CITY COUNCIL REGULAR MEETING AGENDA PACKET

CITY COUNCIL CHAMBERS, CITY HALL
7351 ROSANNA STREET, GILROY, CA 95020

MAYOR
Marie Blankley

COUNCIL MEMBERS
Rebeca Armendariz
Dion Bracco
Tom Cline
Zach Hilton
Carol Marques
Fred Tovar

MONDAY, OCTOBER 16, 2023 | 6:00 PM

CITY COUNCIL PACKET MATERIALS ARE AVAILABLE ONLINE AT www.cityofgilroy.org
AGENDA CLOSING TIME IS 5:00 P.M. THE TUESDAY PRIOR TO THE MEETING

PUBLIC COMMENTS ON AGENDA ITEMS ARE TAKEN BEFORE THE CITY COUNCIL TAKES ACTION. Please keep your comments to 3 minutes. Time restrictions may vary based on the Mayor's discretion.

Send written comments on any agenda item to publiccomments@cityofgilroy.org or City Hall, 7351 Rosanna Street, Gilroy, CA 95020. Comments received by 1 p.m. on the meeting day will be distributed to the City Council before the meeting. Comments are also available at bit.ly/3NuS1IN.

In compliance with the Americans with Disabilities Act, the City will make reasonable arrangements to ensure accessibility to this meeting. If you need special assistance to participate in this meeting, please contact the City Clerk's Office at least 72 hours prior to the meeting at (408) 846-0204 or cityclerk@cityofgilroy.org to help ensure that reasonable arrangements can be made.

If you dispute any planning or land use decision from this meeting in court, you may only raise issues you or someone else presented at this meeting's public hearing or in written letters to the City Council before the hearing. Be aware that the time to seek a judicial review of any final decision made at this meeting is defined by Section 1094.6 of the California Code of Civil Procedure.

During this meeting, a Closed Session may be called under Government Code Section 54956.9 (d)(2). This will happen if, in the City's legislative body's opinion (based on current facts, circumstances, and legal advice), there's a significant risk of a lawsuit against the City.

Additional materials submitted after agenda distribution are available on www.cityofgilroy.org as soon as possible.

KNOW YOUR RIGHTS UNDER THE GILROY OPEN GOVERNMENT ORDINANCE

Government's duty is to serve the public, reaching its decisions in full view of the public. Commissions, task forces, councils and other agencies of the City exist to conduct the people's business. This ordinance assures that deliberations are conducted before the people and that City operations are open to the people's review.

FOR MORE INFORMATION ON YOUR RIGHTS UNDER THE OPEN GOVERNMENT ORDINANCE, TO RECEIVE A FREE COPY OF THE ORDINANCE OR TO REPORT A VIOLATION OF THE ORDINANCE, CONTACT THE OPEN GOVERNMENT COMMISSION STAFF AT (408) 846-0204.

If you need translation assistance, contact the City Clerk 72 hours before the meeting at 408-846-0204 or cityclerk@cityofgilroy.org.

Si necesita un intérprete durante la junta y gustaría dar un comentario público, comuníquese con el Secretario de la Ciudad un mínimo de 72 horas antes de la junta al 408-846-0204 o envíe un correo electrónico a la Oficina del Secretario de la Ciudad a cityclerk@cityofgilroy.org.

To access written translation during the meeting, please scan the QR Code or click this link:

Para acceder a la traducción durante la reunión, por favor escanee el código QR o haga clic en el enlace:

bit.ly/3FBiGA0

Choose Language and Click Attend | *Seleccione su lenguaje y haga clic en asistir*

Use a headset on your phone for audio or read the transcript on your device.
Use sus auriculares para escuchar el audio o leer la transcripción en el dispositivo.

The agenda for this meeting is outlined as follows:

1. OPENING

1.1. Call to Order

1.2. Pledge of Allegiance

1.3. Invocation

1.4. City Clerk's Report on Posting the Agenda

1.5. Roll Call

1.6. Orders of the Day

1.7. Employee Introductions

2. CEREMONIAL ITEMS - Proclamations and Awards

3. PRESENTATIONS TO THE COUNCIL

3.1. Annual Presentation by the Arts and Culture Commission

3.2. PUBLIC COMMENT BY MEMBERS OF THE PUBLIC ON ITEMS NOT ON THE AGENDA BUT WITHIN THE SUBJECT MATTER JURISDICTION OF THE CITY COUNCIL

This part of the meeting allows public address on non-agenda topics within the Council's jurisdiction. To speak, complete a Speaker's Card from the entrances and give it to the City Clerk. Speaking time ranges from 1-3 minutes based on the Mayor's discretion. Extended discussions or actions on non-agenda items are restricted by law. For Council action, the topic may be listed on a future agenda.

Email written comments on non-agenda topics to publiccomments@cityofgilroy.org or mail to City Hall, 7351 Rosanna Street, Gilroy, CA 95020, by 1:00 pm on the meeting day. These comments, available at City Hall, will be shared with the Council and included in the meeting record. Late submissions will be shared as soon as possible. A 10-page limit applies to hard-copy materials, but electronic submissions are unlimited.

4. REPORTS OF COUNCIL MEMBERS

Council Member Bracco – Downtown Committee, Santa Clara County Library Joint Powers Authority, Santa Clara Valley Water Joint Water Resources Committee, SCRWA

Council Member Armendariz – Downtown Committee, Santa Clara County Library Joint Powers Authority *(alternate)*, Santa Clara Valley Habitat Agency Governing Board, Santa Clara Valley Habitat Agency Implementation Board, Silicon Valley Clean Energy Authority JPA Board *(alternate)*, South County United for Health

Council Member Marques – ABAG, Downtown Committee, Gilroy Gardens Board of Directors, Santa Clara Valley Habitat Agency Governing Board, Santa Clara Valley Habitat Agency Implementation Board, SCRWA *(alternate)*

Council Member Hilton – CalTrain Policy Group *(alternate)*, Silicon Valley Clean Energy Authority JPA Board, South County United for Health *(alternate)*, VTA Policy Advisory Committee

Council Member Cline – Gilroy Economic Development Partnership *(alternate)*, Gilroy Sister Cities Association, Gilroy Youth Task Force, Silicon Valley Regional Interoperability Authority Board, VTA Policy Advisory Committee *(alternate)*, Visit Gilroy California Welcome Center Board, VTA Mobility Partnership Committee

Council Member Tovar – Downtown Committee, Gilroy Youth Task Force *(alternate)*, Santa Clara County Expressway Plan 2040 Advisory Board,Santa Clara Valley Water Commission, SCRWA, South County Youth Task Force Policy Team

Mayor Blankley – ABAG *(alternate)*, CalTrain Policy Group, Downtown Committee, Gilroy Economic Development Partnership, Gilroy Sister Cities Association *(alternate)*, Gilroy Youth Task Force, Santa Clara Valley Water Joint Water Resources Committee, SCRWA, South County Youth Task Force Policy Team, VTA Board of Directors, VTA Mobility Partnership Committee

5. COUNCIL CORRESPONDENCE

6. FUTURE COUNCIL INITIATED AGENDA ITEMS

7. CONSENT CALENDAR

Consent Calendar items are routinely approved with one motion. For separate discussion, a Council member or public member must request its removal before the approval vote. If removed, it's discussed in its original order.

7.1. Approval of the Action Minutes of the October 2, 2023 City Council Regular Meeting

7.2. Acceptance of an Office of Traffic Safety Selective Traffic Enforcement Program Grant in the Amount of $111,000 and Adoption of a Resolution of

the City Council of the City of Gilroy Approving a Fiscal Year 2024 Budget Amendment

7.3. Acceptance of an Office of Traffic Safety Traffic Records Improvement Program Grant for $24,800 and Adoption of a Resolution of the City Council of the City of Gilroy Approving a Fiscal Year 2024 Budget Amendment

7.4. Acceptance of an Edward Byrne Memorial Justice Assistance Grant for $19,822 for the Police Department and Adoption of a Resolution of the City Council of the City of Gilroy Approving a Fiscal Year 2024 Budget Amendment

7.5. Approval of a Notice of Acceptance of Completion for the Gilroy Sports Park Playground Surface Repair Project No. 23-PW-276 and Approval of a Final Contract Amount with Itech Solution of $144,098.78

8. BIDS AND PROPOSALS

9. PUBLIC HEARINGS

9.1. Public Hearing Regarding the Proposed Water and Wastewater Rate Increases

1. Staff Report: Harjot Sangha, Finance Director
2. Open Public Hearing
3. Close Public Hearing
4. Possible Action:

    1. Adopt as final the August 2023 Comprehensive Water and Wastewater Utility Rate Study Report prepared by NBS.
    2. Adopt a resolution approving water and wastewater rate adjustments.

10. UNFINISHED BUSINESS

10.1. Recommendations for Updates/Improvements to the Gilroy Garlic Festival Memorial at Christmas Hill Park

1. Staff Report: Jimmy Forbis, City Administrator
2. Public Comment
3. Possible Action:

Discussion and direction regarding proposed updates/improvements to the Gilroy Garlic Festival Memorial at Christmas Hill Park.

11. INTRODUCTION OF NEW BUSINESS

11.1. Authorize the City Administrator to Enter into a Three-Year Service Agreement with the County of Santa Clara for Animal Sheltering Services for the Period of July 1, 2023, through June 30, 2026

1. Staff Report: Pedro Espinoza, Police Chief
2. Public Comment
3. Possible Action:

Authorize the City Administrator to sign a three-year service agreement with the County of Santa Clara for Animal Sheltering Services from July 1, 2023, through June 30, 2026.

11.2. Annual Review and Adoption of the City's Investment Policy

1. Staff Report: Harjot Sangha, Finance Director
2. Public Comment
3. Possible Action:

Adopt a resolution establishing the City's updated Investment Policy.

12. CITY ADMINISTRATOR'S REPORTS

13. CITY ATTORNEY'S REPORTS

14. ADJOURNMENT

FUTURE MEETING DATES

November 2023

6 Regular Meeting - 6:00 p.m

20 Regular Meeting - 6:00 p.m

December 2023

4 Regular Meeting - 6:00 p.m

11 Special Meeting - 6:00 p.m

~~18 Regular Meeting - 6:00 p.m~~ ***-CANCELED-***

January 2024

8 Regular Meeting - 6:00 p.m

22 Regular Meeting - 6:00 p.m

Meetings are webstreamed at gilroy.city/meetings.

Access the 2024 City Council Meeting Calendar at https://bit.ly/3LLzY1n.

7.1. Approval of the Action Minutes of the October 2, 2023 City Council Regular Meeting

City of Gilroy
City Council Regular Meeting Minutes
Monday, October 2, 2023 | 6:00 PM

1. OPENING

1.1. Call to Order

The meeting was called to order by Mayor Blankley at 6:00 PM.

1.2. Pledge of Allegiance

Pro Tempore Mayor Bracco led the Pledge of Allegiance.

1.3. Invocation

Pastor Greg Quirke of South Valley Community Church provided the invocation.

1.4. City Clerk's Report on Posting the Agenda

City Clerk Pham reported on the Posting of the Agenda.

1.5. Roll Call

Attendance	Attendee Name
Present	Rebeca Armendariz, Council Member Dion Bracco, Mayor Pro Tempore Tom Cline, Council Member Zach Hilton, Council Member Carol Marques, Council Member Fred Tovar, Council Member Marie Blankley, Mayor
Absent	None

1.6. Orders of the Day

There were none.

1.7. Employee Introductions

There were none.

2. CEREMONIAL ITEMS - Proclamations and Awards

2.1. Proclamation Proclaiming October 2023 as The Great Shakeout

Mayor Blankley read aloud the proclamation and presented it to Emergency Services & Volunteer Coordinator Andrew Young.

3. PRESENTATIONS TO THE COUNCIL

3.1. Presentation from Silicon Valley Clean Energy

Adam Selvin, Director at Silicon Valley Clean Energy of Silicon Clean Energy, provided the presentation.

3.2. PUBLIC COMMENT BY MEMBERS OF THE PUBLIC ON ITEMS NOT ON THE AGENDA BUT WITHIN THE SUBJECT MATTER JURISDICTION OF THE CITY COUNCIL

Mayor Blankley opened Public Comment.

The following members spoke on items that were not on the agenda.

Paul Dommert, Jr. championed a disc golf course at Christmas Hill Park, noting the sport's accessibility and community spirit.

Ron Kirkish expressed concerns about hybrid meeting disruptions, referencing issues in other cities and emphasizing a need for a deliberate Council approach.

Gregory Felios promoted "Coffee with the Mayor" on October 7th, underscoring it as a chance for community dialogue with the Gilroy Unified School District superintendent.

No further speakers present, Mayor Blankley closed Public Comment.

4. REPORTS OF COUNCIL MEMBERS

Council Member Bracco had nothing to report.

Council Member Armendariz shared updates from South County United for Health and highlighted the 7th Annual Tamal Festival and Car Show held last Saturday.

Council Member Marques reported on the Santa Clara Valley Habitat Agency Governing Board and Gilroy Gardens Board of Directors.

Council Members Hilton and Cline acknowledged the success of the recent 7th Annual Tamal Festival and Car Show.

Council Member Tovar reported on the Downtown Committee,

Mayor Blankley reported on CalTrain Policy Group, VTA Board of Directors, and VTA Mobility Partnership Committee.

5. COUNCIL CORRESPONDENCE

There were none.

6. FUTURE COUNCIL INITIATED AGENDA ITEMS

There were none.

7. CONSENT CALENDAR

Mayor Blankley opened Public Comment. There being no speakers, Mayor Blankley closed Public Comment.

Motion: Approve the Consent Calendar

RESULT:	**Pass**
MOVER:	Fred Tovar, Council Member
SECONDER:	Carol Marques, Council Member
AYES:	Council Member Armendariz, Mayor Pro Tempore Bracco, Council Member Cline, Council Member Hilton, Council Member Marques, Council Member Tovar, Mayor Blankley

7.1. Approval of the Action Minutes of the September 18, 2023 City Council Regular Meeting

A motion was made to approve the minutes.

7.2. Claim of Jose Aaron Munoz (The City Administrator recommends a "yes" vote under the Consent Calendar shall constitute denial of the claim)

A motion was made to deny the claim.

8. BIDS AND PROPOSALS

There were none.

9. PUBLIC HEARINGS

9.1. Proposed Tentative Parcel Map to subdivide two developed commercial lots located at 6955 Camino Arroyo into seven parcels, Application No. TM 23-01

Mayor Blankley asked the Council if they had received an ex-parte communication. None were reported.

Planner II Melissa Durkin provided staff presentation and responded to Council Member questions.

Mayor Blankley opened the Public Hearing at 6:30 PM. There being no speakers, Mayor Blankley closed the Public Hearing at 6:30 PM.

Motion: Based on its independent analysis, determines that the proposed project is exempt from further environmental review by State CEQA Guidelines section 15061 (b), the “common sense” exemption because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, and adopt a resolution approving the proposed tentative parcel map to subdivide the property known as APN 841-17-045 and 841-17-036 into seven separate parcels.

RESULT:	**Pass**
MOVER:	Tom Cline, Council Member
SECONDER:	Rebeca Armendariz, Council Member
AYES:	Council Member Armendariz, Mayor Pro Tempore Bracco, Council Member Cline, Council Member Hilton, Council Member Marques, Council Member Tovar, Mayor Blankley

Enactment No.: Resolution No. 2023-57

10. UNFINISHED BUSINESS

10.1. Appointments to City Boards, Commissions, and Committees with Seats Vacant or Expired as of September 18, 2023

Mayor Blankley opened Public Comment. There being no speakers, Mayor Blankley closed Public Comment.

The council appointed the following members:

Akur Varadarajan to the Open Government Commission with a term ending December 31, 2024.

Dale Davis to the Parks and Recreation Commission with a term ending

December 31, 2025.

10.2. Justice, Equity, Diversity, and Inclusion Initiative Update

Police Sergeant Toney and Communications Manager Bedell provided staff presentation and responded to Council Member questions.

Mayor Blankley opened Public Comment. There being no speakers, Mayor Blankley closed Public Comment.

Council received the report and directed staff to have the consultant present their findings at a future Council meeting.

11. INTRODUCTION OF NEW BUSINESS

11.1. Receive Preliminary Fiscal Year 2022-23 (FY23) Year-End Financial Report

Finance Director Sangha provided staff presentation and responded to Council Member questions.

Mayor Blankley opened Public Comment.

Ron Kirkish expressed concerns about the city's current and future revenues, urging the Council to prioritize spending and scrutinize expenditures.

There being no speakers, Mayor Blankley closed Public Comment.

Motion: Motion to approve $225,000 to be transferred to the Section 115 Pension Trust, pursuant to the Pension Funding Policy.

RESULT:	**Pass**
MOVER:	Fred Tovar, Council Member
SECONDER:	Rebeca Armendariz, Council Member
AYES:	Council Member Armendariz, Mayor Pro Tempore Bracco, Council Member Cline, Council Member Hilton, Council Member Tovar, Mayor Blankley
NAYS:	Council Member Marques

11.2. Discussion and Direction Regarding Other Post Employment Benefit (OPEB) Section 115 Trust and Funding

Finance Director Sangha provided staff presentation and responded to Council Member questions.

Mayor Blankley opened Public Comment. There being no speakers, Mayor Blankley closed Public Comment.

Motion: Adopt a resolution establishing a Section 115 Trust for Other Post Employment Benefits (OPEB), approving a one-time contribution to the Section 115 OPEB Trust of $0.5 million from the General Fund balance (reserves), and approving an OPEB Funding Policy, with the addition Council to address the split between the OPEB and pension in equal percentages to their respective unfunded balances.

RESULT:	**Pass**
MOVER:	Marie Blankley, Mayor

SECONDER: Rebeca Armendariz, Council Member
AYES: Council Member Armendariz, Mayor Pro Tempore Bracco, Council Member Cline, Council Member Hilton, Council Member Marques, Council Member Tovar, Mayor Blankley

Enactment No.: Resolution No. 2023-58

12. CITY ADMINISTRATOR'S REPORTS

12.1. Know Your Code

12.2. E-newsletter Mailbag

12.3. Love Gilroy/Fight Dirty

City Administrator Forbis provided the City Administrator's Report.

13. CITY ATTORNEY'S REPORTS

City Attorney Faber provided the City Attorney's Report.

14. CLOSED SESSION

Mayor Blankley opened Public Comment.

Richard Perino recounted a 2006 house fire experience, critiqued response times, and pushed for fire department funding.

Mike Sterner appealed to improve fire department staffing and address retention issues related to the CalPERS system.

Steven Hayes highlighted the urgent staffing need at Santa Teresa station, emphasizing response times and urging action for optimal emergency outcomes.

Matt Tuttle emphasized a widespread staffing issue across county fire departments, urging Gilroy officials to prioritize fire station staffing.

Christopher Cobillas advocated for continuous staffing at the Santa Teresa Station and emphasized its role in emergency preparedness.

Kim Kurtis highlighted the critical need for funding and staffing fire departments amidst Gilroy's growth.

Jason Lucero raised concerns about inconsistent staffing and resources at the Santa Teresa Fire Station and questioned city transparency.

Bob Weaver criticized discrepancies in response times and safety issue communication in the Santa Teresa district.

Jim Blean spoke on the impact of fire station proximity on insurance rates and proposed consistent and strategic fire station staffing.

Ron Kirkish criticized Glen Loma developers for delaying a fire station and suggested stringent council actions to ensure developer compliance.

There being no further speakers, Mayor Blankley closed Public Comment.

Mayor Blankley recessed the Regular Meeting at 8:40 PM.

The City Council reconvened into Closed Session at 8:45 PM.

The vote to stay in Closed Session was unanimous.

14.1. CONFERENCE WITH LABOR NEGOTIATORS - COLLECTIVE BARGAINING UNIT Pursuant to GC Section 54957.6 and GCC Section 17A.11 (4); Collective Bargaining Units: Local 2805, IAFF Fire Unit Representing Gilroy Fire Fighters
City Negotiators: Jimmy Forbis, City Administrator, LeeAnn McPhillips, HR Director
Anticipated Issues(s) Under Negotiation: Wages, Hours, Benefits, Working Conditions; Memorandums of Understanding: City of Gilroy and Gilroy Fire Fighters Local 2805.

No reportable action.

15. ADJOURN TO OPEN SESSION

Mayor Blankley reported out of the Closed Session, as shown above.

16. ADJOURNMENT

Mayor Blankley adjourned the meeting at 11:02 PM.

I HEREBY CERTIFY that the foregoing minutes were duly and regularly adopted at a regular meeting of the City Council of the City of Gilroy.

/s/ Thai Nam Pham, MMC, CPMC
City Clerk

7.2. Acceptance of an Office of Traffic Safety Selective Traffic Enforcement Program Grant in the Amount of $111,000 and Adoption of a Resolution of the City Council of the City of Gilroy Approving a Fiscal Year 2024 Budget Amendment

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Acceptance of an Office of Traffic Safety Selective Traffic Enforcement Program Grant in the Amount of $111,000 and Adoption of a Resolution of the City Council of the City of Gilroy Approving a Fiscal Year 2024 Budget Amendment**
Meeting Date:	October 16, 2023
From:	Jimmy Forbis, City Administrator
Department:	Police
Submitted By:	Pedro Espinoza, Police Chief
Prepared By:	Patricia Vigil, Management Analyst

STRATEGIC PLAN GOALS Ensure Neighborhood Equity from City Services

RECOMMENDATION

1. Accept the Office of Traffic Safety Selective Traffic Enforcement Program Grant for $111,000 and authorize the City Administrator to execute all grant agreements and related documents; and
2. Adopt a resolution of the City Council of the City of Gilroy amending the budget for Fiscal Year 2024 (FY24) and appropriating proposed expenditure amendments.

EXECUTIVE SUMMARY

The City of Gilroy has been the recipient of the Office of Traffic Safety Grant for many years. The Office of Traffic Safety released a solicitation for grant applications for the "Selective Traffic Enforcement Program" (STEP) grant in January 2023. The Gilroy Police Department applied for and was tentatively awarded a grant for $111,000. The objective of the grant is to reduce incidents of fatal and injury collisions involving vehicles, bicycles, and pedestrians by use of targeted traffic enforcement operations and enhanced traffic analytics.

BACKGROUND

The California Highway Safety Program is a partnership effort between the National Highway Traffic Safety Administration and California. The Governor designates the Office of Traffic Safety to receive federal traffic safety funds for coordinating California's highway safety programs. Each year, the Office of Traffic Safety develops a Highway Safety Plan identifying the key highway safety problems in the State and the most effective countermeasures to address them. The Office of Traffic Safety then solicits proposals statewide to address the identified problems and allocates funds to state and local governmental agencies to implement traffic safety programs and grants.

In July 2023, the Office of Traffic Safety notified the Gilroy Police Department of tentative approval of our initial grant application for $111,000. The grant cycle is from October 1, 2023, to September 30, 2024, to expend the funds through their reimbursement process. As a condition of the award process, the governing body of the applying jurisdiction must approve the acceptance of the award prior to the final acceptance and allocation of funds.

Police Officers will conduct 3 DUI checkpoints and 12 DUI saturation patrols provided by overtime, which the grant will reimburse. Police Officers will also attempt to reduce injury and fatal collisions by conducting 12 special traffic enforcement operations and six distracted driver operations. Acceptance of the grant requires the Police Department to provide training in DUI enforcement to Police Officers and traffic safety training to members of the community without reimbursement. The Police Department hosts a DUI training class taught by CHP so Gilroy Police Officers can attend without additional costs, and the Traffic Unit provides bicycle and pedestrian classes for school children during their normal workdays.

Another requirement of the grant is that the Police Department participates in several national campaigns in conjunction with the Office of Traffic Safety such as Distracted Driver Month, Winter and Summer Anti-DUI campaigns, Pedestrian Safety Month, and Safe Routes to Schools.

ANALYSIS

In order to continue traffic-related enforcement operations, City Council action is required to appropriate the grant funds into the FY24 budget. The proposed budget appropriation is to be made in the Office of Traffic Safety Special Revenue Fund as follows:

Org/Object Code: 2233010-52610/43120 $111,000.

ALTERNATIVES

The Council may reject approval to appropriate the Office of Traffic Safety Selective Traffic Enforcement Program Grants funds for $111,000 into the FY24 budget. Staff does not recommend this option as it would mean alternative funding would have to be identified.

FISCAL IMPACT/FUNDING SOURCE

Approval of this action would appropriate the grant funding and increase revenue and expenditure appropriations to the Police Department's Office of Traffic Safety Grants Fund (223), by $111,000 in the FY24 budget.

PUBLIC OUTREACH

The Police Department will conduct a public engagement campaign via our digital media platforms prior to each scheduled DUI checkpoint and participation of national campaigns in addition to the grant-required "Kickoff" press release.

Attachments:

1. Draft Resolution

RESOLUTION NO. 2023-XX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GILROY AMENDING THE BUDGET FOR THE CITY OF GILROY FOR FISCAL YEAR 2023-2024 IN THE OFFICE OF TRAFFIC SAFETY FUND AND APPROPRIATING PROPOSED EXPENDITURE AMENDMENTS

WHEREAS, the City Administrator prepared and submitted to the City Council a budget for the City of Gilroy for Fiscal Years 2023-2024 and 2024-2025, and the City Council carefully examined, considered, and adopted the same on June 5, 2023; and

WHEREAS, City Staff has prepared and submitted to the City Council a proposed amendment to said budget for Fiscal Year 2023-2024 for the City of Gilroy in the staff report dated October 16, 2023, for the Office of Traffic Safety Fund, appropriating funding received from the Office of Traffic Safety and,

WHEREAS, the City Council has carefully examined and considered the same and is satisfied with said budget amendments.

NOW, THEREFORE, BE IT RESOLVED THAT appropriations in the Office of Traffic Safety Fund, Fund 223, is hereby increased by $111,000 for Fiscal Year 2023-2024.

PASSED AND ADOPTED this 16th day of October 2023 by the following roll call vote:

AYES: **COUNCIL MEMBERS:**

NOES: **COUNCIL MEMBERS:**

ABSTAIN: **COUNCIL MEMBERS:**

ABSENT: **COUNCIL MEMBERS:**

APPROVED:

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Marie Blankley, Mayor

ATTEST:

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Thai Nam Pham, City Clerk

7.3. Acceptance of an Office of Traffic Safety Traffic Records Improvement Program Grant for $24,800 and Adoption of a Resolution of the City Council of the City of Gilroy Approving a Fiscal Year 2024 Budget Amendment

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Acceptance of an Office of Traffic Safety Traffic Records Improvement Program Grant for $24,800 and Adoption of a Resolution of the City Council of the City of Gilroy Approving a Fiscal Year 2024 Budget Amendment**
Meeting Date:	October 16, 2023
From:	Jimmy Forbis, City Administrator
Department:	Police
Submitted By:	Pedro Espinoza, Police Chief
Prepared By:	Patricia Vigil, Management Analyst

STRATEGIC PLAN GOALS Ensure Neighborhood Equity from City Services

RECOMMENDATION

1. Accept the Office of Traffic Safety Traffic Records Improvement Program Grant for $24,800; and
2. Adopt a resolution of the City Council of the City of Gilroy amending the budget for Fiscal Year 2024 and appropriating proposed expenditure amendments.

EXECUTIVE SUMMARY

The Gilroy Police Department (GPD) was awarded a grant for $24,800 to electronically report traffic data to the California Highway Patrol Statewide Integrated Traffic Records System (SWITRS).

BACKGROUND

The California Highway Safety Program is a partnership effort between the National Traffic Safety Administration and California. The Governor of California designates the Office of Traffic Safety (OTS) to receive federal traffic safety funds for coordinating California's highway safety programs. Each year, the OTS develops a Roadway Safety and Traffic Records Plan to assist law enforcement agencies in submitting reliable traffic collision data through the purchase of hardware or software tools.

In July, the OTS notified GPD of grant approval for $24,800. The grant cycle is from October 1, 2023, to September 30, 2024, to expend the funds through a reimbursement process. As a condition of the award process, the governing body of the applying jurisdiction must approve the acceptance of the award prior to the final acceptance and allocation of funds.

ANALYSIS

GPD uses a data-driven approach for the reduction of injury and fatal traffic accidents using traffic enforcement, education, and collaboration with Public Works engineering personnel as key components. In 2020, OTS funded the purchase of the Crossroads software collision database system and analytics to gather collision data as a tool to determine the cause of injury and fatal traffic accidents.

As with most law enforcement agencies, the Police Department is struggling to fill vacant Records Unit positions. GPD is authorized for six Record Technician positions and currently has three of these positions vacant. The Records unit manually sends traffic accident data to SWITRS, which is a time-consuming process, preventing timely information to SWITRS.

With the award of the OTS grant, GPD will have the funding necessary to electronically report traffic collision data from Crossroads directly to SWITRS.

GPD uses data-driven information to focus on the top primary factors involved in most traffic accidents and fatal accidents. GPD is committed to taking a comprehensive, inclusive, and equitable approach to delivering education, enforcement, and outreach programs to save lives. To accomplish the electronic delivery of traffic collision data to the California Highway Patrol SWITRS system, City Council action is required to appropriate the grant funds into the FY24 budget. The proposed budget appropriation is in the Office of Traffic Safety Grant special revenue fund as follows:

Org/Object: 2233010-52610/43120 $24,800.

ALTERNATIVES

Council may reject approval to appropriate the Office of Traffic Safety Traffic Records Improvement Program Grant funds for $24,800 into the FY24 budget. Staff does not recommend this option as it would mean alternative funding would have to be identified.

FISCAL IMPACT/FUNDING SOURCE

Approval of this action would appropriate the grant funding and increase revenue and expenditure appropriations to the Police Department's Office of Traffic Safety Grants fund (223) by $24,800 in the FY24 budget.

Attachments:

1. Draft Resolution

RESOLUTION NO. 2023-XX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GILROY AMENDING THE BUDGET FOR THE CITY OF GILROY FOR FISCAL YEAR 2023-2024 IN THE OFFICE OF TRAFFIC SAFETY FUND AND APPROPRIATING PROPOSED EXPENDITURE AMENDMENTS

WHEREAS, the City Administrator prepared and submitted to the City Council a budget for the City of Gilroy for Fiscal Years 2023-2024 and 2024-2025, and the City Council carefully examined, considered, and adopted the same on June 5, 2023; and

WHEREAS, City Staff has prepared and submitted to the City Council a proposed amendment to said budget for Fiscal Year 2023-2024 for the City of Gilroy in the staff report dated October 16, 2023, for the Office of Traffic Safety Fund, appropriating funding received from the Office of Traffic Safety and,

WHEREAS, the City Council has carefully examined and considered the same and is satisfied with said budget amendments.

NOW, THEREFORE, BE IT RESOLVED THAT appropriations in the Office of Traffic Safety Fund, Fund 223, is hereby increased by $24,800 for Fiscal Year 2023-2024.

PASSED AND ADOPTED this 16th day of October 2023 by the following roll call vote:

AYES: **COUNCIL MEMBERS:**

NOES: **COUNCIL MEMBERS:**

ABSTAIN: **COUNCIL MEMBERS:**

ABSENT: **COUNCIL MEMBERS:**

APPROVED:

____

Marie Blankley, Mayor

ATTEST:

____

Thai Nam Pham, City Clerk

7.4. Acceptance of an Edward Byrne Memorial Justice Assistance Grant for $19,822 for the Police Department and Adoption of a Resolution of the City Council of the City of Gilroy Approving a Fiscal Year 2024 Budget Amendment

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Acceptance of an Edward Byrne Memorial Justice Assistance Grant for $19,822 for the Police Department and Adoption of a Resolution of the City Council of the City of Gilroy Approving a Fiscal Year 2024 Budget Amendment**
Meeting Date:	October 16, 2023
From:	Jimmy Forbis, City Administrator
Department:	Police
Submitted By:	Pedro Espinoza, Police Chief
Prepared By:	Patricia Vigil, Management Analyst

STRATEGIC PLAN GOALS Ensure Neighborhood Equity from City Services

RECOMMENDATION

a) Accept the Edward Byrne Memorial Justice Assistance Grant for $19,822 from the United States Department of Justice, Bureau of Justice Assistance, and authorize the City Administrator to execute all grant agreements and related documents; and

b) Adopt a resolution of the City Council of the City of Gilroy amending the budget for Fiscal Year 2023-2024 (FY24) and appropriating proposed expenditure amendments.

EXECUTIVE SUMMARY

The City of Gilroy Police Department has been the recipient of the annual Edward Byrne Memorial Justice Assistance Grant (JAG) for several years. The JAG program is the leading source of federal justice funding to state and local jurisdictions. The JAG Program provides local governments with critical funding necessary to support a range of program areas in law enforcement. The Police Department applied for and was awarded a grant of $19,822.

BACKGROUND

The United States Department of Justice, Bureau of Justice Assistance (BJA) released a solicitation for FY24 grant applications. In September 2023, the Police Department received approval of the grant application for $19,822 to use towards law enforcement and equipment programs. The grant cycle is from October 1, 2023, to September 30, 2024, to expend the funds through a reimbursement process. As a condition of the award process, the governing body of the applying jurisdiction must approve the acceptance of the award prior to the allocation of funds.

The FY24 JAG grant funding would be used towards the technological upgrade of the Police Department's community room. This would include the purchase of audio and visual equipment and other presentation aids for collaborative information sharing.

This grant funding is to support essential technology upgrades because this room serves as a critical space for various law enforcement and community-related activities, including training, meetings, briefings, and functioning as a backup Emergency Operations Center (EOC) during critical incidents. With advancements in technology, the Department aims to enhance the functionality and overall efficiency of the space. The improvements will include television monitors, computers, a sound system, and other presentation aids.

The community room is located within the Police Department and is the location of numerous trainings throughout the year, including defensive tactics, de-escalation techniques, first aid/CPR, DUI training, principled policing, and the Community Police Academy. It is also the venue for community meetings and police operation briefings hosted by the Anti-Crime Team, SWAT, and Traffic Division.

ANALYSIS

The JAG grant furthers the Police Department's law enforcement efforts by enhancing its technology to use in tandem with oral presentations from presenters. The current technology in the community room is unreliable and has surpassed its useful life since its implementation in 2012. Purchasing upgraded, reliable equipment will enhance the ability to disseminate vital information and training material to police personnel.

The JAG grant funding has been a benefit to the City for several years. In prior years, grant funds have been used towards the purchase of officer vest carriers, ceramic armor plates, and crisis negotiating equipment.

To receive funding, City Council action is required to appropriate the grant funds into the FY24 budget. The proposed FY24 budget appropriation is in the Police Grants special revenue fund, as follows:

Org/Object: 2253000-53120/43110 $19,822.

ALTERNATIVES

The Council may reject approval to appropriate the Edward Byrne Memorial Justice Assistance Grant funds for $19,822 into the FY24 budget. Staff does not recommend this option as it would mean alternative funding would have to be identified.

FISCAL IMPACT/FUNDING SOURCE

Approval of this action would increase funding to the Police Department's Grant Fund, Fund 225, by $19,822 in the FY24 budget towards upgrading technological equipment in the Police Department community room. There is no additional financial contribution required by the City of Gilroy.

Attachments:

1. Draft Resolution

RESOLUTION NO. 2023-XX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GILROY AMENDING THE BUDGET FOR THE CITY OF GILROY FOR FISCAL YEAR 2023-2024 IN THE POLICE DEPARTMENT GRANTS FUND AND APPROPRIATING PROPOSED EXPENDITURE AMENDMENTS

WHEREAS, the City Administrator prepared and submitted to the City Council a budget for the City of Gilroy for Fiscal Years 2023-2024 and 2024-2025, and the City Council carefully examined, considered, and adopted the same on June 5, 2023; and

WHEREAS, City Staff has prepared and submitted to the City Council a proposed amendment to said budget for Fiscal Year 2023-2024 for the City of Gilroy in the staff report dated October 16, 2023, for the Police Department Grants Fund, appropriating funding received from the United States Department of Justice, Bureau of Justice Assistance and,

WHEREAS, the City Council has carefully examined and considered the same and is satisfied with said budget amendments.

NOW, THEREFORE, BE IT RESOLVED THAT appropriations in the Police Department Grants Fund, Fund 225, is hereby increased by $19,822 for Fiscal Year 2023-2024.

PASSED AND ADOPTED this 16th day of October 2023 by the following roll call vote:

AYES: **COUNCIL MEMBERS:**

NOES: **COUNCIL MEMBERS:**

ABSTAIN: **COUNCIL MEMBERS:**

ABSENT: **COUNCIL MEMBERS:**

APPROVED:

____

Marie Blankley, Mayor

ATTEST:

____

Thai Nam Pham, City Clerk

7.5. Approval of a Notice of Acceptance of Completion for the Gilroy Sports Park Playground Surface Repair Project No. 23-PW-276 and Approval of a Final Contract Amount with Itech Solution of $144,098.78

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Approval of a Notice of Acceptance of Completion for the Gilroy Sports Park Playground Surface Repair Project No. 23-PW-276 and Approval of a Final Contract Amount with Itech Solution of $144,098.78**
Meeting Date:	October 16, 2023
From:	Jimmy Forbis, City Administrator
Department:	Public Works
Submitted By:	Karl Bjarke, Interim Public Works Director
Prepared By:	Susana Ramirez, Engineer I

STRATEGIC PLAN GOALS Maintain and Improve City Infrastructure

RECOMMENDATION

a) Approve a notice of acceptance of completion for the Gilroy Sports Park Playground Surface Repair Project No. 23-PW-276; and

b) Approve a final contract amount of $144,098.78 with Itech Solution for the Gilroy Sports Park Playground Surface Repair Project No. 23-PW-276.

EXECUTIVE SUMMARY

The Public Works Department has completed the construction of the Gilroy Sports Park Playground Surface Repair Project and has reviewed and approved all project documentation. The project consisted of the removal and replacement of the rubberized playground surface at the Gilroy Sports Park. The total construction cost of the project was $144,098.78.

Staff recommends the City Council's approval of the Notice of Acceptance of Completion for the Gilroy Sports Park Playground Surface Repair Project No. 23-PW-276 and approve the final contract amount of $144,098.78.

BACKGROUND

The City received grant funding from the State of California Department of Parks and Recreation, Office of Grants and Local Services (OGALS) under the Proposition 68 General Per Capita Grant Program in the amount of $78,750 for this project. This funding is allocated to cities and counties based on population for eligible projects improving park and recreation services.

On February 27, 2023, the City Council awarded a contract to Itech Solution for the construction of the Gilroy Sports Park Playground Surface Repair Project in the amount of $134,140 with a project contingency of $13,414 (10%) for a maximum project expenditure of $147,554 and authorized the City Administrator to execute the contract and associated documents. The project funding was drawn from the Landscaping Operating Budget of the General Fund (Fund 100), and the City will be reimbursed $78,750 from OGALS.

ANALYSIS

The project scope of work included the removal and replacement of approximately 6,400 square feet of protective playground rubber safety surface material at the Gilroy Sports Park. The project was completed with a total construction cost of $144,098.78. The repairs took a total of 13 working days to complete. A certificate of substantial completion was issued on August 21, 2023.

Project documentation has been completed, and the contractor has addressed all punch list items. The repairs were inspected and approved by OGALS' Project Officer on August 29, 2023. Staff recommends the City Council approve the Notice of Acceptance of Completion for the Gilroy Sports Park Playground Surface Repair Project No. 23-PW-276, as well as the final contract amount of $144,098.78.

FISCAL IMPACT/FUNDING SOURCE

The total project construction cost was $144,098.78, which represents a savings of $3,455.22 from the awarded contract total of $147,554, which included $13,414 (10%) in contingency.

Construction of this project was funded through the State of California Department of Parks and Recreation under Proposition 68 Per Capita Grant and through the City's Landscaping Operating Budget in the General Fund (Fund 100). The General Fund will be reimbursed $78,750 from OGALS grant funding.

Attachments:

1. NOC 2023 Gilroy Sports Park 23-PW-276

RECORDING REQUESTED BY:

City of Gilroy

WHEN RECORDED, MAIL TO:
City Clerk's Office
City of Gilroy
7351 Rosanna Street
Gilroy, CA 95020

(SPACE ABOVE THIS LINE FOR RECORDER'S USE)

RECORD WITHOUT FEE UNDER SECTION 27383
GOVERNMENT CODE OF STATE OF CALIFORNIA

Notice of Acceptance of Completion

Gilroy Sports Park Playground Surface Repair
Project No. 23-PW-276
Itech Solution

SEPARATE PAGE PURSUANT TO GOVT. CODE 27361.6

NOTICE OF ACCEPTANCE OF COMPLETION

NOTICE IS HEREBY GIVEN that, as of the 16th day of October 2023, the City of Gilroy, California ("City") has accepted as completed the work required to be performed under the following agreement ("Agreement") by and between Itech Solution ("Contractor") and City:

Gilroy Sports Park Playground Surface Repair
Project No. 23-PW-276
Itech Solution

Project No.: 23-PW-276
Contractor Name: Itech Solution
Contractor Address: PO Box 270040 , San Jose, CA 95127
Surety on Contract: Great Midwest Insurance Company
Location of Project: Gilroy, California

Description of Work:

The work includes the furnishing of all labor, materials, incidentals, and equipment necessary to perform the resurfacing of approximately 6,400 sf of protective playground rubber safety surface at the Gilroy Sports Park.

Interest of City:
_____ Owner in Fee
_____ Vendee under Agreement to Purchase
_____ Lessee
_____ Owner of Easements
_____ Holder of License
__X__ Owner of Streets
_____ Owner of Utilities, Water, Sewer, Storm Systems

Owner's Name/Address: City of Gilroy, 7351 Rosanna Street, Gilroy, CA 95020
Work Done: See above, Description of Work

This notice is given in accordance with the provisions of Section 3093 of the Civil Code of the State of California.

The undersigned, being duly sworn, deposes and say:

That I am an officer of the City of Gilroy, that I have read the foregoing Notice of Acceptance of Completion and know the contents thereof; and that the same is true of my own knowledge, except as to those matters that I believe to be true. I certify under penalty of perjury that the foregoing is true and correct.

Executed at the City of Gilroy, County of Santa Clara, State of California, on 9/28/23

CITY OF GILROY

BY: Jorge Duran
TITLE: Interim City Engineer

CALIFORNIA ACKNOWLEDGMENT **CIVIL CODE § 1189**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California
County of Santa Clara

On September 28, 2023 before me, Sandra E. Nava, Notary Public
Date *Here Insert Name and Title of the Officer*

personally appeared Jorge Duran
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(~~s~~) whose name(~~s~~) is/~~are~~ subscribed to the within instrument and acknowledged to me that he/~~she~~/~~they~~ executed the same in his/~~her~~/~~their~~ authorized capacity(~~ies~~), and that by his/~~her~~/~~their~~ signature(~~s~~) on the instrument the person(~~s~~), or the entity upon behalf of which the person(~~s~~) acted, executed the instrument.

SANDRA E. NAVA
Notary Public - California
Santa Clara County
Commission # 2421274
My Comm. Expires Nov 11, 2026

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature Sandra E. Nava
Signature of Notary Public

Place Notary Seal and/or Stamp Above

OPTIONAL

Completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

Description of Attached Document

Title or Type of Document: Notice of Acceptance of Completion

Document Date: September 28, 2023 Number of Pages: ______

Signer(s) Other Than Named Above: ______

Capacity(ies) Claimed by Signer(s)

Signer's Name: ______
☐ Corporate Officer – Title(s): ______
☐ Partner – ☐ Limited ☐ General
☐ Individual ☐ Attorney in Fact
☐ Trustee ☐ Guardian or Conservator
☐ Other: ______
Signer is Representing: ______

Signer's Name: ______
☐ Corporate Officer – Title(s): ______
☐ Partner – ☐ Limited ☐ General
☐ Individual ☐ Attorney in Fact
☐ Trustee ☐ Guardian or Conservator
☐ Other: ______
Signer is Representing: ______

9.1. Public Hearing Regarding the Proposed Water and Wastewater Rate Increases

1. Staff Report:
2. Open Public Hearing
3. Close Public Hearing
4. Possible Action:

    1. Adopt as final the August 2023 Comprehensive Water and Wastewater Utility Rate Study Report prepared by NBS.
    2. Adopt a resolution approving water and wastewater rate adjustments.

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Public Hearing Regarding the Proposed Water and Wastewater Rate Increases**
Meeting Date:	October 16, 2023
From:	Jimmy Forbis, City Administrator
Department:	Finance
Submitted By:	Harjot Sangha, Finance Director
Prepared By:	Harjot Sangha, Finance Director

STRATEGIC PLAN GOALS	Develop a Financially Resilient Organization Maintain and Improve City Infrastructure

RECOMMENDATION

1. Adopt as final the August 2023 Comprehensive Water and Wastewater Utility Rate Study Report prepared by NBS.
2. Adopt a resolution approving water and wastewater rate adjustments.

EXECUTIVE SUMMARY

The City engaged a consultant, NBS Government Finance Group, to conduct a Comprehensive Water and Wastewater Rate Study (Rate Study) with several objectives, including meeting revenue requirements, reviewing rising costs of providing services, funding capital improvements and change in costs, and complying with specific legal requirements, such as Proposition 218 which requires that rates not exceed the cost of providing the service and be proportionate to the cost of providing service to all customers. The Rate Study yielded that both utilities must establish multi-year rate adjustments to continue investing in the critical infrastructure and keep pace with rising operating costs. The overall rate adjustments (as a percentage) necessary for both utilities for a five-year period are as follows:

	FY24*	FY25	FY26	FY27	FY28
Water	8%	8%	6%	4%	4%
Wastewater	4%	4%	4%	4%	4%

*First-year adjustments will vary for each customer based on their customer classification, as the cost-of-service analysis has been updated to reallocate costs recovered between customer classes.

On August 21, 2023, the City Council received a presentation on the Rate Study and the proposed rate adjustments. City Council also adopted a resolution declaring intent to adjust the water and wastewater rates, commencing the Proposition 218 noticing process and setting October 16, 2023, as the date for the Public Hearing to adopt the proposed water and wastewater rates. The August 21st staff report is included as an attachment to this report.

The City has completed the required noticing and is now at the final step of the Proposition 218 process, which is to conduct the Public Hearing and adopt the rates. As of writing this report, the City has received 26 protest letters opposing the rate adjustments, which is substantially below the required majority (50% plus one) needed of approximately 15,000 customers opposing the proposed rate adjustments to not institute the adjustments.

Staff recommends the City Council conduct the Public Hearing, accept the final submission or withdrawals of protest letters, and adopt a resolution approving the water and wastewater rate adjustments.

