



CITY COUNCIL AGENDA REPORT

MEETING DATE: Tuesday, July 8, 2025
TO: CITY COUNCIL
WRITTEN BY: ASSISTANT PUBLIC WORKS & UTILITIES DIRECTOR GREEN
RECOMMENDED BY: PUBLIC WORKS & UTILITIES DIRECTOR LINDBERG
APPROVED BY: TAMARA VIDES, CITY MANAGER

SUBJECT: AWARD A CONTRACT TO RAFTELIS FINANCIAL CONSULTANTS, INC. IN AN AMOUNT NOT TO EXCEED \$200,000 FOR A COST-OF-SERVICE FINANCIAL ANALYSIS AND RATE SETTING STUDY FOR ALL THREE ENTERPRISE UTILITIES

RECOMMENDATION:

Adopt a resolution awarding a contract to Raftelis, Inc., a corporation, in an amount not to exceed \$200,000 for a Cost of Service Financial Analysis and Rate Setting Study for all three enterprise utilities; and authorizing and directing City Manager to finalize and execute the contract.

BACKGROUND:

The City generally performs a rate-setting study every five years for the City's three utility enterprises: Wastewater, Water, and Solid Waste. The previous rate study was completed in 2021, signifying the City is near the end of the five-year cycle, requiring the procurement of professional financial consultant services. Staff solicited statements of qualification from financial and engineering firms to perform a cost-of-service financial analysis and rate-setting study. The contract is ready to be awarded to the selected consultant.

DISCUSSION:

The City of Watsonville operates three independent and self-supporting utility enterprises, which are run by the Water, Wastewater, and Solid Waste Divisions. The City Council adopts utility rates through the Proposition 218 process to pay the cost of operating and maintaining each of these utilities. These funds also pay for capital projects to replace and modernize the City's infrastructure.

The City of Watsonville has the lowest combined utility rates in the county compared with most of our neighboring jurisdictions. The city has been able to achieve this through lean staffing levels, prudent fiscal management, and by effectively maintaining equipment and facilities to extend their useful life as long as possible. However, like many communities across the state, a significant number of new regulatory requirements combined with the increasing cost of replacing existing infrastructure puts pressure on rate payers to fund these infrastructure needs locally. Recent rate increases have not been adequate to fund the major capital project needs that can no longer be deferred.

Major Funding Needs

Wastewater. The Headworks and Influent Pump Station Replacement project is currently in design to replace the existing infrastructure that has reached the end of its useful life. This project is estimated to cost approximately \$37 million. Other projects are also on the horizon, including a replacement of the dewatering system, cogeneration system, and other ongoing equipment replacement needs.

Water. New regulatory requirements will largely drive the water capital improvements in the immediate future which includes Hexavalent Chromium Treatment, future PFAS treatment, and new regulations governing cross connection control. The City is in preliminary design on a Hexavalent Treatment project to address existing water wells impacted by the new state-mandated maximum contaminant level requirements, which alone is anticipated to cost between \$40 - \$58 million to implement.

Solid Waste. The opening of Phase IV of the City's existing landfill will help defray the increasing disposal costs for solid waste, though the City will continue to off-haul recycling and organics to the outside facility in Marina, where costs continue to increase year over year. The division will also need to continue planned replacements of solid waste collection vehicles, many of which have already exceeded their anticipated lifespan.

While grants such as the \$17 million FEMA/CalOES Hazard Mitigation Grant, which is funding the Wastewater Electrical System Hazard Mitigation project, are an excellent means to defray local utility rate increases, the availability of grants at the state and federal level continues to decrease as competition for these limited resources increases. Low-interest State Revolving Fund loans can also help defer the impact of rate increases over a longer period of time while still accomplishing the necessary capital improvements in the immediate term. Even with these resources, the significant budgetary demands on the utilities will likely require additional rate increases over the next five years, requiring a detailed rate study.

Consultant Selection Process

On May 23, 2025, Public Works Staff publicly advertised a Request for Proposals (RFP) from financial and engineering firms to perform a cost-of-service analysis and utility rate setting study. The RFP was posted on the City's electronic procurement portal. Proposals were due Friday, June 20, 2025, by 4:00pm.

A total of three firms submitted proposals: Raftelis Financial Consultants, Inc., Water Resources Economics, LLC., and Willdan Financial Services. A selection committee ranked the proposals on a number of criteria identified in the RFP.

Raftelis Financial Consultants (Raftelis) was ranked the highest and is recommended as the most qualified firm to deliver the requested scope of services. The draft consultant agreement with their proposal submission and estimated cost proposal is attached. Staff recommends that Council award the professional services contract to Raftelis, in an amount not to exceed \$200,000 and authorize and direct City Manager to execute said contract with minor revisions that may be approved by the City Manager and City Attorney.

CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA) DETERMINATION:

This action is exempt from the requirements of the California Environmental Quality Act (CEQA) in accordance with CEQA Guidelines Section 15378(b)(5), in that adopting a Resolution awarding contract to Raftelis for the Cost of Service Financial Analysis and Rate Setting Study and the preparation of the Rate Setting Study itself does not meet CEQA's definition of a "project," because the action does not have the potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment and if a "project," is exempt under the "common sense" exception (14 Cal. Code Regs. § 15061(b)(3)) because it can be seen with certainty that there is no possibility that this action may have a significant effect on the environment.

STRATEGIC PLAN:

The project is consistent with the following Strategic Plan goals:

Infrastructure & Environment; Fiscal Health

FINANCIAL IMPACT:

The recommended contract amount is a total not to exceed \$200,000. There is sufficient budget available in the Fiscal Year 25/26 Utilities Administration Budget account 0710-540-7307 Expert and Consultation. The Utilities Administration Budget [540] is funded by all three enterprise utilities (wastewater, water, and solid waste).

ALTERNATIVE ACTION:

No reasonable alternatives known.

ATTACHMENTS AND/OR REFERENCES (IF ANY):

None.