



## STAFF REPORT – CITY COUNCIL MEETING

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**TO:** Honorable Mayor and City Council Members

**FROM:** Tabatha Miller, Assistant City Manager/Finance Director

**PREPARER:** Tabatha Miller, Assistant City Manager/Finance Director

**DATE:** February 4, 2026

**TITLE:** **Adopt Resolution No. 256-18 Authorizing Staff to Initiate the Proposition 218 Process for Adjustments to the City of Arcata's Water and Wastewater Rates.**

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### **RECOMMENDATION:**

It is recommended that the Council adopt Resolution No. 256-18 authorizing staff to initiate the Proposition 218 process for adjustments to the City of Arcata's Water and Wastewater rates.

### **INTRODUCTION:**

The City provides essential water and wastewater services to residents, businesses and other organizations in city limits and to select addresses outside of city limits. On March 5, 2025, the City Council approved a contract with Bartle Wells Associates for a water and wastewater rates study. On October 15, 2025, the City Council received a report on the results of that study.

The study recommends water rate increases over the five-year period covered and Council was presented two scenarios for implementing those rate increases. The first scenario provided for immediate revenue recovery to shore up the financial position of the Water Fund with the most substantial increase to be implemented in the first year. The second scenario phased in the revenue recovery with the most substantial increases implemented over the first year and a half. To offset the impact of the water rate increases, the study recommends delaying the moderate wastewater rate increases until the third year of the five-year rate period.

City Council delayed the agenda item originally scheduled for November 5, 2025, to initiate the Proposition 218 process, due to the impacts from the federal government shutdown, such as disrupted SNAP/CalFresh benefits, unpaid federal workers, delayed and uncertain federal payments and public economic anxiety.

### **BACKGROUND:**

In 1996, California voters adopted Proposition 218, which amended the California Constitution to establish a process that public agencies must follow when imposing new or increasing property related fees. In 2007, the California Supreme Court ruled that water service fees are property related fees, thus subject to Proposition 218 requirements. Proposition 218 mandates that any property-related fee imposed by a public agency cannot exceed the cost of providing that service by imposing certain restrictions on the rate and fee amounts to be charged, and limits what costs can be funded by the revenue generated by the proposed rates and fees.

Proposition 218 requires that public agencies mail a notice of the proposed rate increases to all affected property owners or ratepayers and conduct a public hearing to consider the proposed increases. The notice must include the proposed rate and fee amounts, state how the rates and fees were calculated, the reason for the fees and the date, time and location of the public hearing. The notice must also inform affected property owners or ratepayers that the rate increase is subject to a majority protest, meaning that if more than fifty percent (50%) of the affected property owners or ratepayers submit written protests against the proposed rate increase, the increase will not be adopted. The notice must be sent to the affected property owners or ratepayers at least forty-five (45) days before the date of the public hearing.

The results of the Bartle Wells rate study and proposed rate structure are the foundation for water and wastewater rates for the next five years. That foundation is built to comply with Proposition 218 and all other legal requirements. The utility rates are based entirely on the cost of operating and maintaining the City's water and wastewater facilities and services. Each utility is operated as an independent enterprise and all expenses and revenues for each service are accounted for in separate funds. State law requires that all fees collected by each utility be used within that utility and are not allowed to be used for unrelated services.

The City last conducted an in-depth water and wastewater cost of service rate study in 2020, which was approved and implemented by the City Council on July 1, 2020. Annual Master Fee Schedule Resolutions established rates from FY 2021 to FY 2025. Table 1 below outlines the increases for the average user's monthly water and wastewater bills.

**Table 1 – Previous Adopted Water/Wastewater Rate Percent Increases (FY 2021-FY 2025)**

<b>RATES</b>	<b>FY 2021</b>	<b>FY 2022</b>	<b>FY 2023</b>	<b>FY 2024</b>	<b>FY 2025</b>
Water	37%	1.5%	1.5%	1.5%	1.5%
Wastewater	10%	10%	10%	8%	8%

The last rate increase for water and wastewater was implemented July 1, 2024 (approved through a Proposition 218 process initiated in 2020). In late summer of 2024, as staff reviewed the financial status of the Water Enterprise Fund and began preparing to bid the Steel Line Replacement Project, the shortfall and potential long-term insolvency of the Water Fund was apparent. Staff sought additional funding for the project, including applying for low-interest State Revolving Fund (SRF) loans and other potential grant opportunities, but were unsuccessful because water fund projections do not support future debt service payments. Staff determined that a water rate study was needed for long-term financial planning.