ANALYSIS

The Rate Study was prepared in accordance with industry standards and included three primary components: 1) development of a financial plan which compared the current sources and uses of the funds and determined the revenue needed from the rates and project rate adjustments; 2) cost of service analysis which classified the expenses and allocated costs to different customer classes in a fair and equitable manner; and 3) rate design analysis which considered relationship between fixed (personnel, debt service, etc.) and variable costs (purchased water, electricity, etc.) to be recovered. The Rate Study is attached to this staff report.

Water Rates Adjustments

The table below outlines the current and proposed water rates for FY24 through FY28. It is important to note that since the last rate study in 2015, factors such as the number of meters and consumption of each customer class have changed. The cost-of-service analysis rebalances the allocation based on these factors, including the shift to 40% fixed and 60% variable proportions. As a result, there is an uneven adjustment in the first year. In subsequent years, the proposed charges are adjusted by the proposed percentage increases in total rate revenue needed for the net revenue requirement.

Water Rate Schedule	Current Rates	Proposed Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Service Charges						
Meter Size						
3/4 inch	$11.53	$20.67	$22.32	$23.66	$24.61	$25.59
1 inch	$19.24	$29.05	$31.38	$33.26	$34.59	$35.98
1 1/2 inch	$38.47	$50.02	$54.02	$57.26	$59.55	$61.93
2 inch	$61.55	$75.17	$81.18	$86.05	$89.50	$93.08
3 inch	$115.39	$142.24	$153.62	$162.84	$169.36	$176.13
4 inch	$192.30	$217.70	$235.12	$249.23	$259.20	$269.57
6 inch	$384.62	$427.32	$461.50	$489.19	$508.76	$529.11
8 inch	$615.37	$678.85	$733.16	$777.15	$808.23	$840.56
10 inch	$884.50	$1,768.83	$1,910.34	$2,024.96	$2,105.95	$2,190.19
Variable Charges for All Water Consumed ($/1,000 gallons (or TG))						
Residential Customers - Tiered Volumetric Rates		Uniform Vol. Rates				
Tier 1 - Zone 1	$4.39	$4.00	$4.32	$4.58	$4.77	$4.96
Tier 1 - Zone 2	$4.93	$4.37	$4.72	$5.00	$5.20	$5.41
Tier 1 - Zone 3	$5.52	$4.73	$5.11	$5.41	$5.63	$5.85
Tier 2 (more than 20 TG)						
Tier 2 - Zone 1	$4.93	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 2	$5.47	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 3	$6.06	N.A.	N.A.	N.A.	N.A.	N.A.

Note: The proposed rates for FY24 will be implemented on January 1, 2024, and annually on January 1 for subsequent fiscal years thereafter

Wastewater Rates Adjustments

The table below outlines the current and proposed wastewater rates for FY24 through FY28. Like the water rates, the first year's rates reflect the cost-of-service adjustments that occur based on changes in customer classes, consumption, and other factors. The projected rates for subsequent years are adjusted by the proposed 4% annual increases.

Sewer Rate Schedule	Current Rates	Proposed Sewer Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Charge						
Residential (100% Fixed)						
Single-Family Residence	$46.64	$51.07	$53.11	$55.24	$57.45	$59.74
Multi-Family Residence	$33.13	$34.39	$35.77	$37.20	$38.69	$40.23
Non-Residential Volumetric Rates						
Low Strength	$7.41	$8.36	$8.69	$9.04	$9.40	$9.78
Domestic Strength	$9.21	$9.51	$9.89	$10.29	$10.70	$11.12
Medium Strength	$12.08	$13.15	$13.67	$14.22	$14.79	$15.38
High Strength	$18.63	$21.56	$22.42	$23.32	$24.25	$25.22
Non-Residential - Monitoring & Pretreatment Program Base Rate Monthly Charges						
Significant/Categorical	$240.95	$287.19	$298.68	$310.63	$323.05	$335.98
Non-Significant/Categorical	$95.22	$114.64	$119.22	$123.99	$128.95	$134.11
Other Non-Residential	$11.47	$15.47	$16.09	$16.73	$17.40	$18.09

Note: The proposed rates for FY24 will be implemented on January 1, 2024, and annually on January 1 for subsequent fiscal years thereafter

Public Hearing

The Public Hearing is the final step of the Proposition 218 process to adopt the water and wastewater rate adjustments, which is being conducted after the minimum of 45 days from the mailing of the notification of proposed rate adjustments. As of the writing of this report (October 10, 2023), 26 written protest letters have been received regarding the rate adjustments, which is substantially below the required majority (50% plus one) needed from approximately 15,000 customers opposing the proposed rate adjustments to not institute the adjustments. The Council is required to accept all written protests received before the close of the Public Hearing. Provided a majority protest is not received, Staff recommends the City Council approve the recommended rate adjustments by adopting the resolution. The first of the approved increases would become effective on January 1, 2024, and annually on January 1st for subsequent fiscal years.

ALTERNATIVES

Council could elect not to adopt the resolution approving the rate adjustments. This is not recommended as both water and wastewater utility rates have not been adjusted since 2019, and it is vital for the City to continue investing in critical utilities' infrastructure and keep pace with rising operational costs.

FISCAL IMPACT/FUNDING SOURCE

The fiscal and resource impact of preparing the report is included in the staff's annual workplan. The total cost for the comprehensive water and wastewater rate study is $72,325, which was budgeted and funded by the Water (705) and Wastewater (700) Funds.

The new rates would generate an average of $2.7 million annually for the water utility and an average of $1.8 million for the wastewater utility over the next five-year period.

PUBLIC OUTREACH

The public outreach process commenced in early August, ahead of the Rate Study presentation to the City Council and included the City's communication channels such as social media posts, weekly Email Express, and monthly utility bills with links to the dedicated utility rate adjustment webpage on the City's website with relevant information and notices available in both the English and Spanish language. City staff also conducted a community meeting on September 6, 2023, which was attended by several community members. The outreach resulted in increased customer service inquiries to the utility billing function via phone, email and in person where staff provided pertinent rate adjustment information.

NEXT STEPS

Provided Council adopts the resolution approving the new rates, staff will begin a communication campaign advising customers of the upcoming rate adjustments which will be implemented on January 1, 2024.

Staff will conduct similar notification annually thereafter for subsequent rate adjustments in the five-year period.

Attachments:

1. Draft Resolution
2. August 21, 2023 – Staff Report
3. Rate Study

RESOLUTION NO. 2023-XX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GILROY ESTABLISHING THE CITY'S WATER AND WASTEWATER UTILITY SERVICE RATES EFFECTIVE JANUARY 1, 2024, AND ADJUSTED ANNUAL ON JANUARY 1 FOR EACH SUBSEQUENT FISCAL YEAR THEREAFTER THROUGH FISCAL YEAR 2027-28

WHEREAS, the City of Gilroy has identified ongoing operational and capital needs associated with the City's water and wastewater utility system; and

WHEREAS, in order to fund the identified water and wastewater system's operational and capital costs, it is necessary to adjust the City's current water and wastewater rates; and

WHEREAS, the City of Gilroy engaged NBS Government Finance Group, a firm with expertise in the analysis of costs relating to utilities, to conduct a rate study of the City's water and wastewater utilities; and

WHEREAS, the City Council received the report prepared by NBS Government Finance Group at the August 21st, 2023, City Council meeting and heard from staff on this matter; and

WHEREAS, on November 5, 1996, California voters approved Proposition 218, requiring specific procedures be followed with regard to "property-related" fee increases, including the need to provide written notice at least 45 days in advance of a public hearing; and

WHEREAS, pursuant to California Constitution Article XIIID, which is commonly known as Proposition 218, the City gave at least 45 days' notice of the time and place of the public hearing set before the City Council by causing to be mailed the said notice with instructions on the proper method for submitting a protest, postage prepaid, to all owners of property subject to the City's water and wastewater utilities system rate schedule, and to all water and wastewater utility customers on August 28, 2023; and

WHEREAS, on August 21, 2023, the City Council adopted Resolution 2023-49 setting October 16, 2023, as the date for the public hearing for consideration of the water and wastewater rate adjustments.

WHEREAS, pursuant to law, if a majority of the owners of property subject to the proposed water and wastewater utilities system rates file valid protests to the proposed rate, then the City Council may not adopt the new rate; and

WHEREAS, the City Council has received and duly considered all written and verbal comments provided to it by staff and the public, which comments are hereby incorporated into the record on this matter; and

WHEREAS, the number of protests compared to the number of parcels currently receiving water and wastewater services from the City is less than 50%.

NOW, THEREFORE THE CITY COUNCIL OF THE CITY OF GILROY DOES RESOLVE AS FOLLOWS:

1. The purposes of the fees and reserves set forth herein are to finance the water and wastewater utilities system costs.

2. The facts and evidence presented to the City Council establish that the cost determinations set forth in the NBS rate study are reasonable and proportional, and the fees expected to be generated will not exceed those reasonable and proportional costs.

3. The City Council hereby adopts the adjusted water and wastewater rate schedule, the reserve fund targets, and the rate study report. The rates are show in Exhibit "A", which is attached hereto and incorporated by reference to be effective for each monthly cycle beginning on or after January 1, 2024, January 1, 2025, January 1, 2026, January 1, 2027, and January 1, 2028, as described in the Exhibit "A".

PASSED AND ADOPTED at a Regular Meeting of the City Council on this 16th day of October 2023 by the following vote:

AYES: COUNCIL MEMBERS:

NOES: COUNCIL MEMBERS:

ABSTAIN: COUNCIL MEMBERS:

ABSENT: COUNCIL MEMBERS:

APPROVED:

____
Marie Blankley, Mayor

ATTEST:

____
Thai Nam Pham, City Clerk

EXHIBIT A

Wastewater Rates

Wastewater revenues pay for the operations and maintenance of the collection system (pipes and pump stations that transport the wastewater from homes and businesses to the wastewater treatment plant) and the administrative and regulatory costs to run the system. The treatment plant is operated by the South County Regional Wastewater Authority (SCRWA), a Joint Powers Authority (JPA) whose members are the cities of Gilroy and Morgan Hill. A portion of the wastewater revenues collected by the City is used for payments to SCRWA. In addition, wastewater rates support infrastructure investments, such as necessary system repairs and renovations to meet new regulations.

The residential wastewater service rates consist of fixed monthly charges. The non-residential wastewater service rates are comprised of two components: 1) a fixed monthly charge for non-residential wastewater monitoring and pretreatment program charges and 2) a volumetric monthly charge with four wastewater strength categories.

The current and proposed wastewater rates charges for the next five years are presented in the Table 1 below:

Table 1 – Current and Proposed Wastewater Rates

Sewer Rate Schedule	Current Rates	Proposed Sewer Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Charge						
Residential (100% Fixed)						
Single-Family Residence	$46.64	$51.07	$53.11	$55.24	$57.45	$59.74
Multi-Family Residence	$33.13	$34.39	$35.77	$37.20	$38.69	$40.23
Non-Residential Volumetric Rates						
Low Strength	$7.41	$8.36	$8.69	$9.04	$9.40	$9.78
Domestic Strength	$9.21	$9.51	$9.89	$10.29	$10.70	$11.12
Medium Strength	$12.08	$13.15	$13.67	$14.22	$14.79	$15.38
High Strength	$18.63	$21.56	$22.42	$23.32	$24.25	$25.22
Non-Residential - Monitoring & Pretreatment Program Base Rate Monthly Charges						
Significant/Categorical	$240.95	$287.19	$298.68	$310.63	$323.05	$335.98
Non-Significant/Categorical	$95.22	$114.64	$119.22	$123.99	$128.95	$134.11
Other Non-Residential	$11.47	$15.47	$16.09	$16.73	$17.40	$18.09

Note: Revenue from rate increases assumes an implementation date of January 1, 2024 for new rates. For each fiscal year thereafter, the assumption is that new rates will also be implemented on January 1st of each year.

Water Rates

Water revenues pay for the operations and maintenance of infrastructure required to deliver water to the residential and non-residential customers of the City of Gilroy. A portion of these rates fund charges from the Santa Clara Valley Water District (SCVWD), known as Valley Water, for ground water production and management, as 100% of the City's water is pumped from the ground.

The City currently charges residential and non-residential customers a monthly fixed water charge, also known as base charge, based on meter size. In addition to a fixed monthly charge, all customers pay a variable charge, also known as volumetric rate, per 1,000 gallons consumed consisting of two rate tiers of consumption (under and above 30,000 gallons) and three different pump pressure zones. The proposed water rate design eliminates the two tiers and proposes a uniform tier for all customers.

The current and proposed water rate charges for the next five years are presented in detail on Table 2 below:

Table 2 – Current and Proposed Water Rates

Water Rate Schedule	Current Rates	Proposed Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Service Charges						
Meter Size						
3/4 inch	$11.53	$20.67	$22.32	$23.66	$24.61	$25.59
1 inch	$19.24	$29.05	$31.38	$33.26	$34.59	$35.98
1 1/2 inch	$38.47	$50.02	$54.02	$57.26	$59.55	$61.93
2 inch	$61.55	$75.17	$81.18	$86.05	$89.50	$93.08
3 inch	$115.39	$142.24	$153.62	$162.84	$169.36	$176.13
4 inch	$192.30	$217.70	$235.12	$249.23	$259.20	$269.57
6 inch	$384.62	$427.32	$461.50	$489.19	$508.76	$529.11
8 inch	$615.37	$678.85	$733.16	$777.15	$808.23	$840.56
10 inch	$884.50	$1,768.83	$1,910.34	$2,024.96	$2,105.95	$2,190.19
Variable Charges for All Water Consumed ($/1,000 gallons (or TG))						
Residential Customers - Tiered Volumetric Rates		Uniform Vol. Rates				
Tier 1 - Zone 1	$4.39	$4.00	$4.32	$4.58	$4.77	$4.96
Tier 1 - Zone 2	$4.93	$4.37	$4.72	$5.00	$5.20	$5.41
Tier 1 - Zone 3	$5.52	$4.73	$5.11	$5.41	$5.63	$5.85
Tier 2 (more than 30 TG)						
Tier 2 - Zone 1	$4.93	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 2	$5.47	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 3	$6.06	N.A.	N.A.	N.A.	N.A.	N.A.

Note: Revenue from rate increases assumes an implementation date of January 1, 2024 for new rates. For each fiscal year thereafter, the assumption is that new rates will also be implemented on January 1st of each year.

Valley Water Passthrough Rate Increase for Groundwater

Valley Water charges the City a ground production charge for 100% of the City's water that is pumped from the ground. In the event that Valley Water imposes additional charges associated with the pumping of groundwater, the City will implement a passthrough adjustment to customer's bills no earlier than thirty (30) days after the adjustment has been enacted by Valley Water and noticed to all City customers.

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Presentation of the Comprehensive Water and Wastewater Utilities Rate Study; Adoption of a Resolution Commencing the Proposition 218 Noticing Process, and Setting October 16, 2023, as the Date for the Public Hearing to Adopt Water and Wastewater Rates**
Meeting Date:	August 21, 2023
From:	Jimmy Forbis, City Administrator
Department:	Finance
Submitted By:	Harjot Sangha, Finance Director
Prepared By:	Harjot Sangha, Finance Director

STRATEGIC PLAN GOALS	Develop a Financially Resilient Organization Maintain and Improve City Infrastructure

RECOMMENDATION

1. Receive report; and
2. Adopt a resolution:
    a. declaring intent to adjust water and wastewater rates;
    b. commencing the Proposition 218 noticing process; and
    c. Setting October 16, 2023, as the date for the Public Hearing to adopt the new proposed water and wastewater rates.

EXECUTIVE SUMMARY

The City engaged a consultant, NBS Government Finance Group, to conduct a Comprehensive Water and Wastewater Rate Study (Rate Study) with several objectives, including meeting revenue requirements, reviewing rising costs of providing services, funding capital improvements and change in costs, and complying with specific legal requirements, such as Proposition 218 which requires that rates not exceed the cost of providing the service and be proportionate to the cost of providing service to all customers. The City's goal is to ensure both utilities maintain adequate funding for operational and capital costs, reasonable reserves, and revenue stability in the utility rates. The Rate Study has yielded that both utilities will need to establish multi-year rate adjustments to continue investing in the critical infrastructure and keep pace with the rising operating costs. The overall rate adjustments (as a percentage) necessary for both utilities for a five-year period are as follows:

	FY24*	FY25	FY26	FY27	FY28
Water	8%	8%	6%	4%	4%
Wastewater	4%	4%	4%	4%	4%

*First-year adjustments will vary for each customer based on their customer classification, as the cost-of-service analysis has been updated to reallocate costs recovered between customer classes.

Staff recommend the City Council accept the Rate Study report, authorize the commencement of the required Proposition 218 Noticing requirements, and set October 16, 2023, as the date for the Public Hearing to adopt the new proposed water and wastewater rates. If approved, the proposed rates for FY24 will become effective on January 1, 2024, and annually on January 1 for subsequent fiscal years thereafter.

BACKGROUND

As a full-service City, Gilroy owns and operates its own water and wastewater utilities, providing services to over 15,000 customers and growing. To ensure both utilities collect revenue sufficient to meet the growing demand, keep pace with the rising operational costs, and fund the multi-year capital improvement plans, the City has conducted a utilities' rate study. The last utility rate study was completed in 2015, and the City has kept its water and wastewater rates the same since 2019.

The City's operational costs for the water utility continue to increase due to inflationary cost increases for materials/services, electricity, and continued increases in water extraction charges from Valley Water. Statewide conservation efforts enacted in recent years due to the droughts also impacted the revenues collected as the City was mandated to reduce water consumption. In 2021, the City issued wastewater revenue bonds to finance the City's share (approximately $50 million) of the $86 million expansion of the South County Regional Wastewater Authority (SCRWA) plant due to be complete in 2025. In addition to the annual debt payment requirements, the City's cost for the wastewater utility is also expected to increase for its share of the treatment plant expense as the expansion becomes operational and state mandates require additional compliance.

In April 2023, the City approved the updated Water and Wastewater Master Plans. The Plans assess utility systems against the desired level of service and identify infrastructure improvements needed to fix existing systems' deficiencies and service growth. The plans collectively identified over $50.3 million in new improvements, of which $21.7 million is for existing users (ratepayers) and $28.6 million for future developments.

For the City to continue investing in critical utilities' infrastructure and keep pace with rising operational costs, the City needs to establish multi-year rate adjustments.

ANALYSIS

A comprehensive rate study, such as the one City initiated, typically includes three components and is intended to follow industry standards:

1. Financial Plan – compares the current sources and uses of the funds and determines the revenue needed from rates and project rate adjustments. The net revenue requirement is the amount of rate revenue required to fund operations, capital improvement (including debt service), and reserves. As current rates fall short of that net revenue requirement, rate adjustments are typically warranted.
2. Cost-of-Service Analysis – An analysis that classifies expenses and allocates costs to different customer classes in a fair and equitable manner. These classifications include commodity, capacity, and customer service-related costs.
3. Rate Design Analysis – An analysis of the rate structure which considers the relationship between fixed (personnel, debt service, etc.) and variable costs (purchased water, electricity, etc.) to be recovered. Most rate structures contain a fixed, or a minimum, charge in combination with a volumetric charge. Ideally, utilities should recover all their fixed costs from fixed charges and all their variable costs from volumetric charges.

The Rate Study is attached to this staff report. The below sections highlight notable changes within respective utilities and the recommended rate adjustments for the next five-year period.

Water Utility and Rates

Financial Plan

- The Rate Study determined that the projected net revenue requirements for the water system range annually from $15.9 million in Fiscal Year 2023-24 (FY24) to $18.8 million in FY28. Without rate adjustments, the water utility is projected to have a gap in the net revenue requirement of approximately $2.0 million in FY24, increasing to $3.9 million by FY28.
- Reserves:
  - The operating reserve is recommended to equal six months of operating and maintenance expenses, which is approximately $8.2 million in FY24. An operating reserve is intended to promote financial viability in the event of any short-term fluctuation in revenues and/or expenditures, such as those caused by weather patterns and variability in demand-based revenues (volumetric charges).
  - The capital rehabilitation/replacement reserve is recommended to be equal to 50% of the average annual capital improvement costs over the five-year period. The five-year average is approximately $8.2 million, with

the recommended annual reserve being approximately $4.1 million. This reserve is intended to be a cash resource set aside to address long-term capital system replacement and rehabilitation needs.
    - The water utility is projected to meet the total recommended operating and capital reserve target during the five-year period, FY24 through FY28.
- Capital improvement Projects: The water system has approximately $41 million in planned capital expenditures over the next five years, an average of $8.2 million annually. The City has accumulated fund balances programmed to be utilized for the capital improvement program. The Rate Study assumes the City will need to issue approximately $16 million in revenue bonds in the latter years of the five-year period. However, whether the new debt will be required will depend on the actual delivery of capital projects (i.e., the timing and costs) in the current budget cycle.

<u>Cost-of-Service and Rate Design Analysis</u>
- The City currently charges residential and non-residential customers a monthly fixed water charge, also known as a base charge, based on meter size. In addition to a fixed monthly charge, all customers pay a variable charge, also known as volumetric rate, per 1,000 gallons consumed, consisting of two rate tiers of consumption (under and above 30,000 gallons) and three different pump pressure zones.
- The City's current rates collect revenue in proportions of approximately 30% fixed and 70% variable. The cost-of-service analysis determined the actual cost distribution of the fixed and variable costs to approximately 40% fixed and 60% variable. The current rate design is not reflective of the actual cost distribution; thus, a change in the water utility rate structure is recommended to align with the actual distribution. For comparison purposes, the Rate Study also evaluated the current rate structure (30%/70%), and it is presented as an alternative 2 in the study.
- The City's current variable (volumetric) charge consists of two rate tiers of consumption (under and above 30,000 gallons) and three different pump pressure zones. Given that the City receives its water supply from a single source, it is recommended that the City transition to a uniform tier for all customers.

<u>Water Rate Adjustments</u>
The table below outlines the current and proposed water rates for FY24 through FY28.

It is important to note that since the last rate study in 2015, factors such as the number of meters and consumption of each customer class have changed. The cost-of-service analysis rebalances the allocation based on these factors, including the shift to 40% fixed and 60% variable proportions. As a result, there is an uneven adjustment in the first year. In subsequent years, the proposed charges are adjusted by the proposed percentage increases in total rate revenue needed for the net revenue requirement.

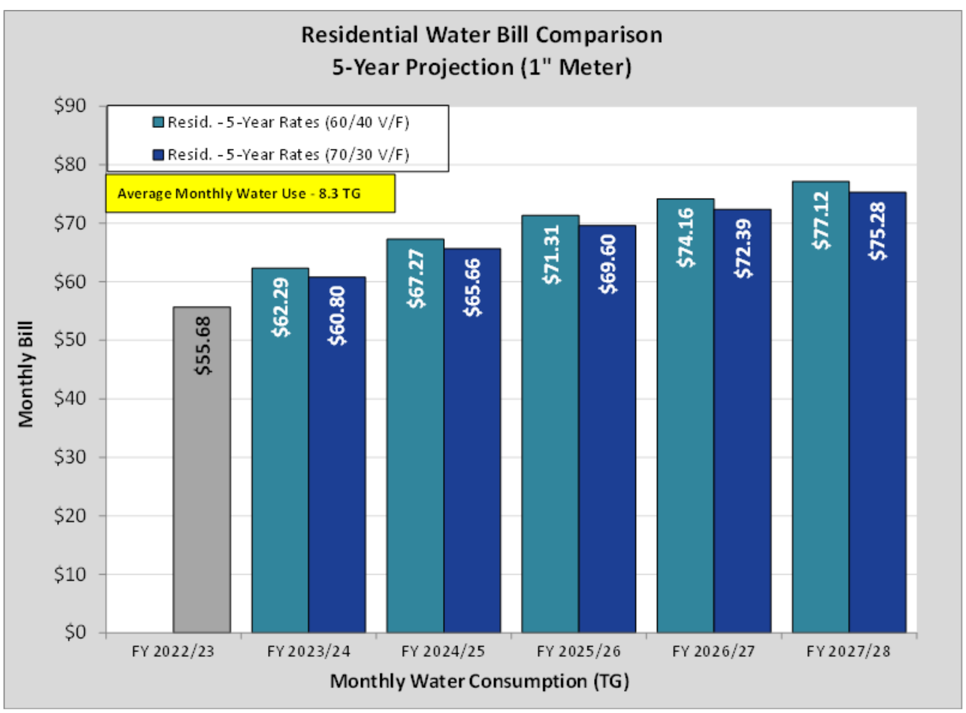
Water Rate Schedule	Current Rates	Proposed Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Service Charges						
Meter Size						
3/4 inch	$11.53	$20.67	$22.32	$23.66	$24.61	$25.59
1 inch	$19.24	$29.05	$31.38	$33.26	$34.59	$35.98
1 1/2 inch	$38.47	$50.02	$54.02	$57.26	$59.55	$61.93
2 inch	$61.55	$75.17	$81.18	$86.05	$89.50	$93.08
3 inch	$115.39	$142.24	$153.62	$162.84	$169.36	$176.13
4 inch	$192.30	$217.70	$235.12	$249.23	$259.20	$269.57
6 inch	$384.62	$427.32	$461.50	$489.19	$508.76	$529.11
8 inch	$615.37	$678.85	$733.16	$777.15	$808.23	$840.56
10 inch	$884.50	$1,768.83	$1,910.34	$2,024.96	$2,105.95	$2,190.19
Variable Charges for All Water Consumed ($/1,000 gallons (or TG))						
Residential Customers - Tiered Volumetric Rates		Uniform Vol. Rates				
Tier 1 - Zone 1	$4.39	$4.00	$4.32	$4.58	$4.77	$4.96
Tier 1 - Zone 2	$4.93	$4.37	$4.72	$5.00	$5.20	$5.41
Tier 1 - Zone 3	$5.52	$4.73	$5.11	$5.41	$5.63	$5.85
Tier 2 (more than 20 TG)						
Tier 2 - Zone 1	$4.93	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 2	$5.47	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 3	$6.06	N.A.	N.A.	N.A.	N.A.	N.A.

Note: The proposed rates for FY23/24 will be implemented on January 1, 2024, and annually on January 1 for subsequent fiscal years thereafter

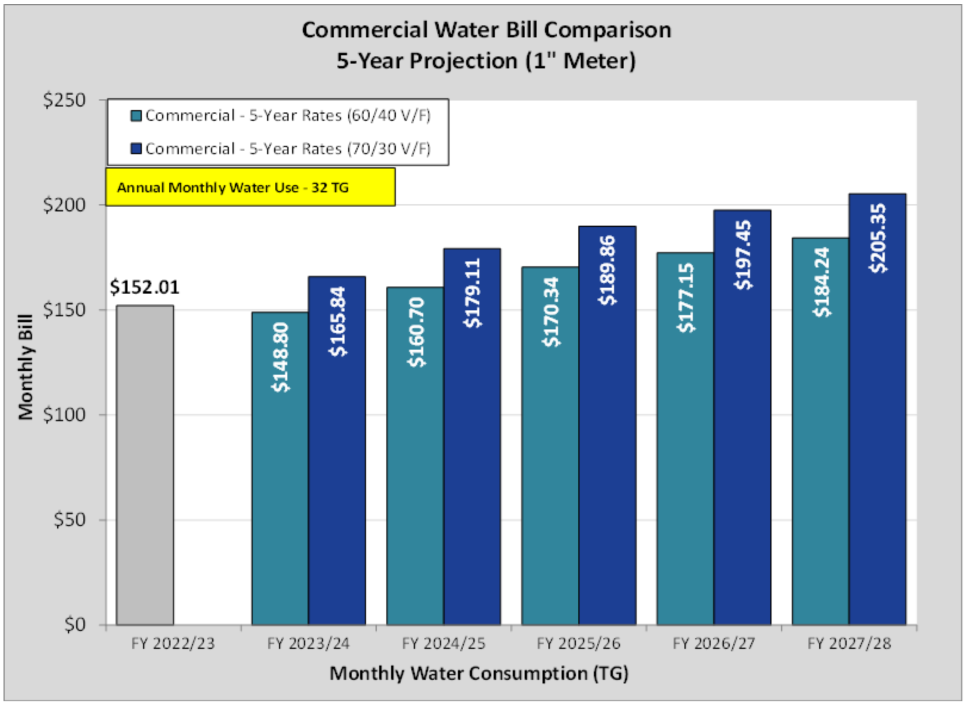
Impact on Water Bills

The Rate Study also compares the current and proposed water rates on the customer bills. The following two charts illustrate a five-year comparison of the average monthly water bill impact for a single-family residential and commercial customer.

Based on an average of 8,300 gallons monthly consumption for single-family residential, the water bill will increase from the current $55.68/month to $62.29/month in the first year and $77.12/month by FY28.



Based on an average of 32,000 gallons of monthly consumption for commercial customers, the water bill will decrease from the current $152.01/month to $148.80/month in the first year and subsequently increase annually to $184.24/month by FY28. The change in the first year is attributed to the shift in rate design to align with the actual 60% fixed and 40% variable distribution.



Wastewater Utility and Rates

<u>Financial Plan</u>

- The Rate Study determined that the projected net revenue requirements for the wastewater system range annually from $13.1 million in Fiscal Year 2023-24 (FY24) to $17.1 million in FY28. Without rate adjustments, the wastewater utility is projected to have a gap in the net revenue requirement of approximately $0.3 million in FY24, increasing to $2.7 million by FY28, and would struggle to meet its debt service coverage requirements on the existing 2021A sewer revenue bonds.
- Reserves:
    - The operating reserve is recommended to equal six months of operating and maintenance expenses, which is approximately $6.8 million in FY24. An operating reserve is intended to promote financial viability in the event of any short-term fluctuation in revenues and/or expenditures, such as those caused by weather patterns and variability in demand-based revenues (volumetric charges) or costs of wastewater treatment.
    - The capital rehabilitation/replacement reserve is recommended to be equal to 50% of the average annual capital improvement costs over the five-year period. The five-year average is approximately $8.8 million, with

the recommended annual reserve being approximately $4.4 million. This reserve is intended to be a cash resource set aside to address long-term capital system replacement and rehabilitation needs.
    - The wastewater utility is projected to meet the total recommended operating and capital reserve target during the five-year period, FY24 through FY28, as well as the debt service coverage ratio required by the 2021A bond covenants.
- Capital improvement Projects: The wastewater system has an average of $8.8 million annually in planned capital expenditures over the next five years. The City has accumulated fund balances and bond proceeds (SCRWA Expansion Project) that are programmed to be utilized for the capital improvement program. Thus, the rate increases required for the wastewater utility are less than those needed for the water utility.

<u>Cost-of-Service and Rate Design Analysis</u>
- Currently, the wastewater utility's residential customers are charged a fixed monthly charge, and non-residential customers are charged a fixed monthly charge and a volumetric charge. The non-residential fixed monthly charge is based on City's wastewater monitoring and pretreatment program costs and is determined by the use of the facility. Similarly, the non-residential variable charge is based on the strength category (low to high), also determined by the use of the facility, which takes into account the biochemical oxygen demand (BOD) and total suspended solids (TSS) in accordance with industry standards.
    - Low Strength (example: offices, schools, retail, and department stores)
    - Domestic Strength (example: hotel/motel, auto dealers, service stations, and beauty shops)
    - Medium Strength (example: commercial laundries, multi-use facilities, and hotels with restaurants)
    - High Strength (example: food processors/manufacturers, restaurants, grocery stores, etc.)
- It is recommended that the wastewater utility maintain the existing rate design, which utilizes the wastewater strengths for various customer types based on State Water Resources Control Boards' guidelines, and it provides consistency and continuity for the customers.

<u>Wastewater Rate Adjustments</u>
The table below outlines the current and proposed wastewater rates for FY24 through FY28. Like the water rates, the first year's rates reflect the cost-of-service adjustments that occur based on changes in customer classes, consumption, and other factors. The projected rates for subsequent years are adjusted by the proposed 4% annual increases.

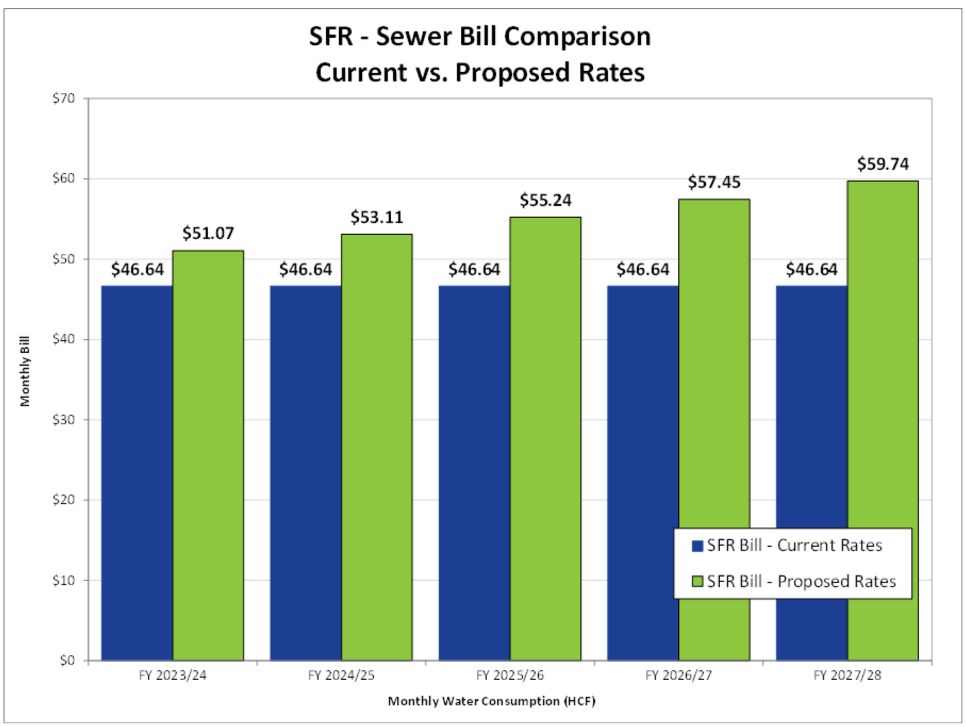
Sewer Rate Schedule	Current Rates	Proposed Sewer Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Charge						
Residential (100% Fixed)						
Single-Family Residence	$46.64	$51.07	$53.11	$55.24	$57.45	$59.74
Multi-Family Residence	$33.13	$34.39	$35.77	$37.20	$38.69	$40.23
Non-Residential Volumetric Rates						
Low Strength	$7.41	$8.36	$8.69	$9.04	$9.40	$9.78
Domestic Strength	$9.21	$9.51	$9.89	$10.29	$10.70	$11.12
Medium Strength	$12.08	$13.15	$13.67	$14.22	$14.79	$15.38
High Strength	$18.63	$21.56	$22.42	$23.32	$24.25	$25.22
Non-Residential - Monitoring & Pretreatment Program Base Rate Monthly Charges						
Significant/Categorical	$240.95	$287.19	$298.68	$310.63	$323.05	$335.98
Non-Significant/Categorical	$95.22	$114.64	$119.22	$123.99	$128.95	$134.11
Other Non-Residential	$11.47	$15.47	$16.09	$16.73	$17.40	$18.09

Note: The proposed rates for FY23/24 will be implemented on January 1, 2024, and annually on January 1 for subsequent fiscal years thereafter

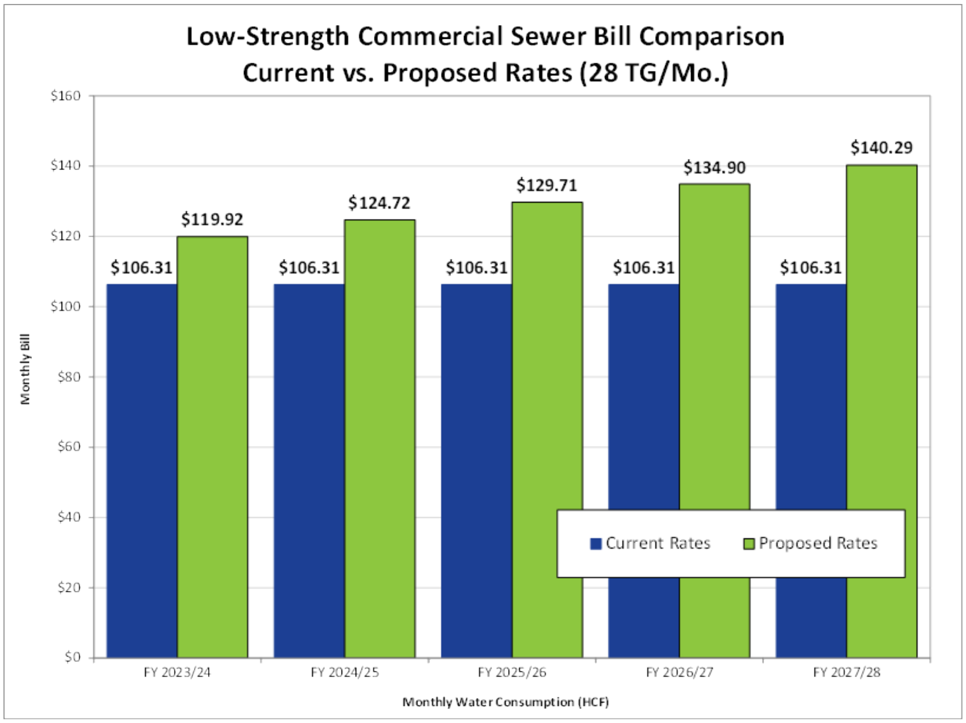
<u>Impact on Wastewater Bills</u>

The Rate Study compares the current and proposed wastewater rates on the customer bills. The following two charts illustrate a five-year comparison of the average monthly wastewater bill impact for a single-family residential and commercial customer.

For single-family residential, the average monthly will increase from the current $46.64/month to $51.07/month in the first year and increase to $59.74/month by FY28.



For non-residential customers, the average monthly will increase from the current $106.31/month to $119.92/month in the first year and increase to $140.29/month by FY28. Bill comparisons for other strength categories are included in the Rate Study.



Next Steps

In order to implement the fee adjustments, the City is required to follow Proposition 218 majority protest proceedings. Proposition 218 requires specific procedures to be followed with regard to property-related fee increases. The California Constitution requires local governments to give mailed notice of any property-related proposed fee changes at least 45 days before holding a public hearing where the City Council may adopt or reject the changes. Those opposed to the proposed rate adjustments can submit written protests to the City. If a majority (50% plus one) of customers oppose the proposed rate adjustments, City Council cannot implement the proposed increases.

This process includes the following steps:

- Schedule a public hearing requiring 45 days' of mailed public notice to adopt the rate adjustments. Draft of the 45-day Proposition 218 Public Notice is included as attachment 3.
- Mail the Public Notice describing the proposed rate adjustments to all property owners and occupants subject to the rate adjustments.
- During the 45 days following the Public Notice, the City will accept any eligible written protests from property owners and occupants subject to the rate adjustments (protests can be received until the end of the public hearing).
- Only one rate protest per property will be counted. For example, if the property owner and their tenant file a protest, only one will be counted for that property.

- After the public hearing, and assuming a majority of protests (50% plus one) is not received, conduct a vote of the City Council to adopt the rate adjustments.
- The proposed rate adjustments will become effective on January 1, 2024, after the public hearing and annually on January 1 of each subsequent fiscal year through FY28.

Staff recommends the City Council adopt a resolution (attachment 2) declaring intent to adjust the water and wastewater rates, authorizing the staff to commence the Proposition 218 noticing process, and setting October 16, 2023, as the date of the public hearing where Council will consider adoption of the rates.

ALTERNATIVES

Council could elect not to adopt the resolution of intent to adjust the water and wastewater rates. This is not recommended as the water and wastewater utility rates have not been adjusted since 2019, and it is vital for the City to continue investing in critical utilities' infrastructure and keep pace with rising operational costs.

FISCAL IMPACT/FUNDING SOURCE

The fiscal and resource impact of preparing the report is included in the staff's annual workplan. The total cost for the comprehensive water and wastewater rate study is $72,325, which was budgeted and funded by the Water (705) and Wastewater (700) Funds.

The cost of printing/mailing the Proposition 218 notices is estimated at $15,000 and will be funded by the Water and Wastewater Funds.

If the Proposition 218 process concludes without the majority protest, and the water and wastewater rates are adopted as presented, the new rates would generate an average of $2.7 million annually for the water utility and an average of $1.8 million for the wastewater utility, over the next five-year period.

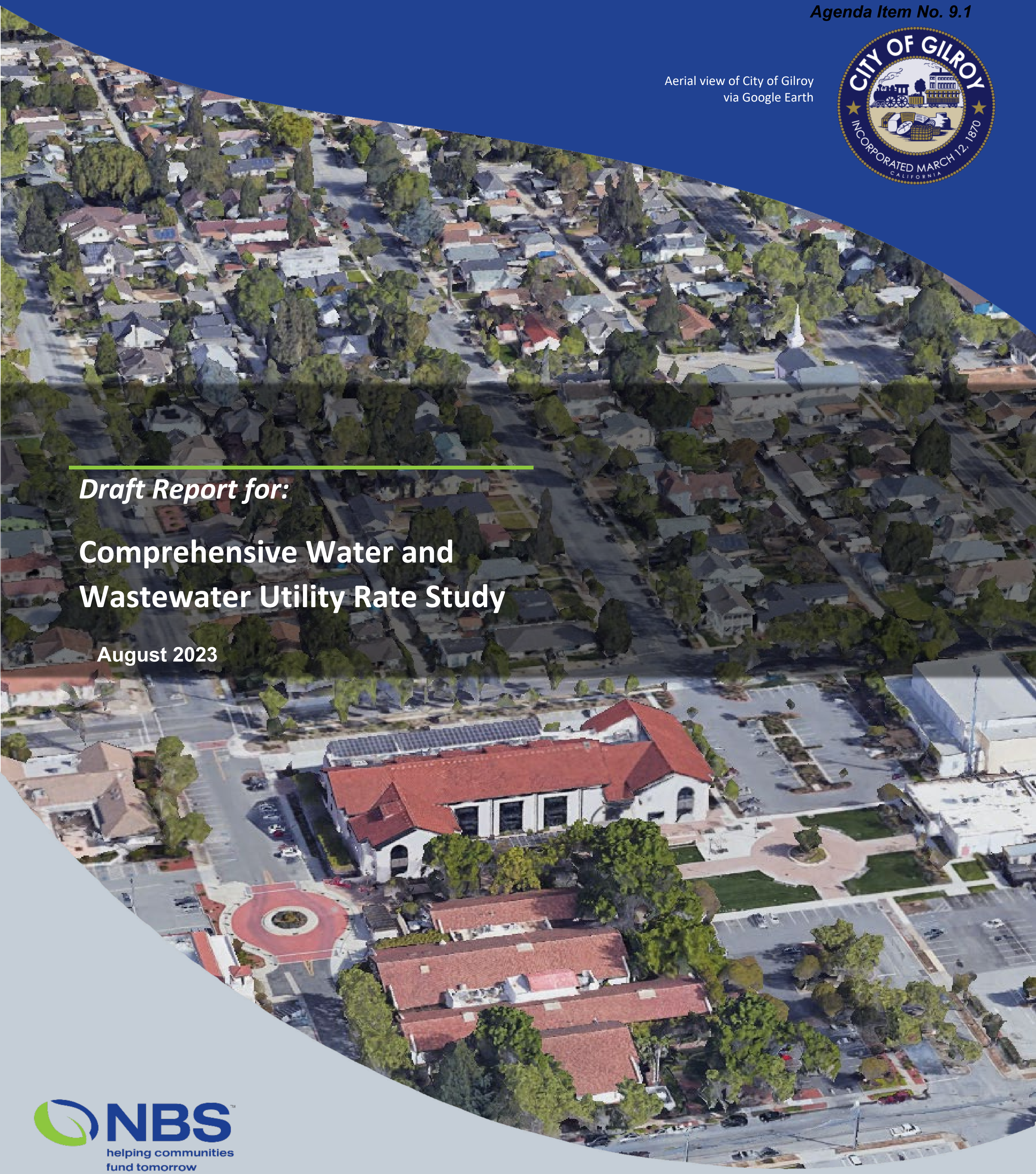
PUBLIC OUTREACH

Each property owner will receive a mailed Proposition 218 public hearing notice. In addition, the notice will also be included with the monthly utility bills for the September statements to notify all current customers. Staff will also conduct a community meeting in September 2023, a date to be determined, to present the Rate Study.

Attachments:

1. Utilities Rate Study
2. Draft Resolution
3. Draft Proposition 218 Notice

Aerial view of City of Gilroy
via Google Earth



Draft Report for:

Comprehensive Water and Wastewater Utility Rate Study

August 2023

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Section 1. Purpose and Overview of the Study

A. Purpose

The City of Gilroy (City) retained NBS to conduct a comprehensive utility rate study for its water and wastewater enterprise funds. The City had several objectives and goals in mind for this study including meeting revenue requirements, reviewing the rising costs of providing services, funding capital improvements and changes in costs, and complying with certain legal requirements (e.g., California Constitution Article XIII D, Section 6, which is commonly referred to as Proposition 218 [Prop 218]). The City's broader objectives in this study include ensuring adequate funding for operating and capital costs, maintaining reasonable reserves, ensuring revenue stability in utility rates. The rates resulting from this study were developed in a manner that is consistent with industry standard cost-of-service principles. In addition to documenting the rate study methodology, this report is provided with the intent to assist the City in its continuing effort to maintain transparent communications with the residents and community it serves.

In developing new rates for the City's enterprise funds, NBS worked cooperatively with City staff and the City Council (Council) in selecting the appropriate rate alternatives that address the City's goals and objectives. Based on input provided by City staff, NBS proposes the rates summarized in this report. The Council has the final decision regarding the adoption of the proposed rates and whether to proceed with the Prop 218 approval process.

B. Overview of the Study

Comprehensive rate studies, such as this one, typically include three components: (1) preparation of a financial plan that identifies the net revenue requirements for the utility; (2) analysis of the cost to serve each customer class, and (3) the rate structure design. These steps are shown in **Figure 1** and are intended to follow industry standards and reflect the fundamental principles of cost-of-service rate making embodied in the American Water Works Association's (AWWA) *Principles of Water Rates, Fees, and Charges*,[1] also referred to as Manual M1, and the Water Environment Federation's *Financing and Charges for Wastewater Systems* (Manual of Practice No. 27).[2]

Rate studies also address requirements under Prop 218 that rates not exceed the cost of providing the service and be proportionate to the cost of providing service for all customers. In terms of the chronology of the study, the three steps shown in Figure 1 represent the order in which they were performed in this study.

