. On July 15, 2025, the City Council adopted Resolution Nos. R-2025-40 and R-2025-41, which approved the initiation of the Proposition 218 public hearing process, set a public hearing for October 7, 2025, and adopted written protest procedures.

The completed Sanitary Sewer Service Fee Analysis and Six-Year Financing Plan (Study) includes a six-year financial plan and cost of service analysis as well as development of new sewer rates. The analysis reviewed the current rate structure in determining needed adjustments for the next six (6) years. The study includes the following findings:

- The City's current sanitary sewer service fee is outdated and does not reflect the full cost to operate, maintain, and improve the system.
- The City's current rates are insufficient to fund ongoing services and necessary capital improvements. The rates have not been adjusted since July 2021.
- Without a sanitary sewer system fee adjustment, the City's Sewer Enterprise Fund will not have adequate revenues to cover operations and maintenance of the sewer system and conduct necessary capital improvements and repairs.

The Study recommends the implementation of an updated sewer service fee structure that includes two (2) separate fees: a usage fee and a flat capital improvement fee. The usage fee will fund operating and maintenance costs of the sewer system. The capital fee will fund sewer

replacement, rehabilitation, and capacity enhancement improvements through a series of capital projects that are necessary to replace and upgrade the sewer system. The capital fee was developed utilizing the City's Sewer Master Plan. The Sewer Master Plan, prepared by Dudek in 2018, identified over $19 million in needed rehabilitation and capacity improvement projects.

Proposition 218 Process

The City's ability to adjust rates is governed by Proposition 218. In 1996, California voters approved Proposition 218, which requires a specific process for cities to impose or increase certain types of fees. The provisions of Proposition 218, set forth in Article XIII D of the California Constitution provide that certain types of "Property Related Fees" are subject to a "majority protest" process.

The provisions of Proposition 218 set criteria for property-related fees for refuse, water, and sewer services. The fees must be set so that:

- The revenues generated by the fee do not exceed the cost of service
- No property owner's fee exceeds his/her proportionate share of the costs
- The City does not impose a property-related fee for a service that is not available to the property owner

Upon incorporation of the City Council's recommendations and direction to send Proposition 218 notices, pursuant to California Constitution Article XIII D, Section 6, Staff sent notices to all property owners (and as a courtesy, to all customers, i.e., tenants) that receive sewer service from the City. There was a 45-day public notice period during which time property owners and customers could send written protests for consideration by the City Council. Protests from property owners were tallied at the public hearing on October 7, 2025, and only four (4) protests were received which did not constitute a majority. The first reading of the proposed ordinance was therefore approved by City Council at the conclusion of the October 7, 2025, public hearing.

Staff recommends that the City Council adopt the attached Ordinance No. O-2025-09 establishing the sewer rates as proposed.

Fiscal Impact Summary:

There is no direct fiscal impact to the General Fund associated with the requested actions. The cost for providing sanitary sewer services to the City's residents and businesses is covered by the customer rates established by the City and paid by these receiving said services. The proposed rate increase will be included in the proposed Fiscal Year 2026-27 Budget for the Sewer Enterprise Fund. The increased rates will provide additional funding for the Sewer Enterprise Fund to continue maintaining and operating the City's sewer collection system, as well as provide additional revenues to fund the cost of needed capital improvements to the City's sewer collection system.

Attachments

Attachment 1 - Ordinance O-2025-09