While there wasn't the same immediate need for a rate study of the Wastewater Enterprise Fund, the process provided an opportunity to update the financial plans for that utility fund and allow the rate structure of both utilities to be considered together in order to minimize the combined impact of the water and wastewater rate structure. Most City utility customers receive a combined water and wastewater bill and focus on the total cost of the two services in managing their budgets.

## **DISCUSSION:**

In order to finalize the rate notice, as required by Proposition 218, the Council must determine which five-year (FY 2026-FY 2030) water rate scenario is preferred, or provide staff and the consultant feedback on an alternative rate structure. Likewise, the Council must confirm that the proposed wastewater rate structure is acceptable or provide staff and the consultant feedback on an alternative rate structure.

**Table 1 – Proposed Water/Wastewater Rate Percent Increases (FY 2026-FY 2030)**

<b>RATE SCENARIOS</b>	<b>FY 2026</b>	<b>FY 2027</b>	<b>FY 2028</b>	<b>FY 2029</b>	<b>FY 2030</b>
Water 1	44%	0%	10%	10%	8%
Water 2	23%	18%	12%	10%	10%
Wastewater	0%	0%	5.0%	5.0%	5.0%

### Water Financial Overview

The need for significant Capital Improvement Program (CIP) projects to replace infrastructure that has exceeded its useful life is a primary driver in the need to increase water rates. The City has identified critical CIP needs of \$36 million over the next five years. The financial plan in the Bartle Wells Draft Rate Study assumes that the majority of project costs will be financed by issuing new debt and the recommended rate increases ensure that the City meets the new debt servicing requirements. Issuing debt spreads the cost of the large and expensive infrastructure projects over thirty years, which in most cases is less than the expected useful life of those assets. The financial projections also include ongoing inflation costs of four (4) percent annually.

The current fiscal health of the water fund is also driving the need for the proposed large upfront rate increases, under both scenarios.<sup>1</sup> As discussed in prior agenda items<sup>2</sup>, current reserves are not sufficient to fund the current CIP waterline replacement project. The Council approved a \$3.5 million loan from the Wastewater Fund to the Water Fund on April 2, 2025, in order to allow that project to proceed with the understanding that a future rate increase would be necessary to repay that loan. In addition to repaying the loan, a rate increase is necessary to establish adequate cash reserves and to meet the debt service coverage ratios needed to issue future debt.

Staff now recommend that the City Council select the rate increases outlined Scenario 2 because the phased in increase is more manageable by customers and provides a lower initial increase to ratepayers.

### Wastewater Financial Overview

The Wastewater Fund is in good financial health. Wastewater rates were increased from FY 2021-2025 anticipating significant capital needs, with the Wastewater Treatment Plant Upgrade the primary concern. The City was able to secure grant funding through state and federal programs, that reimbursed most of the costs for that project estimated at completion to be approximately \$67 million. Without those grant funds, current wastewater rates would be much higher.

The City has identified that \$51.4 million is needed to fund critical wastewater CIP projects over the next five years. Like the water fund, issuance of future debt will help limit rate increases, but unlike the water fund the rate increases can be delayed until the third year of the rate study period, in part because the Wastewater CIP projects are partially funded by \$26.5 million in secured grants. This will help offset the more significant increases proposed in the first two years of the water scenarios

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<sup>1</sup> Under Scenario 1, a rate increase of 44 percent is proposed for the first year, and no increase in the second year and under Scenario 2, there is a 23 percent rate increase in the first year and an 18 percent increase in the second year.