Figure 1. Primary Components of a Rate Study

[1] *Principles of Water Rates, Fees, and Charges*, Manual of Water Supply Practices, Manual M1, American Water Works Association (AWWA), 7th Edition, 2017.

[2] *Financing and Charges for Wastewater Systems*, Manual of Practice No. 27, Water Environment Federation, Fourth Edition, 2018.

1 FINANCIAL PLAN	2 COST-OF-SERVICE ANALYSIS	3 RATE DESIGN ANALYSIS
Compares current sources and uses of funds and determines the revenue needed from rates and projects rate adjustments.	Proportionally allocates revenue requirements to the customer classes in compliance with industry standards and State Law.	Considers the rate structure that best meets the City's need to collect rate revenue from various types of customers.

NBS projected revenues and expenditures, developed net revenue requirements, performed cost-of-service rate analyses, and developed new water and wastewater rates for the City using this approach. The following sections in this report present an overview of the methodologies, assumptions, and data used along with the financial plans and rates developed. Detailed tables and figures documenting the development of the proposed rates are provided in the *Appendices*.

The City provided NBS with the data necessary to conduct the study, including historical, current, and projected revenues and expenditures, number of customer accounts, and water consumption data along with other operational and capital cost information.

FINANCIAL PLAN

As a part of the rate study, NBS projected revenues and expenditures on a cash-flow basis for the next five (5) years. The amount of rate revenue required, that will allow reserves to be maintained at the recommended levels, is known as the net revenue requirement. As current rate revenue falls short of the net revenue requirement, rate adjustments – or more accurately, adjustments in the total revenue collected from rates – are recommended. This report presents an overview of the methodologies, assumptions, and data used along with the financial plan and proposed rates developed in this study.[3]

COST-OF-SERVICE ANALYSIS

The basic purpose of the cost-of-service analysis (COSA) is to fairly and equitably allocate costs to customer classes. The cost-of-service analysis consists of two major components: (1) the classification of expenses, and (2) the allocation of costs to customer classes. For example, a key task is the "classification" of the water revenue requirements into the following categories:

- Commodity related costs
- Capacity related costs
- Customer service related costs

For the sewer utility, the normal classification of sewer revenue requirements uses the following categories:

- Commodity related costs

[3] The complete financial plans are available in the *Appendices*.

- Capacity related costs
- Customer service related costs

However, a unique aspect of the City's sewer rates is the use of separate fixed charges to recover the costs of the monitoring, sampling, and pretreatment program costs.[4] These costs are significantly different between various non-residential customers, who have been placed into one of three categories:

- Significant/Categorical
- Non-Significant/Categorical
- Other Non-Residential

Because these costs are allocated directly to these three classes of non-residential customers, they are allocated directly to these classes; this adds a fourth classification category (i.e., monitoring, sampling, and pretreatment program costs). Together, these four allocation factors represent the cost allocation classifications used in the cost of service analysis. Further details are discussed below and documented in the *Appendices*.

RATE DESIGN ANALYSIS

During the rate design phase of the study, NBS and City staff worked together to develop rate alternatives that will meet the City's objectives. It is important for the City to send proper price signals to its customers about the actual cost of providing service. This objective is typically addressed through both the magnitude of the rate adjustments and the rate structure design. In other words, both the amount of revenue collected and the way in which the revenue is collected from customers are important.

Several criteria are typically considered in setting rates and developing sound rate structures. The fundamentals of this process have been well documented in several rate-setting manuals, such as AWWA's Manual M1. The foundation for evaluating rate structures is generally credited to James C. Bonbright in *Principles of Public Utility Rates*,[5] which outlines pricing policies, theories, and economic concepts along with various rate designs. The following is a simplified list of the attributes of a sound rate structure:

- Rates should be easy to understand from the customer's perspective.
- Rates should be easy to administer from the utility's perspective.
- Rates should be equitable and non-discriminating (i.e., cost-based).
- Rates should promote the efficient allocation of the resource.
- There should be continuity in the rate making philosophy over time.
- Rates should address other utility policies (e.g., conservation and economic development).
- Rates should provide month-to-month and year-to-year revenue stability.

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[4] This methodology for recovering these program costs was first established in the City's 2015 rate study, and the City has decided to continue with this approach.

[5] James C. Bonbright, Albert L. Danielsen, and David R. Kamerschen, *Principles of Public Utility Rates*, Arlington, VA: Public Utilities Report, Inc., Second Edition, 1988, pp. 383-384.

RATE STRUCTURE TERMINOLOGY

This section covers basic rate design criteria that NBS and City staff considered as a part of their review of the rate structure alternatives. One of the most fundamental points in considering rate structures is the relationship between fixed and variable costs. Fixed costs, such as debt service and personnel costs, typically do not vary with the amount of water consumed. In contrast, variable costs, such as the cost of purchased water, chemicals, and electricity, tend to change with the quantity of water sold. Most rate structures contain a fixed, or minimum, charge in combination with a volumetric charge.

- **Fixed Charges** – Fixed charges can be called base charges, minimum monthly charges, customer charges, fixed meter charges, etc. Fixed charges for water utilities typically increase by meter size. For example, a customer with a 2-inch meter has a fixed meter charge that is more than five times greater than the typical residential customer based on the safe operating capacity of the meter.[6] Since a large portion of utility costs are typically related to meeting capacity requirements, individual capacity demands are important in establishing equitable rates for customers.
- **Variable (Consumption-Based) Charges** – In contrast to fixed charges, variable costs, such as purchased water, groundwater replenishment costs, and the cost of electricity used in pumping water and chemicals for treatment, tend to change with the quantity of water produced. For a water utility, variable charges are calculated based on a metered consumption per unit price (e.g., per 100 cubic feet, or HCF).
- **Uniform (Single-Tier) Water Rates** – There are significant variations in the basic philosophy of variable charge rate structure alternatives. Under a uniform (single tier) rate structure, the cost per unit does not change with consumption and, therefore, provides a simple and straightforward approach from the customer's perspective and in terms of the City's rate administration.
- **Zonal Water Rates** – The City has chosen to reflect the cost variations due to pumping costs for moving water to the three elevation zones in the City. This is based on the higher costs for pumping-related energy costs and additional infrastructure for more pumping stations. However, the City has decided to only include the actual energy costs in the zonal water rates.
- **Tiered Water Charges** – The 2015 San Juan Capistrano court decision held that water agencies may only charge tiered rates if they can show that the tiered rates are proportionate to the agency's higher costs to serve those customers, meaning that caution must be used to ensure that customers are appropriately allocated costs that meet legal requirements. Although the City's current rates include two tiers for all water customers, tiered water rates have been discontinued because source of supply data and costs do not lend themselves to using tiered

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[6] *Principles of Water Rates, Fees, and Charges*, Manual of Water Supply Practices, Manual M1, AWWA, 7th Edition, 2017, pp. 151-152.

rates for the City's water customers and they would be difficult to defend under Prop 218 from a legal standpoint.

KEY FINANCIAL ASSUMPTIONS

The following is a summary of the key financial assumptions used in the analyses. The following capital and operational fund targets reflect input from City staff to meet specific utility objectives:

- **Funding of Capital Projects** – The capital improvement costs will be funded with a combination of cash in reserves and the additional revenue generated from the proposed rate increases. The capital projects listed in the financial plan are from the City's capital improvement program. The analysis assumes:
  - Capital costs attributable to existing customers are funded using rate revenue.
  - Capital costs attributable to growth are funded by revenue from the impact fee reserves.
- **Reserve Targets** – For each utility (i.e., water and wastewater), the City maintains reserves for operations, capital, and other specific needs. The details of each utility's reserve targets are covered in their respective section of this report.
- **Inflation and Growth Projections** – Assumptions were made in the analysis regarding cost inflation to project future revenues and expenses for the study period. The following inflation factors were used in the analysis:
  - Customer growth is estimated at 1.50% per year.
  - General cost inflation is set at 3.07% annually.
  - Labor cost inflation is set at 3.50% annually.
  - Energy cost inflation is set at 7.44% annually.
  - Fuel & Utilities cost inflation is set at 5.24% annually.
  - Water purchases inflation factor is set at 5.0% annually.

These inflation factors are based on long-term trends; therefore, the City should re-examine these factors in another year to assess the impacts on utility costs and whether projected rate increases will be sufficient for the remainder for the rate adoption period.

Section 2. Water Rate Study

A. Key Water Rate Study Issues

The City's water rate analysis was undertaken with a few specific objectives, including:

- Generating sufficient revenue to meet anticipated operating and maintenance costs and fund necessary capital improvement projects for the next five years.
- Continuing with a rate design that promotes revenue stability.
- Verifying the cost-of-service linkage between the current rate structure and the proposed water rates, including the zonal water rates.
- Maintaining adequate reserve levels to ensure continuity in operations.
- Complying with the legal requirements of Prop 218 to ensure the cost of providing service is properly allocated amongst user classifications. This was the basis for eliminating tiered water rates.

NBS developed various water rate alternatives as requested by City staff over the course of this study. All rate structure alternatives relied on industry standards and cost-of-service principles. The rate alternative that will ultimately be implemented is the decision of the City Council. The fixed and volume-based charges were calculated based on the net revenue requirements, number of customer accounts, water consumption and estimated water discharge, and other relevant data provided by the City.

The following are the basic components included in this analysis:

- **Developing Cost Allocations** – The water revenue requirements were "functionalized" into three categories: (1) commodity (or volume-based) costs; (2) fixed capacity costs; and (3) customer service costs. These functionalized costs were then used to develop unit costs based on various factors, such as water consumption, peaking factors, and number of accounts by meter size.
- **Determining Revenue Requirements by Customer Class** – The total revenue that needs to be collected from each customer class was determined using the functional costs and allocation factors. For example, customer costs are allocated based on the number of meters, while volume-related costs are allocated based on the water consumption of each customer class. Once the costs are allocated and the net revenue requirement for each customer class is determined, collecting the revenue requirements from each customer class is addressed within the rate design.
- **Evaluating Rate Design (Fixed vs. Variable Charges)** – The revenue requirements for each customer class are collected through a combination of fixed monthly service charges and volumetric rates. Based on direction from City staff, the rates proposed in this report will collect 40% of the rate revenue from the fixed charge and 60% from the variable charges.

B. Financial Plan

It is important for municipal utilities to not only collect sufficient revenues every year, but to also maintain reasonable reserves to handle emergencies, fund working capital, maintain a good credit rating, and generally follow sound financial management practices. Rate adjustments are governed by the need to meet operating and capital costs as well as maintain reasonable reserve levels. The current state of the City's water utility, regarding these objectives, is as follows:

- **Meeting Net Revenue Requirements:** For FY 2023/24 through FY 2027/28, the projected net revenue requirement (that is, total annual expenses plus debt service and rate-funded capital costs, less non-rate revenues) for the water system averages $15.9 - $18.8 million annually. If no rate adjustments are implemented, the City is projected to run an annual deficit of approximately $2 million in FY 2023/24, increasing to more than $3.9 million by FY 2027/28, and will be unable to meet its debt service coverage requirements in FY 2026/27 and FY 2027/28 when new debt service payments begin on the assumed bond issuance.

- **Maintaining Reserve Funds:** Reserve funds provide a basis for a utility to cope with fiscal emergencies, such as revenue shortfalls, asset failure, and natural disasters, among other events. Reserve policies provide guidelines for sound financial management, with an overall long-range perspective to maintain financial solvency and mitigate financial risks associated with revenue instability, volatile capital costs, and unexpected emergencies.

  The City's existing reserves are healthy and the challenge is to meet future revenue requirements and still maintain adequate reserves. NBS together with City staff have chosen to set the following reserve targets:

  - **Operating Reserve** equal to 6 months of operating and maintenance expenses, or approximately $8.2 million in FY 2023/24. An operating reserve is intended to promote financial viability in the event of any short-term fluctuation in revenues and/or expenditures, such as those caused by weather patterns, the natural inflow and outflow of cash during billing cycles, natural variability in demand-based revenue streams (e.g., volumetric charges), and – particularly in periods of economic distress – changes or trends in the age of receivables. NBS considers a 6-month operating reserve to be a very conservative reserve fund target (i.e., most municipal water utilities use a 3- month target for the operating reserve).

  - **Capital Rehabilitation & Replacement Reserve** equal to 50% of the average capital improvement costs over the 5-year rate adoption period; the five-year average is approximately $8.2 million, so the target reserve is $4.1 million. This reserve is intended to be a cash resource set aside to address long-term capital system replacement and rehabilitation needs. NBS considers a 50% capital reserve target to be at the higher end of what most utilities aim for. Many utilities aim for 3% to 6% of net assets, which in the City's case would be $1.8 to $3.6 million.

- **Funding Capital Improvement Projects:** The City must fund necessary capital improvements to maintain current service levels. City staff has identified roughly $41 million in expected capital expenditures over the next five years (FY 2023/24 through FY 2027/28) which is an average of $8.2 million in capital expenditures annually. This rate study assumes the City will be issuing $16 million in revenue bonds in FY 2025/26 through FY 2027/28. Proceeds from these revenue bonds along with the recommended rate increases, enable the City to fund these capital expenditures without exhausting the existing reserves, although reserves will decrease significantly over the next five years, they are projected to end at about the target reserve level.

- **Inflation and Growth Projections:** Cost inflation and growth assumptions are necessary to project future revenues and expenses for the study period. Customer growth is expected to be nearly 1.5% annually. This factor was used in the analysis for rate revenues while inflation factors, including the Consumer Price Index,7 were used in projecting expenses.
- **Maintaining Adequate Bond Coverage:** Although the water utility currently has no outstanding debt, this analysis assumes that the City will be issuing $16 million in new debt to fund capital projects. However, whether new debt will be needed will depend on the actual delivery of capital projects (i.e., the timing and costs). The rate covenants of the new revenue bonds include a minimum debt service coverage ratio of 1.25. The benefit of maintaining a higher coverage ratio is that it strengthens the City's credit rating which can help lower interest rates for debt-funded capital projects and, in turn, reduce annual debt service payments.

Figure 2 summarizes the sources and uses of funds, net revenue requirements, and the annual percent adjustments in total rate revenue recommended for the next 5 years.

Figure 2. Summary of Water Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	5-Year Projected Rate Period				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Sources of Water Funds						
User Fees	$ 13,665,000	$ 13,939,000	$ 14,218,000	$ 14,431,270	$ 14,647,739	$ 14,867,455
Other Revenue	105,000	110,000	112,000	113,680	115,385	117,116
Bank Interest	488,737	499,621	509,514	5,075	5,151	5,228
Total Sources of Funds	**$ 14,258,737**	**$ 14,548,621**	**$ 14,839,514**	**$ 14,550,025**	**$ 14,768,275**	**$ 14,989,800**
Uses of Water Funds						
Water Administration	$ 2,759,176	$ 3,460,721	$ 3,533,818	$ 3,636,249	$ 3,748,440	$ 3,864,096
Finance Water Utility Billing	873,507	1,047,309	1,077,076	1,095,995	1,133,828	1,172,968
Water Operations	4,983,992	6,952,444	6,568,972	6,810,814	7,061,889	7,322,564
Valley Water	3,293,972	4,641,000	4,873,050	5,116,703	5,372,538	5,641,165
Additional Capital Expenditures	-	404,450	404,450	-	-	-
Debt Service	-	-	-	-	453,067	906,134
Rate-Funded Capital Expenses	-	-	-	-	-	-
Total Use of Funds	**$ 11,910,647**	**$ 16,505,924**	**$ 16,457,366**	**$ 16,659,760**	**$ 17,769,761**	**$ 18,906,927**
Surplus (Deficiency) before Rate Increase	**$ 2,348,090**	**$ (1,957,303)**	**$ (1,617,852)**	**$ (2,109,735)**	**$ (3,001,486)**	**$ (3,917,128)**
Additional Revenue from Rate Increases[1]	-	557,560	1,745,841	2,900,027	3,817,967	4,624,944
Net Revenue Requirement[2]	**$ 11,316,910**	**$ 15,896,303**	**$ 15,835,852**	**$ 16,541,005**	**$ 17,649,225**	**$ 18,784,583**
Surplus (Deficiency) after Rate Increase	**$ 2,348,090**	**$ (1,399,743)**	**$ 127,988**	**$ 790,292**	**$ 816,481**	**$ 707,816**
Projected Annual Rate Increase	***0.00%***	***8.00%***	***8.00%***	***6.00%***	***4.00%***	***4.00%***
Debt Coverage After Rate Increase	*N/A*	*N/A*	*N/A*	*N/A*	*2.80*	*1.78*

1. Revenue from rate increases assumes an implementation date of January 1, 2024 for new rates. For each year thereafter, the assumption is that new rates will also be implemented on January 1st of each year.
2. This is the annual amount needed from water rates. [Net Revenue Requirement = Total Use of Funds - (Non-Rate Revenues + Bank Interest)].

Figure 3 summarizes the projected reserve fund balances and reserve targets for the City's unrestricted funds. A detailed version of the proposed 5-year financial plan is included in *Appendix A* . The tables in the appendix include the revenue requirement, reserve funds, revenue sources, capital improvement costs, and the proposed rate adjustments needed to meet the City's funding requirements.

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7 Consumer Price Index for all urban consumers in the San Francisco area. Source: Website: *https://www.bls.gov/cpi/.*

Figure 3. Summary of Primary Water Reserve Funds

Beginning Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Operating Reserve						
Ending Balance	$ 5,955,000	$ 4,555,257	$ 4,683,245	$ 5,473,537	$ 6,290,019	$ 6,997,835
Recommended Minimum Target	*5,955,000*	*8,253,000*	*8,229,000*	*8,330,000*	*8,658,000*	*9,000,000*
Capital Rehabilitation & Replacement Reserve						
Ending Balance	$ 25,382,158	$ 22,643,278	$ 8,114,397	$ 7,583,609	$ 7,583,609	$ 7,217,830
Recommended Minimum Target	*4,140,000*	*4,140,000*	*4,140,000*	*4,140,000*	*4,140,000*	*4,140,000*
Total Ending Balance	**$ 31,337,158**	**$ 27,198,535**	**$ 12,797,642**	**$ 13,057,146**	**$ 13,873,627**	**$ 14,215,665**
Total Recommended Minimum Target	***$ 10,095,000***	***$ 12,393,000***	***$ 12,369,000***	***$ 12,470,000***	***$ 12,798,000***	***$ 13,140,000***

C. Cost-of-Service Analysis

Once the net revenue requirements are determined, the cost-of-service analysis (COSA) proportionately distributes the revenue requirements to each of the customer classes. The COSA consists of two major components: (1) the classification of expenses, and (2) the allocation of costs to each customer class. Costs are classified according to the function they serve. All costs in the City's budget are allocated to each component of the rate structure in proportion to the level of service required by customers.

The level of service is related to the volume and strength of the water treated, infrastructure capacity, and customer service. These costs are based on allocation factors, such as water consumption, number of meters, and customer class. Ultimately, a COSA is intended to result in rates that are proportional to the cost of providing service to each customer class.

FUNCTIONALIZATION AND CLASSIFICATION OF COSTS

Most costs are not typically allocated just to fixed or variable categories but rather allocated to multiple functions of water service. The functionalization and classification process provides the basis for allocating costs to various customer classes based on the cost causation (classification) components described below:

- **Commodity related costs** are costs associated with the change in the volume of water produced and delivered. These commonly include the costs of water quality testing, energy related to pumping for transmission and distribution, and source of supply.
- **Capacity related costs** are costs associated with sizing facilities to meet the maximum, or peak, demand. This includes both operating costs and capital infrastructure costs incurred to accommodate peak system capacity events.
- **Customer related costs** are costs associated with having a customer connected to the water system, such as meter reading, postage, billing, and other administrative duties.

The City's budgeted costs were reviewed and allocated to these cost causation components which are used as the basis for establishing new water rates and translated into fixed and variable charges. Tables in the *Appendices* show how the City's expenses were classified and allocated to these cost causation components. In the analysis, these cost causation components are also considered to be either fixed or variable.

FIXED AND VARIABLE COSTS

Ideally, utilities should recover all of their fixed costs from fixed charges and all of their variable costs from volumetric charges. When this is the case, fluctuations in water sales revenues would be directly offset by reductions or increases in variable expenses, which provides greater revenue stability for the utility. However, other factors are often considered when designing water rates, such as community values, water conservation goals, ease of understanding, and ease of administration.[8]

NBS functionalized the City's costs into categories that represent fixed and variable costs. This analysis resulted in a cost distribution that is approximately 40% fixed and 60% variable (i.e., volumetric). However, the City's current rates collect revenue from customers in proportions of approximately 30% fixed and 70% variable. City staff agrees with NBS that the current rate design is not reflective of the actual cost distribution ad determined by the cost of service analysis. Therefore, the proposed new rates are based on the 40% fixed and 60% variable allocations. NBS also evaluated the current 30% fixed/70% variable rate structure and compares the results below.

Figure 4 summarizes how costs are allocated to each cost component and used to establish new water rates. **Figure 5** shows the resulting cost allocation to each cost classification component.

Figure 4. Allocation Percentages of Revenue Requirements

Classification Components	ALT. 1 (Preferred) (40% Fixed / 60% Variable) Net Rev. Reqts (FY 2023/24)		ALT. 2 (30% Fixed / 70% Variable) Net Rev. Reqts (FY 2023/24)	
Commodity-Related Costs	$ 9,032,472	*60.0%*	$ 10,537,884	*70.0%*
Capacity-Related Costs	4,516,236	*30.0%*	3,161,365	*21.0%*
Customer-Related Costs	1,505,412	*10.0%*	1,354,871	*9.0%*
Net Revenue Requirement	**$ 15,054,120**	*100.0%*	**$ 15,054,120**	*100.0%*

Figure 5. Allocated Net Revenue Requirements – Preferred Rate Alternative

Customer Classes	Classification Components			Cost of Service Net Revenue Requirements
	VARIABLE	*FIXED*		
	Commodity-Related Costs	Capacity-Related Costs	Customer-Related Costs	
Residential	$ 5,470,437	$ 2,758,274	$ 1,312,941	$ 9,541,651
Multi-Family	1,053,245	426,815	50,558	1,530,618
Commercial/Industrial	1,354,175	561,903	83,348	1,999,425
Institutional	155,983	103,540	3,302	262,825
Landscape	937,767	611,068	50,019	1,598,854
City Account	239	98	3,399	3,737
Hydrant	60,626	54,538	1,845	117,010
Total Net Revenue Requirement	**$ 9,032,472**	**$ 4,516,236**	**$ 1,505,412**	**$ 15,054,120**

[8] *Principles of Water Rates, Fees, and Charges,* Manual of Water Supply Practices, Manual M1, AWWA, 7th Edition, 2017, pp. 6 and 96.

D. Characteristics of Water Customers by Customer Class

Customer classes are typically determined by grouping customers with similar demand characteristics into categories that reflect the cost differentials to serve each type of customer. Customer classes are most often identified as single-family, multi-family, commercial, landscape, etc., and the City follows this common methodology. The rates proposed in this report follow a similar structure where the fixed charges within each customer class vary by meter size while all customers are charged a uniform volumetric rate based on zones.

The amount of consumption, the peaking factors, and the number of meters by size are used to allocate costs as a part of COSA to allocate costs to customer classes and determine the appropriate rate structures for each. These components of the COSA are presented in the following figures.

Commodity related costs are costs associated with the total annual consumption of water by customer class. **Figure 6** below summarizes the most recent consumption data by customer class and represents the expected percent of consumption over the 5-year rate period.

Figure 6. Water Consumption by Customer Class

Customer Class	FY 2021/22 (1,000 Gal.yr.)	FY 2021/22 % of Total Volume (TG/Yr.)
Residential	1,348,786	60.6%
Multi-Family	259,687	11.7%
Commercial/Industrial	333,884	15.0%
Institutional	38,459	1.7%
Landscape	231,215	10.4%
City Account	59	0.0%
Hydrant	14,948	0.7%
Total	**2,227,038**	**100%**

Figure 7 shows the peaking factors for each customer class. A "peaking factor" is the relationship between the average use by meter size to its peak use.

Figure 7. Peaking Factors by Customer Class

Customer Class	Average Monthly Use (TG)	Peak Monthly Use (TG)	Peak Monthly Factor	Max Month Capacity Factor
Residential	112,399	168,922	1.50	61.1%
Multi-Family	21,641	26,139	1.21	9.5%
Commercial/Industrial	27,824	34,412	1.24	12.4%
Institutional	3,205	6,341	1.98	2.3%
Landscape	19,268	37,423	1.94	13.5%
City Account	5	6	1.22	0.0%
Hydrant	1,246	3,340	2.68	1.2%
Total	**185,586**	**276,583**	**1.49**	**100%**

Both operating costs and capital infrastructure costs incurred to accommodate peak system capacity events are generally allocated to each meter size according to its contribution to peak capacity events. These peaking factors are used to allocate the capacity-related costs to each customer class and are described in more detail later in this study.

Figure 8 shows the number of meters for each customer class. The percentage of total customers by customer class is then used to develop the customer allocation factors to allocate customer costs. Customer costs are those costs associated with having customers connected to the water system and include costs related to meter reading, postage, and billing.

Figure 8. Number of Meters by Customer Class

Customer Class	No. of Meters FY 2021/22[1]	Percent of Total
Residential	13,518	**87.2%**
Multi-Family	521	**3.4%**
Commercial/Industrial	858	**5.5%**
Institutional	34	**0.2%**
Landscape	515	**3.3%**
City Account	35	**0.2%**
Hydrant	19	**0.1%**
Total	**15,500**	**100.0%**

1. Meter count data is based on the City's billing data for June 2022.

E. Rate Design Analysis

Evaluating the water rate structure includes reviewing rate-design objectives and policies, including continuity of rate design, revenue stability, equity among customers, and water conservation. NBS discussed the 40%/60% (preferred) and 30%/70% rate designs with City staff over the course of this study. Ultimately, City staff selected the 40%/60% rate alternative, as it is closest to the actual cost of service based on NBS' analysis. Also, because of the difficulty meeting Prop 218 legal requirements of demonstrating the cost basis for tiered rates given the City's water supply costs, the preferred rate structure proposes a uniform tier for all customers rather than the existing two-tiers. The following section describe how the proposed water rates were determined.

DEVELOPMENT OF PROPOSED RATES

Fixed Service Charges

The fixed meter charge recognizes that the water utility incurs fixed costs regardless of whether customers use water. There are two components that comprise the fixed meter charge: (1) the capacity component, and (2) the customer component. The capacity component recovers costs associated with sizing the water system to ensure there is sufficient capacity in the system to meet peak demand. A user class with a higher peaking ratio is allocated a proportionately higher share of the capacity-related costs compared to customer classes with lower peaking ratios. The customer component includes those costs related to reading and maintaining meters, customer billing and collection, and other customer service-related costs.

Fixed charges also vary based on meter sizes because larger meters have higher capacity requirements and reflect their potential to use more of the system's capacity.[9] The potential capacity demands (peaking) is proportional to the maximum hydraulic flow through each meter size based on the hydraulic capacity ratios established by AWWA.[10] The AWWA capacity ratios used for this report are shown in **Figure 9**.

Figure 9. Hydraulic Capacity Factors

Meter Size	Standard Meters: Meter Capacity (gpm)[1]	Standard Meters: Equivalency to 1-inch
	Displacement Meters	
3/4 inch	30	1.00
1 inch	50	1.67
1 1/2 inch	100	3.33
2 inch	160	5.33
	Compound Class I Meters	
3 inch	320	10.67
4 inch	500	16.67
6 inch	1,000	33.33
8 inch	1,600	53.33
	Turbine Class II Meters	
10 inch	4,200	140.00

1. Per *AWWA M-1, Table B-1.*

The actual number of meters by size is multiplied by the corresponding capacity ratios to calculate "equivalent" meters. The number of equivalent meters is used as a proxy for the potential demand that each customer can place on the water system. **Figure 10** summarizes the number of meters, the hydraulic capacity factors, and the number of equivalent meters (i.e., the number of meters multiplied by the hydraulic capacity factor) by customer class and meter size.

Figure 10. Equivalent Meters

Number of Meters by Class and Size[1]	FY2023/24 3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch	Total
Residential	4,445	8,273	172	459	167	2	0	0	0	13,518
Multi-Family	137	203	84	56	24	17	0	0	0	521
Commercial/Industrial	251	330	0	249	10	14	3	0	1	858
Institutional	0	1	0	15	8	9	1	0	0	34
Landscape	34	182	79	212	4	4	0	0	0	515
City Account	5	7	1	19	2	1	0	0	0	35
Hydrant	0	0	0	0	19	0	0	0	0	19
Total Meters/Accounts	**4,872**	**8,996**	**336**	**1,010**	**234**	**47**	**4**	**0**	**1**	**15,500**
Hydraulic Capacity Factor[2]	*1.00*	*1.67*	*3.33*	*5.33*	*10.67*	*16.67*	*33.33*	*53.33*	*140.00*	
Total Equivalent Meters	**4,872**	**14,993**	**1,120**	**5,387**	**2,496**	**783**	**133**	**0**	**140**	**29,925**

1. Meter by Class and Size are based on June 2022 customer billing data.
2. Source: *AWWA Manual M1, "Principles of Water Rates, Fees, and Charges", Table B-1*

Using the costs allocated to each customer class from Figure 5, **Figure 11** shows the calculation of the fixed monthly service charges for all customer classes based on meter size. As previously mentioned, the customer service charge is calculated by dividing the customer service-related costs by the total number of

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[9] System capacity is the system's ability to supply water to all delivery points at the time when demanded.

[10] *Principles of Water Rates, Fees and Charges*, Manual of Water Supply Practices, Manual M1, AWWA, 7th Edition, 2017, p. 386. *Water Meters – Selection, Installation, Testing and Maintenance*, Manual M6, AWWA, 5th Edition, 2012, pp. 63-65.

meters, whereas the fixed capacity charge is calculated by dividing the capacity-related costs by the total number of equivalent meters for each meter size.

Figure 11. Calculation of Fixed Service Charges

Number of Meters by Class and Size[1]	FY2023/24									Total
	3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch	
Residential	4,445	8,273	172	459	167	2	0	0	0	13,518
Multi-Family	137	203	84	56	24	17	0	0	0	521
Commercial/Industrial	251	330	0	249	10	14	3	0	1	858
Institutional	0	1	0	15	8	9	1	0	0	34
Landscape	34	182	79	212	4	4	0	0	0	515
City Account	5	7	1	19	2	1	0	0	0	35
Hydrant	0	0	0	0	19	0	0	0	0	19
Total Meters/Accounts	**4,872**	**8,996**	**336**	**1,010**	**234**	**47**	**4**	**0**	**1**	**15,500**
Hydraulic Capacity Factor[2]	*1.00*	*1.67*	*3.33*	*5.33*	*10.67*	*16.67*	*33.33*	*53.33*	*140.00*	
Total Equivalent Meters	**4,872**	**14,993**	**1,120**	**5,387**	**2,496**	**783**	**133**	**0**	**140**	**29,925**
Monthly Fixed Service Charges										
Customer Costs ($/Acct/month)[3]	$8.09	$8.09	$8.09	$8.09	$8.09	$8.09	$8.09	$8.09	$8.09	
Capacity Costs ($/Acct/month)[4]	$12.58	$20.96	$41.92	$67.08	$134.15	$209.61	$419.22	$670.76	$1,760.74	
Total Monthly Meter Charge	**$20.67**	**$29.05**	**$50.02**	**$75.17**	**$142.24**	**$217.70**	**$427.32**	**$678.85**	**$1,768.83**	
Annual Fixed Costs Allocated to Monthly Meter Charges										
Customer Costs	$ 1,505,412									
Capacity Costs	4,516,236									
Total Fixed Meter Costs	**$ 6,021,648**									
Annual Revenue from Monthly Meter Charges										
Customer Charges	$ 473,185	$ 873,722	$ 32,633	$ 98,095	$ 22,727	$ 4,565	$ 388	$ -	$ 97	**$ 1,505,412**
Capacity Charges	$ 735,283	$ 2,262,797	$ 169,031	$ 812,957	$ 376,697	$ 118,221	$ 20,123	$ -	$ 21,129	**$ 4,516,236**
Total Rev. from Mo. Meter Charges	**$ 1,208,468**	**$ 3,136,518**	**$ 201,664**	**$ 911,051**	**$ 399,424**	**$ 122,786**	**$ 20,511**	**$ -**	**$ 21,226**	**$ 6,021,648**

1. Meter by Class and Size are based on June 2022 customer billing data.
2. Source: *AWWA Manual M1, "Principles of Water Rates, Fees, and Charges", Table B-1*
3. Customer costs are allocated to each customer by dividing the total customer costs by the total number of customers.
4. Capacity costs are allocated by meter size and the hydraulic capacity of the meter.

Volumetric Rates

Currently, the City uses a 2-tier rate structure for all customers; however, the proposed rates are based on a uniform, or single tier, volumetric rate. Given the single source of water supply, a uniform volumetric rate is more feasible from a Prop 218 perspective.

Figure 12 shows the calculation of the uniform tier rate per unit of water for all customers, including the basic commodity rate (without pumping costs) and rates for each zone (including pumping costs).

Figure 12. Uniform Tier Rates for FY 2023/24

Customer Classes	Water Use (TG/yr.)[1]	% of Total Water Use	Total Vol. Rev. Reqts. (Excl. Pumping)	Uniform Commodity Rates ($/TG)	Uniform Commodity Rates Including Pumping Costs ($/TG)		
					Zone 1	Zone 2	Zone 3
Residential - Tier 1	1,348,786	*60.6%*	$ 4,912,312	$3.64	$4.00	$4.37	$4.73
Multi-Family	259,687	*11.7%*	945,787	$3.64	$4.00	$4.37	$4.73
Commercial/Industrial	333,884	*15.0%*	1,216,014	$3.64	$4.00	$4.37	$4.73
Institutional	38,459	*1.7%*	140,069	$3.64	$4.00	$4.37	$4.73
Landscape	231,215	*10.4%*	842,091	$3.64	$4.00	$4.37	$4.73
City Account	59	*0.0%*	215	$3.64	$4.00	$4.37	$4.73
Hydrant	14,948	*0.7%*	54,441	$3.64	$4.00	$4.37	$4.73
Total Potable Water	**2,227,038**	***39.4%***	**$ 8,110,929**				
Pumping Costs			**921,543**				
Total Volumetric Reve. Reqts.			**$ 9,032,472**				

F. Proposed Water Rates

The City's previous rate study was completed eight years ago in 2015. Since then, the underlying cost factors (e.g., consumption by class, number of meters, peaking factors) have changed. The cost-of-service analysis by nature "re-balances" how costs are allocated between customer classes and, as a result, there are uneven adjustments in the first year of the 5-year rate adoption period. In contrast, in the subsequent four years of the rate planning period, proposed charges are simply adjusted by the proposed adjustment in total rate revenue needed to meet projected revenue requirements.

Figure 13 provides a comparison of the current and proposed water rates for FY 2023/24 through 2027/28 for each customer class and meter size. Projected rates for each fiscal year[11] reflect adjustments based on the cost-of-service analysis, the 40% fixed/60% variable rate design structure, and the recommended percent increases in rate revenue planned for each year. More detailed tables on the development of the proposed water rates are documented in Appendix A.

Figure 13. Current and Proposed Water Rates

Water Rate Schedule	Current Rates	Proposed Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Service Charges						
Meter Size						
3/4 inch	$11.53	$20.67	$22.32	$23.66	$24.61	$25.59
1 inch	$19.24	$29.05	$31.38	$33.26	$34.59	$35.98
1 1/2 inch	$38.47	$50.02	$54.02	$57.26	$59.55	$61.93
2 inch	$61.55	$75.17	$81.18	$86.05	$89.50	$93.08
3 inch	$115.39	$142.24	$153.62	$162.84	$169.36	$176.13
4 inch	$192.30	$217.70	$235.12	$249.23	$259.20	$269.57
6 inch	$384.62	$427.32	$461.50	$489.19	$508.76	$529.11
8 inch	$615.37	$678.85	$733.16	$777.15	$808.23	$840.56
10 inch	$884.50	$1,768.83	$1,910.34	$2,024.96	$2,105.95	$2,190.19
Variable Charges for All Water Consumed ($/1,000 gallons (or TG))						
Residential Customers - Tiered Volumetric Rates		Uniform Vol. Rates				
Tier 1 - Zone 1	$4.39	$4.00	$4.32	$4.58	$4.77	$4.96
Tier 1 - Zone 2	$4.93	$4.37	$4.72	$5.00	$5.20	$5.41
Tier 1 - Zone 3	$5.52	$4.73	$5.11	$5.41	$5.63	$5.85
Tier 2 (more than 20 TG)						
Tier 2 - Zone 1	$4.93	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 2	$5.47	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 3	$6.06	N.A.	N.A.	N.A.	N.A.	N.A.

Note: The proposed rates for FY23/24 will be implemented January 1, 2024, and annually on January 1 for subsequent fiscal years thereafter

G. Comparison of Current and Proposed Water Bills

Figure 14 and **Figure 15** compare a range of monthly water bills under the current and proposed water rates for residential and commercial customers, including the bills for Alternative 2, the 70% fixed/30% variable option. These monthly bills are based on typical meter sizes and highlight the average consumption levels for each customer.

These bill comparisons assume that financial plan projections remain accurate. However, some costs that are outside of the City's control could change, such as the cost of water purchased from Valley Water.

[11] All rate adjustments are scheduled to be effective on January 1, 2024.

There is a "pass-through" provision that allows the City to make adjustments to water rates if these types of costs exceed those in the City's projections.

Figure 14. Monthly Water Bill Comparison for Residential Customers

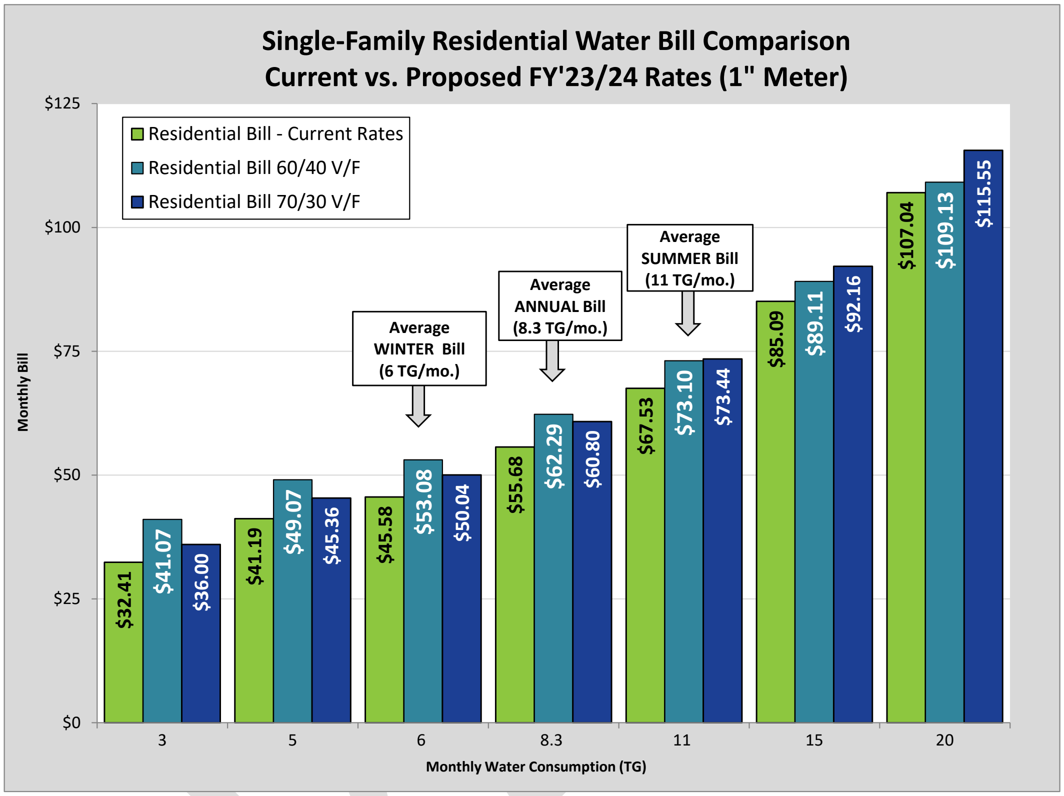


Figure 15. Monthly Water Bill Comparison for Commercial Customers

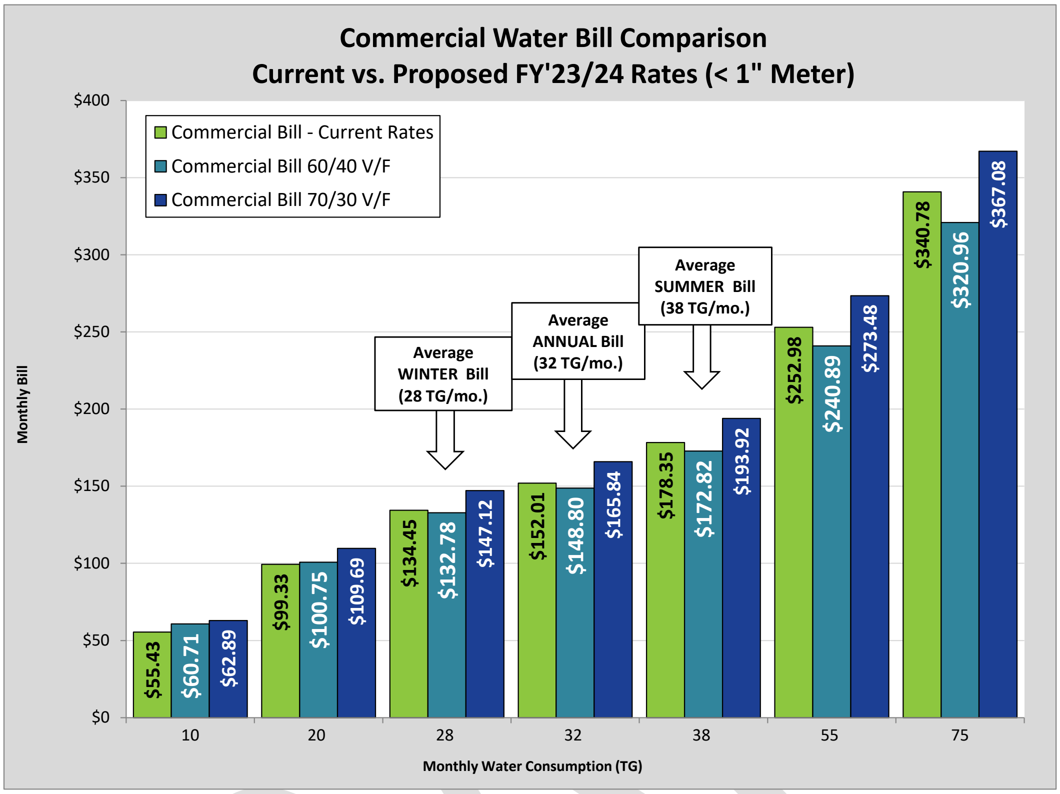


Figure 16 and **Figure 17** compare the single-family and commercial water bills for the five-year rate adoption period assuming average consumption levels.

