

STAFF REPORT

Date: March 26, 2025

To: Mayor and City Council

Through: Jackie Bryant, City Manager

Subject: Staff Report (For Possible Action): Presentation, discussion, and potential direction to staff regarding the sewer user rate sufficiency analysis including direction to initiate a community feedback process on a potential rate increase and bring back an ordinance for consideration at a future meeting.

From: John Flansberg, Regional Infrastructure Administrator

Department: Regional Infrastructure

Summary:

The city conducts a sewer rate sufficiency analysis every two years to ensure financial stability of the sewer fund. The latest analysis, conducted with DOWL, recommends an 8% sewer rate increase for FY26 and FY27 due to rising capital improvement and treatment costs. Despite efforts to reduce expenses, including cuts to stormwater maintenance and the sewer capital improvement programs, the increase is necessary to prevent insolvency of the sewer fund by FY28. Major projects, such as the APWF and TMWRF facility upgrades, require significant funding. To mitigate the impact of the recommended sewer rate increase on low-income residents, staff propose expanding the criteria for eligibility of the sewer utility assistance program. Staff is seeking direction to initiate a community feedback process on a potential rate increase and bring back an ordinance for consideration at a future meeting.

Alignment with Strategic Plan:

Infrastructure, Climate Change, and Environmental Sustainability
Fiscal Sustainability

Previous Council Action:

There is no recent Council action relevant to this item.

Background:

The sewer fund policy requires that staff conduct a sewer fund sufficiency analysis at least every two years. Staff contracted with DOWL, who is an industry leader in sewer utility rate setting to conduct the analysis. After establishing the 20-year sewer capital improvement needs and

ongoing operation and maintenance costs, the analysis resulted in a recommendation for a sewer user rate increase. The last time that Council approved a rate increase was August of 2011 where Council approved an 8% increase for 5 consecutive years. The last true rate increase approved by Council went into effect on October 1, 2015. The only increase to sewer user rates since that time have been for inflation as indexed by Consumer Price Index (CPI-U) for our region.

Discussion:

Staff conducts a sewer rate sufficiency analysis every two years, as required by the Sewer Fund Policy. Staff worked with DOWL to analyze sewer fund revenues, ongoing operational costs, and the 20-year Capital Improvement Program. The analysis shows that an 8% sewer user rate increase is needed for two consecutive years (FY26 and FY27) to maintain the fund's solvency. The recommended 8% increase accounts for inflation. The expectation is that in FY28, the sewer user rates would continue to increase by CPI-U only to account for inflation.

Directors from Utility Services, Public Works, Maintenance and Operations, and Regional Infrastructure met to explore ways to reduce costs and adjust project timelines. They agreed to reduce the stormwater maintenance program by \$2.1 million in FY26, FY27, and FY28. They also decided to cut \$3.2 million from the Sewer Repair/Replacement Capital Improvement Program for FY30-34. The result of these reductions is the consultant recommended 8% sewer rate increase over the next two years.

The sewer rate increase is necessary due to a 40% rise in capital improvement construction costs, and a 54% increase in treatment costs (such as chemicals, electricity, and insurance). For example, bleach costs have increased by 3x. The rate increase also supports large upcoming capital projects funded by user fees, including the APWF project (FY26, \$89.3 million), the TMWRF dewatering building (FY27, \$45 million), and the TMWRF fluidized bed reactor (FY29, \$8.2 million).

The analysis did not account for any ongoing affordable housing sewer connection fee reductions. A total of \$11,318,399 for affordable housing sewer connection fee reductions have already been granted to affordable housing projects. If Council would like an ongoing affordable housing sewer connection fee reduction program, it would require an additional rate increase. Additionally, this model doesn't propose any increase to the annual stormwater program, but it does maintain the required funding for stormwater maintenance, as mandated by our stormwater permit.

Without the rate increase, the sewer fund will become insolvent by FY28. Further cuts to capital improvement programs at TMWRF, RSWRF, and in the collection system would increase the risk of system failures and delay necessary infrastructure rehabilitation. For example, this could result in losing critical processes at our water reclamation facilities or failing to replace a sewer

line during a street rehab project (RTC or City of Reno).

To mitigate the impact of the sewer rate on the City's low-income residents, staff reviewed the current sewer rebate program with input from the Senior Citizen Advisory Committee. Based on this input, staff is recommending adding Supplemental Nutrition Assistance Program (SNAP) benefits as an eligibility criterion, accepting applications year-round, and increasing the program's allocated budget from \$50,000 to \$500,000. Additionally, staff is proposing changing the name of the sewer rebate program to the Sewer Utility Assistance Program.

Industry standards suggest that water and sewer services should cost no more than 4%-4.5% of a household's median income (2%-2.5% for sewer alone). The proposed rates are less than 1% of the median household income in Reno which is less than ½ of this affordability standard. However, using the 2%-2.5% guideline, households with annual incomes below \$34,999 would be most affected by the rate increase.

Staff is seeking direction to initiate a community feedback process on a potential rate increase to include mailers in the upcoming sewer bill statements and a public meeting.

Financial Implications:

If sewer user rates are not increased, the sewer fund is projected to become insolvent being unable to pay its ongoing expenses in FY28.

Legal Implications: If approved to move forward, State and City Code processes would commence along with a resolution relating to the sewer enterprise fund to address the sewer utility assistance program.

Recommendation:

Staff recommends Council direct staff to initiate a community feedback process on a potential rate increase and bring back an ordinance for consideration at a future meeting. Staff also recommends that Council direct staff to bring back a resolution to include the sewer utility assistance program in the Enterprise Fund Resolution regarding sewer user fees.

Proposed Motion:

I move to approve staff recommendation.

Attachments:

Sewer Utility Rate Sufficiency Analysis