<sup>2</sup> February 5, 2025, Regular City Council Meeting; February 19, 2025, Regular City Council Meeting; March 5, 2025, Regular City Council Meeting; April 2, 2025, Regular City Council Meeting; and October 15, 2025, Regular City Council Meeting.

for the vast majority of City utility customers, who receive both water and wastewater services from the City of Arcata.

### Impact to Ratepayers

As part of the City Council's consideration of proposed water rate adjustments, staff have prepared information to clarify how the proposed changes would affect utility customers. While one of the proposed options includes an initial 44 percent increase to water rates, this does not equate to a 44 percent increase in the total utility bill. Most customers receive a single bill that includes both water and wastewater services. On average, water charges account for approximately 35 percent of the total bill, while wastewater charges account for the remaining 65 percent.

The City Council is currently evaluating two water rate options. Under the first option, overall water rates would increase by 44 percent on May 1, 2026. Scenario 2 provides for a 23% overall water rate increase on May 1, 2026. Please note that the proposed increase is an average of all rate changes but the individual rate categories may vary from the average. Likewise, individual customers' bills may vary from the average.<sup>3</sup>

Although there are no proposed overall wastewater rate revenue increases until July 1, 2028, there are changes to rate categories. For example, in the first year of implementation, the wastewater portion of the bill for an average single-family residence is projected to decrease by 4.2 percent. The net result to the average single-family residence is an increase of 11 percent under Water Scenario 1 and 3.6 percent under Water Scenario 2.

The decrease in the average single-family residence rate is the result of two proposed changes to this category. The first change removes the 4 hundred cubic feet (HCF) usage cap included in the base rate and instead establishes a monthly flat sewer fee. This change will make sewer charges more predictable and eliminate monthly fluctuations tied to seasonal water use or inconsistent meter readings. It is also consistent with the fixed costs associated with providing residential wastewater services. However, it may increase costs for ratepayers with below-average usage.

The second change adds a new category for multi-family units served by a single meter. Rather than treating these accounts as a single-family residence—with one base charge and usage charges above the 4 HCF cap—these properties will be charged a lower per-unit flat fee, eliminating usage-based charges. For some multi-family properties, this may result in higher wastewater fees, but it corrects an inequity in how these fees have historically been charged.

Over the five years covered by the current water and wastewater rate study, under Scenario 1, the water/wastewater combined bills for the average single-family residence will increase by a total of 36 percent or \$49. Under Scenario 2, the water/wastewater combined bills for the average single-family residence will increase by a total of 39 percent or \$54.

Staff also evaluated Arcata's current water rates in comparison to similar-sized communities in Northwest California. At present, Arcata's average monthly water charge for a single-family home is \$47.98, which is approximately \$8 lower than the regional average and approximately \$11 lower than the regional median charge. This comparative analysis indicates that Arcata's water rates remain relatively low within the regional context, prior to consideration of the proposed adjustments.

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<sup>3</sup> The City encourages water/wastewater customers to review the information provided in the Proposed Proposition 218 Notice and the [Bartle Wells Associates' Water and Wastewater Rate Study](#) to determine the actual impact their bill taking into account their rate categories and monthly usage.

## Proposition 218 Process and Important Dates

Proposition 218 is a requirement of the California Constitution that establishes procedural safeguards for property owners when a local agency proposes to adopt or increase water and wastewater rates. Under Proposition 218, affected property owners are entitled to receive advance written notice of the proposed rates, review the basis for the increases, and submit formal protests prior to any action by the City Council. These requirements are intended to ensure transparency and accountability in the rate-setting process.