Figure 16. Residential Water Bills – 5-Years

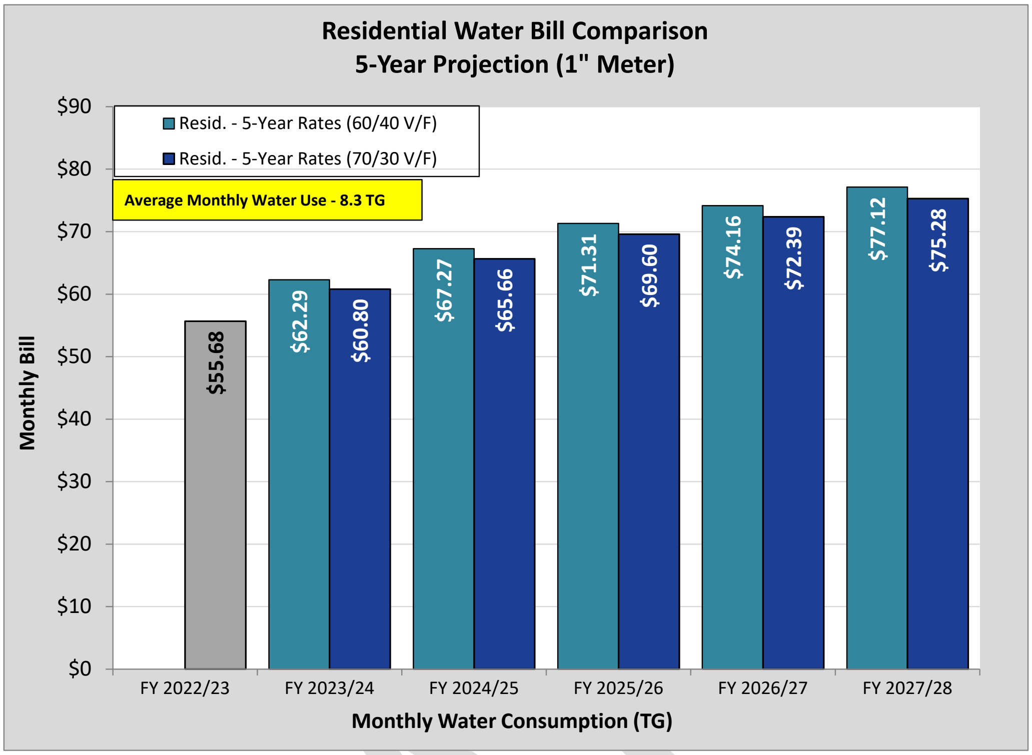


Figure 17. Commercial Water Bills – 5-Years

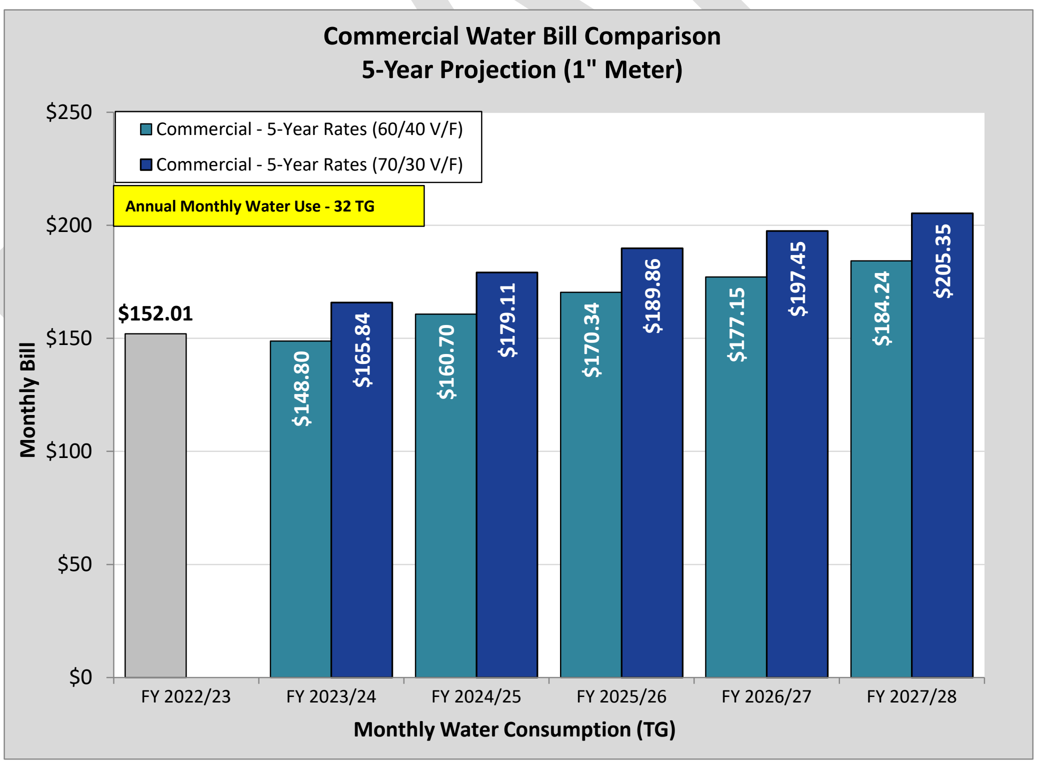
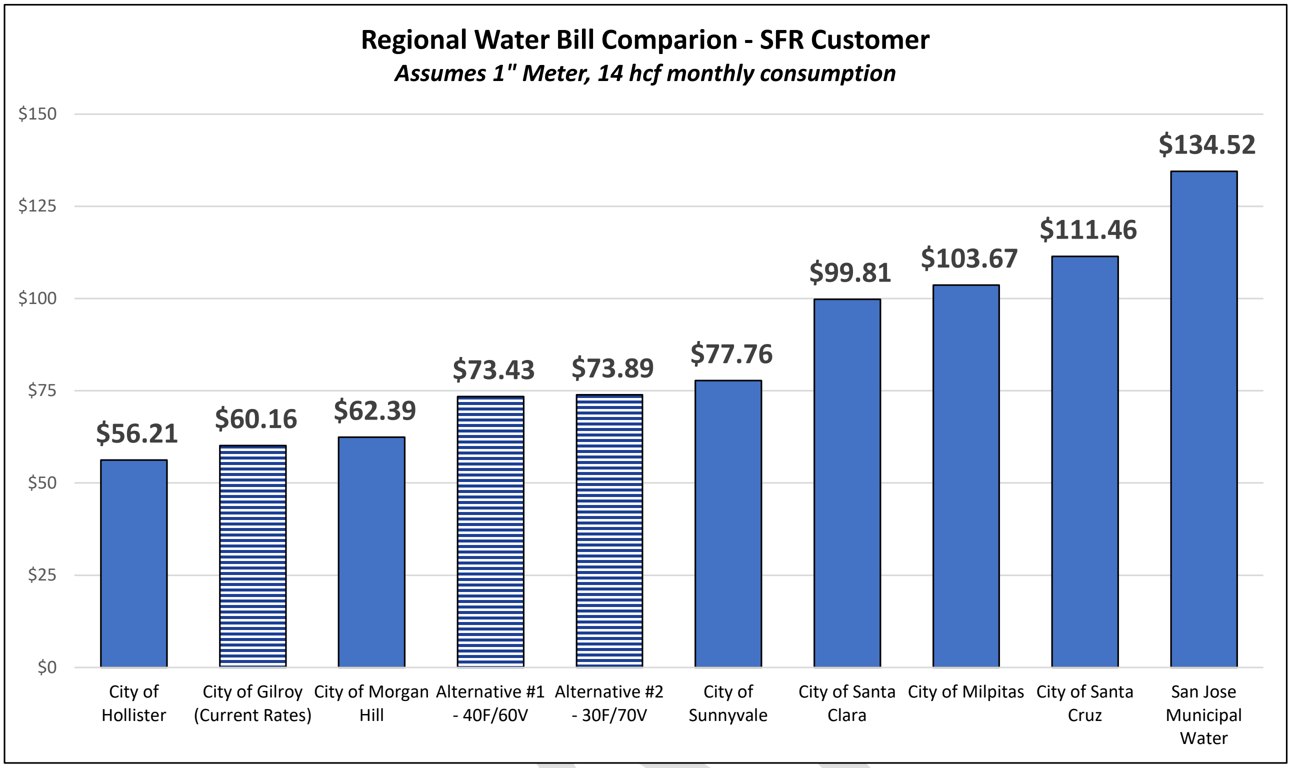


Figure 18 presents a comparison of residential water rates for similar communities.

Figure 18. Residential Bills Comparison for Similar Communities



Section 3. Wastewater Rate study

A. Key Wastewater Rate Study Issues

The City's wastewater rate analysis was undertaken with a few specific objectives, including:

- Ensuring equity among customer classes by collecting rate revenue through the cost-of-service process based on both fixed monthly charges and volumetric rates.
- Maintain adequate reserve levels to ensure continuity in operations.
- Ensure adequate funding for the utility's capital projects, due to the level of capital investment planned over the next five years.
- Comply with Prop 218 requirements to ensure costs are properly allocated between user classifications.

B. Financial Plan

Like the water utility, it is important for the wastewater utility to ensure rates provide sufficient funding to cover operating and maintenance costs, planned capital expenditures, and maintain reasonable reserves. The wastewater utility's rate increases are governed by these needs, and the current state of the City's wastewater utility is as follows:

- **Meeting Net Revenue Requirements:** For FY 2023/24 through FY 2027/28, the projected net revenue requirements (that is, total operating expenses plus rate-funded capital costs less non-rate revenues) for the City averages approximately $13.1 million to $17.1 million annually. If no rate increases are implemented, the City is projected to run an annual deficit of approximately $280,000 beginning in FY 2024/25 but increasing to $2.7 million by FY 2027/28, and the utility would struggle to meet its debt service coverage requirements.
- **Maintaining Reserve Funds:** Reserve funds provide a basis for a utility to cope with fiscal emergencies such as revenue shortfalls, asset failure, and natural disasters, among other events. Reserve policies provide guidelines for sound financial management, with an overall long-range perspective to maintain financial solvency and mitigate financial risks associated with revenue instability, volatile capital costs, and emergencies. The reserve funds for the wastewater utility are considered unrestricted reserves and consist of the following:
    - **Operating Reserve**: The target ending fund balance for the operating reserve is equal to six months of operating expenses, or approximately $6.8 million in FY 2023/24. An operating reserve is intended to promote financial viability in the event of any short-term fluctuation in revenues and/or expenditures. Fluctuations in revenue can be caused by weather patterns, the natural inflow and outflow of cash during billing cycles, natural variability in demand-based revenue streams (such as volumetric charges), and – particularly in periods of economic distress – changes or trends in age of receivables.
    - **Capital Rehabilitation & Replacement Reserve** equal to 50% of the average capital improvement costs over the 5-year rate adoption period which is approximately $4.4 million.

This reserve is set aside to address long-term capital system replacement and rehabilitation needs.

- **Maintaining Adequate Bond Coverage:** The City is required by the rate covenants of the 2021A Wastewater Revenue Bonds to maintain a minimum debt service coverage ratio of 1.25. The benefit of maintaining a coverage ratio higher than 1.25 is that it strengthens the City credit rating which helps lower interest rates for debt-funded capital projects and can reduce annual debt service payments. With the recommended rate increases, the City is projected to meet the debt coverage requirement for the five-year rate adoption period ending in FY 2027/28.

The recommended rate revenue increases are 4% annually throughout the 5-year rate adoption period. **Figure 19** summarizes the sources and uses of funds, net revenue requirements, and the recommended annual increases in wastewater rate revenue proposed for the next 5 years. **Figure 20** summarizes the projected reserve fund balances and reserve targets for the wastewater utility's unrestricted funds.

Figure 19. Summary of Wastewater Revenue Requirements

Summary of Sources and Uses of Funds and Net Revenue Requirements	Proj. Actuals	5-Year Projected Rate Period				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Sources of Sewer Funds						
User Fees	$ 13,247,000	$ 13,512,000	$ 13,782,000	$ 13,988,730	$ 14,198,561	$ 14,411,539
Interfund Transfer In	1,533,500	2,244,000	2,244,000	2,244,000	2,244,000	2,244,000
Misc. Revenue & Interest Earnings2	992,066	649,871	397,017	15,619	15,853	16,091
Total: Sources of Funds	**$ 15,772,566**	**$ 16,405,871**	**$ 16,423,017**	**$ 16,248,349**	**$ 16,458,414**	**$ 16,671,630**
Uses of Sewer Funds						
7500 - Sewer Administration	$ 3,606,254	$ 2,143,559	$ 2,202,325	$ 2,339,468	$ 2,481,991	$ 2,625,123
7510 - Finance Sewer Utility Billing	921,605	1,037,477	1,083,341	1,120,978	1,159,924	1,200,226
7520 - Sewer Operations	2,758,341	4,362,836	4,320,125	4,464,460	4,613,637	4,767,818
SCWRA Oper. Costs (less Monit., Sampl., Pre-Tr.Cost	5,715,995	6,146,815	6,517,038	6,781,500	6,989,600	7,207,300
Monitoring, Sampling, Pretreatment (Non-Resid. Co	N.A.	365,700	440,200	388,500	400,400	412,700
Subtotal: Operating Expenses	$ 13,002,195	$ 13,690,686	$ 14,122,829	$ 14,706,406	$ 15,245,153	$ 15,800,467
Debt Service	$ 1,533,500	$ 2,244,000	$ 2,244,400	$ 2,243,600	$ 2,241,600	$ 2,243,300
Rate-Funded Capital Expenses	-	75,401	335,906	211,300	755,038	1,334,115
Total: Use of Funds	**$ 14,535,695**	**$ 16,010,087**	**$ 16,703,135**	**$ 17,161,306**	**$ 18,241,791**	**$ 19,377,882**
Surplus (Deficiency) before Rate Increase	**$ 1,236,871**	**$ 395,784**	**$ (280,118)**	**$ (912,957)**	**$ (1,783,377)**	**$ (2,706,252)**
Additional Revenue from Rate Increases[1]	$ -	**$ 540,480**	**$ 1,121,811**	**$ 1,743,733**	**$ 2,408,627**	**$ 3,119,008**
Surplus (Deficiency) after Rate Increase	**$ 1,236,871**	**$ 936,264**	**$ 841,693**	**$ 830,775**	**$ 625,250**	**$ 412,756**
Projected Annual Rate Increase	***0.00%***	***4.00%***	***4.00%***	***4.00%***	***4.00%***	***4.00%***
Debt Coverage After Rate Increase (1.25 required)	*1.81*	*1.45*	*1.52*	*1.46*	*1.62*	*1.78*
Net Revenue Requirement[2]	**$ 12,010,129**	**$ 13,116,216**	**$ 14,062,118**	**$ 14,901,687**	**$ 15,981,938**	**$ 17,117,791**

1. Revenue from rate increases assumes an implementation date of Jnnuary 1, 2024 for new rates. For each year thereafter, the assumption is that new rates will be implemented on July 1st of each year.
2. This is the annual amount needed from water rates. [Net Revenue Requirement = Total Use of Funds - (Non-Rate Revenues + Bank Interest)].

Figure 20. Summary of Wastewater Reserve Funds

Beginning Reserve Fund Balances and Recommended Reserve Targets	Projected Actuals	5-Year Projected Rate Period				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Unrestricted Reserves						
Operating Reserve						
Ending Balance	$ 6,501,000	$ 6,845,000	$ 7,061,000	$ 7,353,000	$ 7,623,000	$ 7,900,000
Recommended Minimum Target	*6,501,000*	*6,845,000*	*7,061,000*	*7,353,000*	*7,623,000*	*7,900,000*
Capital Rehabilitation & Replacement Reserve						
Ending Balance	$ 12,942,049	$ 13,495,633	$ 11,271,248	$ 8,151,561	$ 6,946,887	$ 5,648,582
Recommended Minimum Target	*4,420,000*	*4,420,000*	*4,420,000*	*4,420,000*	*4,420,000*	*4,420,000*
Total Ending Balance	**$ 19,443,049**	**$ 20,340,633**	**$ 18,332,248**	**$ 15,504,561**	**$ 14,569,887**	**$ 13,548,582**
Total Recommended Minimum Target	***$ 10,921,000***	***$ 11,265,000***	***$ 11,481,000***	***$ 11,773,000***	***$ 12,043,000***	***$ 12,320,000***

A more detailed version of the utility's proposed 5-year financial plan is included in *Appendix B*. The appendix tables include revenue requirements, reserve funds, revenue sources, proposed rate increases, and the City's capital improvement program.

C. Cost-of-Service Analysis

Once the net revenue requirements are determined, the cost-of-service analysis (COSA) proportionately distributes the revenue requirements to each of the customer classes. The COSA consists of the classification of expenses and then the allocation of those expenses to customer classes based on allocation factors, such as water consumption and number of equivalent dwelling units (EDUs), or accounts. Ultimately, a COSA is intended to result in rates that are proportional to the cost of providing service to each customer class.

CUSTOMER CLASSES AND ALLOCATION FACTORS

Customer classes are determined by combining customers with similar demand characteristics and types of use into categories that reflect the cost differentials to serve each type of customer. The most recent water consumption data was the basis for estimating the amount of flow that each customer class sends to the treatment plant.

Figure 21 shows the development of the flow/volume allocation factors by customer class calculated by taking the lowest consecutive 3-month water usage for FY 2021/22 for residential customers, annualizing that usage, and using the annual consumption for non-residential customer classes.

Figure 21. Development of the Flow Allocation Factor

Customer Class	Consumption (TG/year)[1]	Number of Dwelling Units / Accounts[2]	Winter Consumption (Dec-Feb '21)[3]	Annualized Winter Consumption	Adjusted Annual Volume (gallons)[3]	Percentage of Adjusted Volume
Residential Customers						
Single-Family Residence	1,135,486	12,330	201,429	805,715	805,715,371	**61.6%**
Multi-Family Residence[4]	218,620	4,585	49,505	198,022	198,021,843	**15.1%**
Non-Residential Customers						
Low Strength	77,640	427			77,640,000	**5.9%**
Domestic Strength	98,610	253			98,610,000	**7.5%**
Medium Strength	53,149	55			53,149,000	**4.1%**
High Strength	74,067	128			74,067,000	**5.7%**
Total:	**1,657,571**	**17,778**	**250,934**	**1,003,737**	**1,307,203,214**	**100.0%**

1. Consumption data for residential customers is not available. Calculation of estimated consumption available in source file: FY 2021-22 Billing Journal Totals by Service v7.xlsx.
2. SFR and MFR customers are based on the number of dwelling units and all other customers are based on the number of accounts.
3. Annual consumption for all customer classes based on 12 months of water consumption.
4. MFR dwelling units provided by the City. Source file: *MFR Units.xlsx*.

Volumetric charges for non-residential customer classes were based on the annual consumption and their estimated effluent strengths (Residential customers do not have volumetric charges, just fixed monthly charges). **Figure 22** summarizes the development of the strength allocation factors by customer class. These strength-related percentages were used to allocate strength-related costs. (Note: Although residential customers do not have volumetric charges, their strengths, and their estimated pounds of BOD and TSS, are used to allocate capacity-related costs to single- and multi-family customers.)

Figure 22. Development of the Strength Allocation Factor

Customer Class	Annual Flow (gallons)	Biochemical Oxygen Demand (BOD)				Total Suspended Solids (TSS)			
		Average Strength Factor (mg/l)[1]	Calculated BOD (lbs./yr.)	Adjusted BOD (lbs./yr.)	Percent of Total	Average Strength Factor (mg/l)[1]	Calculated TSS (lbs./yr.)	Adjusted BOD (lbs./yr.)	Percent of Total
Residential Customers									
Single-Family Residence	805,715,371	205	1,377,532	2,755,063	**51.4%**	205	1,377,532	1,744,176	**51.4%**
Multi-Family Residence	198,021,843	205	338,558	677,116	**12.6%**	205	338,558	428,669	**12.6%**
Non-Residential Customers									
Low Strength	77,640,000	167	108,135	216,271	**4.0%**	167	108,135	136,917	**4.0%**
Domestic Strength	98,610,000	225	185,042	370,083	**6.9%**	225	185,042	234,293	**6.9%**
Medium Strength	53,149,000	400	177,305	354,610	**6.6%**	400	177,305	224,497	**6.6%**
High Strength	74,067,000	800	494,175	988,350	**18.4%**	800	494,175	625,705	**18.4%**
Total:	**1,307,203,214**		**2,680,747**	**5,361,493**	**100.0%**		**2,680,747**	**3,394,256**	**100.0%**
			Total Annual from WWTP Data	*5,361,493*	*BOD (lbs./yr.)*			*3,394,256*	*TSS (lbs./yr.)*
				2.00	*BOD Adj. Factor*			*1.27*	*TSS Adj. Factor*

1. Avg. strength factors for BOD and TSS are from the CA State Water Resources Control Board, *Revenue Program Guidelines* (Appendix G), March 1998 Edition.

Figure 23 summarizes the development of the customer allocation factor.

Figure 23. Development of the Customer Allocation Factor

Customer Class	Number of Dwelling Units / Accounts	Percent of Total
Residential Customers		
Single-Family Residence	12,330	**66.2%**
Multi-Family Residence	4,585	**24.6%**
Non-Residential Customers - Strength Classes		
Low Strength	427	**2.29%**
Domestic Strength	253	**1.36%**
Medium Strength	55	**0.30%**
High Strength	128	**0.69%**
Non-Residential Customers - Categorical Classes		
Significant/Categorical	6	**0.03%**
Non-Significant/Categorical	458	**2.46%**
Other Non-Residential	387	**2.08%**
Total:	**18,628**	**100.0%**

CLASSIFICATION AND ALLOCATION OF COSTS

As previously noted, costs are classified into the following four categories: (1) flow-related costs, (2) strength-related costs (BOD and TSS), (3) customer-related costs, and (4) direct allocation costs for monitoring, sampling, and pretreatment program costs. Most costs are typically allocated to more than one of these categories except for this last category in which costs, as implied by its name, are directly allocated to the three categories of non-residential customers (i.e., Significant/Categorical, Non-Significant/Categorical, and Other Non-Residential).

The City's budgeted costs were allocated to these four categories which serve as the basis for calculating the fixed and variable charges. Tables in Appendix B show how the City's expenses were classified and allocated to these cost-causation components.

Although the analysis of the classification of costs indicated that 44% of cost should be collected from volumetric charges and 56% from fixed charges[12], these percentages don't really apply in the City's case because:

- Residential classes do not have a volumetric charge.
- Non-residential customers do not have a typical fixed charge that recovers system capacity and related fixed costs, just a volumetric charge based on their strength category.
- As mentioned above, non-residential classes do have a separate fixed charge for monitoring, sampling, and pretreatment program costs, but this is only for these directly allocated costs, not system capacity costs.

Figure 24 summarizes the allocation of the net revenue requirements to each cost causation component for the proposed rates.

Figure 24. Allocation of Revenue Requirements by Customer Class

Customer Class	Cost Classification Components						Cost of Service Net Rev. Req'ts.	% of COS Net Revenue Req'ts.
	Commodity	Capacity		Direct Allocation (Monitoring, Pretreat., etc.)		Customer		
		BOD	TSS	$	Alloca. %			
Residential Customers								
Single-Family Residence	$ 3,811,046	$ 1,733,046	$ 1,733,046			$ 279,038	$ 7,556,175	53.8%
Multi-Family Residence	936,646	425,933	425,933			103,762	1,892,275	13.5%
Non-Residential Customers								
Low Strength	$ 367,238	$ 136,043	$ 136,043			$ 9,663	$ 648,988	4.6%
Domestic Strength	466,427	232,797	232,797			5,726	937,747	6.7%
Medium Strength	251,396	223,064	223,064			1,245	698,768	5.0%
High Strength	350,338	621,712	621,712			2,897	1,596,659	11.4%
Non-Residential Customers (Monitoring, Sampling, Pretreatment Costs Only)						***Fixed Charge Rev. Reqts.***		
Significant/Categorical				$20,542	2.9%	136	$20,678	0.1%
Non-Significant/Categorical				$619,036	88.1%	10,354	$629,390	4.5%
Other Non-Residential				$63,046	9.0%	8,754	$71,800	0.5%
Total	**$ 6,183,091**	**$3,372,595**	**$3,372,595**	**$ 702,624**		**$ 421,574**	**$ 14,052,480**	**100.0%**

1. Non-Residential Customers (Monitoring, Sampling, Pretreatment Costs are allocated on the basis of current/historical share of this program.

D. Rate Design Analysis

During this rate study, NBS discussed with City staff various rate alternatives that collected revenue differently from fixed vs. variable charges. Ultimately, the rate alternative selected by City staff is one similar to the existing rate design. The reasons for selecting this alternative are (1) it maintains the existing rate design developed during the last study which utilize wastewater strengths for various customers types based on values in the State water Resources Control Board guidelines,[13] (2) it provides continuity for sewer customers, and (3) it is easy to understand from a customer's perspective and easy to administrate from City staff's perspective.

FIXED CHARGES

The fixed charge recognizes that the wastewater utility incurs fixed costs regardless of whether customers send any wastewater into the City's collection system. There are three factors used to develop the fixed charge: 1) the number of dwelling units for residential customers, 2) the number of accounts for non-

[12] FY 2021/22 data indicate sewer rates currently collect 75% of rate revenue from fixed charges and 25% from volumetric charges.
[13] The City's previous rate study showed domestic customer strengths for BOD and TSS of 200 to 225 mg/l (Table 1, page 5). Residential strength factors used here are the 205 mg/l shown in Table 22.

residential customers, and 3) the annual revenue requirement. The monthly fixed charge is calculated by taking 100% of total revenue requirements for residential customer classes and dividing by the number of accounts (for single-family) and by the number of dwelling units (for multi-family).

Non-residential fixed charges are based on the directly allocated monitoring, sampling, and pretreatment program costs and divided by the number of accounts in the three non-residential categorical customer classes (i.e., Non-Significant/Categorical, Significant/Categorical, and Other Non-Residential).

VARIABLE CHARGES

The variable charges are calculated by dividing 100% of the annual net revenue requirements for the non-residential strength-related customer classes by the annual consumption.

The residential and non-residential fixed and variable charge calculations are summarized in **Figure 25**. The typical single-family residential customer has an average winter flow of 5.4 TG/month and strength factors of 205 mg/l for both BOD and TSS. Multi-family customers have an average winter flow of 3.6 TG/month and the same strength factors as single-family customers.

Figure 25. Development of Fixed and Variable Charges

Customer Class	No. of Dwelling Units / Accounts[1]	Annualized Consumption (Gallons)[2]	Annual Revenue Requirement			Mo. Fixed Charge Per EDU (Resid.) or Account (Non-Resid)	Volumetric Charge ($/1,000 Gal.)
			Total	Fixed	Volumetric		
Residential - Monthly Fixed Rate							
Single-Family Residence	12,330	805,715,371	$ 7,556,175	$ 7,556,175		$51.07	
Multi-Family Residence	4,585	198,021,843	1,892,275	1,892,275		$34.39	
Non-Residential Customers							
Low Strength	427	77,640,000	$ 648,988		$ 648,988		$8.36
Domestic Strength	253	98,610,000	937,747		937,747		$9.51
Medium Strength	55	53,149,000	698,768		698,768		$13.15
High Strength	128	74,067,000	1,596,659		1,596,659		$21.56
Total	**17,778**	**1,307,203,214**	**$ 13,330,612**	**$ 9,448,450**	**$ 3,882,162**		
Non-Residential Customers (Monitoring, Sampling, Pretreatment Costs Only)							
Significant/Categorical[3]	6		$20,678	$ 20,678		$287.19	
Non-Significant/Categorical[3]	458		629,390	629,390		$114.64	
Other Non-Residential[3]	387		71,800	71,800		$15.47	
*Percent of **Non-Resid.** Rev. from Fixed vs. Vol. Charges*			*100.0%*	*0.0%*	*100.0%*		

1. SFR and MFR customers are based on the number of dwelling units and all other customers are based on the number of accounts.
2. Residential customer consumption is the annualized average winter water consumption. Non-residential customers is total annual consumption.
3. Number of accounts estimated by dividing the annual fixed charge revenues by the current fixed charges ($/account/month). Also, the Significant, Non-Significant and Other Non-Residential accounts are included in the non-residential strength classes. They are shown here only for the calculation of the Monitoring, Sampling, and Pre-Treatment fixed charges.

E. Proposed Wastewater Rates

The proposed wastewater rates are similar to existing rates in terms of the rate design and rate methodology. **Figure 26** compares the current and proposed rates for FY 2023/24 through FY 2027/28 by customer class. While proposed rates in the first year (FY 2023/24) reflect the cost-of-service adjustments that often occur when they have not been updated in eight years, the projected rates for future years are strictly tied to annual rate increase in an "across-the-board" adjustment. More detailed tables on the development of the proposed rates are documented in *Appendix B*.

Figure 26. Current vs. Proposed Wastewater Rates

Sewer Rate Schedule	Current Rates	Proposed Sewer Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Charge						
Residential (100% Fixed)						
Single-Family Residence	$46.64	$51.07	$53.11	$55.24	$57.45	$59.74
Multi-Family Residence	$33.13	$34.39	$35.77	$37.20	$38.69	$40.23
Non-Residential Volumetric Rates						
Low Strength	$7.41	$8.36	$8.69	$9.04	$9.40	$9.78
Domestic Strength	$9.21	$9.51	$9.89	$10.29	$10.70	$11.12
Medium Strength	$12.08	$13.15	$13.67	$14.22	$14.79	$15.38
High Strength	$18.63	$21.56	$22.42	$23.32	$24.25	$25.22
Non-Residential - Monitoring & Pretreatment Program Base Rate Monthly Charges						
Significant/Categorical	$240.95	$287.19	$298.68	$310.63	$323.05	$335.98
Non-Significant/Categorical	$95.22	$114.64	$119.22	$123.99	$128.95	$134.11
Other Non-Residential	$11.47	$15.47	$16.09	$16.73	$17.40	$18.09

Note: The proposed rates for FY23/24 will be implemented on January 1, 2024, and annually on January 1 for subsequent fiscal years thereafter

F. Comparison of Current and Proposed Wastewater Bills

The following figures compare monthly wastewater bills under current and proposed rates for various customers over the 5-year rate period. These bill comparisons are calculated at typical levels of consumption. The last figure presents a comparison of residential sewer rates for similar communities.

Figure 27. Single-Family Residential Wastewater Bill Comparison

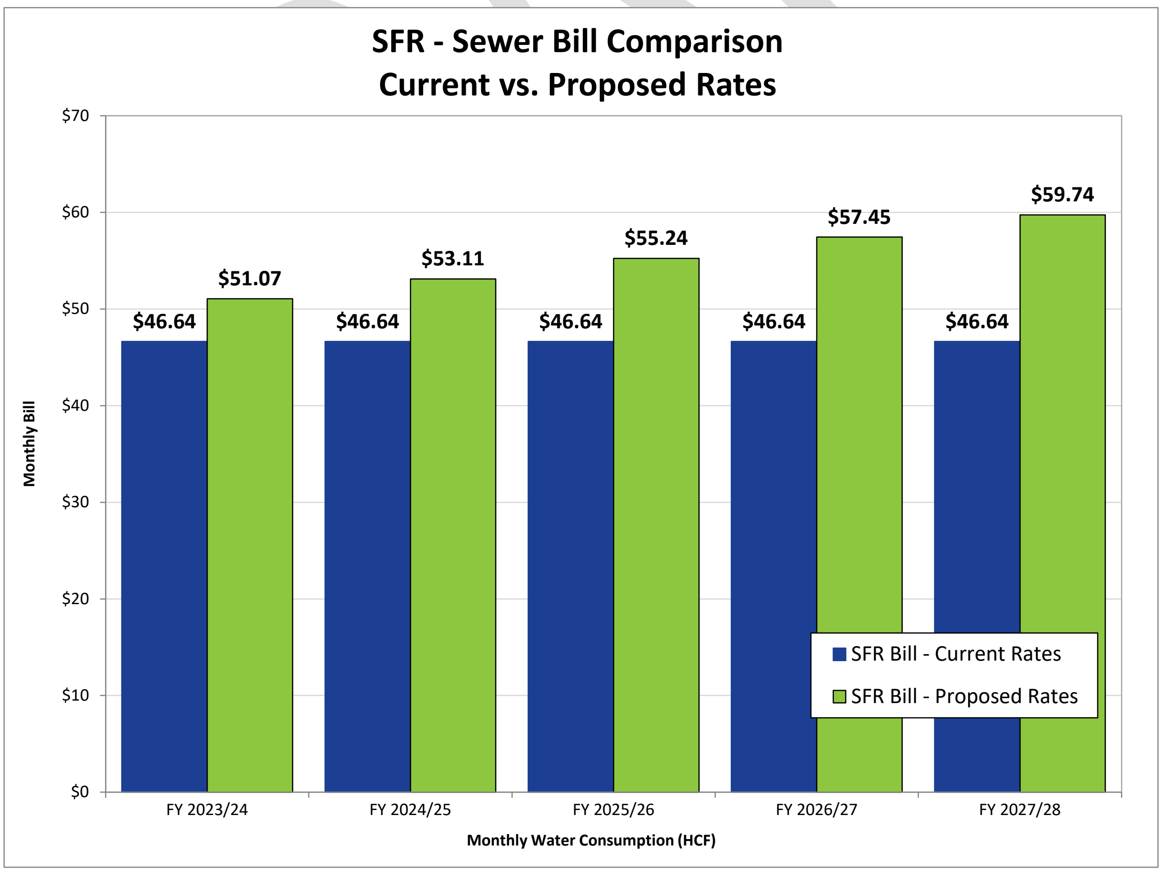


Figure 28. Multi-Family Residential Wastewater Bill Comparison

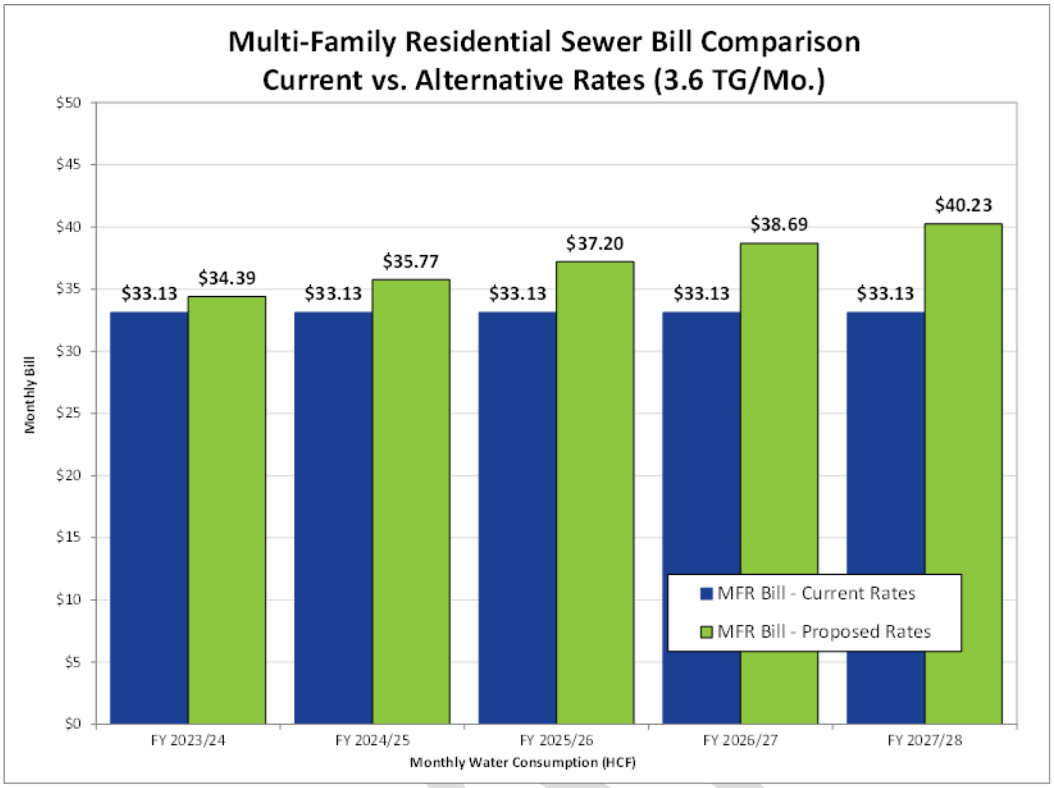


Figure 29. Non-Residential Low Strength Wastewater Bill Comparison

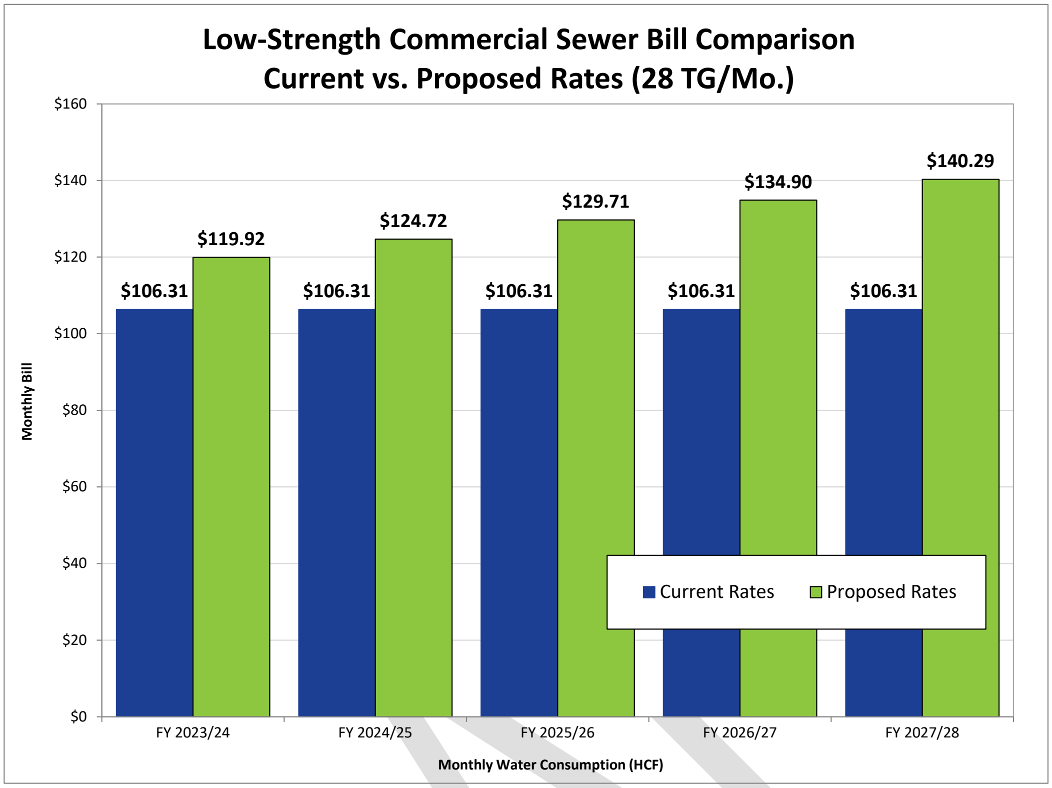


Figure 30. Non-Residential Domestic Strength Wastewater Bill Comparison

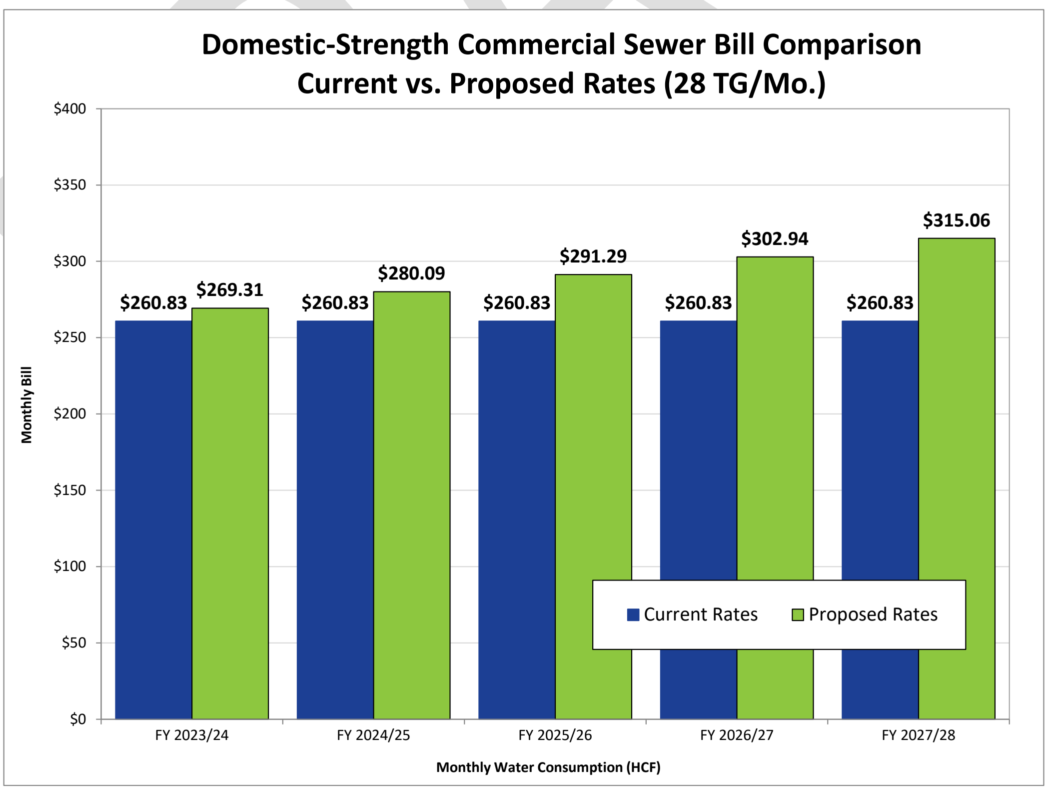


Figure 31. Non-Residential Medium Strength Wastewater Bill Comparison

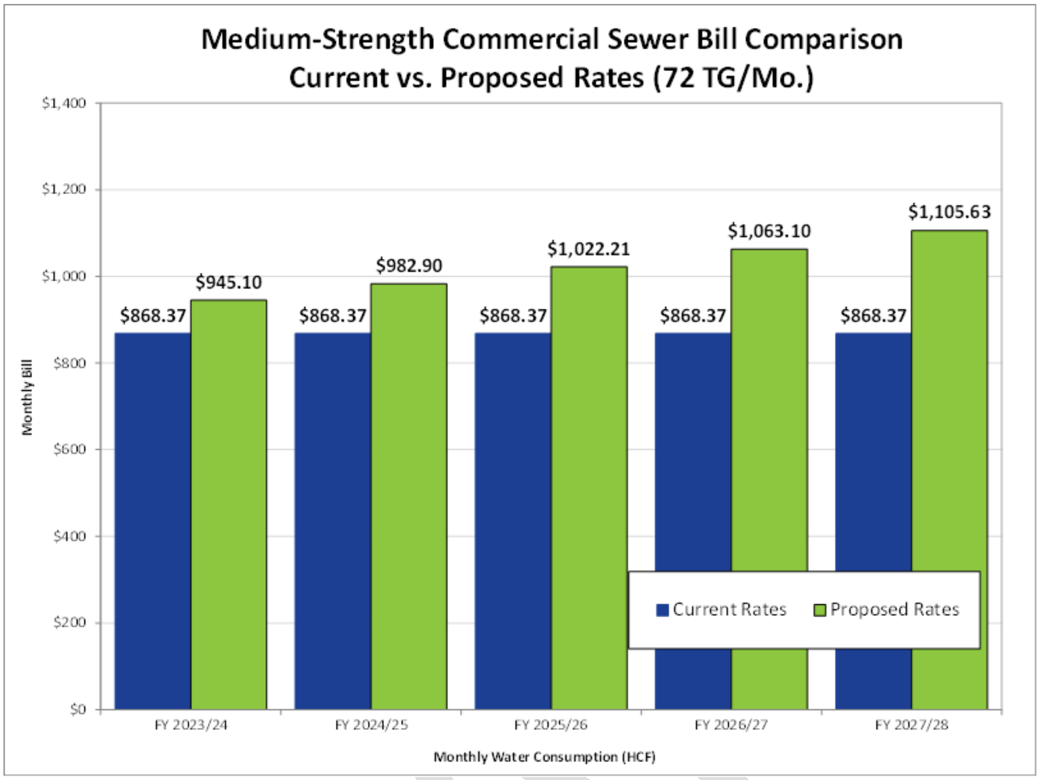


Figure 32. Non-Residential High Strength Wastewater Bill Comparison

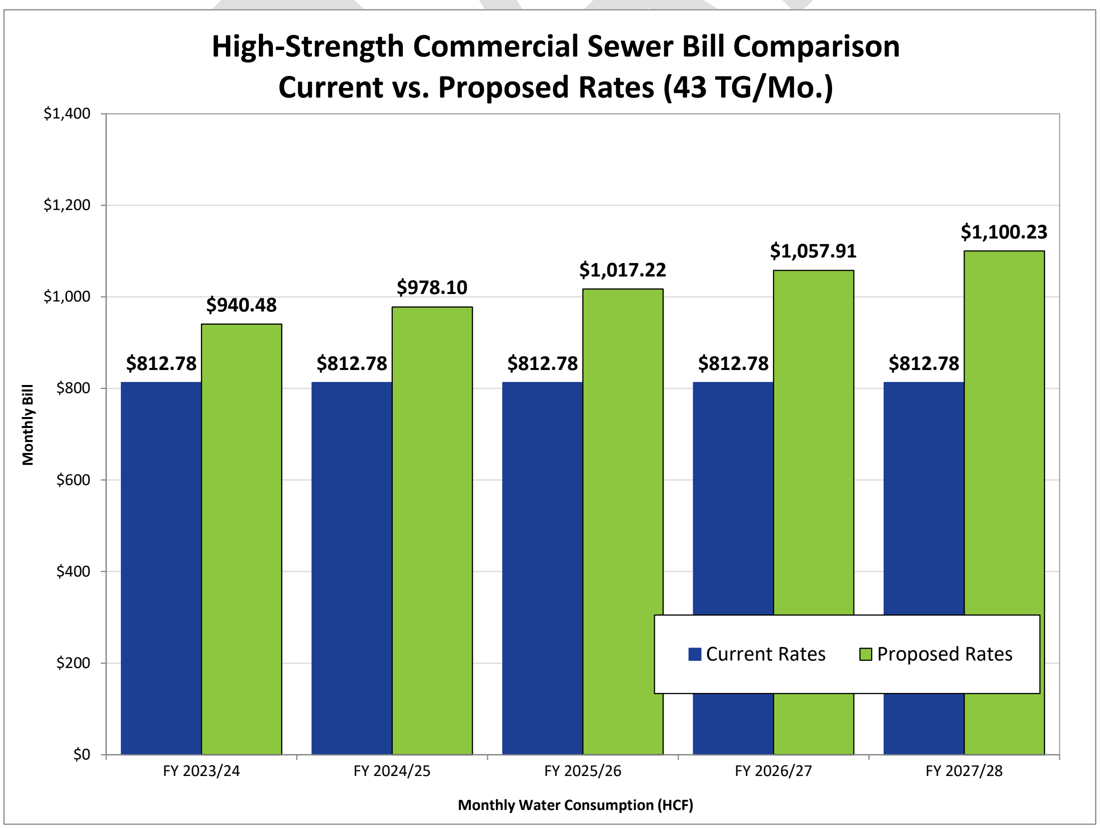
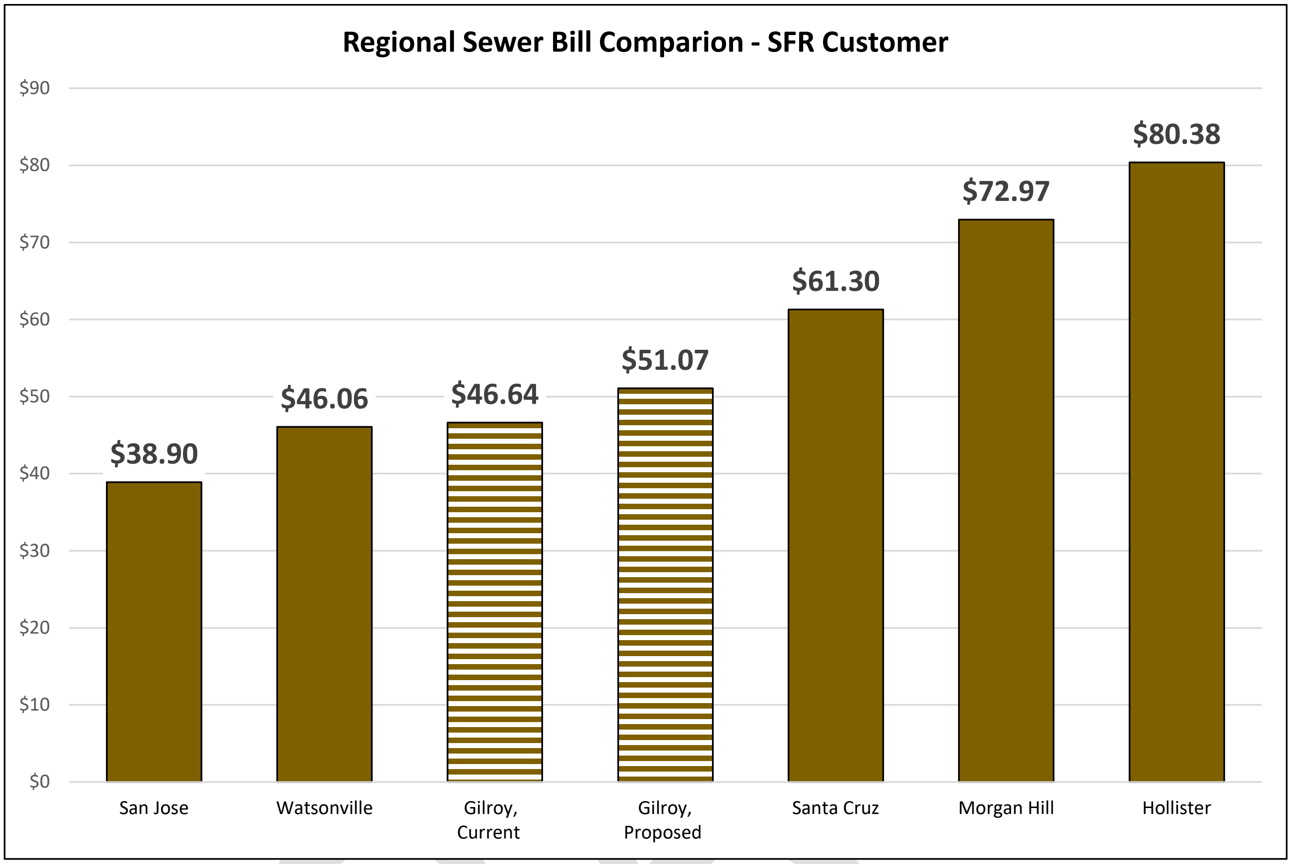


Figure 33. Residential Bills Comparison for Similar Communities



Section 4. Recommendations and Next Steps

A. Consultant Recommendations

NBS recommends the City take the following actions:

- **Approve and Accept this Study:** NBS recommends the City Council formally approve and adopt this Study and its recommendations and proceed with the next steps outlined below to implement the proposed rates. This will provide documentation of the rate study analyses and the basis for analyzing potential changes to future rates.
- **Implement Recommended Levels of Rate Increases and Proposed Rates:** Based on successfully meeting the Prop 218 procedural requirements, the City should proceed with implementing the 5-year schedule of proposed rates and rate increases previously shown in Figure 13 and Figure 26. This will help ensure the continued financial health of City's utilities.

B. Next steps

Annually Review Rates and Revenue – Any time an agency adopts new utility rates or rate structures, those new rates should be closely monitored over the next several years to ensure the revenue generated is sufficient to meet the annual revenue requirements. Changing economic and water consumption patterns underscore the need for this review, as well as potential and unseen changing revenue requirements — particularly those related to environmental regulations that can significantly affect capital improvements and repair and replacement costs.

Note: The attached Technical Appendices provide more detailed information on the analysis of the financial plan, revenue requirements, cost-of-service, and the rate design analyses that have been summarized in this report.

C. NBS' Principal Assumptions and Considerations

In preparing this report and the opinions and recommendations included herein, NBS has relied on several principal assumptions and considerations regarding financial matters, conditions, and events that may occur in the future. This information and these assumptions, including the City's budgets, capital improvement costs, customer accounts and consumption, and information from City staff were provided by sources we believe to be reliable, although NBS has not independently verified this data.

While we believe NBS' use of such information and assumptions is reasonable for the purpose of this report and its recommendations, some assumptions will invariably not materialize as stated herein and may vary significantly due to unanticipated events and circumstances. Therefore, the actual results can be expected to vary from those projected to the extent that actual future conditions differ from those assumed by us or provided to us by others.

Technical Appendices

Appendix A. Water Rate Study Tables and Figures

CITY OF GILROY
WATER RATE STUDY
Financial Plan and Reserve Projections

TABLE 1 : FINANCIAL PLAN AND SUMMARY OF REVENUE REQUIREMENTS

RATE REVENUE REQUIREMENTS SUMMARY	Budget	5-Year Projected Rate Period				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Sources of Water Funds						
Rate Revenue: [1]						
User Fees	$ 13,665,000	$ 13,939,000	$ 14,218,000	$ 14,431,270	$ 14,647,739	$ 14,867,455
Other Revenue:						
Connect/Install Charges	105,000	110,000	112,000	113,680	115,385	117,116
Bank Interest & Misc. [2]	488,737	499,621	509,514	5,075	5,151	5,228
Total Sources of Funds	**$ 14,258,737**	**$ 14,548,621**	**$ 14,839,514**	**$ 14,550,025**	**$ 14,768,275**	**$ 14,989,800**
Uses of Water Funds						
Operating Expenses: [1]						
Water Administration	$ 2,759,176	$ 3,460,721	$ 3,533,818	$ 3,636,249	$ 3,748,440	$ 3,864,096
Finance Water Utility Billing	873,507	1,047,309	1,077,076	1,095,995	1,133,828	1,172,968
Water Operations	4,983,992	6,952,444	6,568,972	6,810,814	7,061,889	7,322,564
Valley Water	3,293,972	4,641,000	4,873,050	5,116,703	5,372,538	5,641,165
Additional Capital Expenditures	-	404,450	404,450	-	-	-
Subtotal: Operating Expenses	$ 11,910,647	$ 16,505,924	$ 16,457,366	$ 16,659,760	$ 17,316,694	$ 18,000,793
Other Expenditures:						
New Debt Service	$ -	$ -	$ -	$ -	$ 453,067	$ 906,134
Rate-Funded Capital Expenses	-	-	-	-	-	-
Subtotal: Other Expenditures	$ -	$ -	$ -	$ -	$ 453,067	$ 906,134
Total Uses of Water Funds	**$ 11,910,647**	**$ 16,505,924**	**$ 16,457,366**	**$ 16,659,760**	**$ 17,769,761**	**$ 18,906,927**
plus: Revenue from Rate Increases [3]	-	557,560	1,745,841	2,900,027	3,817,967	4,624,944
Annual Surplus/(Deficit) After Rate Increases	**$ 2,348,090**	**$ (1,399,743)**	**$ 127,988**	**$ 790,292**	**$ 816,481**	**$ 707,816**
Net Revenue Req't. *(Total Uses less Non-Rate Revenue)*	**$ 11,316,910**	**$ 15,896,303**	**$ 15,835,852**	**$ 16,541,005**	**$ 17,649,225**	**$ 18,784,583**
Total Rate Revenue After Rate Increases	**$ 13,665,000**	**$ 14,496,560**	**$ 15,963,841**	**$ 17,331,297**	**$ 18,465,706**	**$ 19,492,400**
Projected Annual Rate Revenue Increase	***0.00%***	***8.00%***	***8.00%***	***6.00%***	***4.00%***	***4.00%***
Cumulative Increase from Annual Revenue Increases	*0.00%*	*8.00%*	*16.64%*	*23.64%*	*28.58%*	*33.73%*
Debt Coverage After Rate Increase	*N/A*	*N/A*	*N/A*	*N/A*	*2.80*	*1.78*

1. Revenue and expenses for FY 2022/23 provided by the City. Revenues and expenses for all other years are escalated based on the forecasting assumptions in Table 9 (See Exhibit 1 (O&M) Tab). Source file: *FY23 Budgets.xlsx* .
2. Interest income for FY FY 2022/23 is from the City's Budget. For all other years, it is calculated based on historical LAIF returns.
3. Revenue from rate increases assumes an implementation date of April 1, 2023 for new rates. For each year thereafter, the assumption is that new rates will be implemented on July 1st of each year.

3	***<-- Select Financial Plan Scenario Here***						
Financial Plan Alternatives		**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**FY 2027/28**
1	Alt 1 - No Annual Rate Increases/No New Debt	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*
2	Alt 2 - Gen. Infl. Rate Increases/New Rev. Bonds	*0.00%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*	*3.50%*
3	Alt 3 - Custom Rate Increases/New Rev. Bonds	*0.00%*	*8.00%*	*8.00%*	*6.00%*	*4.00%*	*4.00%*
4	Alt 4 - Full CIP/No New Debt	*0.00%*	*12.00%*	*12.00%*	*12.00%*	*8.00%*	*6.00%*
CIP Funding Plan:							
2	85% Funding of CIP, at actual cost & timing						

CITY OF GILROY
WATER RATE STUDY
Financial Plan and Reserve Projections

TABLE 2 : RESERVE FUND SUMMARY

SUMMARY OF CASH ACTIVITY	Budget	5-Year Projected Rate Period				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Unrestricted Reserve:						
Total Beginning Cash[1]	**$ 29,603,445**					
Operating Reserve						
Beginning Reserve Balance[2]	$ 6,000,000	$ 5,955,000	$ 4,555,257	$ 4,683,245	$ 5,473,537	$ 6,290,019
Plus: Net Cash Flow (After Rate Increases)	2,348,090	(1,399,743)	127,988	790,292	816,481	707,816
Less: Transfer out to Capital and Infrastructure Reserve	(2,393,090)	-	-	-	-	-
Ending Operating Reserve Balance	***$ 5,955,000***	***$ 4,555,257***	***$ 4,683,245***	***$ 5,473,537***	***$ 6,290,019***	***$ 6,997,835***
Target Ending Balance (6 Months of O&M) [2]	*$ 5,955,000*	*$ 8,253,000*	*$ 8,229,000*	*$ 8,330,000*	*$ 8,658,000*	*$ 9,000,000*
Capital Rehabilitation & Replacement Reserve						
Beginning Reserve Balance	$ 23,603,445	$ 25,382,158	$ 22,643,278	$ 8,114,397	$ 7,583,609	$ 7,583,609
Plus: Transfer of Operating Reserve Surplus	2,393,090	-	-	-	-	-
Less: Use of Reserves for Capital Projects	(614,378)	(2,738,879)	(14,528,882)	(530,788)	-	(365,779)
Ending Capital and Infrastructure Reserve Balance	***$ 25,382,158***	***$ 22,643,278***	***$ 8,114,397***	***$ 7,583,609***	***$ 7,583,609***	***$ 7,217,830***
Target Ending Balance (50% of Avg. CIP Costs) [3]	*$ 4,140,000*	*$ 4,140,000*	*$ 4,140,000*	*$ 4,140,000*	*$ 4,140,000*	*$ 4,140,000*
Ending Balance - Unrestricted Reserves	**$ 31,337,158**	**$ 27,198,535**	**$ 12,797,642**	**$ 13,057,146**	**$ 13,873,627**	**$ 14,215,665**
Min. Target Ending Balance -Excl. Restricted Reserves	**$ 10,095,000**	**$ 12,393,000**	**$ 12,369,000**	**$ 12,470,000**	**$ 12,798,000**	**$ 13,140,000**
Ending Surplus/(Deficit) Compared to Reserve Targets	***$ 21,242,158***	***$ 14,805,535***	***$ 428,642***	***$ 587,146***	***$ 1,075,627***	***$ 1,075,665***

1. Beginning cash balances provided by City staff for Fund 705 - Water Operations. Source file: *Account Trial Balance FY22 - 430-435-700-705.pdf* .
2. The target ending balance is set equal to 6 months of O&M expenses.
3. The target ending balance is set equal to 50% of average CIP costs for the 5-year rate adoption period. See *Exhibit 2 (CIP)* for details.

TABLE 3 : RESERVE FUND SUMMARY, cont.

SUMMARY OF CASH ACTIVITY	Budget	5-Year Projected Rate Period				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Restricted Reserve: [1]						
Water Impact Fee Reserve *(provided for informational purposes only)*						
Beginning Reserve Balance	$ 6,053,344	$ 5,887,790	$ 2,632,956	$ 4,254,889	$ 5,195,043	$ 5,540,615
Plus: Interest Earnings & Misc.	99,508	107,507	109,421	47,557	48,451	49,368
Plus: Capacity Fee Revenue	319,569	478,204	1,512,512	892,597	297,121	363,752
Less: Use of Reserves for Capital Projects	(584,631)	(3,840,545)	-	-	-	-
Ending Connection Fee Fund Balance	***$ 5,887,790***	***$ 2,632,956***	***$ 4,254,889***	***$ 5,195,043***	***$ 5,540,615***	***$ 5,953,735***
Debt Reserve						
Beginning Reserve Balance	$ -	$ -	$ -	$ -	$ -	$ 453,067
Plus: Reserve Funding from New Debt Obligations	-	-	-	-	453,067	453,067
Plus: Interest Earnings	-	-	-	-	-	3,838
Ending Debt Reserve Balance	***$ -***	***$ -***	***$ -***	***$ -***	***$ 453,067***	***$ 909,972***
Target Ending Balance	*$ -*	*$ -*	*$ -*	*$ -*	*$ 453,067*	*$ 906,134*
Annual Interest Earnings Rate [2]	*0.85%*	*0.85%*	*0.85%*	*0.85%*	*0.85%*	*0.85%*

1. The beginning cash balances provided by the City. Source file: *Account Trial Balance FY22 - 430-435-700-705.pdf* .
2. Historical interest earning rates are per the average annual yields for funds invested in LAIF (2018-2022). The source is the California State Treasurer's website: *https://www.treasurer.ca.gov/pmia-laif/historical/annual.asp* .

CHART 1

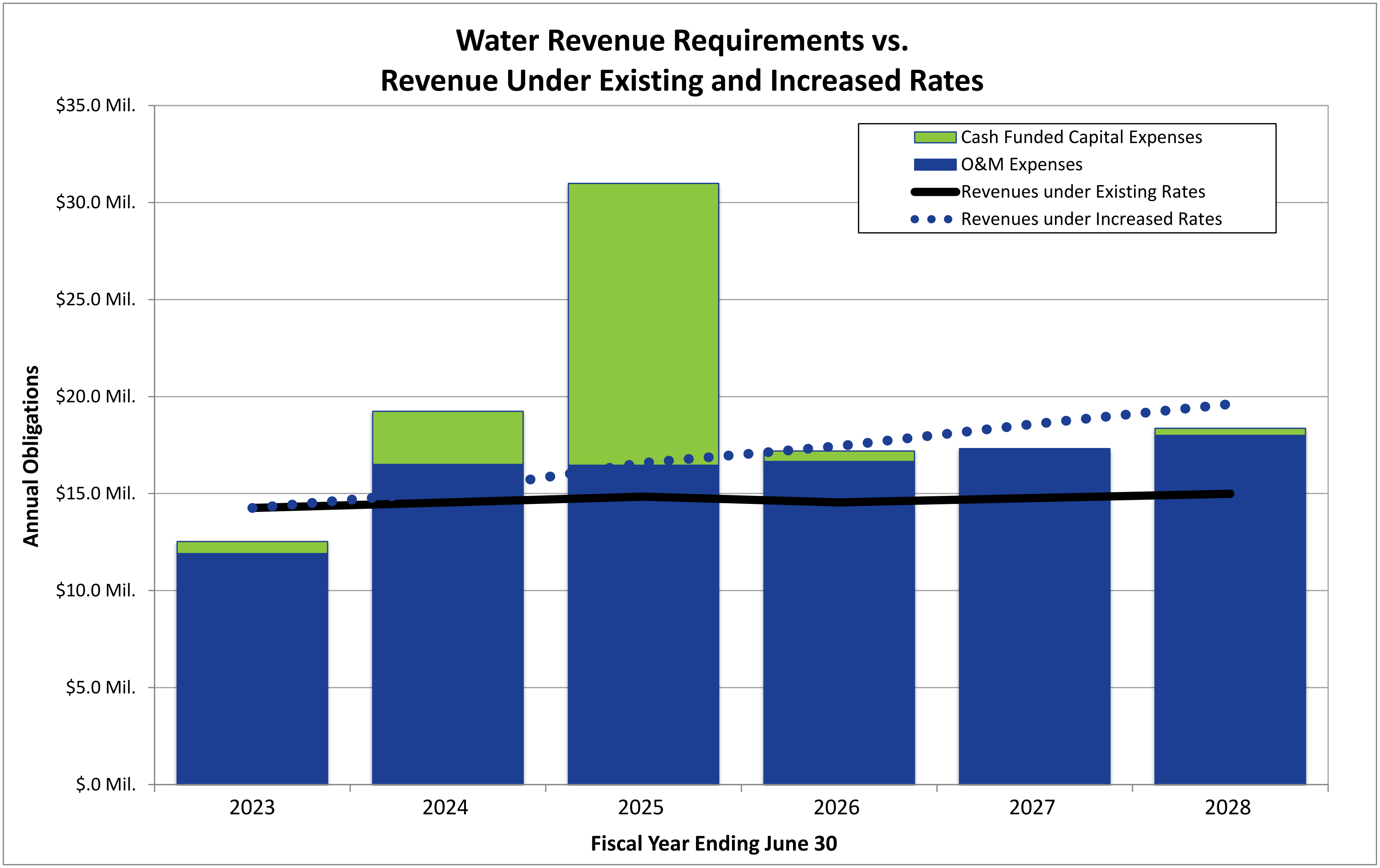
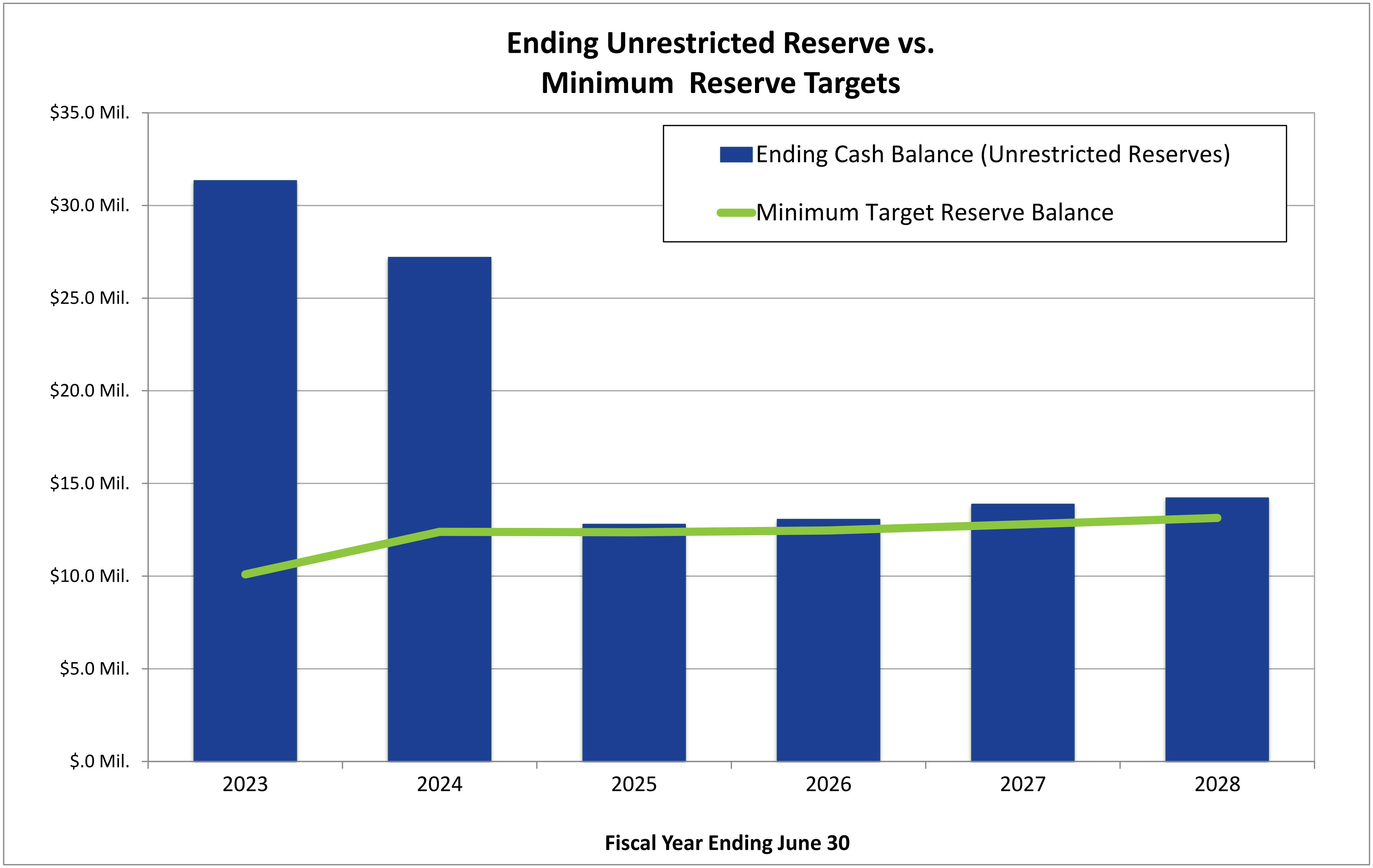

Water Revenue Requirements vs.
Revenue Under Existing and Increased Rates
Cash Funded Capital Expenses
O&M Expenses
Revenues under Existing Rates
Revenues under Increased Rates
$35.0 Mil.
$30.0 Mil.
$25.0 Mil.
$20.0 Mil.
$15.0 Mil.
$10.0 Mil.
$5.0 Mil.
$.0 Mil.
Annual Obligations
2023
2024
2025
2026
2027
2028
Fiscal Year Ending June 30

CHART 2


Ending Unrestricted Reserve vs.
Minimum Reserve Targets
$35.0 Mil.
$30.0 Mil.
$25.0 Mil.
$20.0 Mil.
$15.0 Mil.
$10.0 Mil.
$5.0 Mil.
$.0 Mil.
Ending Cash Balance (Unrestricted Reserves)
Minimum Target Reserve Balance
2023
2024
2025
2026
2027
2028
Fiscal Year Ending June 30

CITY OF GILROY
WATER RATE STUDY
Operating Revenue and Expenses

Exhibit 1

TABLE 4 REVENUE FORECAST[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals	5-Year Projected Rate Period				
					FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Rate Revenue										
705	8000	705 -80-8000-000-45120	User Fees	1	$ 13,665,000	$ 13,939,000	$ 14,218,000	$14,431,270	$14,647,739	$14,867,455
Other Revenue										
705	8000	705 -80-8000-000-45140	Connect/Install Charges	1	105,000	110,000	112,000	113,680	115,385	117,116
705	8000	705 -80-8000-000-45145	Overhead Revenue	1	-	-	-	-	-	-
705	8000	705 -80-8000-000-46110	Bank Interest	See FP	483,737	494,621	504,514	-	-	-
705	8000	705 -80-8000-000-47810	Miscellaneous Revenues	1	5,000	5,000	5,000	5,075	5,151	5,228
Subtotal - Other Revenue					593,737	609,621	621,514	118,755	120,536	122,344
Water Impact Fee Revenue										
435	5500	435 -55-5500-000-45150	Developer's Impact Fee	1	319,569	478,204	1,512,512	892,597	297,121	363,752
435	5500	435 -55-5500-000-46110	Bank Interest	1	93,615	95,721	97,635	35,771	36,665	37,582
435	5500	435 -55-5500-000-48110	Interfund Transfer In	7	5,893	11,786	11,786	11,786	11,786	11,786
TOTAL: REVENUE					**$ 14,677,814**	**$ 15,134,332**	**$ 16,461,447**	**$ 15,490,179**	**$ 15,113,847**	**$ 15,402,920**

CITY OF GILROY
WATER RATE STUDY
Operating Revenue and Expenses

Exhibit 1

TABLE 5 OPERATING EXPENSE FORECAST[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals	5-Year Projected Rate Period				
					FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fund 705 - Water Operations										
8000 - Water Administration										
705	8000	705 -80-8000-000-50120	Wages/Part Time	3	$ 43,597	$ 125,000	$ 125,000	$ 129,375	$ 133,903	$ 138,590
705	8000	705 -80-8000-000-50215	Retirement (Part Time)	3	632	2,813	2,813	2,911	3,013	3,119
705	8000	705 -80-8000-000-50220	Medicare	3	705	1,813	1,813	1,876	1,942	2,010
705	8000	705 -80-8000-000-51510	Professional Support	3	-	26,000	26,000	26,910	27,852	28,827
705	8000	705 -80-8000-000-51620	Audit Services	2	8,700	-	-	-	-	-
705	8000	705 -80-8000-000-51630	Contractual Services	2	-	6,500	6,400			
705	8000	706 -80-8000-000-54110	Interfund Transfer Out	2	13,796					
705	8000	705 -80-8000-000-54130	Fleet Service Charge	2	75,931	98,943	100,692	103,779	106,961	110,241
705	8000	705 -80-8000-000-54140	Facility Service Charge	2	124,543	294,076	316,145	325,838	335,829	346,126
705	8000	705 -80-8000-000-54145	Info Tech Service Charge	2	454,960	606,926	558,596	575,723	593,376	611,570
705	8000	705 -80-8000-000-54150	Overhead Charges	2	1,558,875	1,779,498	1,854,574	1,911,438	1,970,045	2,030,450
705	8000	705 -80-8000-000-54155	Liability Insurance Charges	2	401,933	430,902	452,735	466,617	480,924	495,669
705	8000	705 -80-8000-000-57145	Water Conservation	2	60,504	72,500	72,500	74,723	77,014	79,375
705	8000	705 -80-8000-000-58130	Claims	2	15,000	15,750	16,550	17,057	17,580	18,119
Subtotal - Water Administration					**$ 2,759,176**	**$ 3,460,721**	**$ 3,533,818**	**$ 3,636,249**	**$ 3,748,440**	**$ 3,864,096**
8010 - Finance Water Utility Billing										
705	8010	705 -80-8010-000-50110	Salaries	3	$ 455,813	$ 580,139	$ 620,284	$ 641,994	$ 664,464	$ 687,720
705	8010	705-80-8020-000-50110	Utility Billing Sup/Sen. Acct.	3	-	-	-	-	-	-
705	8010	705 -80-8010-000-50114	Earned Leave Cashout	3	5,519	-	-	-	-	-
705	8010	705 -80-8010-000-50120	Wages/Part Time	3	23,048	33,750	21,788	22,551	23,340	24,157
705	8010	705 -80-8010-000-50130	Overtime	3	14,000	10,000	10,000			
705	8010	705 -80-8010-000-50150	Overtime Meals	3	30	-	-			
705	8010	705 -80-8010-000-50205	Workers Comp	3	2,023	2,411	2,521	2,610	2,701	2,796
705	8010	705 -80-8010-000-50210	Retirement (Full Time)	3	48,749	69,133	71,870	74,385	76,989	79,683
705	8010	705 -80-8010-000-50212	Deferred Compensation	3	1,176	2,016	2,016	2,087	2,160	2,235
705	8010	705 -80-8010-000-50213	UAL Retirement	3	82,911	88,913	95,465	98,806	102,264	105,843
705	8010	705 -80-8010-000-50215	Retirement (Part Time)	3	18	759	490	507	525	544
705	8010	705 -80-8010-000-50220	Medicare	3	7,467	9,053	9,466	9,797	10,140	10,495
705	8010	705 -80-8010-000-50225	Health Insurance Benefits	3	105,332	113,442	113,594	117,570	121,685	125,944
705	8010	705 -80-8010-000-50230	Life Insurance Benefits	3	778	757	779	806	834	863
705	8010	705 -80-8010-000-50235	Employee Assistance Prog	3	935	1,087	1,109	1,148	1,188	1,230
705	8010	705 -80-8010-000-50240	Unemployment Insurance	3	805	912	959	992	1,027	1,063
705	8010	705 -80-8010-000-50255	Misc Disability Insurance	3	984	1,260	1,260	1,304	1,350	1,397
705	8010	705 -80-8010-000-50260	Retiree Medical	3	-	900	900			
705	8010	705 -80-8010-000-51110	Employee Training	2	-	3,400	3,400			
705	8010	705 -80-8010-000-51120	Employee Travel, Food,Lodge	2	669	1,250	1,250			
705	8010	705 -80-8010-000-51430	Postage	2	50	100	100			
705	8010	705 -80-8010-000-50510	Professional Support	2	2,200	-	-			
705	8010	705 -80-8010-000-51630	Contractual Services	2	119,000	126,025	117,825	121,438	125,161	128,999
705	8010	705 -80-8010-000-52110	Office/Computer Supplies	2	2,000	2,000	2,000			
Subtotal - Finance Water Utility Billing					**$ 873,507**	**$ 1,047,309**	**$ 1,077,076**	**$ 1,095,995**	**$ 1,133,828**	**$ 1,172,968**

CITY OF GILROY
WATER RATE STUDY
Operating Revenue and Expenses

Exhibit 1

TABLE 6 OPERATING EXPENSE FORECAST, cont.[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals FY 2022/23	5-Year Projected Rate Period FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fund 705 - Water Operations										
8020 - Water Operations										
705	8020	705 -80-8020-000-50110	Salaries	3	$ 1,463,012	$ 2,269,298	$ 2,432,834	$ 2,517,983	$ 2,606,113	$ 2,697,327
705	8020	705-80-8020-000-50110	FT Engineer I/II (Water)	3	-	-	-	-	-	-
705	8020	705 -80-8020-000-50110	Employee Training	3	-	25,000	25,000	25,875	26,781	27,718
705	8020	705 -80-8020-000-50120	Employee Travel, Food, Lodging	3	-	5,000	5,000	5,175	5,356	5,544
705	8020	705 -80-8020-000-50114	Earned Leave Cashout	3	9,000	-	-	-	-	-
705	8020	705 -80-8020-000-50120	Wages/Part Time	3	37,812	-	-	-	-	-
705	8020	705 -80-8020-000-50130	Overtime	3	63,051	73,710	77,395	80,104	82,907	85,809
705	8020	705 -80-8020-000-50150	Overtime Meals	3	-	2,000	2,000	2,070	2,142	2,217
705	8020	705 -80-8020-000-50205	Workers Comp	3	77,758	101,497	106,072	109,785	113,627	117,604
705	8020	705 -80-8020-000-50210	Retirement (Full Time)	3	152,220	271,399	282,934	292,837	303,086	313,694
705	8020	705 -80-8020-000-50212	Deferred Compensation	3	3,772	7,326	7,326	7,582	7,848	8,122
705	8020	705 -80-8020-000-50213	UAL Retirement	3	293,133	353,639	383,140	396,550	410,429	424,794
705	8020	705 -80-8020-000-50215	Retirement (Part Time)	3	521	-	-	-	-	-
705	8020	705 -80-8020-000-50220	Medicare	3	24,353	33,996	36,422	37,697	39,016	40,382
705	8020	705 -80-8020-000-50225	Health Insurance Benefits	3	313,426	460,498	461,940	478,108	494,842	512,161
705	8020	705 -80-8020-000-50230	Life Insurance Benefits	3	2,448	3,144	3,243	3,356	3,474	3,595
705	8020	705 -80-8020-000-50235	Employee Assistance Prog	3	2,911	4,262	4,347	4,499	4,657	4,820
705	8020	705 -80-8020-000-50240	Unemployment Insurance	3	2,794	3,620	3,816	3,950	4,088	4,231
705	8020	705 -80-8020-000-50255	Misc Disability Insurance	3	2,999	4,964	4,964	5,138	5,318	5,504
705	8020	705 -80-8020-000-50260	Retiree Medical	3	2,400	2,400	-	-	-	-
705	8020	705 -80-8020-000-50310	Apparel, Boots, Ppe	2	22,291	30,000	30,000	30,920	31,868	32,845
705	8020	705 -80-8020-000-51410	Utilities	5	921,543	1,013,698	1,064,382	1,120,163	1,178,868	1,240,648
705	8020	705 -80-8020-000-51420	Telecommunications	2	50,000	8,100	8,100	8,348	8,604	8,868
705	8020	705 -80-8020-000-51510	Professional Support	2	2,153	5,000	5,000	5,153	5,311	5,474
705	8020	705 -80-8020-000-51630	Contractual Services	2	376,939	1,128,400	450,000	463,798	478,018	492,675
705	8020	705 -80-8020-000-52110	Office/Computer Supplies	2	4,026	15,000	15,000	15,460	15,934	16,423
705	8020	705 -80-8020-000-52150	Department Supplies	2	51,494	60,000	60,000	61,840	63,736	65,690
705	8020	705 -80-8020-000-52210	Repairs & Maintenance	2	147,625	250,000	250,000	257,665	265,566	273,708
705	8020	705 -80-8020-000-52220	Well System Maintenance	2	27,642	150,000	150,000	154,599	159,339	164,225
705	8020	705 -80-8020-000-52310	Equipment Rental	2	33	10,000	10,000	10,307	10,623	10,948
705	8020	705 -80-8020-000-52710	Permits	2	1,973	10,000	10,000	10,307	10,623	10,948
705	8020	705 -80-8020-000-53120	Equipment/Furniture	2	84,337	75,000	75,000	77,300	79,670	82,113
705	8020	705 -80-8020-000-53135	Improvements	2	365,770	-	-	-	-	-
705	8020	705 -80-8020-000-53142	Capital Improvement Plan	See Exh 2	-	-	-	-	-	-
705	8020	705 -80-8020-000-54110	Interfund Transfer Out	2	342,000	433,788	458,181	472,229	486,709	501,632
705	8020	705 -80-8020-000-57150	Valley Water	6	3,293,972	4,641,000	4,873,050	5,116,703	5,372,538	5,641,165
Subtotal - Water Operations					**$ 8,143,407**	**$ 11,451,740**	**$ 11,295,146**	**$ 11,775,500**	**$ 12,277,089**	**$ 12,800,885**

CITY OF GILROY
WATER RATE STUDY
Operating Revenue and Expenses

Exhibit 1

TABLE 7 OPERATING EXPENSE FORECAST, cont.[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals FY 2022/23	5-Year Projected Rate Period FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fund 705 - Water Operations										
8030 - Water Backflow Prevention										
705	8030	705 -80-8030-000-50110	Salaries	3	$ 79,465	$ 74,991	$ 79,074	$ 81,842	$ 84,706	$ 87,671
705	8030	705 -80-8030-000-50130	Earned Leave Cashout	3	-	-	-	-	-	-
705	8030	705 -80-8030-000-50205	Wages/Part Time	3	-	-	-	-	-	-
705	8030	705 -80-8030-000-50210	Overtime	3	6,460	7,500	7,500	7,763	8,034	8,315
705	8030	705 -80-8030-000-50212	Overtime Meals	3	-	-	-	-	-	-
705	8030	705 -80-8030-000-50213	Compensated Absences	3	-	-	-	-	-	-
705	8030	705 -80-8030-000-50220	Workers Comp	3	5,789	4,450	4,590	4,751	4,917	5,089
705	8030	705 -80-8030-000-50225	Retirement (Full Time)	3	8,537	9,005	9,233	9,556	9,891	10,237
705	8030	705 -80-8030-000-50230	Deferred Compensation	3	249	-	-	-	-	-
705	8030	705 -80-8030-000-50235	Ual Retirement	3	16,763	11,703	12,455	12,891	13,342	13,809
705	8030	705 -80-8030-000-50240	Retirement (Part Time)	3	-	-	-	-	-	-
705	8030	705 -80-8030-000-50255	Medicare	3	1,340	1,197	1,256	1,300	1,345	1,393
705	8030	705 -80-8030-000-51430	Health Insurance Benefits	3	14,085	12,312	12,312	12,743	13,189	13,651
705	8030	705 -80-8030-000-51510	Life Insurance Benefits	3	104	90	92	95	99	102
705	8030	705 -80-8030-000-51630	Employee Assistance Prog	3	137	116	119	123	127	132
705	8030	705 -80-8030-000-52110	Unemployment Insurance	3	157	117	122	126	131	135
705	8030	705 -80-8030-000-50255	Misc Disability Insurance	3	141	123	123	127	132	136
705	8030	705 -80-8030-000-51110	Employee Training	3	-	1,000	1,000	1,035	1,071	1,109
705	8030	705 -80-8030-000-51120	Employee Travel, Food,Lodge	3	-	1,000	1,000	1,035	1,071	1,109
705	8030	705 -80-8030-000-51430	Postage	3	-	100	-	-	-	-
705	8030	705 -80-8030-000-51510	Professional Support	3	1,331	1,000	1,000	1,035	1,071	1,109
705	8030	705 -80-8030-000-51630	Contractual Services	3	-	6,000	6,000	6,210	6,427	6,652
705	8030	705 -80-8030-000-52110	Office/Computer Supplies	3	-	1,000	1,000	1,035	1,071	1,109
705	8030	705 -80-8030-000-52210	Repairs & Maintenance	3	-	10,000	10,000	10,350	10,712	11,087
Subtotal - Water Backflow Prevention					**$ 134,558**	**$ 141,704**	**$ 146,876**	**$ 152,017**	**$ 157,337**	**$ 162,844**

CITY OF GILROY
WATER RATE STUDY
Operating Revenue and Expenses

Exhibit 1

TABLE 8 OPERATING EXPENSE FORECAST, cont.[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals FY 2022/23	5-Year Projected Rate Period FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fund 705 - Water Operations										
Additional Capital Expenditures										
705	8020	705-80-8020-000-53120	One-time Vehicles	One-Time	-	404,450	404,450	-	-	-
Subtotal - Additional Expenditures					**$ -**	**$ 404,450**	**$ 404,450**	**$ -**	**$ -**	**$ -**
TOTAL: WATER OPERATIONS EXPENSES					**$ 11,910,647**	**$ 16,505,924**	**$ 16,457,366**	**$ 16,659,760**	**$ 17,316,694**	**$ 18,000,793**

TABLE 9 FORECASTING ASSUMPTIONS

INFLATION FACTORS[2]	Basis	2023	2024	2025	2026	2027	2028
Customer Growth[3]	1	--	1.50%	1.50%	1.50%	1.50%	1.50%
General Cost Inflation[4]	2	--	3.07%	3.07%	3.07%	3.07%	3.07%
Labor Cost Inflation[5]	3	--	3.50%	3.50%	3.50%	3.50%	3.50%
Electricty[6]	4	--	5.64%	5.64%	5.64%	5.64%	5.64%
Fuel & Utilities[7]	5	--	5.24%	5.24%	5.24%	5.24%	5.24%
Water Purchases[8]	6	--	5.00%	5.00%	5.00%	5.00%	5.00%
No Escalation	7	--	0.00%	0.00%	0.00%	0.00%	0.00%

1. Revenue and expenses for FY 2022/23 provided by the City. Revenues and expenses for all other years are escalated based on the forecasting assumptions in Table 9. Source file: *FY23 Budgets.xlsx* .
2. Expenses are inflated each year by the following annual inflation factor categories.
3. Customer growth is based on estimated service area population growth through FY 2044/45. Source file: *Gilroy 2020 UWMP.pdf* , page 3-9.
4. General cost inflation is based on the 5-year average annual change in the Consumer Price Index for all Urban Consumers in the San Francisco-Oakland-Hayward, CA area.
5. Labor cost inflation is based on the 5-year average annual change in the Quarterly Census of Employment and Wages for San Francisco County, CA.
6. Electricity cost inflation is based on the 5-year average change in the Consumer Price Index for San Francisco County.
7. Fuel & Utilities cost inflation is based on the 5-year average annual change in the Consumer Price Index - Average Price Data for Fuels and related products and power. This factor is used for utility costs other than electricity.
8. The growth for water purchases is estimated at 4% annually and calculated using the City's budgets for FY 2021/22 and FY 2022/23. Source file: *FY23 Budgets.xlsx* .

CITY OF GILROY
WATER RATE STUDY
Capital Improvement Plan Expenditures

Exhibit 2

TABLE 10 : CAPITAL FUNDING SUMMARY

CAPITAL FUNDING FORECAST	Budget	5-Year Projected Rate Period				
Funding Sources:	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Grants	$ -	$ -	$ -	$ -	$ -	$ -
Use of Capacity Fee Reserves	584,631	3,840,545	-	-	-	-
SRF Loan Funding	-	-	-	-	-	-
Use of New Revenue Bond Proceeds	-	-	-	6,000,000	6,000,000	4,000,000
Use of Capital Rehabilitation and Replacement Reserve	614,378	2,738,879	14,528,882	530,788	-	365,779
Rate Revenue	-	-	-	-	-	-
Total Sources of Capital Funds	**$ 1,199,009**	**$ 6,579,425**	**$ 14,528,882**	**$ 6,530,788**	**$ 6,000,000**	**$ 4,365,779**
Uses of Capital Funds:						
Total Project Costs	$ 1,199,009	$ 6,579,425	$ 14,528,882	$ 6,530,788	$ 3,199,919	$ 4,365,779
Capital Funding Surplus (Deficiency)	***$ -***	***$ -***	***$ -***	***$ -***	***$ 2,800,082***	***$ -***
SRF Loan Funding	***$ -***	***$ -***	***$ -***	***$ -***	***$ -***	***$ -***
New Revenue Bond Proceeds	***$ -***	***$ -***	***$ -***	***$ 6,000,000***	***$ 6,000,000***	***$ 4,000,000***

Financial Plan Scenario:

3	Alt 3 - Custom Rate Increases/New Rev. Bonds

CAPITAL IMPROVEMENT PROGRAM FUNDING OPTIONS

Insert policy choice in box to right, based on options listed below:		**2**					
Policy Choice		**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
1	Full Funding of CIP, at actual cost & timing	$ 1,410,599	$ 7,740,500	$ 17,092,802	$ 7,683,280	$ 3,764,610	$ 5,136,210
2	85% Funding of CIP, at actual cost & timing	$ 1,199,009	$ 6,579,425	$ 14,528,882	$ 6,530,788	$ 3,199,919	$ 4,365,779
3	60% Funding of CIP, at actual cost & timing	$ 846,359	$ 4,644,300	$ 10,255,681	$ 4,609,968	$ 2,258,766	$ 3,081,726

Capital Improvement Program Funding Choice	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Effective Annual Funding Amount	$ 1,199,009	$ 6,579,425	$ 14,528,882	$ 6,530,788	$ 3,199,919	$ 4,365,779

CITY OF GILROY
WATER RATE STUDY
Capital Improvement Plan Expenditures

Exhibit 2

CAPITAL IMPROVEMENT PROGRAM

TABLE 11 : **CAPITAL IMPROVEMENT PROGRAM COSTS** (*in Current-Year Dollars*)

Project No.	Description	2023	2024	2025	2026 [2]	2027	2028
Capital Improvement Program - Fiscal Year 2023 to Fiscal Year 2028							
800250	Casey and Swanston Water Line Replacement	$ -	$ 466,707	$ 2,825,800	$ -	$ -	$ -
800310	Automated Flexnet Water Meter Installation	794,200	612,700	612,700	-	-	-
800590	Broadway and Sargent Water Line Replacement	-	-	185,295	877,600	-	-
800600	Church and Gurries Water Line Replacement	-	86,966	314,600	-	-	-
800610	Church Street - Welburn to First Water LineReplacement	-	-	250,335	1,173,400	-	-
800620	Forest and Eighth Water Line Replacement	-	89,974	369,200	-	-	-
800630	Steel Water Service Line Replacement Citywide	-	104,280	104,280	104,280	104,280	104,280
900740	Monterey-Leavesley to Ronan Water Line Replacement	-	-	821,473	4,651,900	-	-
800640	Monterey and Eighth Water Line Replacement	-	-	101,325	406,700	-	-
800650	Abandon 2" Water Line from 7041 to 7161Monterey Street	-	108,900	847,000	-	-	-
800660	Murray at Burke Water Line Reroute	-	-	133,794	469,400	-	-
800670	Saint Louise Hospital Large Water Meter Replacement	-	63,200	-	-	-	-
800690	Water Reservoirs A and B - Painting	-	483,200	-	-	-	-
800700	Water Reservoirs A and B - Retrofit Overflow Piping	-	482,000	-	-	-	-
800710	Water Well Nos. 1 and 4 Compliance Improvements	-	82,600	-	-	-	-
800720	Water Well Nos. 1, 2, 4 and 6 Upgrade Improvements	-	1,025,200	10,527,000	-	-	-
9000730	Martin and Railroad Water Line	-	-	-	-	-	1,371,600
Subtotal - Capital Improvement Program		**$ 794,200**	**$ 3,605,727**	**$ 17,092,802**	**$ 7,683,280**	**$ 104,280**	**$ 1,475,880**
Water System Master Plan Projects [3]							
Pipeline Improvements							
P1-1	Zone 1	$ -	$ -	$ -	$ -	$ 163,250	$ 163,250
P1-2	Monterey Hwy / OrsettiRd / Hwy 101	-	-	-	-	244,430	244,430
P1-3	Monterey Hwy	-	-	-	-	11,690	11,690
P1-4	Murray Ave	-	-	-	-	111,650	111,650
P1-5	Arroyo Cir	-	-	-	-	3,580	3,580
P1-6	Lewis St	-	-	-	-	8,120	8,120
P1-7	Forest St	-	-	-	-	13,550	13,550
P1-8	Gilman Rd / CaminoArroyo	-	-	-	-	15,240	15,240
P1-9	Pacheco Pass Hwy	-	-	-	-	87,810	87,810
P1-10	Camino Arroyo	-	-	-	-	154,290	154,290
P1-11	Cameron Blvd	-	-	-	-	106,580	106,580
P1-12	ROW	-	-	-	-	82,230	82,230
P1-13	ROW / Cameron Blvd	-	-	-	-	230,400	230,400
P1-14	Luchessa Ave	-	-	-	-	328,850	328,850
P1-15	Thomas Rd	-	-	-	-	155,300	155,300
P1-16	Rossi Ln	-	-	-	-	138,560	138,560
P1-17	ROW	-	-	-	-	91,860	91,860
P1-18	ROW	-	-	-	-	146,670	146,670
P1-19	Garlic Farm Wy / Southside Dr	-	-	-	-	234,970	234,970
P1-20	Southside Dr	-	-	-	-	33,510	33,510
P1-21	Southside Dr	-	-	-	-	152,770	152,770
P1-22	Santa Teresa Blvd	-	-	-	-	14,230	14,230
Storage Reservoir Improvements							
3H-1	Construct an additional storage at existing 3D site	-	-	-	-	20,790	20,790
Groundwater Well Improvements							
GW-10	Intersection of San Ysidro Ave and Las Animas Ave	-	-	-	-	370,000	370,000
GW-11	Intersection of Camino Arroyo and Renz Lane	-	-	-	-	370,000	370,000
GW-12	Intersection of Wren Ave and Vickery Lane	-	-	-	-	370,000	370,000
Subtotal - Master Plan Projects		**$ -**	**$ -**	**$ -**	**$ -**	**$ 3,660,330**	**$ 3,660,330**
Impact Fee Projects [4]							
800050	McCarthy Site Well (Well #9)	$ 562,145	$ 3,550,800	$ -	$ -	$ -	$ -
Subtotal - Impact Fee Projects		**$ 562,145**	**$ 3,550,800**	**$ -**	**$ -**	**$ -**	**$ -**
Estimated Future Projects							
Future Projects[5]		$ -	$ -	$ -	$ -	$ -	$ -
Total: CIP Program Costs *(Current-Year Dollars)*		**$ 1,356,345**	**$ 7,156,527**	**$ 17,092,802**	**$ 7,683,280**	**$ 3,764,610**	**$ 5,136,210**

CITY OF GILROY
WATER RATE STUDY
Capital Improvement Plan Expenditures

TABLE 12 : **CAPITAL IMPROVEMENT PROGRAM COSTS** (*in Future-Year Dollars*)[6]

Project No.	Description	2023	2024	2025	2026 [2]	2027	2028
Capital Improvement Program - Fiscal Year 2023 to Fiscal Year 2028							
800250	Casey and Swanston Water Line Replacement	$ -	$ 504,790	$ 2,825,800	$ -	$ -	$ -
800310	Automated Flexnet Water Meter Installation	825,968	662,696	612,700	-	-	-
800590	Broadway and Sargent Water Line Replacement	-	-	185,295	877,600	-	-
800600	Church and Gurries Water Line Replacement	-	94,062	314,600	-	-	-
800610	Church Street - Welburn to First Water LineReplacement	-	-	250,335	1,173,400	-	-
800620	Forest and Eighth Water Line Replacement	-	97,316	369,200	-	-	-
800630	Steel Water Service Line Replacement Citywide	-	112,789	104,280	104,280	104,280	104,280
900740	Monterey-Leavesley to Ronan Water Line Replacement	-	-	821,473	4,651,900	-	-
800640	Monterey and Eighth Water Line Replacement	-	-	101,325	406,700	-	-
800650	Abandon 2" Water Line from 7041 to 7161Monterey Street	-	117,786	847,000	-	-	-
800660	Murray at Burke Water Line Reroute	-	-	133,794	469,400	-	-
800670	Saint Louise Hospital Large Water Meter Replacement	-	68,357	-	-	-	-
800690	Water Reservoirs A and B - Painting	-	522,629	-	-	-	-
800700	Water Reservoirs A and B - Retrofit Overflow Piping	-	521,331	-	-	-	-
800710	Water Well Nos. 1 and 4 Compliance Improvements	-	89,340	-	-	-	-
800720	Water Well Nos. 1, 2, 4 and 6 Upgrade Improvements	-	1,108,856	10,527,000	-	-	-
9000730	Martin and Railroad Water Line	-	-	-	-	-	1,371,600
Subtotal - Capital Improvement Program		**$ 825,968**	**$ 3,899,954**	**$ 17,092,802**	**$ 7,683,280**	**$ 104,280**	**$ 1,475,880**
Water System Master Plan Projects [3]							
Pipeline Improvements							
P1-1	Zone 1	$ -	$ -	$ -	$ -	$ 163,250	$ 163,250
P1-2	Monterey Hwy / OrsettiRd / Hwy 101	-	-	-	-	244,430	244,430
P1-3	Monterey Hwy	-	-	-	-	11,690	11,690
P1-4	Murray Ave	-	-	-	-	111,650	111,650
P1-5	Arroyo Cir	-	-	-	-	3,580	3,580
P1-6	Lewis St	-	-	-	-	8,120	8,120
P1-7	Forest St	-	-	-	-	13,550	13,550
P1-8	Gilman Rd / CaminoArroyo	-	-	-	-	15,240	15,240
P1-9	Pacheco Pass Hwy	-	-	-	-	87,810	87,810
P1-10	Camino Arroyo	-	-	-	-	154,290	154,290
P1-11	Cameron Blvd	-	-	-	-	106,580	106,580
P1-12	ROW	-	-	-	-	82,230	82,230
P1-13	ROW / Cameron Blvd	-	-	-	-	230,400	230,400
P1-14	Luchessa Ave	-	-	-	-	328,850	328,850
P1-15	Thomas Rd	-	-	-	-	155,300	155,300
P1-16	Rossi Ln	-	-	-	-	138,560	138,560
P1-17	ROW	-	-	-	-	91,860	91,860
P1-18	ROW	-	-	-	-	146,670	146,670
P1-19	Garlic Farm Wy / Southside Dr	-	-	-	-	234,970	234,970
P1-20	Southside Dr	-	-	-	-	33,510	33,510
P1-21	Southside Dr	-	-	-	-	152,770	152,770
P1-22	Santa Teresa Blvd	-	-	-	-	14,230	14,230
Storage Reservoir Improvements				-	-	-	-
3H-1	Construct an additional storage at existing 3D site	-	-	-	-	20,790	20,790
Groundwater Well Improvements				-	-	-	-
GW-10	Intersection of San Ysidro Ave and Las Animas Ave	-	-	-	-	370,000	370,000
GW-11	Intersection of Camino Arroyo and Renz Lane	-	-	-	-	370,000	370,000
GW-12	Intersection of Wren Ave and Vickery Lane	-	-	-	-	370,000	370,000
Subtotal - Master Plan Projects		**$ -**	**$ -**	**$ -**	**$ -**	**$ 3,660,330**	**$ 3,660,330**
Impact Fee Projects [4]							
800050	McCarthy Site Well (Well #9)	$ 584,631	$ 3,840,545	$ -	$ -	$ -	$ -
Subtotal - Impact Fee Projects		**$ 584,631**	**$ 3,840,545**	**$ -**	**$ -**	**$ -**	**$ -**
Estimated Future Projects							
Future Projects[5]		$ -	$ -	$ -	$ -	$ -	$ -
Total: CIP Program Costs (*Future-Year Dollars*)		**$ 1,410,599**	**$ 7,740,500**	**$ 17,092,802**	**$ 7,683,280**	**$ 3,764,610**	**$ 5,136,210**

CITY OF GILROY
WATER RATE STUDY
Capital Improvement Plan Expenditures

Exhibit 2

TABLE 13 : FORECASTING ASSUMPTIONS

Project No.	Description	2023	2024	2025	2026 [2]	2027	2028
	Annual Construction Cost Inflation, Per Engineering News Record[7]	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
	Cumulative Construction Cost Multiplier from 2023	*1.04*	*1.08*	*1.12*	*1.17*	*1.22*	*1.27*

1. Capital project costs provided by City Staff. Source file: *11. Adopted-CIP-FY24-28.pdf* , pages 43, 80-107.
2. Capital projects beginning in FY 2025/26 are unfunded and identified in the City's Capital Improvement Program. These costs have been allocated over a 5-year period from FY 2025/26 through FY 2029/30. Source: *11. Adopted-CIP-FY21-FY25.pdf* , pages 243-246.
3. Capital project costs are from the City's Draft Water System Master Plan (May 2022). Source file: *Draft Water Master Plan.pdf* , Table 8.2, pages 107-108.
4. Capital project funded by impact fees. Source file: *11. Adopted-CIP-FY21-FY25.pdf* , pages 98-99.
5. Future project costs beyond FY 2029/30 were calculated based on the City's 7-year average.
6. The project costs in future-year dollars have been inflated by 4% annually.
7. For reference purposes, the annual Construction Cost Inflation percentage is the 5-year average change in the Construction Cost Index for September 2017-2022 (4.0%). Source: Engineering News Record website (*http://enr.construction.com*).