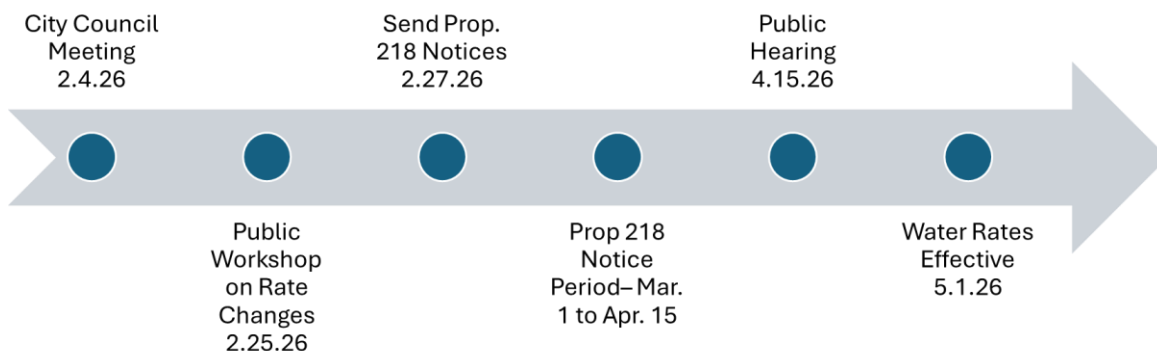
Public participation is a key component of the Proposition 218 process. Community input provides the City Council with valuable information regarding resident concerns, potential financial impacts, and service priorities related to water and wastewater operations. By engaging in the process, community members contribute to an informed and balanced decision-making framework before any rate adjustments are finalized.

Prior to adopting any proposed rate increase, the City is required to mail written notices to all affected property owners and to tenants who are responsible for paying utility bills. The notice must include the proposed water and wastewater rates, an explanation of the reasons for the proposed increases, such as infrastructure investment needs, regulatory compliance requirements, or operational costs - the date, time, and location of the public hearing, and instructions for submitting a written protest.

In advance of the public hearing proposed for April 15, 2026, community members are encouraged to review the City's Water and Wastewater Rate Study to better understand how the proposed rates were developed and how they may affect individual utility bills. Residents and ratepayers may also contact City staff with questions prior to the hearing. The rate study and supporting materials are available on the City's website. [Arcata 2025 Water and Wastewater Rate Study | Arcata, CA](#)

Proposition 218 establishes a formal protest procedure. Only written protests are considered when determining whether a proposed rate increase may be adopted. To be valid, a written protest must be submitted in writing, identify the applicable property address or parcel number, clearly state opposition to the proposed water and/or wastewater rates, and be received by the City prior to or during the public hearing. If written protests are submitted by a majority of the affected parcels, the City is legally prohibited from adopting the proposed rates.

### **PROPOSITION 218 TIMELINE**



**ENVIRONMENTAL REVIEW (CEQA):**

Public Resource Code Section 21080(b)(8) of the California Environmental Quality Act (CEQA) and CEQA Guidelines Section 15273 provide that CEQA does not apply to the establishment, modification, structuring, or approval of rates, tolls, fares and other charges by public agencies which the public agency find are for the purpose of 1) meeting operating expenses, including employee wage rates and fringe benefits; 2) purchasing or leasing supplies, equipment or materials; 3) meeting financial reserve needs and requirements; and 4) obtaining funds for capital projects necessary to maintain current service levels.

**BUDGET/FISCAL IMPACT:**

The projected budget/fiscal impact is detailed in the attached Draft Water and Wastewater Rate Study. The proposed rates provide for sufficient revenue to enable the City to maintain the City's water and wastewater utilities, provide sufficient reserves and support future debt service.

The proposed rates as set forth in the Proposition 218 Notice are the maximum allowable amount that the City Council can approve for the next five-year rate term. The Council always has the flexibility to implement rate adjustments that are less than adopted pursuant to Proposition 218, although future rates cannot exceed the adopted increases without going through the Proposition 218 process.

**RECOMMENDED COUNCIL ACTION:**

1. Receive a staff report;
2. Open public comment;
3. Close public comment; and
4. Motion to adopt Resolution No. 256-18 authorizing staff to initiate the Proposition 218 process for adjustments to the City of Arcata's Water and Wastewater rates.

**ATTACHMENTS:**

- A. Draft BWA City of Arcata Water and Wastewater Rate Study, January 14, 2026
- B. Resolution No. 256-18 Authorizing Staff to Initiate the Proposition 218 Process
- C. Draft Proposition 218 Notice of Public Hearing on Proposed Water and Wastewater Rate Increases
- D. BWA Presentation – City of Arcata W-WW Rate Study 1.14.2026