CITY OF GILROY
WATER RATE STUDY
Debt Service

Exhibit 3

Currently, the City does not have any outstanding revenue bonds or loans.

TABLE 14 : EXISTING DEBT OBLIGATIONS

EXISTING DEBT OBLIGATIONS	Budget	5-Year Projected Rate Period				
Annual Repayment Schedules:	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**FY 2027/28**
SRF Loan/Revenue Bond						
Principal Payment	$ -	$ -	$ -	$ -	$ -	$ -
Interest Payment	-	-	-	-	-	-
Subtotal: Annual Debt Service	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Coverage Requirement ($-Amnt above annual payment)	$ -	$ -	$ -	$ -	$ -	$ -
Reserve Requirement	$ -	$ -	$ -	$ -	$ -	$ -
Grand Total: Existing Annual Debt Service	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Grand Total: Existing Annual Coverage Requirement	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Grand Total: Existing Debt Reserve Target	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

TABLE 15 : EXISTING ANNUAL DEBT OBLIGATIONS TO BE SATISFIED BY WATER RATES

Existing Annual Debt Service	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Existing Annual Coverage Requirement	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Existing Debt Reserve Target	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*

CITY OF GILROY
WATER RATE STUDY
Projected Water Rates Under Existing Rate Schedule

Exhibit 4

TABLE 16 : CURRENT WATER RATE SCHEDULE

Water Rate Schedule[1,2]	Current Rates July 1, 2019
Base Charges	
Meter Size	
3/4 inch	$11.53
1 inch	$19.24
1 1/2 inch	$38.47
2 inch	$61.55
3 inch	$115.39
4 inch	$192.30
6 inch	$384.62
8 inch	$615.37
10 inch	$884.50
Volumetric Charge for All Water Consumed (in $/1,000 Gallons)	
Tier 1 - 1-30,000 Gallons	
Zone 1	$4.39
Zone 2	$4.93
Zone 3	$5.52
Tier 2 -30,000+ Gallons	
Zone 1	$4.93
Zone 2	$5.47
Zone 3	$6.06

1. Rates available on the City website. Source: *https://www.cityofgilroy.org/758/Water-and-Wastewater-Rates* .
2. Senior citizens who qualify for PG&E's Care Program may apply for a senior low income discount that gives them an exemption for the monthly base charge and the first 5,000 gallons per month.

CITY OF GILROY
WATER RATE STUDY
Cost-of-Service Analysis & Rate Design

TABLE 17 : CLASSIFICATION OF EXPENSES FOR COST OF SERVICE ANALYSIS

Classification of Expenses							
Budget Categories	Total Revenue Requirements	Commodity	Capacity	Customer	Basis of Classification		
	FY 2023/24	(COM)	(CAP)	(CA)	(COM)	(CAP)	(CA)
Fund 705 - Water Operations							
8000 - Water Administration							
Wages/Part Time	$ 125,000	$ 31,250	$ 31,250	$ 62,500	25.0%	25.0%	50.0%
Retirement (Part Time)	2,813	703	703	1,407	25.0%	25.0%	50.0%
Medicare	1,813	453	453	907	25.0%	25.0%	50.0%
Professional Support	26,000	6,500	6,500	13,000	25.0%	25.0%	50.0%
Audit Services	-	-	-	-	25.0%	25.0%	50.0%
Contractual Services	6,500	1,625	1,625	3,250	25.0%	25.0%	50.0%
Fleet Service Charge	98,943	24,736	24,736	49,472	25.0%	25.0%	50.0%
Facility Service Charge	294,076	73,519	73,519	147,038	25.0%	25.0%	50.0%
Info Tech Service Charge	606,926	151,732	151,732	303,463	25.0%	25.0%	50.0%
Overhead Charges	1,779,498	444,875	444,875	889,749	25.0%	25.0%	50.0%
Liability Insurance Charges	430,902	107,726	107,726	215,451	25.0%	25.0%	50.0%
Water Conservation	72,500	18,125	18,125	36,250	25.0%	25.0%	50.0%
Claims	15,750	3,938	3,938	7,875	25.0%	25.0%	50.0%
Subtotal - Water Administration	**$ 3,460,721**	**$ 865,180**	**$ 865,180**	**$ 1,730,361**	**25.0%**	**25.0%**	**50.0%**
8010 - Finance Water Utility Billing							
Salaries	$ 580,139	$ 232,056	$ 290,070	$ 58,014	40.0%	50.0%	10.0%
Utility Billing Sup/Sen. Acct.	-	-	-	-	40.0%	50.0%	10.0%
Earned Leave Cashout	-	-	-	-	40.0%	50.0%	10.0%
Wages/Part Time	33,750	13,500	16,875	3,375	40.0%	50.0%	10.0%
Overtime	10,000	4,000	5,000	1,000	40.0%	50.0%	10.0%
Overtime Meals	-	-	-	-	40.0%	50.0%	10.0%
Workers Comp	2,411	964	1,206	241	40.0%	50.0%	10.0%
Retirement (Full Time)	69,133	27,653	34,566	6,913	40.0%	50.0%	10.0%
Deferred Compensation	2,016	806	1,008	202	40.0%	50.0%	10.0%
Ual Retirement	88,913	35,565	44,456	8,891	40.0%	50.0%	10.0%
Retirement (Part Time)	759	304	380	76	40.0%	50.0%	10.0%
Medicare	9,053	3,621	4,527	905	40.0%	50.0%	10.0%
Health Insurance Benefits	113,442	45,377	56,721	11,344	40.0%	50.0%	10.0%
Life Insurance Benefits	757	303	379	76	40.0%	50.0%	10.0%
Employee Assistance Prog	1,087	435	544	109	40.0%	50.0%	10.0%
Unemployment Insurance	912	365	456	91	40.0%	50.0%	10.0%
Misc Disability Insurance	1,260	504	630	126	40.0%	50.0%	10.0%
Retiree Medical	900	360	450	90	40.0%	50.0%	10.0%
Employee Training	3,400	1,360	1,700	340	40.0%	50.0%	10.0%
Employee Travel, Food,Lodge	1,250	500	625	125	40.0%	50.0%	10.0%
Postage	100	40	50	10	40.0%	50.0%	10.0%
Professional Support	-	-	-	-	40.0%	50.0%	10.0%
Contractual Services	126,025	50,410	63,013	12,603	40.0%	50.0%	10.0%
Office/Computer Supplies	2,000	800	1,000	200	40.0%	50.0%	10.0%
Subtotal - Finance Water Utility Billing	**$ 1,047,309**	**$ 418,923**	**$ 523,654**	**$ 104,731**	**40.0%**	**50.0%**	**10.0%**

CITY OF GILROY
WATER RATE STUDY
Cost-of-Service Analysis & Rate Design

TABLE 18 : CLASSIFICATION OF EXPENSES FOR COST OF SERVICE ANALYSIS, cont.

Classification of Expenses							
Budget Categories	Total Revenue Requirements	Commodity	Capacity	Customer	Basis of Classification		
	FY 2023/24	(COM)	(CAP)	(CA)	(COM)	(CAP)	(CA)
Fund 705 - Water Operations							
8020 - Water Operations							
Salaries	$ 2,269,298	$ 1,021,184	$ 1,134,649	$ 113,465	45.0%	50.0%	5.0%
Ft Engineer I/Ii (Water)	-	-	-	-	45.0%	50.0%	5.0%
Employee Training	25,000	11,250	12,500	1,250	45.0%	50.0%	5.0%
Employee Travel, Food, Lodging	5,000	2,250	2,500	250	45.0%	50.0%	5.0%
Earned Leave Cashout	-	-	-	-	45.0%	50.0%	5.0%
Wages/Part Time	-	-	-	-	45.0%	50.0%	5.0%
Overtime	73,710	33,170	36,855	3,686	45.0%	50.0%	5.0%
Overtime Meals	2,000	900	1,000	100	45.0%	50.0%	5.0%
Workers Comp	101,497	45,674	50,749	5,075	45.0%	50.0%	5.0%
Retirement (Full Time)	271,399	122,130	135,700	13,570	45.0%	50.0%	5.0%
Deferred Compensation	7,326	3,297	3,663	366	45.0%	50.0%	5.0%
Ual Retirement	353,639	159,138	176,820	17,682	45.0%	50.0%	5.0%
Retirement (Part Time)	-	-	-	-	45.0%	50.0%	5.0%
Medicare	33,996	15,298	16,998	1,700	45.0%	50.0%	5.0%
Health Insurance Benefits	460,498	207,224	230,249	23,025	45.0%	50.0%	5.0%
Life Insurance Benefits	3,144	1,415	1,572	157	45.0%	50.0%	5.0%
Employee Assistance Prog	4,262	1,918	2,131	213	45.0%	50.0%	5.0%
Unemployment Insurance	3,620	1,629	1,810	181	45.0%	50.0%	5.0%
Misc Disability Insurance	4,964	2,234	2,482	248	45.0%	50.0%	5.0%
Retiree Medical	2,400	1,080	1,200	120	45.0%	50.0%	5.0%
Apparel, Boots, Ppe	30,000	13,500	15,000	1,500	45.0%	50.0%	5.0%
Utilities	1,013,698	456,164	506,849	50,685	45.0%	50.0%	5.0%
Telecommunications	8,100	3,645	4,050	405	45.0%	50.0%	5.0%
Professional Support	5,000	2,250	2,500	250	45.0%	50.0%	5.0%
Contractual Services	1,128,400	507,780	564,200	56,420	45.0%	50.0%	5.0%
Office/Computer Supplies	15,000	6,750	7,500	750	45.0%	50.0%	5.0%
Department Supplies	60,000	27,000	30,000	3,000	45.0%	50.0%	5.0%
Repairs & Maintenance	250,000	112,500	125,000	12,500	45.0%	50.0%	5.0%
Well System Maintenance	150,000	67,500	75,000	7,500	45.0%	50.0%	5.0%
Equipment Rental	10,000	4,500	5,000	500	45.0%	50.0%	5.0%
Permits	10,000	4,500	5,000	500	45.0%	50.0%	5.0%
Equipment/Furniture	75,000	33,750	37,500	3,750	45.0%	50.0%	5.0%
Improvements	-	-	-	-	45.0%	50.0%	5.0%
Capital Improvement Plan	-	-	-	-	45.0%	50.0%	5.0%
Interfund Transfer Out	433,788	195,205	216,894	21,689	45.0%	50.0%	5.0%
Valley Water	4,641,000	4,641,000	-	-	100.0%	0.0%	0.0%
Subtotal - Water Operations	**$ 11,451,740**	**$ 7,705,833**	**$ 3,405,370**	**$ 340,537**	**67.3%**	**29.7%**	**3.0%**

CITY OF GILROY
WATER RATE STUDY
Cost-of-Service Analysis & Rate Design

TABLE 19 : CLASSIFICATION OF EXPENSES FOR COST OF SERVICE ANALYSIS, cont.

Classification of Expenses							
Budget Categories	Total Revenue Requirements FY 2023/24	Commodity (COM)	Capacity (CAP)	Customer (CA)	Basis of Classification (COM)	(CAP)	(CA)
Fund 705 - Water Operations							
8030 - Water Backflow Prevention							
Salaries	$ 74,991	$ 33,746	$ 37,496	$ 3,750	45.0%	50.0%	5.0%
Earned Leave Cashout	-	-	-	-	45.0%	50.0%	5.0%
Wages/Part Time	-	-	-	-	45.0%	50.0%	5.0%
Overtime	7,500	3,375	3,750	375	45.0%	50.0%	5.0%
Overtime Meals	-	-	-	-	45.0%	50.0%	5.0%
Compensated Absences	-	-	-	-	45.0%	50.0%	5.0%
Workers Comp	4,450	2,003	2,225	223	45.0%	50.0%	5.0%
Retirement (Full Time)	9,005	4,052	4,503	450	45.0%	50.0%	5.0%
Deferred Compensation	-	-	-	-	45.0%	50.0%	5.0%
Ual Retirement	11,703	5,266	5,852	585	45.0%	50.0%	5.0%
Retirement (Part Time)	-	-	-	-	45.0%	50.0%	5.0%
Medicare	1,197	539	599	60	45.0%	50.0%	5.0%
Health Insurance Benefits	12,312	5,540	6,156	616	45.0%	50.0%	5.0%
Life Insurance Benefits	90	41	45	5	45.0%	50.0%	5.0%
Employee Assistance Prog	116	52	58	6	45.0%	50.0%	5.0%
Unemployment Insurance	117	53	59	6	45.0%	50.0%	5.0%
Misc Disability Insurance	123	55	62	6	45.0%	50.0%	5.0%
Employee Training	1,000	450	500	50	45.0%	50.0%	5.0%
Employee Travel, Food,Lodge	1,000	450	500	50	45.0%	50.0%	5.0%
Postage	100	45	50	5	45.0%	50.0%	5.0%
Professional Support	1,000	450	500	50	45.0%	50.0%	5.0%
Contractual Services	6,000	2,700	3,000	300	45.0%	50.0%	5.0%
Office/Computer Supplies	1,000	450	500	50	45.0%	50.0%	5.0%
Repairs & Maintenance	10,000	4,500	5,000	500	45.0%	50.0%	5.0%
Subtotal - Water Backflow Prevention	**$ 141,704**	**$ 63,767**	**$ 70,852**	**$ 7,085**	**45.0%**	**50.0%**	**5.0%**
Additional Capital Expenditures							
One-Time Vehicles	$ -	$ -	$ -	$ -	100.0%	0.0%	0.0%
Subtotal - Additional Expenditures	404,450	404,450	-	-	100.0%	0.0%	0.0%
Subtotal - Additional Expenditures	**$ 404,450**	**$ 404,450**	**$ -**	**$ -**	**100.0%**	**0.0%**	**0.0%**
Rate-Funded CIP	$ -	$ -	$ -	$ -	0.0%	100.0%	0.0%
TOTAL: WATER OPERATIONS EXPENSES	**$ 16,505,924**	**$ 9,458,154**	**$ 4,865,057**	**$ 2,182,714**	**57.3%**	**29.5%**	**13.2%**

TABLE 20 : CLASSIFICATION OF EXPENSES FOR COST OF SERVICE ANALYSIS, cont.

Classification of Expenses, continued							
Budget Categories	Total Revenue Requirements FY 2023/24	Commodity (COM)	Capacity (CAP)	Customer (CA)	Basis of Classification (COM)	(CAP)	(CA)
Debt Service Payments							
Outstanding Debt	$ -	$ -	$ -	$ -	0.0%	100.0%	0.0%
New Debt Issue - SRF Loan	-	-	-	-	0.0%	100.0%	0.0%
New Debt Issue - Revenue Bond	-	-	-	-	0.0%	100.0%	0.0%
Total Debt Service Payments	**$ -**	**$ -**	**$ -**	**$ -**	**0.0%**	**100.0%**	**0.0%**
Capital Expenditures							
Rate Funded Capital Expenses	$ -	$ -	$ -	$ -	50.0%	50.0%	0.0%
TOTAL REVENUE REQUIREMENTS	**$ 16,505,924**	**$ 9,458,154**	**$ 4,865,057**	**$ 2,182,714**	**57.3%**	**29.5%**	**13.2%**
Less: Non-Rate Revenues							
Other Revenue							
Connect/Install Charges	$ (110,000)	$ (63,032)	$ (32,422)	$ (14,546)	57.3%	29.5%	13.2%
Overhead Revenue	-	-	-	-	57.3%	29.5%	13.2%
Bank Interest	(494,621)	(283,426)	(145,788)	(65,408)	57.3%	29.5%	13.2%
Miscellaneous Revenues	(5,000)	(2,865)	(1,474)	(661)	57.3%	29.5%	13.2%
NET REVENUE REQUIREMENTS	**$ 15,896,303**	**$ 9,108,831**	**$ 4,685,373**	**$ 2,102,098**			
Allocation of Revenue Requirements	**100.0%**	**57.3%**	**29.5%**	**13.2%**			

CITY OF GILROY
WATER RATE STUDY
Cost-of-Service Analysis & Rate Design

TABLE 21 : ADJUSTMENT TO CLASSIFICATION OF EXPENSES FOR COST OF SERVICE ANALYSIS

Classification of Expenses Adjustment for Current Rate Level:	Total	(COM)	(CAP)	(CA)
Test Year (FY 2023/24) Target Rate Rev. After Rate Increases	$ 15,054,120			
Projected Rate Revenue at Current Rates	$ 13,939,000			
Test Year (FY 2023/24) Projected Rate Adjustment	8%			
Adjusted Net Revenue Req'ts	**$ 15,054,120**	**$ 8,626,247**	**$ 4,437,143**	**$ 1,990,730**
Percent of Revenue	*100.0%*	*57.3%*	*29.5%*	*13.2%*

TABLE 22 : NET REVENUE REQUIREMENTS PER COSA RESULTS

Net Revenue Requirements - Per COSA Results 57% Fixed / 43% Variable	Total Rate Revenue Requirements FY 2023/24	Commodity Related Costs	Capacity Related Costs	Customer Related Costs
Rate-Design Adjustments to Fixed/Variable %	**100.0%**	**57.3%**	**29.5%**	**13.2%**
Rate-Design Adjustments to Fixed/Variable ($)	**$15,054,120**	**$8,626,247**	**$4,437,143**	**$1,990,730**

TABLE 23 : REVISED NET REVENUE REQUIREMENTS PER COSA RESULTS - ALT. #1

Rate-Design Adjustments to Fixed/Variable %	**100.0%**	**57.0%**	**30.0%**	**13.0%**
Rate-Design Adjustments to Fixed/Variable % (Rounded)	**100.0%**	**60.0%**	**30.0%**	**10.0%**
Rate-Design Adjustments to Fixed/Variable ($)	**$15,054,120**	**$9,032,472**	**$4,516,236**	**$1,505,412**

TABLE 24 : REVISED NET REVENUE REQUIREMENTS - 30% FIXED/70% VOLUMETRIC) - ALT. #2

Rate-Design Adjustments to Fixed/Variable %	**100.0%**	**70.0%**	**21.0%**	**9.0%**
Rate-Design Adjustments to Fixed/Variable ($)[1]	**$15,054,120**	**$10,537,884**	**$3,161,365**	**$1,354,871**

TABLE 25 : REVISED NET REVENUE REQUIREMENTS - (50% FIXED/50% VOLUMETRIC) - ALT. #3

Rate-Design Adjustments to Fixed/Variable %	**102.0%**	**50.0%**	**40.0%**	**12.0%**
Rate-Design Adjustments to Fixed/Variable ($)[1]	**$15,054,120**	**$7,527,060**	**$6,021,648**	**$1,806,494**

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TABLE 26 : DEVELOPMENT OF THE COMMODITY ALLOCATION FACTOR

Development of the Volumetric/Variable Allocation Factor[1]				
Customer Class	FY 2021/22 (1,000 Gal.yr.)	% Adjustment for Conservation	Est. FY 2021/22 Volume Adjusted for Conservation	FY 2021/22 % of Total Volume (TG/Yr.)
Residential	1,348,786	0.0%	1,348,786	60.6%
Multi-Family	259,687	0.0%	259,687	11.7%
Commercial/Industrial	333,884	0.0%	333,884	15.0%
Institutional	38,459	0.0%	38,459	1.7%
Landscape	231,215	0.0%	231,215	10.4%
City Account	59	0.0%	59	0.0%
Hydrant	14,948	0.0%	14,948	0.7%
Total	**2,227,038**		**2,227,038**	**100%**

1. Consumption data is based on the City of Gilroy's billing data.

Commodity Related Costs: *Costs associated with the total consumption (flow) of water over a specified period of time (e.g. annual).*

TABLE 27 : DEVELOPMENT OF THE CAPACITY ALLOCATION FACTORS

Development of the PEAK CAPACITY (MAX MONTH) Allocation Factors				
Customer Class	Average Monthly Use (TG)	Peak Monthly Use (TG)	Peak Monthly Factor	Max Month Capacity Factor
Residential	112,399	168,922	1.50	61.1%
Multi-Family	21,641	26,139	1.21	9.5%
Commercial/Industrial	27,824	34,412	1.24	12.4%
Institutional	3,205	6,341	1.98	2.3%
Landscape	19,268	37,423	1.94	13.5%
City Account	5	6	1.22	0.0%
Hydrant	1,246	3,340	2.68	1.2%
Total	**185,586**	**276,583**	**1.49**	**100%**

1. Based on peak monthly data (peak day data not available).

Capacity Related Costs: *Costs associated with the maximum demand required at one point in time or the maximum size of facilities required to meet this demand.*

TABLE 28 : DEVELOPMENT OF THE CUSTOMER ALLOCATION FACTORS

Development of the Customer Allocation Factor		
Customer Class	No. of Meters FY 2021/22[1]	Percent of Total
Residential	13,518	87.2%
Multi-Family	521	3.4%
Commercial/Industrial	858	5.5%
Institutional	34	0.2%
Landscape	515	3.3%
City Account	35	0.2%
Hydrant	19	0.1%
Total	**15,500**	**100.0%**

1. Meter count data is based on the City's billing data for June 2022.

Customer Related Costs: *Costs associated with having a customer on the water system. These costs vary with the addition or deletion of customers on the system. Examples: Meter-reading, Postage and billing.*

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TABLE 29 : ALLOCATION OF WATER REVENUE REQUIREMENTS

Classification Components	ALT. 1 (Preferred) (40% Fixed / 60% Variable) Net Rev. Reqts (FY 2023/24)		ALT. 2 (30% Fixed / 70% Variable) Net Rev. Reqts (FY 2023/24)		ALTERNATIVE 3 (50% Fixed / 50% Variable) Cost-of-Service Net Revenue Requirements *(FY 2023/24)* [1]	
Commodity-Related Costs	$ 9,032,472	*60.0%*	$ 10,537,884	*70.0%*	$ 7,527,060	*49.0%*
Capacity-Related Costs	4,516,236	*30.0%*	3,161,365	*21.0%*	6,021,648	*39.0%*
Customer-Related Costs	1,505,412	*10.0%*	1,354,871	*9.0%*	1,806,494	*12.0%*
Net Revenue Requirement	**$ 15,054,120**	*100.0%*	**$ 15,054,120**	*100.0%*	**$ 15,355,202**	*100.0%*

TABLE 30 : COST-OF-SERVICE SUMMARY OF REVENUE REQUIREMENTS

Customer Class	Allocated Costs FY 2020/21		Allocated Costs FY 2020/21		COSA Allocated Costs FY 2020/21	
	2023/24 COS Rev. Req't	% of COS Rev. Req't.	2023/24 COS Rev. Req't	% of COS Rev. Req't.	2023/24 COS Rev. Req't	% of COS Rev. Req't.
Residential	$ 9,541,651	63.4%	$ 9,494,615	63.1%	$ 9,811,925	63.9%
Multi-Family	1,530,618	10.2%	1,573,058	10.4%	1,507,461	9.8%
Commercial/Industrial	1,999,425	13.3%	2,048,215	13.6%	1,977,699	12.9%
Institutional	262,825	1.7%	257,430	1.7%	272,002	1.8%
Landscape	1,598,854	10.6%	1,566,826	10.4%	1,656,253	10.8%
City Account	3,737	0.0%	3,407	0.0%	4,409	0.0%
Hydrant	117,010	0.8%	110,568	0.7%	125,454	0.8%
Total	**$ 15,054,120**	**100%**	**$ 15,054,120**	**100%**	**$ 15,355,202**	**100%**

TABLE 31 : ALLOCATION OF UNADJUSTED NET REVENUE REQUIREMENTS - FY 2023/24

Alt. 1 - 40% Fixed / 60% Variable

Customer Classes	Classification Components			Cost of Service Net Revenue Requirements	% of COS Net Revenue Req'ts
	VARIABLE	*FIXED*			
	Commodity-Related Costs	Capacity-Related Costs	Customer-Related Costs		
Residential	$ 5,470,437	$ 2,758,274	$ 1,312,941	$ 9,541,651	*63.4%*
Multi-Family	1,053,245	426,815	50,558	1,530,618	*10.2%*
Commercial/Industrial	1,354,175	561,903	83,348	1,999,425	*13.3%*
Institutional	155,983	103,540	3,302	262,825	*1.7%*
Landscape	937,767	611,068	50,019	1,598,854	*10.6%*
City Account	239	98	3,399	3,737	*0.0%*
Hydrant	60,626	54,538	1,845	117,010	*0.8%*
Total Net Revenue Requirement	**$ 9,032,472**	**$ 4,516,236**	**$ 1,505,412**	**$ 15,054,120**	**100%**
Total Net Revenue Requirement by Classification Component	*VARIABLE* *$9,032,472*	*FIXED* *$6,021,648*		*$15,054,120*	

TABLE 32 : CALCULATION OF MONTHLY FIXED METER SERVICE CHARGES FOR FY 2023/24 - ALTERNATIVE 2

Alt. 1 - 40% Fixed / 60% Variable

Number of Meters by Class and Size[1]	FY2023/24									Total
	3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch	
Residential	4,445	8,273	172	459	167	2	0	0	0	13,518
Multi-Family	137	203	84	56	24	17	0	0	0	521
Commercial/Industrial	251	330	0	249	10	14	3	0	1	858
Institutional	0	1	0	15	8	9	1	0	0	34
Landscape	34	182	79	212	4	4	0	0	0	515
City Account	5	7	1	19	2	1	0	0	0	35
Hydrant	0	0	0	0	19	0	0	0	0	19
Total Meters/Accounts	**4,872**	**8,996**	**336**	**1,010**	**234**	**47**	**4**	**0**	**1**	**15,500**
Hydraulic Capacity Factor [2]	*1.00*	*1.67*	*3.33*	*5.33*	*10.67*	*16.67*	*33.33*	*53.33*	*140.00*	
Total Equivalent Meters	**4,872**	**14,993**	**1,120**	**5,387**	**2,496**	**783**	**133**	**0**	**140**	**29,925**
Monthly Fixed Service Charges										
Customer Costs ($/Acct/month)[3]	$8.09	$8.09	$8.09	$8.09	$8.09	$8.09	$8.09	$8.09	$8.09	
Capacity Costs ($/Acct/month)[4]	$12.58	$20.96	$41.92	$67.08	$134.15	$209.61	$419.22	$670.76	$1,760.74	
Total Monthly Meter Charge	**$20.67**	**$29.05**	**$50.02**	**$75.17**	**$142.24**	**$217.70**	**$427.32**	**$678.85**	**$1,768.83**	
Annual Fixed Costs Allocated to Monthly Meter Charges										
Customer Costs	$ 1,505,412									
Capacity Costs	4,516,236									
Total Fixed Meter Costs	$ 6,021,648									
Annual Revenue from Monthly Meter Charges										
Customer Charges	$ 473,185	$ 873,722	$ 32,633	$ 98,095	$ 22,727	$ 4,565	$ 388	$ -	$ 97	**$ 1,505,412**
Capacity Charges	$ 735,283	$ 2,262,797	$ 169,031	$ 812,957	$ 376,697	$ 118,221	$ 20,123	$ -	$ 21,129	**$ 4,516,236**
Total Rev. from Mo. Meter Charges	**$ 1,208,468**	**$ 3,136,518**	**$ 201,664**	**$ 911,051**	**$ 399,424**	**$ 122,786**	**$ 20,511**	**$ -**	**$ 21,226**	$ 6,021,648

1. Meter by Class and Size are based on June 2022 customer billing data.
2. Source: *AWWA Manual M1, "Principles of Water Rates, Fees, and Charges", Table B-1*
3. Customer costs are allocated to each customer by dividing the total customer costs by the total number of customers.
4. Capacity costs are allocated by meter size and the hydraulic capacity of the meter.

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TABLE 33 : ALLOCATION OF UNADJUSTED NET REVENUE REQUIREMENTS - FY 2023/24

Alt. 2 - 30% Fixed / 70% Variable

Customer Classes	Classification Components: VARIABLE — Commodity-Related Costs	Classification Components: FIXED — Capacity-Related Costs	Classification Components: FIXED — Customer-Related Costs	Cost of Service Net Rev. Req'ts	% of COS Net Revenue Req'ts
Residential	$ 6,382,176	$ 1,930,792	$ 1,181,647	$ 9,494,615	*63.1%*
Multi-Family	1,228,786	298,771	45,502	1,573,058	*10.4%*
Commercial/Industrial	1,579,871	393,332	75,013	2,048,215	*13.6%*
Institutional	181,980	72,478	2,972	257,430	*1.7%*
Landscape	1,094,062	427,748	45,017	1,566,826	*10.4%*
City Account	279	69	3,059	3,407	*0.0%*
Hydrant	70,731	38,176	1,661	110,568	*0.7%*
Total Net Revenue Requirement	**$ 10,537,884**	**$ 3,161,365**	**$ 1,354,871**	**$ 15,054,120**	**99%**
Total Net Revenue Requirement by Classification Component	*VARIABLE* *$10,537,884*	*FIXED* *$4,516,236*		*$15,054,120*	

TABLE 34 : CALCULATION OF MONTHLY FIXED METER SERVICE CHARGES FOR FY 2023/24 - ALTERNATIVE 1

Alt. 2 - 30% Fixed / 70% Variable

Number of Meters by Class and Size[1]	FY2023/24 3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch	Total
Residential	4,445	8,273	172	459	167	2	0	0	0	13,518
Multi-Family	137	203	84	56	24	17	0	0	0	521
Commercial/Industrial	251	330	0	249	10	14	3	0	1	858
Institutional	0	1	0	15	8	9	1	0	0	34
Landscape	34	182	79	212	4	4	0	0	0	515
City Account	5	7	1	19	2	1	0	0	0	35
Hydrant	0	0	0	0	19	0	0	0	0	19
Total Meters/Accounts	**4,872**	**8,996**	**336**	**1,010**	**234**	**47**	**4**	**0**	**1**	**15,500**
Hydraulic Capacity Factor[2]	*1.00*	*1.67*	*3.33*	*5.33*	*10.67*	*16.67*	*33.33*	*53.33*	*140.00*	
Total Equivalent Meters	**4,872**	**14,993**	**1,120**	**5,387**	**2,496**	**783**	**133**	**0**	**140**	**29,925**
Monthly Fixed Service Charges										
Customer Costs ($/Acct/month)[3]	$7.28	$7.28	$7.28	$7.28	$7.28	$7.28	$7.28	$7.28	$7.28	
Capacity Costs ($/Acct/month)[4]	$8.80	$14.67	$29.35	$46.95	$93.91	$146.73	$293.46	$469.53	$1,232.51	
Total Monthly Meter Charge	**$16.09**	**$21.96**	**$36.63**	**$54.24**	**$101.19**	**$154.01**	**$300.74**	**$476.81**	**$1,239.80**	
Annual Fixed Costs Allocated to Monthly Meter Charges										
Customer Costs	$ 1,354,871									
Capacity Costs	3,161,365									
Total Fixed Meter Costs	$ 4,516,236									
Annual Revenue from Monthly Meter Charges										
Customer Charges	$ 425,866	$ 786,350	$ 29,370	$ 88,285	$ 20,454	$ 4,108	$ 350	$ -	$ 87	**$ 1,354,871**
Capacity Charges	514,698	1,583,958	118,321	569,070	263,688	82,755	14,086	-	14,790	**3,161,365**
Total Revenue from Monthly Meter Charges	**$ 940,565**	**$ 2,370,307**	**$ 147,692**	**$ 657,355**	**$ 284,142**	**$ 86,863**	**$ 14,436**	**$ -**	**$ 14,878**	**$ 4,516,236**

1. Meter by Class and Size are based on June 2022 customer billing data.
2. Source: *AWWA Manual M1, "Principles of Water Rates, Fees, and Charges", Table B-1*
3. Customer costs are allocated to each customer by dividing the total customer costs by the total number of customers.
4. Capacity costs are allocated by meter size and the hydraulic capacity of the meter.

TABLE 35 : FIXED CHARGES REVENUE CHECK

Number of Meters by Class and Size	FY2023/24									Total
	3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch	
Residential	4,445	8,273	172	459	167	2	0	0	0	13,518
Multi-Family	137	203	84	56	24	17	0	0	0	521
Commercial/Industrial	251	330	0	249	10	14	3	0	1	858
Institutional	0	1	0	15	8	9	1	0	0	34
Landscape	34	182	79	212	4	4	0	0	0	515
City Account	5	7	1	19	2	1	0	0	0	35
Hydrant	0	0	0	0	19	0	0	0	0	19
Total Meters/Accounts	**4,872**	**8,996**	**336**	**1,010**	**234**	**47**	**4**	**0**	**1**	**15,500**

TABLE 36 : PROJECTED FIXED REVENUE CHECK

Alt. 2 - 30% Fixed / 70% Variable

Projected Revenue From Fixed Charges by Customer Class	FY2023/24									Total
	3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch	
Charges by Meter Size	***$16.09***	***$21.96***	***$36.63***	***$54.24***	***$101.19***	***$154.01***	***$300.74***	***$476.81***	***$1,239.80***	
Revenue from Fixed Charges										
Residential	$ 858,130	$ 2,179,808	$ 75,604	$ 298,738	$ 202,785	$ 3,696	$ -	$ -	$ -	**$ 3,618,762**
Multi-Family	26,449	53,487	36,923	36,447	29,143	31,418	-	-	-	**213,867**
Commercial/Industrial	48,457	86,950	-	162,061	12,143	25,874	10,827	-	14,878	**361,189**
Institutional	-	263	-	9,763	9,714	16,633	3,609	-	-	**39,983**
Landscape	6,564	47,954	34,725	137,979	4,857	7,393	-	-	-	**239,472**
City Account	965	1,844	440	12,366	2,429	1,848	-	-	-	**19,892**
Hydrant	-	-	-	-	23,071	-	-	-	-	**23,071**
Total Revenue - Fixed Charges										***$ 4,516,236***

TABLE 37 : PROJECTED FIXED REVENUE CHECK

Customer Class	Net Revenue Requirement (Alternative 1 - 30% Fixed / 70% Variable)		
	COS Rev. Req't	Expected Revenue	Over/(Under) Collected
Residential	$ 3,112,439	$ 3,618,762	$ 506,323
Multi-Family	344,273	213,867	(130,405)
Commercial/Industrial	468,345	361,189	(107,156)
Institutional	75,450	39,983	(35,467)
Landscape	472,764	239,472	(233,292)
City Account	3,128	19,892	16,764
Hydrant	39,837	23,071	(16,766)
Total	**$ 4,516,236**	**$ 4,516,236**	**$ -**

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TABLE 38 : PROJECTED FIXED REVENUE CHECK

Alt. 1 - 40% Fixed / 60% Variable

Projected Revenue From Fixed Charges by Customer Class	FY2023/24									Total
	3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch	
Charges by Meter Size	*$20.67*	*$29.05*	*$50.02*	*$75.17*	*$142.24*	*$217.70*	*$427.32*	*$678.85*	*$1,768.83*	
Revenue from Fixed Charges										
Residential	$ 1,102,554	$ 2,884,439	$ 103,233	$ 414,032	$ 285,059	$ 5,225	$ -	$ -	$ -	**$ 4,794,541**
Multi-Family	33,982	70,777	50,416	50,514	40,967	44,412	-	-	-	**291,067**
Commercial/Industrial	62,259	115,057	-	224,606	17,069	36,574	15,383	-	21,226	**492,175**
Institutional	-	349	-	13,530	13,656	23,512	5,128	-	-	**56,175**
Landscape	8,433	63,456	47,415	191,231	6,828	10,450	-	-	-	**327,812**
City Account	1,240	2,441	600	17,139	3,414	2,612	-	-	-	**27,446**
Hydrant	-	-	-	-	32,432	-	-	-	-	**32,432**
Total Revenue - Fixed Charges										***$ 6,021,648***

TABLE 39 : PROJECTED FIXED REVENUE CHECK

Customer Class	Net Revenue Requirement (Alternative 2 (COSA) - 40% Fixed / 60% Variable)		
	COS Rev. Req't	Expected Revenue	Over/(Under) Collected
Residential	$ 4,071,215	$ 4,794,541	$ 723,326
Multi-Family	477,373	291,067	(186,306)
Commercial/Industrial	645,250	492,175	(153,076)
Institutional	106,842	56,175	(50,668)
Landscape	661,087	327,812	(333,275)
City Account	3,497	27,446	23,949
Hydrant	56,383	32,432	(23,951)
Total	**$ 6,021,648**	**$ 6,021,648**	**$ -**

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TABLE 40 : PROJECTED FIXED REVENUE CHECK

Net Revenue Requirements (Alternative 3 - 50% Fixed / 50% Variable)

Projected Revenue From Fixed Charges by Customer Class	FY2023/24									Total
	3/4 inch	1 inch	1 1/2 inch	2 inch	3 inch	4 inch	6 inch	8 inch	10 inch	
Charges by Meter Size	*$26.48*	*$37.66*	*$65.61*	*$99.15*	*$188.58*	*$289.19*	*$568.68*	*$904.05*	*$2,357.36*	
Revenue from Fixed Charges										
Residential	$ 1,412,510	$ 3,738,785	$ 135,416	$ 546,099	$ 377,916	$ 6,941	$ -	$ -	$ -	**$ 6,217,667**
Multi-Family	43,535	91,741	66,134	66,626	54,311	58,996	-	-	-	**381,343**
Commercial/Industrial	79,762	149,136	-	296,250	22,630	48,585	20,472	-	28,288	**645,122**
Institutional	-	452	-	17,846	18,104	31,233	6,824	-	-	**74,459**
Landscape	10,804	82,251	62,197	252,229	9,052	13,881	-	-	-	**430,414**
City Account	1,589	3,163	787	22,605	4,526	3,470	-	-	-	**36,141**
Hydrant	-	-	-	-	42,996	-	-	-	-	**42,996**
Total Revenue - Fixed Charges										***$ 7,828,142***

TABLE 41 : PROJECTED FIXED REVENUE CHECK

Customer Class	Net Revenue Requirement (Alternative 3 - 40% Fixed / 60% Variable)		
	COS Rev. Req't	Expected Revenue	Over/(Under) Collected
Residential	$ 5,253,228	$ 6,217,667	$ 964,439
Multi-Family	629,757	381,343	(248,414)
Commercial/Industrial	849,221	645,122	(204,099)
Institutional	142,016	74,459	(67,557)
Landscape	874,780	430,414	(444,366)
City Account	4,210	36,141	31,932
Hydrant	74,931	42,996	(31,935)
Total	**$ 7,828,142**	**$ 7,828,142**	**$ -**

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TABLE 42 : PROPOSED VOLUMETRIC CHARGES FOR FY 2022/23

Alt. 1 - 40% Fixed / 60% Variable

Customer Classes	Water Use (TG/yr.)[1]	% of Total Water Use	Total Vol. Rev. Reqts. (Excl. Pumping)	Uniform Commodity Rates ($/TG)	Uniform Commodity Rates Including Pumping Costs ($/TG)		
					Zone 1	Zone 2	Zone 3
Residential - Tier 1	1,348,786	*60.6%*	$ 4,912,312	$3.64	$4.00	$4.37	$4.73
Multi-Family	259,687	*11.7%*	945,787	$3.64	$4.00	$4.37	$4.73
Commercial/Industrial	333,884	*15.0%*	1,216,014	$3.64	$4.00	$4.37	$4.73
Institutional	38,459	*1.7%*	140,069	$3.64	$4.00	$4.37	$4.73
Landscape	231,215	*10.4%*	842,091	$3.64	$4.00	$4.37	$4.73
City Account	59	*0.0%*	215	$3.64	$4.00	$4.37	$4.73
Hydrant	14,948	*0.7%*	54,441	$3.64	$4.00	$4.37	$4.73
Total Potable Water	**2,227,038**	***39.4%***	**$ 8,110,929**				
Pumping Costs			**921,543**				
Total Volumetric Reve. Reqts.			**$ 9,032,472**				

1. Water consumption is actual consumption for FY 2021/22 and includes an adjustment for conservation.
2. Total volumetric revenue requirements based on rate alternative less supply costs and pumping costs.

TABLE 43 : CONSUMPTION BY ZONE FOR FY 2021/22

Alt. 1 - 40% Fixed / 60% Variable - CONSUMPTION by Zone

Customer Class	CONSUMPTION by Zone and by Class (TG/Yr.)			Total Consumption
	Zone 1	Zone 2	Zone 3	
Residential	1,110,987	198,886	38,913	1,348,786
Multi-Family	259,459	0	228	259,687
Comm/Industrial	333,140	744	0	333,884
Institutional	38,459	0	0	38,459
Landscape	202,531	28,638	46	231,215
City Account	59	0	0	59
Hydrant	7,654	1,737	5,557	14,948
Total	**1,952,289**	**230,005**	**44,744**	**2,227,038**

TABLE 44 : PUMPING BY ZONE FOR FY 2021/22

Alt. 1 - 40% Fixed / 60% Variable - PUMPING by Zone

Customer Class	PUMPING by Zone and by Class (TG/Yr.)[1]			Total Pumping
	Zone 1	Zone 2	Zone 3	
Residential	1,348,786	237,799	38,913	1,625,498
Multi-Family	259,687	228	228	260,143
Comm/Industrial	333,884	744	0	334,628
Institutional	38,459	0	0	38,459
Landscape	231,215	28,684	46	259,945
City Account	59	0	0	59
Hydrant	14,948	7,294	5,557	27,799
Total	**2,227,038**	**274,749**	**44,744**	**2,546,531**

1. Includes water in Zone 3 pumped throuhg Zones 1 and 2, etc.

CITY OF GILROY
WATER RATE STUDY
Cost-of-Service Analysis & Rate Design

TABLE 45 : ESTIMATED ZONAL PUMPING COSTS AND RATES BY CUSTOMER CLASS AND ZONE

Customer Class	Zonal Pumping Costs ($/Yr.)			Zonal Costs by Class ($/Yr.)
	Zone 1	Zone 2	Zone 3	
Residential	$488,101	$86,055	$14,082	$588,238
Multi-Family	$93,976	$83	$83	$94,141
Comm/Industrial	$120,827	$269	$0	$121,096
Institutional	$13,918	$0	$0	$13,918
Landscape	$83,672	$10,380	$17	$94,069
City Account	$21	$0	$0	$21
Hydrant	$5,409	$2,640	$2,011	$10,060
Total	$805,924	$99,427	$16,192	$921,543
Pumping by Zone (TG/Yr.)	**2,227,038**	**274,749**	**44,744**	
Zonal Pumping Rate ($/TG)	**$0.362**	**$0.362**	**$0.362**	

TABLE 46 : VOLUMETRIC RATES BY CUSTOMER CLASS AND ZONE

Alt. 1 (40% Fixed/60% Vol.) - Cumulative Zonal Vol. Rates by Zone

Customer Class	Volumetric Rates	Cumulative Vol. Rates by Zone ($/TG)		
		Zone 1	Zone 2	Zone 3
Residential	$3.64	$4.004	$4.366	$4.728
Multi-Family	3.64	$4.004	$4.366	$4.728
Comm/Industrial	3.64	$4.004	$4.366	$4.728
Institutional	3.64	$4.004	$4.366	$4.728
Landscape	3.64	$4.004	$4.366	$4.728
City Account	3.64	$4.004	$4.366	$4.728
Hydrant	3.64	$4.004	$4.366	$4.728

TABLE 47 : ESTIMATED VOLUMETRIC REVENUE BY CUSTOMER CLASS AND ZONE

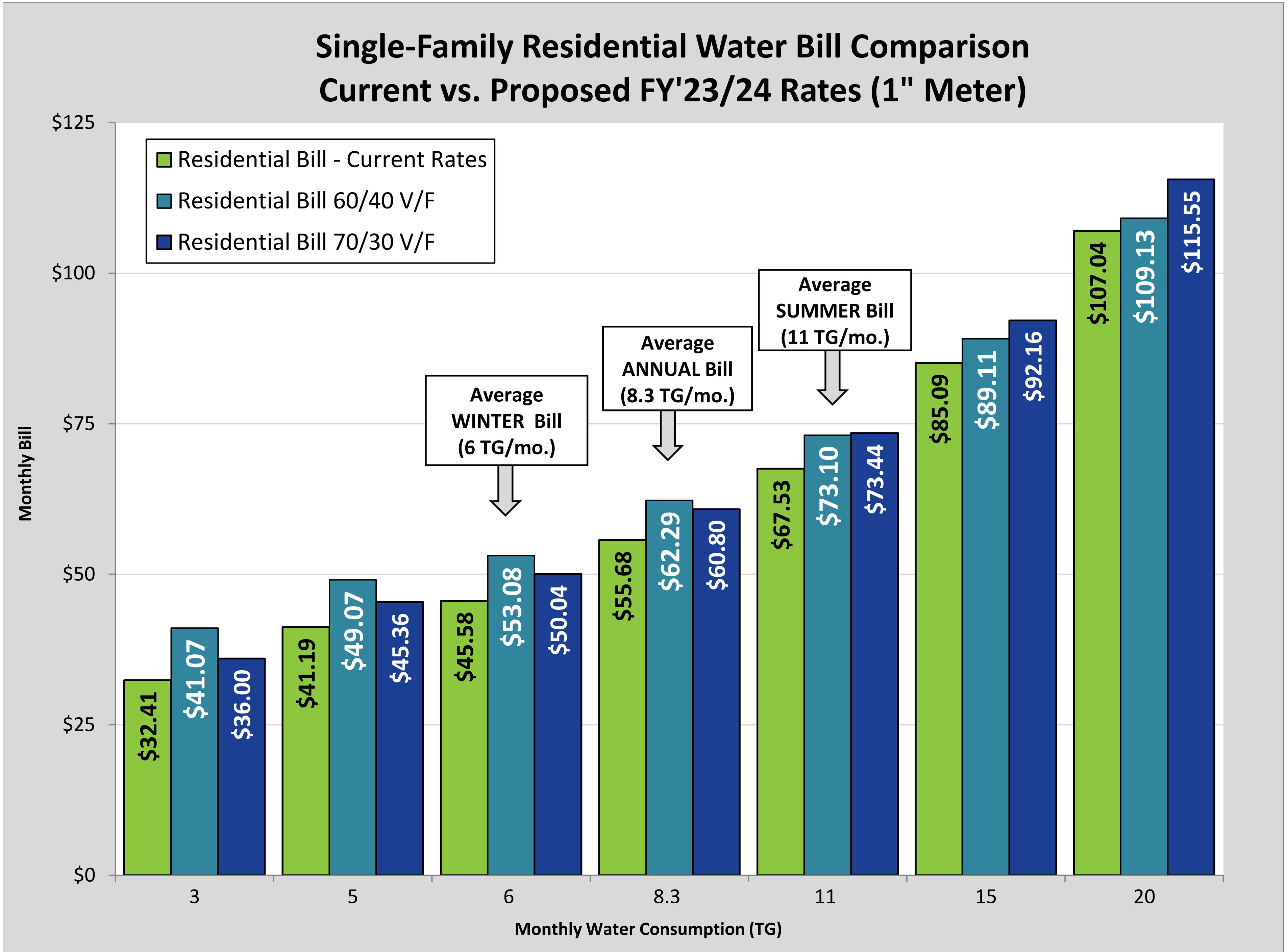
Customer Class	Volumetric Revenue by Zone ($/Yr.)			Total Volumetric Rate Revenue
	Zone 1	Zone 2	Zone 3	
Residential	$4,448,288	$868,294	$183,968	$5,500,550
Multi-Family	1,038,850	0	1,078	1,039,928
Comm/Industrial	1,333,862	3,248	0	1,337,110
Institutional	153,986	0	0	153,986
Landscape	810,915	125,027	217	936,160
City Account	236	0	0	236
Hydrant	30,646	7,583	26,272	64,501
Grand Total	**$7,816,784**	**$1,004,153**	**$211,535**	**$9,032,472**

CITY OF GILROY
WATER RATE STUDY
Cost-of-Service Analysis & Rate Design

CURRENT VS. PROPOSED WATER RATES — ***Alt. 1 - 40% Fixed / 60% Variable***

Water Rate Schedule	Current Rates	Proposed Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Service Charges						
Meter Size						
3/4 inch	$11.53	$20.67	$22.32	$23.66	$24.61	$25.59
1 inch	$19.24	$29.05	$31.38	$33.26	$34.59	$35.98
1 1/2 inch	$38.47	$50.02	$54.02	$57.26	$59.55	$61.93
2 inch	$61.55	$75.17	$81.18	$86.05	$89.50	$93.08
3 inch	$115.39	$142.24	$153.62	$162.84	$169.36	$176.13
4 inch	$192.30	$217.70	$235.12	$249.23	$259.20	$269.57
6 inch	$384.62	$427.32	$461.50	$489.19	$508.76	$529.11
8 inch	$615.37	$678.85	$733.16	$777.15	$808.23	$840.56
10 inch	$884.50	$1,768.83	$1,910.34	$2,024.96	$2,105.95	$2,190.19
Variable Charges for All Water Consumed ($/1,000 gallons (or TG))						
Residential Customers - Tiered Volumetric Rate		Uniform Vol. Rates				
Tier 1 - Zone 1	$4.39	$4.00	$4.32	$4.58	$4.77	$4.96
Tier 1 - Zone 2	$4.93	$4.37	$4.72	$5.00	$5.20	$5.41
Tier 1 - Zone 3	$5.52	$4.73	$5.11	$5.41	$5.63	$5.85
Tier 2 (more than 30 TG)						
Tier 2 - Zone 1	$4.93	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 2	$5.47	N.A.	N.A.	N.A.	N.A.	N.A.
Tier 2 - Zone 3	$6.06	N.A.	N.A.	N.A.	N.A.	N.A.

Note: The City recently transitioned from July1-June 30 fiscal years to calendar years (January to December).



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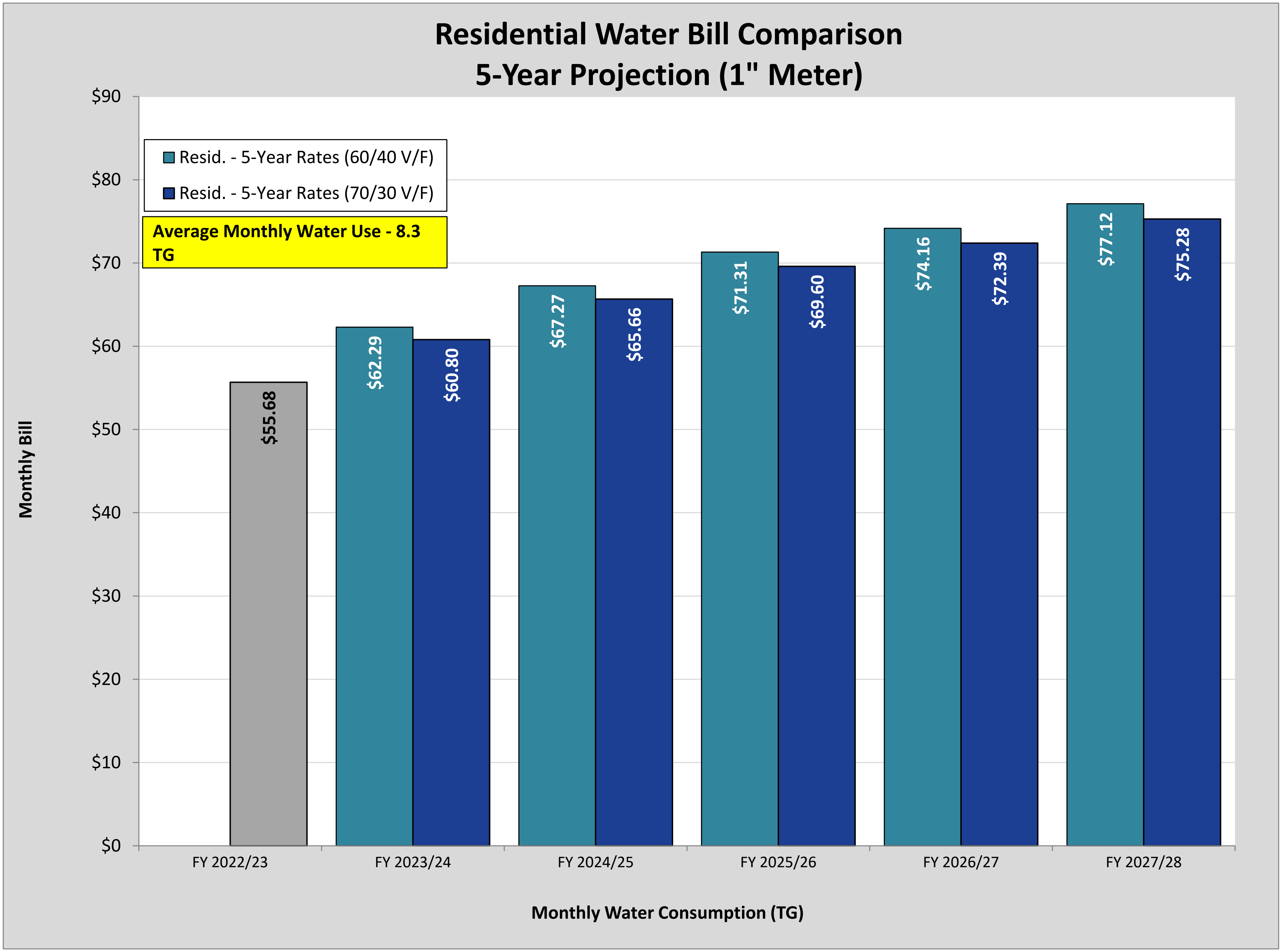
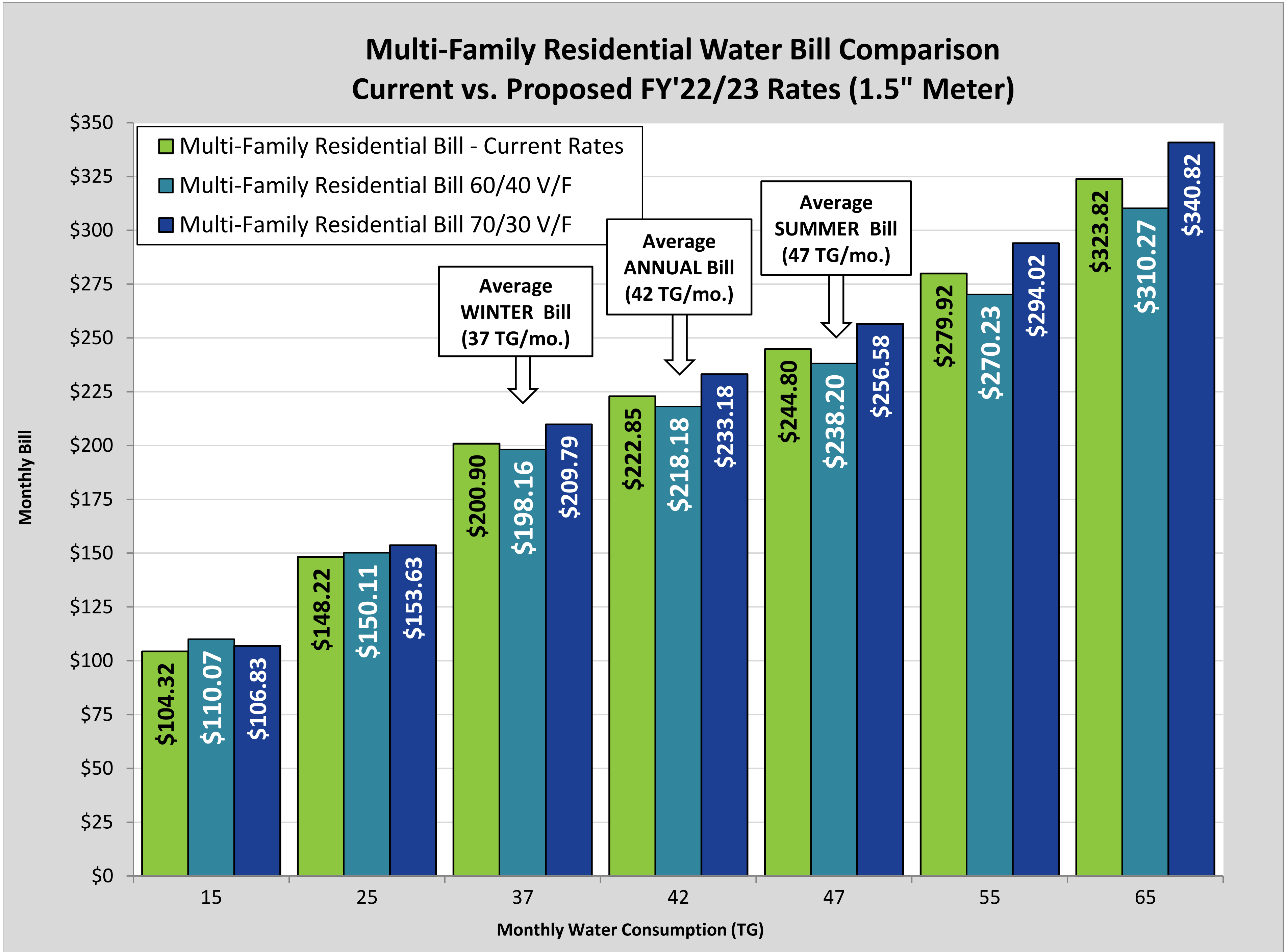

Residential Water Bill Comparison
5-Year Projection (1" Meter)
Resid. - 5-Year Rates (60/40 V/F)
Resid. - 5-Year Rates (70/30 V/F)
Average Monthly Water Use - 8.3 TG
Monthly Bill
$90
$80
$70
$60
$50
$40
$30
$20
$10
$0
$55.68
$62.29
$60.80
$67.27
$65.66
$71.31
$69.60
$74.16
$72.39
$77.12
$75.28
FY 2022/23
FY 2023/24
FY 2024/25
FY 2025/26
FY 2026/27
FY 2027/28
Monthly Water Consumption (TG)



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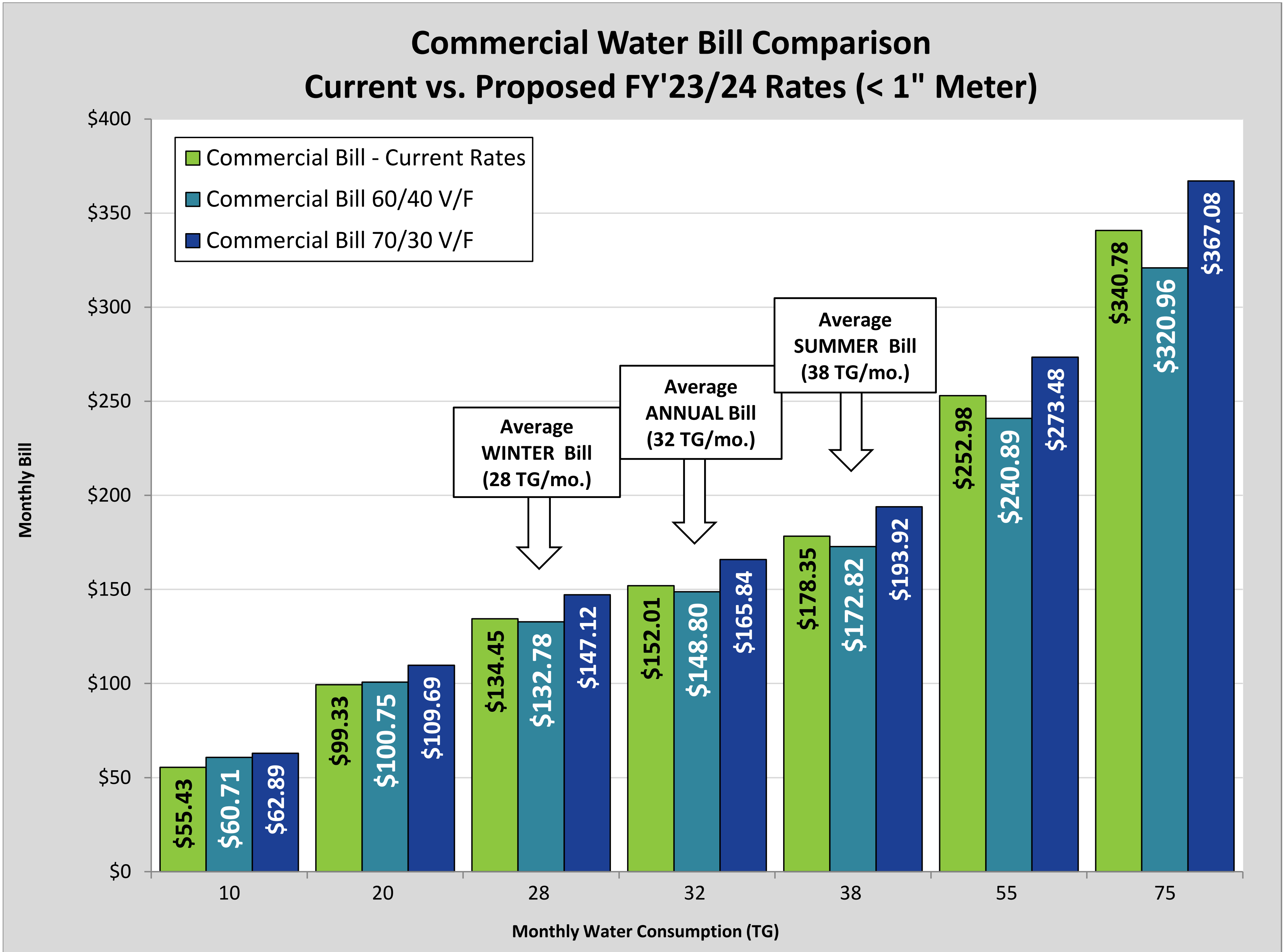

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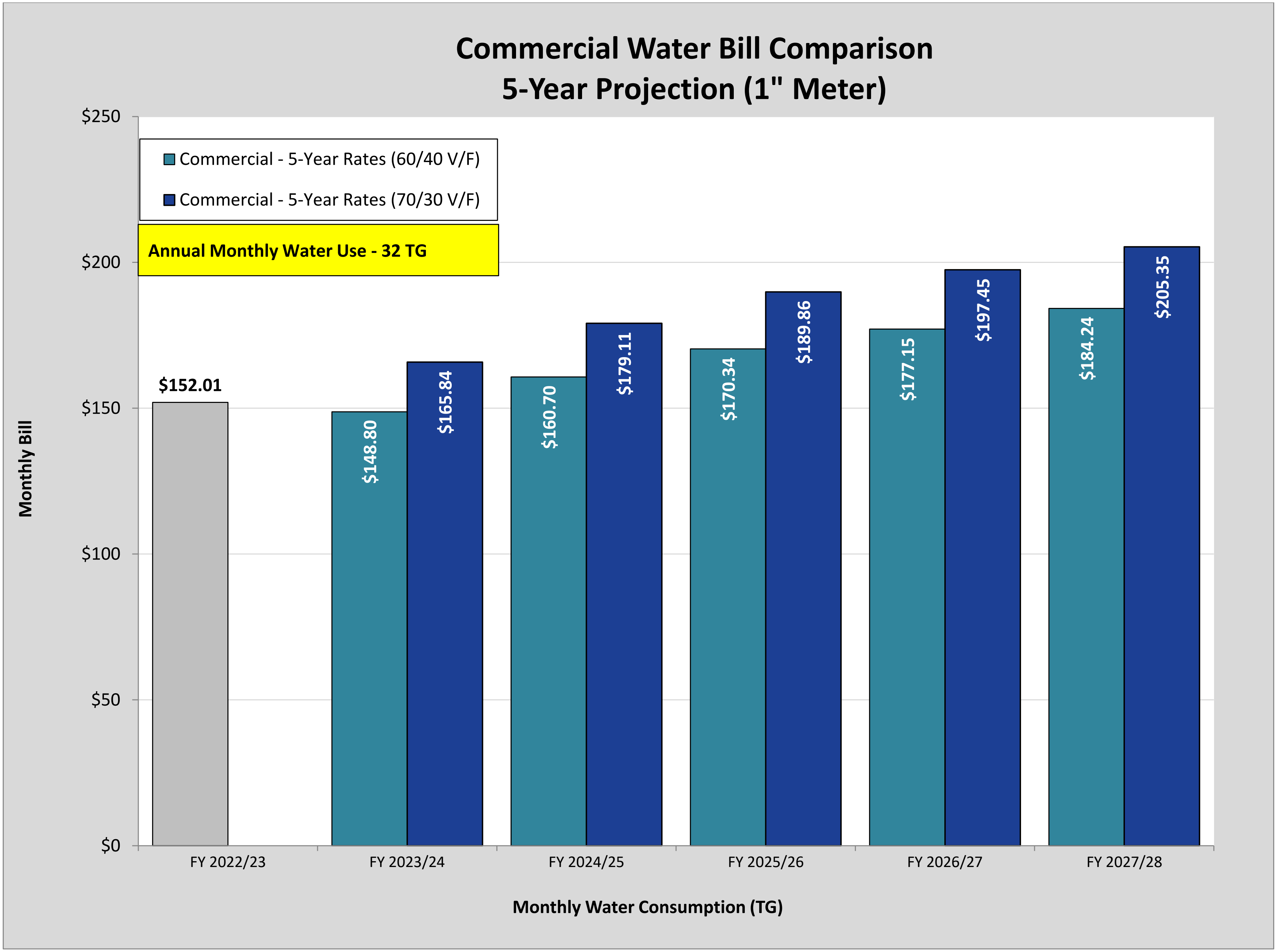
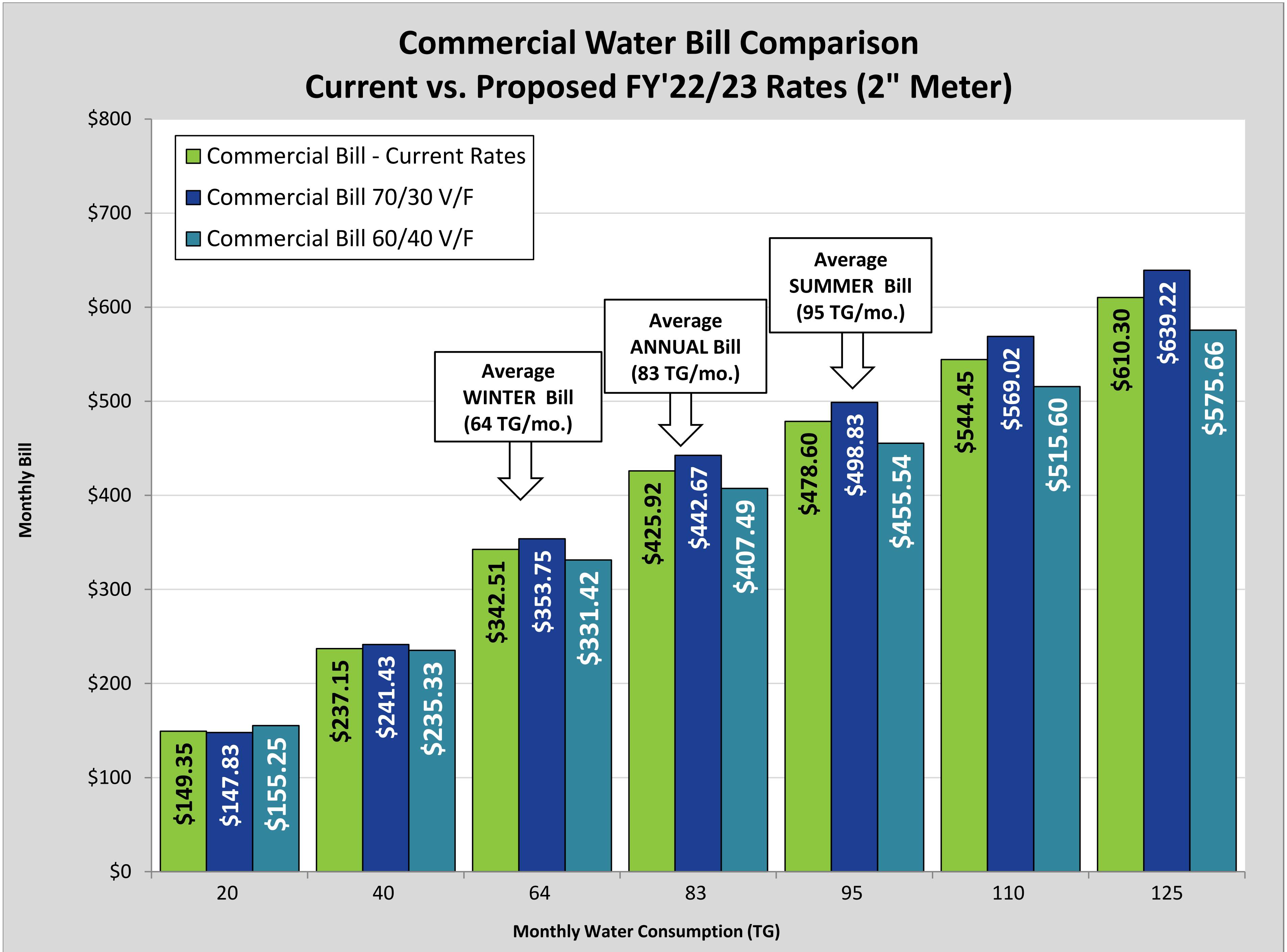

Commercial Water Bill Comparison
5-Year Projection (1" Meter)
Commercial - 5-Year Rates (60/40 V/F)
Commercial - 5-Year Rates (70/30 V/F)
Annual Monthly Water Use - 32 TG
Monthly Bill
$250
$200
$150
$100
$50
$0
$152.01
$148.80
$165.84
$160.70
$179.11
$170.34
$189.86
$177.15
$197.45
$184.24
$205.35
FY 2022/23
FY 2023/24
FY 2024/25
FY 2025/26
FY 2026/27
FY 2027/28
Monthly Water Consumption (TG)



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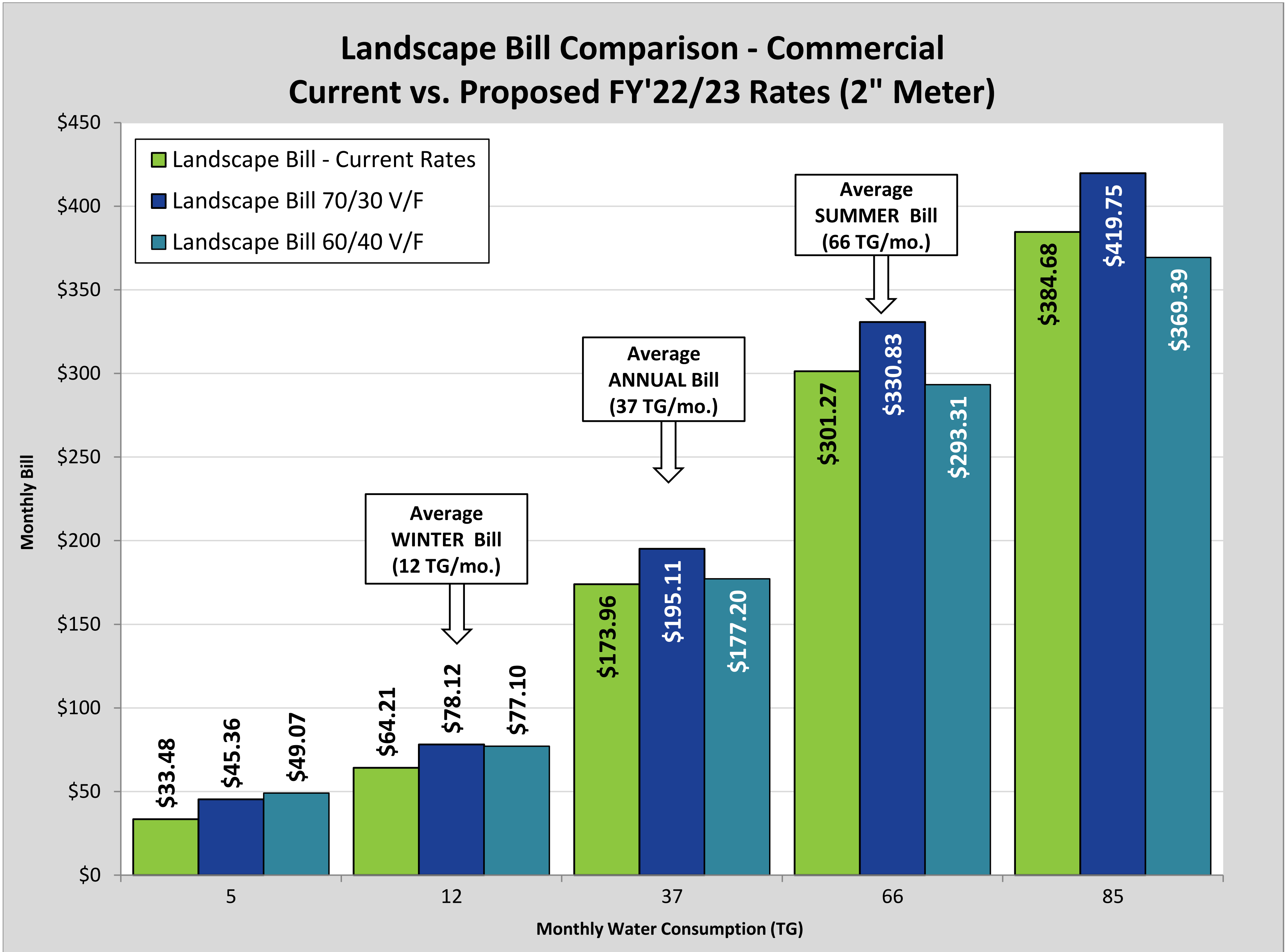

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Appendix B. Wastewater Rate Study Tables and Figures

CITY OF GILROY
SEWER RATE STUDY
Financial Plan and Reserve Projections

TABLE 1 : FINANCIAL PLAN AND SUMMARY OF REVENUE REQUIREMENTS

RATE REVENUE REQUIREMENTS SUMMARY	Projected Actuals	5-Year Projected Rate Period				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Sources of Funds [1]						
Rate Revenue:						
User Fees	$ 13,247,000	$ 13,512,000	$ 13,782,000	$ 13,988,730	$ 14,198,561	$ 14,411,539
Other Revenue:						
Misc. Revenue & Interest Earnings[2]	992,066	649,871	397,017	15,619	15,853	16,091
Interfund Transfer In	1,533,500	2,244,000	2,244,000	2,244,000	2,244,000	2,244,000
Total: Sources of Funds	**$ 15,772,566**	**$ 16,405,871**	**$ 16,423,017**	**$ 16,248,349**	**$ 16,458,414**	**$ 16,671,630**
Uses of Water Funds [1]						
Operating Expenses:						
7500 - Sewer Administration	$ 3,606,254	$ 2,143,559	$ 2,202,325	$ 2,339,468	$ 2,481,991	$ 2,625,123
7510 - Finance Sewer Utility Billing	921,605	1,037,477	1,083,341	1,120,978	1,159,924	1,200,226
7520 - Sewer Operations	2,758,341	4,362,836	4,320,125	4,464,460	4,613,637	4,767,818
SCWRA Oper. Costs (less Monit., Sampl., Pre-Tr.Cos	5,715,995	6,146,815	6,517,038	6,781,500	6,989,600	7,207,300
Monitoring, Sampling, Pretreatment (Non-Resid. C	*N.A.*	365,700	440,200	388,500	400,400	412,700
Subtotal: Operating Expenses	$ 13,002,195	$ 13,690,686	$ 14,122,829	$ 14,706,406	$ 15,245,153	$ 15,800,467
Other Expenditures:						
Existing Debt Service	$ 1,533,500	$ 2,244,000	$ 2,244,400	$ 2,243,600	$ 2,241,600	$ 2,243,300
Rate-Funded Capital Expenses	-	75,401	335,906	211,300	755,038	1,334,115
Subtotal: Other Expenditures	$ 1,533,500	$ 2,319,401	$ 2,580,306	$ 2,454,900	$ 2,996,638	$ 3,577,415
Total: Uses of Funds	**$ 14,535,695**	**$ 16,010,087**	**$ 16,703,135**	**$ 17,161,306**	**$ 18,241,791**	**$ 19,377,882**
Plus: Revenue from Rate Increases[2]	-	540,480	1,121,811	1,743,733	2,408,627	3,119,008
Annual Surplus/(Deficit)	**$ 1,236,871**	**$ 936,264**	**$ 841,693**	**$ 830,775**	**$ 625,250**	**$ 412,756**
Net Revenue Reqt. *(Total Uses less Non-Rate Revenue)*	**$ 12,010,129**	**$ 13,116,216**	**$ 14,062,118**	**$ 14,901,687**	**$ 15,981,938**	**$ 17,117,791**
Total Rate Revenue After Rate Increases	**$ 13,247,000**	**$ 14,052,480**	**$ 14,903,811**	**$ 15,732,463**	**$ 16,607,187**	**$ 17,530,547**
Projected Annual Rate Revenue Increase	***0.00%***	***4.00%***	***4.00%***	***4.00%***	***4.00%***	***4.00%***
Cumulative Increase from Annual Revenue Increases	*0.00%*	*4.00%*	*8.16%*	*12.49%*	*16.99%*	*21.67%*
Debt Coverage After Rate Increase (1.25 required)	*1.81*	*1.45*	*1.52*	*1.46*	*1.62*	*1.78*

1. Revenue and expenses for FY 2022/23 through FY204/25 provided by the City. Revenues and expenses for all other years are escalated based on the forecasting assumptions in Table 9 (See Exhibit 1 (O&M) Tab). Source file: *FY23 Budgets.xlsx* . The new vehicles expense in FY24 and FY25 was transferred to the CIP budget to avoid incresaing rates to meet coverage requirements.
2. Interest income for FY2022-23 through FY2024-25 is from the City's Budget. For all other years, it is calculated based on historical LAIF returns.
3. Revenue from rate increases assumes an implementation date of April 1, 2023 for new rates. For each year thereafter, the assumption is that new rates will be implemented on July 1st of each year.

Selection of Financial Plan Alternative		**2**					
Financial Plan Alternatives		**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**FY 2027/28**
1	Alternative 1 - 2% Annual Rate Increases	*0.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*	*2.00%*
2	Alternative 2 - 4% Annual Rate Increases	*0.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
3	Alternative 3 - Custom Rate Increases	*0.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*	*7.00%*
4	No Rate Increases	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*	*0.00%*

CITY OF GILROY
SEWER RATE STUDY
Financial Plan and Reserve Projections

TABLE 2 : RESERVE FUND SUMMARY

SUMMARY OF CASH ACTIVITY SEWER FUND RESERVES	Projected Actuals FY 2022/23	5-Year Projected Rate Period FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Total Beginning Cash[1]	**$ 18,206,179**					
Unrestricted Reserves:						
Operating Reserve						
Beginning Reserve Balance	$ 13,654,634	$ 6,501,000	$ 6,845,000	$ 7,061,000	$ 7,353,000	$ 7,623,000
Plus: Net Cash Flow (After Rate Increases)	1,236,871	936,264	841,693	830,775	625,250	412,756
Plus: Transfer of Debt Reserve Surplus	-	-	-	-	-	-
Plus: Interest Earnings	-	56,234	59,209	61,078	63,603	65,939
Less: Transfer Out to Capital Replacement Reserve	(8,390,505)	(648,498)	(684,902)	(599,853)	(418,853)	(201,695)
Ending Operating Reserve Balance	***$ 6,501,000***	***$ 6,845,000***	***$ 7,061,000***	***$ 7,353,000***	***$ 7,623,000***	***$ 7,900,000***
Target Ending Balance (6 months of O&M)[2]	*$ 6,501,000*	*$ 6,845,000*	*$ 7,061,000*	*$ 7,353,000*	*$ 7,623,000*	*$ 7,900,000*
Capital Rehabilitation & Replacement Reserve						
Beginning Reserve Balance	$ 4,551,545	$ 12,942,049	$ 13,495,633	$ 11,271,248	$ 8,151,561	$ 6,946,887
Plus: Grant Proceeds	-	-	-	-	-	-
Plus: Transfer of Operating Reserve Surplus	8,390,505	648,498	684,902	599,853	418,853	201,695
Less: Use of Reserves for Capital Projects	-	(94,914)	(2,909,287)	(3,719,540)	(1,623,527)	(1,500,000)
Ending Capital Rehab & Replacement Reserve Balance	***$ 12,942,049***	***$ 13,495,633***	***$ 11,271,248***	***$ 8,151,561***	***$ 6,946,887***	***$ 5,648,582***
Target Ending Balance (Avg. Annual CIP)[3]	*$ 4,420,000*	*$ 4,420,000*	*$ 4,420,000*	*$ 4,420,000*	*$ 4,420,000*	*$ 4,420,000*
Ending Cash Balance - Excl. Restricted Reserves	**$ 19,443,049**	**$ 20,340,633**	**$ 18,332,248**	**$ 15,504,561**	**$ 14,569,887**	**$ 13,548,582**
Min. Target Ending Cash Balance -Excl. Restricted Rese	**$ 10,921,000**	**$ 11,265,000**	**$ 11,481,000**	**$ 11,773,000**	**$ 12,043,000**	**$ 12,320,000**
Ending Surplus/(Deficit) Compared to Reserve Targets	***$ 8,522,049***	***$ 9,075,633***	***$ 6,851,248***	***$ 3,731,561***	***$ 2,526,887***	***$ 1,228,582***
Days Cash on Hand	***546***	***540***	***463***	***380***	***333***	***289***
Annual Interest Earnings Rate[4]	*0.85%*	*0.85%*	*0.85%*	*0.85%*	*0.85%*	*0.85%*

1. Beginning cash balances provided by City staff for Fund 700 - Sewer Operations. Source file: *Account Trial Balance FY22 - 430-435-700-705.pdf* .
2. The target ending balance is set equal to 90-days of O&M expenses.
3. The target ending balance is set equal to the average annual CIP costs in future dollars for City infrastructure of approximately $30 M; we have doubled this to reflect a lesser reserve target that includes about 50% of SCRWA infrastructure (i.e., half of $74 M).
4. Historical interest earning rates are per the average annual yields for funds invested in LAIF (2018-2022). The source is the California State Treasurer's website: *https://www.treasurer.ca.gov/pmia-laif/historical/annual.asp* .

CITY OF GILROY
SEWER RATE STUDY
Financial Plan and Reserve Projections

TABLE 3 : RESERVE FUND SUMMARY, cont.

SUMMARY OF CASH ACTIVITY	Projected	5-Year Projected Rate Period				
	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Restricted Reserves:						
Sewer Impact Fee Reserve						
Beginning Reserve Balance[1]	$ 14,976,546	$ 15,048,572	$ 15,194,152	$ 18,873,406	$ 19,967,880	$ 18,302,389
Plus: Allocated Interest Earnings[1]	219,443	224,381	228,868	234,590	240,454	246,466
Less: Interfund Transfer out	(1,533,500)	(2,244,000)	(2,244,000)	(2,244,000)	(2,244,000)	(2,244,000)
Plus: Interfund Transfer In	386,083	437,408	410,049			
Plus: Impact Fee Revenue[1]	1,000,000	1,803,192	5,620,243	3,315,184	1,093,093	1,357,983
Less: Use of Reserves for Capital Projects[2]	-	(75,401)	(335,906)	(211,300)	(755,038)	(2,840,381)
Ending Impact Fee Fund Balance	***$ 15,048,572***	***$ 15,194,152***	***$ 18,873,406***	***$ 19,967,880***	***$ 18,302,389***	***$ 14,822,457***
Target Ending Balance	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Debt Reserve						
Beginning Reserve Balance[3]	$ -	$ -	$ -	$ -	$ -	$ -
Ending Debt Reserve Balance	***$ -***	***$ -***	***$ -***	***$ -***	***$ -***	***$ -***
Target Ending Balance	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*	*$ -*
Annual Interest Earnings Rate [4]	*0.87%*	*0.87%*	*0.87%*	*0.87%*	*0.87%*	*0.87%*

1. Beginning cash balance for FY 2022/23 provided by City staff. Source file: *4 - Current Cash and Fund Balance - Wastewater 12062021.xlsx* .
2. Determined in the CIP (Exhibit 2).
4. Historical interest earning rates are per the average annual yields for funds invested in LAIF (2018-2022). The source is the California State Treasurer's website: *https://www.treasurer.ca.gov/pmia-laif/historical/annual.asp* .

CHART 1

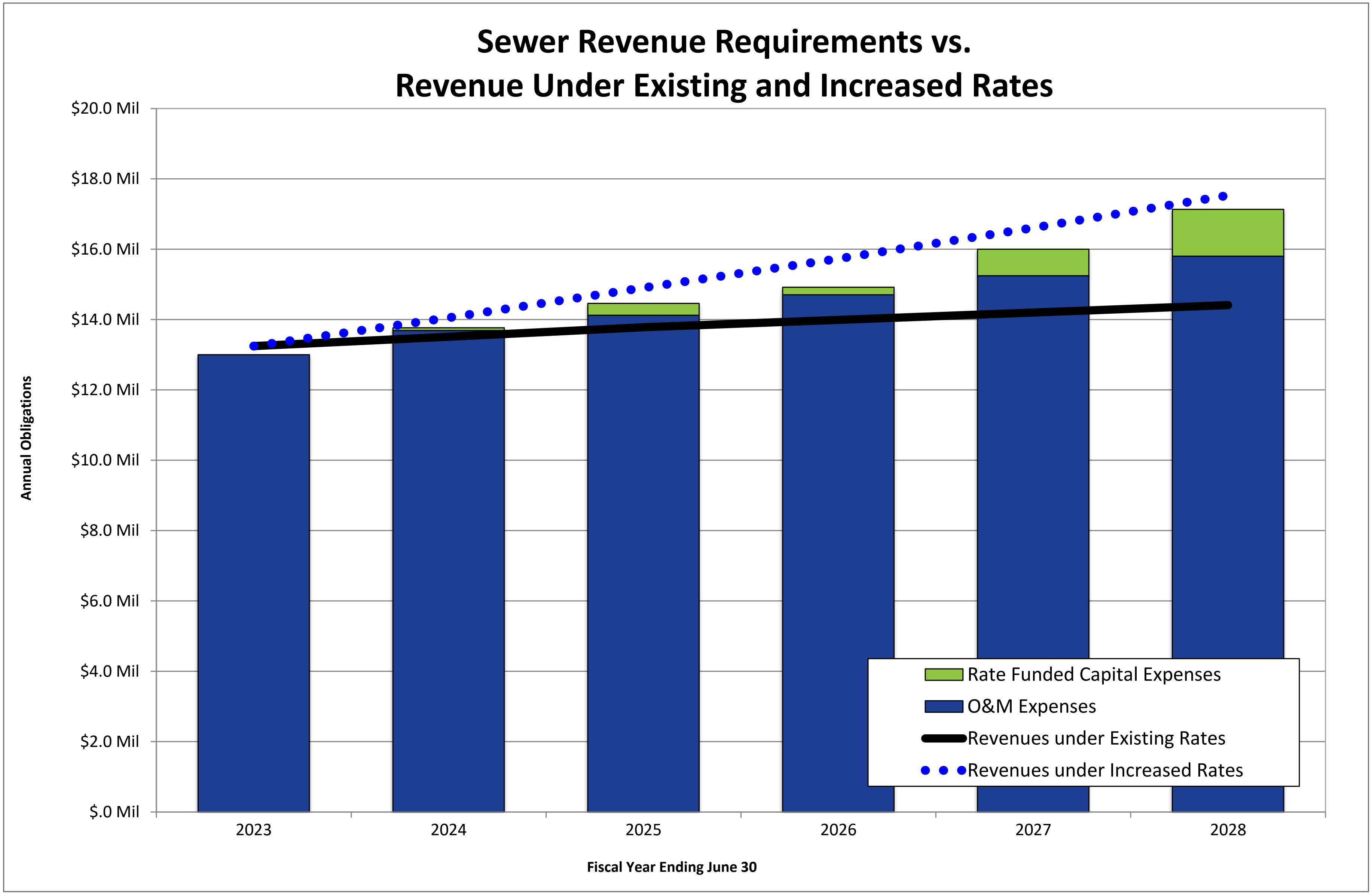

Sewer Revenue Requirements vs.
Revenue Under Existing and Increased Rates
$20.0 Mil
$18.0 Mil
$16.0 Mil
$14.0 Mil
$12.0 Mil
$10.0 Mil
$8.0 Mil
$6.0 Mil
$4.0 Mil
$2.0 Mil
$.0 Mil
Annual Obligations
2023
2024
2025
2026
2027
2028
Fiscal Year Ending June 30
Rate Funded Capital Expenses
O&M Expenses
Revenues under Existing Rates
Revenues under Increased Rates

CHART 2

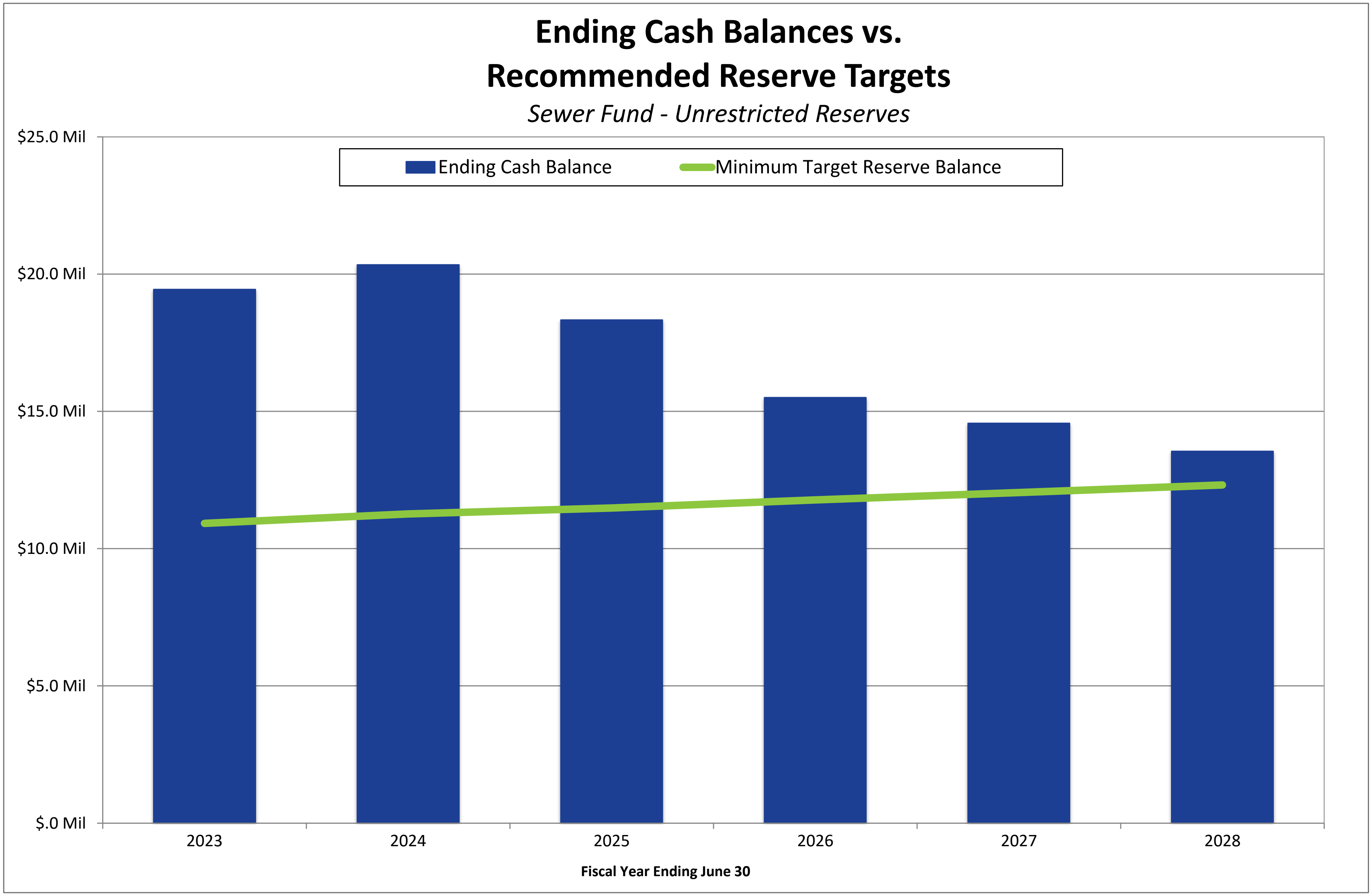
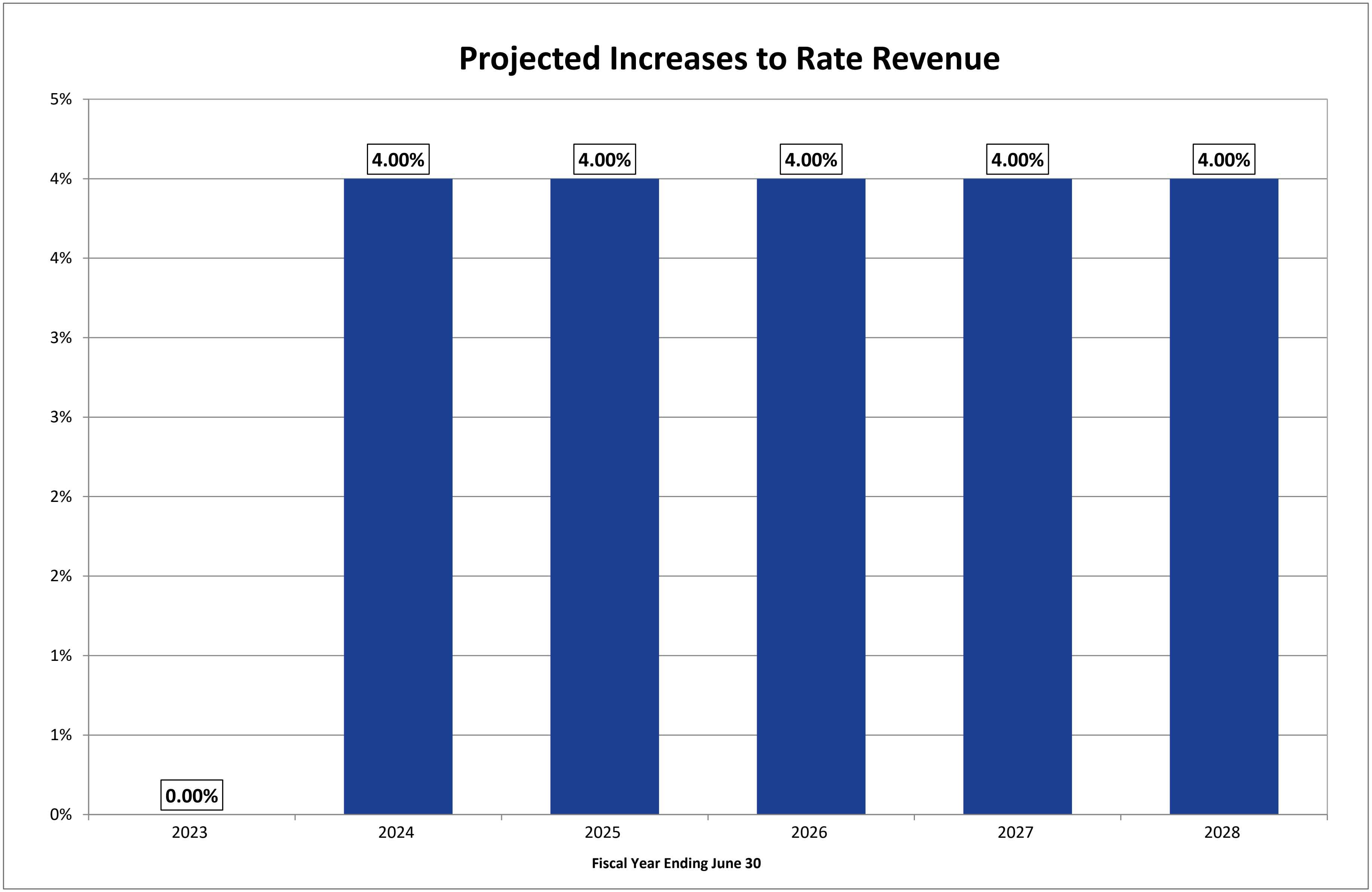

Ending Cash Balances vs.
Recommended Reserve Targets
Sewer Fund - Unrestricted Reserves
Ending Cash Balance
Minimum Target Reserve Balance
$25.0 Mil
$20.0 Mil
$15.0 Mil
$10.0 Mil
$5.0 Mil
$.0 Mil
2023
2024
2025
2026
2027
2028
Fiscal Year Ending June 30

CHART 3


Projected Increases to Rate Revenue
5%
4%
4%
3%
3%
2%
2%
1%
1%
0%
0.00%
4.00%
4.00%
4.00%
4.00%
4.00%
2023
2024
2025
2026
2027
2028
Fiscal Year Ending June 30

CITY OF GILROY
SEWER RATE STUDY
Operating Revenue and Expenses

Exhibit 1 - O&M

TABLE 4 : REVENUE FORECAST[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals	5-Year Projected Rate Period				
					FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Rate Revenue										
700	7500	700 -75-7500-000-45120	User Fees	1	$ 13,247,000	$ 13,512,000	$ 13,782,000	$ 13,988,730	$ 14,198,561	$ 14,411,539
Other Revenue										
700	7500	700 -75-7500-000-45145	Overhead Revenue	1	14,505	14,940	15,388	15,619	15,853	16,091
700	7500	700 -75-7500-000-46110	Bank Interest	See FP	327,561	334,931	341,629	-	-	-
700	7500	700 -75-7500-000-46310	Other Interest	1	650,000	300,000	40,000	-	-	-
700	7500	700 -75-7500-000-48110	Interfund Transfer In	6	1,533,500	2,244,000	2,244,000	2,244,000	2,244,000	2,244,000
700	7500	700 -75-7500-000-48420	Bond Proceeds	6	-	-	-	-	-	-
700	7510	700 -75-7510-000-43110	Federal Grant	6	-	-	-	-	-	-
TOTAL: RATE AND OTHER REVENUE					**$ 15,772,566**	**$ 16,405,871**	**$ 16,423,017**	**$ 16,248,349**	**$ 16,458,414**	**$ 16,671,630**
Sewer Impact Fee Revenue										
430	5500	430 -55-5500-000-45150	Developer's Impact Fee	1	1,000,000	1,803,192	5,620,243	3,315,184	1,093,093	1,357,983
430	5500	430 -55-5500-000-46110	Bank Interest	See FP	219,443	224,381	228,868	-	-	-
430	5500	430 -55-5500-000-46210	Interfund Interest Income	1	-	-	-	-	-	-
430	5500	430 -55-5500-000-48110	Interfund Transfer In	6	386,083	437,408	410,049	-	-	-
TOTAL: IMPACT FEE REVENUE					**$ 1,605,526**	**$ 2,464,981**	**$ 6,259,160**	**$ 3,315,184**	**$ 1,093,093**	**$ 1,357,983**

TABLE 5 : OPERATING EXPENSE FORECAST[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals	5-Year Projected Rate Period				
					FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fund 700 - Sewer Operations										
7500 - Sewer Administration										
700	7500	700 -75-7500-000-50410	Pension Expense	3	$ -	$ -	$ -	$ -	$ -	$ -
700	7500	700 -75-7500-000-51510	Professional Support	2	-	-	-	-	-	-
700	7500	700 -75-7500-000-51620	Audit Services	2	8,700	-	-	-	-	-
700	7500	700 -75-7500-000-51630	Contractual Services	2	6,185	5,288	5,552	5,722	5,898	6,079
700	7500	700 -75-7500-000-53165	Contra Capital Outlay	2	-	-	-	-	-	-
700	7500	700 -75-7500-000-54110	Interfund Transfer Out	2	11,863	-	-	-	-	-
700	7500	700 -75-7500-000-54130	Fleet Service Charge	2	59,206	77,139	78,502	80,909	83,390	85,947
700	7500	700 -75-7500-000-54140	Facility Service Charge	2	134,639	216,418	232,659	239,793	247,145	254,723
700	7500	700 -75-7500-000-54145	Info Tech Service Charge	2	434,144	550,530	533,039	549,383	566,228	583,589
700	7500	700 -75-7500-000-54150	Overhead Charges	2	723,376	847,532	883,288	910,371	938,284	967,053
700	7500	700 -75-7500-000-54155	Liability Insurance Charges	2	401,933	430,902	452,735	466,617	480,924	495,669
700	7500	700 -75-7500-000-55110	Loss On Disposal Of F/A	2	-	-	-	-	-	-
700	7500	700 -75-7500-000-56110	Amortization Expense	2	-	-	-	-	-	-
700	7500	700 -75-7500-000-56120	Depreciation	2	-	-	-	-	-	-
700	7500	700 -75-7500-000-57110	Debt Redemption	2	2,440,000	725,000	755,000	778,149	802,009	826,599
700	7500	700 -75-7500-000-57115	Debt Interest	2	904,708	1,519,000	1,489,400	1,535,067	1,582,134	1,630,645
700	7500	700 -75-7500-000-58115	Share Joint Venture Loss	2	-	-	-	-	-	-
700	7500	700 -75-7500-000-58130	Claims	2	15,000	15,750	16,550	17,057	17,580	18,119
700	7500	700 -75-7500-000-55130	Cash Over Short	2	-	-	-	-	-	-
Subtotal - Sewer Administration					**$ 5,139,754**	**$ 4,387,559**	**$ 4,446,725**	**$ 4,583,068**	**$ 4,723,591**	**$ 4,868,423**

CITY OF GILROY
SEWER RATE STUDY
Operating Revenue and Expenses

Exhibit 1 - O&M

TABLE 6 : OPERATING EXPENSE FORECAST, cont.[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals FY 2022/23	5-Year Projected Rate Period FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fund 700 - Sewer Operations										
7510 - Finance Sewer Utility Billing										
700	7510	700 -75-7510-000-50110	Salaries	3	$ 488,975	$ 617,543	$ 662,408	$ 685,592	$ 709,588	$ 734,424
705	8010	700-75-7510-000-50110	Utility Billing Supervisor (Split: Water/Sewer)	3	-	-	-	-	-	-
700	7510	700 -75-7510-000-50120	Wages/Part Time	3	23,048	33,750	21,788	22,551	23,340	24,157
700	7510	700 -75-7510-000-50130	Overtime	3	14,000	10,000	10,000	10,350	10,712	11,087
700	7510	700 -75-7510-000-50150	Overtime Meals	3	41	-	-	-	-	-
700	7510	700 -75-7510-000-50203	Compensated Absences	3	-	-	-	-	-	-
700	7510	700 -75-7510-000-50205	Workers Comp	3	2,163	2,563	2,689	2,783	2,880	2,981
700	7510	700 -75-7510-000-50210	Retirement (Full Time)	3	52,305	73,492	76,644	79,326	82,103	84,976
700	7510	700 -75-7510-000-50212	Deferred Compensation	3	1,230	2,070	2,070	2,142	2,217	2,295
700	7510	700 -75-7510-000-50213	UAL Retirement	3	88,677	94,578	101,904	105,471	109,162	112,983
700	7510	700 -75-7510-000-50215	Retirement (Part Time)	3	18	759	490	507	525	544
700	7510	700 -75-7510-000-50220	Medicare	3	7,976	9,595	10,077	10,430	10,795	11,172
700	7510	700 -75-7510-000-50225	Health Insurance Benefits	3	106,784	115,262	115,505	119,547	123,732	128,062
700	7510	700 -75-7510-000-50230	Life Insurance Benefits	3	824	794	821	850	879	910
700	7510	700 -75-7510-000-50235	Employee Assistance Prog	3	964	1,116	1,139	1,179	1,220	1,263
700	7510	700 -75-7510-000-50240	Unemployment Insurance	3	864	971	1,024	1,060	1,097	1,135
700	7510	700 -75-7510-000-50255	Misc Disability Insurance	3	1,030	1,307	1,307	1,353	1,400	1,450
700	7510	700 -75-7510-000-50260	Retiree Medical	3	-	900	900	932	964	998
700	7510	700 -75-7510-000-51110	Employee Training	2	-	3,400	3,400	3,504	3,612	3,722
700	7510	700 -75-7510-000-51120	Employee Travel, Food, Lodge	2	669	1,250	1,250	1,288	1,328	1,369
700	7510	700 -75-7510-000-51420	Telecommunications	2	-	-	-	-	-	-
700	7510	700 -75-7510-000-51430	Postage	2	50	100	100	103	106	109
700	7510	700 -75-7510-000-51510	Professional Support	2	2,200	-	-	-	-	-
700	7510	700 -75-7510-000-51630	Contractual Services	2	119,000	66,025	67,825	69,905	72,048	74,257
700	7510	700 -75-7510-000-52110	Office/Computer Supplies	5	4,000	2,000	2,000	2,105	2,215	2,331
700	7510	700 -75-7510-000-52210	Repairs & Maintenance	2	-	-	-	-	-	-
700	7510	700 -75-7510-000-50114	Earned Leave Cashout	2	6,787	-	-	-	-	-
700	7510	700 -75-7510-000-51230	Tuition	2	-	-	-	-	-	-
Subtotal - Finance Sewer Utility Billing					**$ 921,605**	**$ 1,037,477**	**$ 1,083,341**	**$ 1,120,978**	**$ 1,159,924**	**$ 1,200,226**

CITY OF GILROY
SEWER RATE STUDY
Operating Revenue and Expenses

TABLE 7 : OPERATING EXPENSE FORECAST, cont.[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals	5-Year Projected Rate Period				
					FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fund 700 - Sewer Operations										
7520 - Sewer Operations										
700	7520	700 -75-7520-000-50110	Salaries	3	$ 1,313,539	$ 1,826,894	$ 1,972,608	$ 2,041,649	$ 2,113,107	$ 2,187,066
700	7520	700-75-7520-000-50110	FT Engineer I/II	3	-	-	-	-	-	-
700	7520	700 -75-7520-000-50120	Wages/Part Time	3	11,337	60,000	65,000	67,275	69,630	72,067
700	7520	700 -75-7520-000-50130	Overtime	3	50,154	50,000	50,000	51,750	53,561	55,436
700	7520	700 -75-7520-000-50150	Overtime Meals	3	-	1,000	1,000	1,035	1,071	1,109
700	7520	700 -75-7520-000-50203	Compensated Absences	3	-	-	-	-	-	-
700	7520	700 -75-7520-000-50205	Workers Comp	3	58,511	66,947	70,795	73,273	75,838	78,492
700	7520	700 -75-7520-000-50210	Retirement (Full Time)	3	136,961	218,375	229,291	237,317	245,623	254,219
700	7520	700 -75-7520-000-50215	Retirement (Part Time)	3	156	1,350	1,463	1,514	1,567	1,621
700	7520	700 -75-7520-000-50220	Medicare	3	21,506	28,106	30,290	31,350	32,447	33,583
700	7520	700 -75-7520-000-50225	Health Insurance Benefits	2	240,740	375,906	377,348	388,918	400,842	413,133
700	7520	700 -75-7520-000-50230	Life Insurance Benefits	2	2,149	2,241	2,321	2,393	2,466	2,542
700	7520	700 -75-7520-000-50235	Employee Assistance Prog	2	2,446	3,097	3,159	3,256	3,355	3,458
700	7520	700 -75-7520-000-50240	Unemployment Insurance	2	2,798	2,915	3,096	3,191	3,288	3,389
700	7520	700 -75-7520-000-50255	Misc Disability Insurance	2	2,701	3,733	3,733	3,847	3,965	4,087
700	7520	7007520-50260	RETIREE MEDICAL		1,508	1,800	-	-	-	-
700	7520	700 -75-7520-000-51110	Employee Training	2	-	40,000	40,000	41,226	42,491	43,793
700	7520	700 -75-7520-000-51120	Employee Travel, Food, Lodge	2	-	15,000	15,000	15,460	15,934	16,423
700	7520	700 -75-7520-000-51420	Telecommunications	2	1,939	2,500	2,500	2,577	2,656	2,737
700	7520	700 -75-7520-000-51430	Postage	2	-	-	-	-	-	-
700	7520	700 -75-7520-000-51510	Professional Support	2	11,298	15,000	15,000	15,460	15,934	16,423
700	7520	700 -75-7520-000-51630	Contractual Services	2	227,332	806,000	550,000	566,864	584,245	602,158
700	7520	700 -75-7520-000-52110	Office/Computer Supplies	2	73	1,500	1,500	1,546	1,593	1,642
700	7520	700 -75-7520-000-52150	Department Supplies	2	8,582	10,000	10,000	10,307	10,623	10,948
700	7520	700 -75-7520-000-52210	Repairs & Maintenance	2	26,213	100,000	100,000	103,066	106,226	109,483
700	7520	700 -75-7520-000-52310	Equipment Rental	2	-	10,000	10,000	10,307	10,623	10,948
700	7520	700 -75-7520-000-53120	Equipment/Furniture	2	25,000	-	-	-	-	-
700	7520	700 -75-7520-000-54110	Interfund Transfer Out[2]	2	300,000	390,000	409,500	422,056	434,997	448,334
			SCWRA Operational Costs	2	5,715,995	6,512,515	6,957,238	7,170,000	7,390,000	7,620,000
700	7520	700 -75-7520-000-50114	Earned Leave Cashout	2	11,460	-	-	-	-	-
700	7520	700 -75-7520-000-50212	Deferred Compensation	3	3,608	5,742	5,742	5,943	6,151	6,366
700	7520	700 -75-7520-000-50213	UAL Retirement	3	249,086	284,730	310,780	321,657	332,915	344,567
700	7520	700 -75-7520-000-50310	Apparel, Boots, Ppe	2	6,735	9,000	9,000	9,276	9,560	9,854
700	7520	700 -75-7520-000-51410	Utilities	2	2,765	6,000	6,000	6,184	6,374	6,569
700	7520	700 -75-7520-000-52710	Permits	2	39,747	25,000	25,000	25,767	26,557	27,371
700	7520	700 -75-7520-000-53135	Improvements	2	-	-	-	-	-	-
700	7520	700 -75-7520-000-53142	Capital Improvement Plan	See Exh 2	-	-	-	-	-	-
Subtotal - Sewer Operations					**$ 8,474,336**	**$ 10,875,351**	**$ 11,277,363**	**$ 11,634,460**	**$ 12,003,637**	**$ 12,387,818**

CITY OF GILROY
SEWER RATE STUDY
Operating Revenue and Expenses

Exhibit 1 - O&M

TABLE 8 : OPERATING EXPENSE FORECAST, cont.[1]

FUND	DIVISION	ACCOUNT	DESCRIPTION	Basis	Projected Actuals FY 2022/23	5-Year Projected Rate Period FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Fund 700 - Sewer Operations										
Additional Expenditures										
700	7520	700-75-7520-000-53120	one-time vehicle purchases	One-Time	-	404,450	404,450	-	-	-
Subtotal - Additional Expenditures					**$ -**	**$ 404,450**	**$ 404,450**	**$ -**	**$ -**	**$ -**
GRAND TOTAL: SEWER EXPENSES					**$ 14,535,695**	**$ 16,704,836**	**$ 17,211,879**	**$ 17,338,506**	**$ 17,887,153**	**$ 18,456,467**

TABLE 9 : FORECASTING ASSUMPTIONS

INFLATION FACTORS[3]	Basis	2023	2024	2025	2026	2027	2028
Customer Growth[4]	1	--	1.50%	1.50%	1.50%	1.50%	1.50%
General Cost Inflation[5]	2	--	3.07%	3.07%	3.07%	3.07%	3.07%
Labor Cost Inflation[6]	3	--	3.50%	3.50%	3.50%	3.50%	3.50%
Energy[7]	4	--	7.44%	7.44%	7.44%	7.44%	7.44%
Fuel & Utilities[8]	5	--	5.24%	5.24%	5.24%	5.24%	5.24%
No Escalation	6	--	0.00%	0.00%	0.00%	0.00%	0.00%

1. Revenue and expenses for FY 2022/23 through FY2024/25 provided by the City. Revenues and expenses for all other years are escalated based on the forecasting assumptions in Table 9. Source file: *FY23 Budgets.xlsx* .
2. These expenses are costs related to the ownership, operation, maintenance and use of the South County Regional Wastewater Authority (SCRWA) jointly owned by the City of Morgan Hill. Based on the JPA agreement, Gilroy is responsible for approx. 60% of these costs which are based on actual annual flow.
3. Expenses are inflated each year by the following annual inflation factor categories.
4. Customer growth is based on estimated service area population growth through FY 2044/45. Source file: *Gilroy 2020 UWMP.pdf* , page 3-9.
5. General cost inflation is based on the 5-year average annual change in the Consumer Price Index for all Urban Consumers in the San Francisco-Oakland-Hayward, CA area.
6. Labor cost inflation is based on the 5-year average annual change in the Quarterly Census of Employment and Wages for San Francisco County, CA.
7. Energy cost inflation is based on the 5-year average annual change in the Consumer Price Index for all Urban Consumers in the San Francisco-Oakland-Hayward, CA area.
8. Fuel & Utilities cost inflation is based on the 5-year average annual change in the Consumer Price Index - Average Price Data for Fuels and related products and power. This factor is used for utility costs other than electricity.

CITY OF GILROY
SEWER RATE STUDY
Capital Improvement Plan Expenditures

TABLE 10 : CAPITAL FUNDING SUMMARY

CAPITAL FUNDING FORECAST	Budget	5-Year Projected Rate Period				
Funding Sources:	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**FY 2027/28**
Grants	$ -	$ -	$ -	$ -	$ -	$ -
Use of Capacity Fee Reserves (to Fund Impact Fee Projects)	-	75,401	335,906	211,300	755,038	2,840,381
Use of 2021 Revenue Bond Proceeds	1,130,904	4,000,000	-	-	-	-
Use of Capital Rehabilitation and Replacement Reserve	-	94,914	2,909,287	3,719,540	1,623,527	1,500,000
Rate Revenue	-	75,401	335,906	211,300	755,038	1,334,115
Total Sources of Capital Funds	**$ 1,130,904**	**$ 4,245,716**	**$ 3,581,099**	**$ 4,142,140**	**$ 3,133,603**	**$ 5,674,496**
Uses of Capital Funds:						
Total Project Costs	$ 1,130,904	$ 4,245,716	$ 3,581,099	$ 4,142,140	$ 3,133,603	$ 5,674,496
Capital Funding Surplus (Deficiency)	$ -	$ -	$ -	$ -	$ -	$ -
2021 Revenue Bond Proceeds (Per Capital Improvement Program) [1]	$ 1,130,904	$ 4,000,000	$ -	$ -	$ -	$ -
Remaining 2021 Bond Proceeds	$ 4,000,000	$ -	$ -	$ -	$ -	$ -
New Revenue Bond Proceeds (If needed)	$ -	$ -	$ -	$ -	$ -	$ -

1. Source file: *11. Adopted-CIP-FY21-FY25.pdf* , page 77.

CAPITAL IMPROVEMENT PROGRAM FUNDING OPTIONS

Insert policy choice in box to right, based on options listed above:	**2**					
Policy Choice (CIP & Master Planned Project ONLY)	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
1 Full Funding of CIP, at actual cost & timing	$1,130,904	$5,560,420	$4,326,924	$5,241,120	$3,171,420	$3,778,820
2 75% Funding of CIP, at actual cost & timing	$1,130,904	4,170,315	3,245,193	3,930,840	2,378,565	2,834,115
3 50% Funding of CIP, at actual cost & timing	$1,130,904	2,085,158	1,622,597	1,965,420	1,189,283	1,417,058
4 No CIP	-	-	-	-	-	-

					Total Planned CIP through FY 2027/28	**$ 16,559,028**
Capital Improvement Program Funding Choice	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**
Effective Annual Funding Amount	$ 1,130,904	$ 4,170,315	$ 3,245,193	$ 3,930,840	$ 2,378,565	$ 2,834,115

TABLE 11 : CAPITAL IMPROVEMENT PROGRAM COSTS (*in* ~~*Current Year Dollars*~~) - 5% inflation added to these projects (per Harjot)

Project No.	Description	2023	2024	2025	2026 [2]	2027	2028
Capital Improvement Program - Fiscal Year 2021 to Fiscal Year 2025 [1]							
800490	Annual Citywide Sewer Repair and Rehabilitation		$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 250,000
800510	Asbestos Cement Sewer Pipe Replacement Citywide		-	265,629	1,008,600	-	-
800530	Large Diameter Sewer Rehabilitation Citywide		-	273,105	1,081,100	-	-
EN2403	Corporation Yard EV and EV Charging		-				
800550	Old Gilroy - Chestnut to Forest Sewer Upgrade		50,999	251,600	-	-	-
SW2402	Joint Morgan Hill-Gilroy Trunk Line Repairs	-	1,938,671	-			
900720	Old Gilroy Street at Railroad Crossing Sewer Replacement		-	-	-	-	587,400
7520-53120	Vehicles/Equipment (operations budget transferred to CIP by NBS)	-	404,450	404,450	-	-	-
Subtotal - Capital Improvement Program		**$ -**	**$ 2,644,120**	**$ 1,444,784**	**$ 2,339,700**	**$ 250,000**	**$ 837,400**
Subtotal - Master Plan Projects		**$ -**	**$ 2,511,420**	**$ 2,511,420**	**$ 2,511,420**	**$ 2,511,420**	**$ 2,511,420**
Total - CIP & Master Plan Projects *(Current Year Dollars)*		$0	$5,155,540	$3,956,204	$4,851,120	$2,761,420	$3,348,820

** Morgan Hill Contribution for the SCRWA expansion is approximately is $31.5M (FY 21-25).*

CITY OF GILROY
SEWER RATE STUDY
Capital Improvement Plan Expenditures

Exhibit 2 - CIP

TABLE 12 : **CAPITAL IMPROVEMENT PROGRAM COSTS** (~~in Future Year Dollars~~) Inflation removed because 5% inflation already Included

Project No.	Description	2023	2024	2025	2026 [2]	2027	2028
Capital Improvement Program - Fiscal Year 2021 to Fiscal Year 2025 [1]							
800490	Annual Citywide Sewer Repair and Rehabilitation	$ -	$ 250,000	$ 250,000	$ 250,000	$ 250,000	$ 250,000
800510	Asbestos Cement Sewer Pipe Replacement Citywide	-	-	265,629	1,008,600	-	-
800530	Large Diameter Sewer Rehabilitation Citywide	-	-	273,105	1,081,100	-	-
EN2403	Corporation Yard EV and EV Charging	-	-	-	-	-	-
800550	Old Gilroy - Chestnut to Forest Sewer Upgrade	-	50,999	251,600	-	-	-
SW2402	Joint Morgan Hill-Gilroy Trunk Line Repairs	-	1,938,671	-	-	-	-
900720	Old Gilroy Street at Railroad Crossing Sewer Replacement	-	-	-	-	-	587,400
007520-5411	TRF OUT SCRWA CIP (Transferred from Operations to CIP by NBS)	1,130,904	404,880	370,720	390,000	410,000	430,000
7520-53120	New Vehicles (operations budget transferred to CIP by NBS)	-	404,450	404,450	-	-	-
Subtotal - Capital Improvement Program *(in Future Year Dollars)*		**$ 1,130,904**	**$ 3,049,000**	**$ 1,815,504**	**$ 2,729,700**	**$ 660,000**	**$ 1,267,400**
Sewer System Master Plan Projects [3]							
Gravity Main Improvements							
Santa Teresa - Long Meadow Subtrunk							
SLP-1	Santa Teresa Boulevard	$ -	$ 223,980	$ 223,980	$ 223,980	$ 223,980	$ 223,980
Welburn Subtrunk							
WP-1	Welburn Avenue	-	188,040	188,040	188,040	188,040	188,040
WP-2	Welburn Avenue	-	82,980	82,980	82,980	82,980	82,980
Forest-Swanston Subtrunk							
FP-1	Loof Avenue	-	127,200	127,200	127,200	127,200	127,200
FP-2	Forest Street	-	225,220	225,220	225,220	225,220	225,220
Old Gilroy Subtrunk							
OP-1	Old Gilroy Street	-	11,120	11,120	11,120	11,120	11,120
OP-2	Old Gilroy Street	-	90,100	90,100	90,100	90,100	90,100
Uvas Park Subtrunk							
UP-1	Uvas Park Drive	-	262,680	262,680	262,680	262,680	262,680
UP-2	Hoxett Street / ROW	-	200,940	200,940	200,940	200,940	200,940
UP-3	Yorktown Drive	-	223,600	223,600	223,600	223,600	223,600
UP-4	Greenwich Drive	-	74,560	74,560	74,560	74,560	74,560
UP-5	Orchard Drive	-	25,960	25,960	25,960	25,960	25,960
UP-6	W. 10th Street	-	175,020	175,020	175,020	175,020	175,020
Thomas Subtrunk							
TP-1	London Place	-	387,200	387,200	387,200	387,200	387,200
TP-2	Monterey Road	-	212,820	212,820	212,820	212,820	212,820
Subtotal - Master Plan Projects *(in Future Year Dollars)*		**$ -**	**$ 2,511,420**	**$ 2,511,420**	**$ 2,511,420**	**$ 2,511,420**	**$ 2,511,420**
Total - CIP & Master Plan Projects *(in Future Year Dollars)*		**$ 1,130,904**	**$ 5,560,420**	**$ 4,326,924**	**$ 5,241,120**	**$ 3,171,420**	**$ 3,778,820**
Impact Fee Projects [4] (in Future Year Dollars)							
800520	Carmel-Dowdy Alley - Sixth to Seventh Sewer Replacement	$ -	$ 75,401	$ 273,200	$ -	$ -	$ -
800540	Monterey and Princeville Sewer Network	-	-	-	-	755,038	2,840,381
800560	Seventh St - Carmel-Dowdy to Hanna-Rosanna Alleys Sewer Repl.	-	-	62,706	211,300	-	-
800570	Wastewater Treatment Plant Expansion (SCRWA)*		(Bond-Funded)		-	-	-
Subtotal - Impact Fee Projects *(in Future Year Dollars)*		**$ -**	**$ 75,401**	**$ 335,906**	**$ 211,300**	**$ 755,038**	**$ 2,840,381**
Estimated Future Projects (Impact Fee Funded)							
Future Projects[5]		-	-	-	-	-	-
Total: Impact Fee Funded CIP *(Future-Year Dollars)*		**$ -**	**$ 75,401**	**$ 335,906**	**$ 211,300**	**$ 755,038**	**$ 2,840,381**
Total - All (Impact Fee, CIP & Master Plan Projects) *(Future Year Dollars)*		$1,130,904	$5,635,821	$4,662,830	$5,452,420	$3,926,458	$6,619,201
	** City contribution - SCRWA TP Construction (bond funded)*	*$17,840,994*	*$15,719,810*	*$1,867,896*			

CITY OF GILROY
SEWER RATE STUDY
Capital Improvement Plan Expenditures

Exhibit 2 - CIP

TABLE 13 : FORECASTING ASSUMPTIONS

Economic Variables	2023	2024	2025	2026	2027	2028
Annual Construction Cost Inflation, Per Engineering News Record[7]	*0.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*	*4.00%*
Cumulative Construction Cost Multiplier from 2023	*1.00*	*1.04*	*1.08*	*1.12*	*1.17*	*1.22*

1. Capital project costs provided by City Staff. Source file: *11. Adopted-CIP-FY21-FY25.pdf* , pages 43, 60-77.
2. Capital projects beginning in FY 2025/26 are unfunded and identified in the City's Capital Improvement Program. These costs have been allocated over a 5-year period from FY 2025/26 through FY 2029/30. Source: *11. Adopted-CIP-FY21-FY25.pdf* , pages 239-242.
3. Capital project costs are from the City's Draft Sewer System Master Plan (May 2022). Source file: *Draft Water Master Plan.pdf* , Table 8.2, pages 100-101.
4. Capital projects funded by impact fees. Source file: *City of Gilroy Water_Sewer* Operations and Impact FundsFY24_25.xlsx, CIP Worksheet. April 2023.
5. Future project costs beyond FY 2029/30 were calculated based on the City's 5-year average (FY24-28).
6. The project costs in future-year dollars have been inflated by 4% annually.
7. For reference purposes, the annual Construction Cost Inflation percentage is the 5-year average change in the Construction Cost Index for September 2017-2022 (4.0%). Source: Engineering News Record website (*http://enr.construction.com*).

CITY OF GILROY
SEWER RATE STUDY
Debt Service

Exhibit 3 - Debt

TABLE 14 : SEWER UTILITY EXISTING DEBT OBLIGATIONS

EXISTING DEBT OBLIGATIONS	Budget	5-Year Projected Rate Period				
Annual Repayment Schedules:	**FY 2022/23**	**FY 2023/24**	**FY 2024/25**	**FY 2025/26**	**FY 2026/27**	**FY 2027/28**
Wastewater Revenue Bonds, Series 2021A - Loan Amount $47,080,000						
Principal Payment	$ -	$ 725,000	$ 755,000	$ 785,000	$ 815,000	$ 850,000
Interest Payment	1,533,500	1,519,000	1,489,400	1,458,600	1,426,600	1,393,300
Subtotal: Annual Debt Service	**$ 1,533,500**	**$ 2,244,000**	**$ 2,244,400**	**$ 2,243,600**	**$ 2,241,600**	**$ 2,243,300**
Coverage Requirement ($-Amnt above annual payment)[2]	$ 1,840,200	$ 2,692,800	$ 2,693,280	$ 2,692,320	$ 2,689,920	$ 2,691,960
Reserve Requirement (total fund balance)[3]	$ -	$ -	$ -	$ -	$ -	$ -
Grand Total: Existing Annual Debt Service	**$ 1,533,500**	**$ 2,244,000**	**$ 2,244,400**	**$ 2,243,600**	**$ 2,241,600**	**$ 2,243,300**
Grand Total: Existing Annual Coverage Requirement	**$ 1,840,200**	**$ 2,692,800**	**$ 2,693,280**	**$ 2,692,320**	**$ 2,689,920**	**$ 2,691,960**
Grand Total: Existing Debt Reserve Target	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**

1. Revenue bonds issued to finance the City's obligations for the capital improvements of the SCRWA Treatment Facility. Source file: *08. Official Statement.pdf* .
2. The City must have net revenues that are at least equal to 1.2 times the annual debt service payment. Source file: *08. Official Statement.pdf.*
4. Per the Official Statement, the City is not required to fund a debt service reserve.

TABLE 15 : EXISTING ANNUAL DEBT OBLIGATIONS TO BE SATISFIED BY SEWER RATES

Annual Obligations	2023	2024	2025	2026	2027	2028
Existing Annual Debt Service	***$ 1,533,500***	***$ 2,244,000***	***$ 2,244,400***	***$ 2,243,600***	***$ 2,241,600***	***$ 2,243,300***
Existing Annual Coverage Requirement	***$ 1,840,200***	***$ 2,692,800***	***$ 2,693,280***	***$ 2,692,320***	***$ 2,689,920***	***$ 2,691,960***
Existing Debt Reserve Target	***$ -***	***$ -***	***$ -***	***$ -***	***$ -***	***$ -***

CITY OF GILROY
SEWER RATE STUDY
Projected Sewer Rates Under Existing Rate Schedule

Exhibit 4 - Current Rates

TABLE 16 : CURRENT WASTEWATER RATE SCHEDULE

Wastewater Rate Schedule[1]	*Rates from 2015 Rate Study*	*Current Rates (Adopted 7/1/2019)*	Proposed Rates	*% Increase from Current to Proposed*	*% Change from 2015 to Proposed*
Residential - Monthly Fixed Rate					
Single Family Residence	$39.66	$46.64	**$51.07**	*9%*	*29%*
Multi-Family Residence	$28.17	$33.13	**$34.39**	*4%*	*22%*
Non-Residential - Volumetric Monthly Charge ($/1,000 Gallons)					
Low Strength	$6.30	$7.41	**$8.36**	*13%*	*33%*
Domestic Strength	$7.83	$9.21	**$9.51**	*3%*	*21%*
Medium Strength	$10.27	$12.08	**$13.15**	*9%*	*28%*
High Strength	$15.84	$18.63	**$21.56**	*16%*	*36%*
Non-Residential - Monitoring & Pretreatment Program Base Rate Monthly Charges					
Significant/Categorical	$210.00	$240.95	**$287.19**	*19%*	*37%*
Non-Significant/Categorical	$83.00	$95.22	**$114.64**	*20%*	*38%*
Other Non-Residential	$10.00	$11.47	**$15.47**	*35%*	*55%*

1. City Website: *https://www.cityofgilroy.org/DocumentCenter/View/8664/Water---Wastewater-Rates-7-1-19pdf* .

CITY OF GILROY
SEWER RATE STUDY
Cost-of-Service Analysis

TABLE 17 : CLASSIFICATION OF EXPENSES FOR COST OF SERVICE ANALYSIS

Classification of Expenses												
Budget Categories	Total Revenue Requirements	Flow	Strength		Direct Alloc. (Monitoring, Pretreat., etc.)	Customer	Basis of Classification				
	FY 2023/24	(VOL)	(BOD)	(TSS)	(DA)	(CA)	(VOL)	(BOD)	(TSS)	(DA)	(CA)
Fund 700 - Sewer Operations											
7500 - Sewer Administration											
Pension Expense	$ -	$ -	$ -	$ -	$ -	$ -	40.0%	25.0%	25.0%	0.0%	10.0%
Professional Support	-	-	-	-	-	-	40.0%	25.0%	25.0%	0.0%	10.0%
Audit Services	-	-	-	-	-	-	40.0%	25.0%	25.0%	0.0%	10.0%
Contractual Services	5,288	2,115	1,322	1,322	-	529	40.0%	25.0%	25.0%	0.0%	10.0%
Contra Capital Outlay	-	-	-	-	-	-	40.0%	25.0%	25.0%	0.0%	10.0%
Interfund Transfer Out	-	-	-	-	-	-	40.0%	25.0%	25.0%	0.0%	10.0%
Fleet Service Charge	77,139	30,856	19,285	19,285	-	7,714	40.0%	25.0%	25.0%	0.0%	10.0%
Facility Service Charge	216,418	86,567	54,105	54,105	-	21,642	40.0%	25.0%	25.0%	0.0%	10.0%
Info Tech Service Charge	550,530	495,477	-	-	-	55,053	90.0%	0.0%	0.0%	0.0%	10.0%
Overhead Charges	847,532	339,013	211,883	211,883	-	84,753	40.0%	25.0%	25.0%	0.0%	10.0%
Liability Insurance Charges	430,902	172,361	107,726	107,726	-	43,090	40.0%	25.0%	25.0%	0.0%	10.0%
Loss On Disposal Of F/A	-	-	-	-	-	-	40.0%	25.0%	25.0%	0.0%	10.0%
Amortization Expense	-	-	-	-	-	-	30.0%	35.0%	35.0%	0.0%	0.0%
Depreciation	-	-	-	-	-	-	50.0%	25.0%	25.0%	0.0%	0.0%
Debt Redemption	725,000	362,500	181,250	181,250	-	-	50.0%	25.0%	25.0%	0.0%	0.0%
Debt Interest	1,519,000	759,500	379,750	379,750	-	-	50.0%	25.0%	25.0%	0.0%	0.0%
Share Joint Venture Loss	-	-	-	-	-	-	40.0%	25.0%	25.0%	0.0%	10.0%
Claims	15,750	6,300	3,938	3,938	-	1,575	40.0%	25.0%	25.0%	0.0%	10.0%
Cash Over Short	-	-	-	-	-	-	40.0%	25.0%	25.0%	0.0%	10.0%
Subtotal - Sewer Administration	**$ 4,387,559**	**$ 2,254,689**	**$ 959,257**	**$ 959,257**	**$ -**	**$ 214,356**	**51.4%**	**21.9%**	**21.9%**	**0.0%**	**4.9%**

CITY OF GILROY
SEWER RATE STUDY
Cost-of-Service Analysis

TABLE 18 : CLASSIFICATION OF EXPENSES FOR COST OF SERVICE ANALYSIS, cont.

Classification of Expenses											
Budget Categories	Total Revenue Requirements	Flow	Strength		Direct Alloc. (Monitoring, Pretreat., etc.)	Customer	Basis of Classification				
	FY 2023/24	(VOL)	(BOD)	(TSS)	(DA)	(CA)	(VOL)	(BOD)	(TSS)	(DA)	(CA)
Fund 700 - Sewer Operations											
7510 - Finance Sewer Utility Billing											
Salaries	$ 617,543	$ 185,263	$ 123,509	$ 123,509	$ -	$ 185,263	30.0%	20%	20%	0%	30%
Utility Billing Supervisor (Split: Water/Sewer)	-	-	-	-	-	-	30.0%	20%	20%	0%	30%
Wages/Part Time	33,750	10,125	6,750	6,750	-	10,125	30.0%	20%	20%	0%	30%
Overtime	10,000	3,000	2,000	2,000	-	3,000	30.0%	20%	20%	0%	30%
Overtime Meals	-	-	-	-	-	-	30.0%	20%	20%	0%	30%
Compensated Absences	-	-	-	-	-	-	30.0%	20%	20%	0%	30%
Workers Comp	2,563	769	513	513	-	769	30.0%	20%	20%	0%	30%
Retirement (Full Time)	73,492	22,048	14,698	14,698	-	22,048	30.0%	20%	20%	0%	30%
Deferred Compensation	2,070	621	414	414	-	621	30.0%	20%	20%	0%	30%
UAL Retirement	94,578	28,373	18,916	18,916	-	28,373	30.0%	20%	20%	0%	30%
Retirement (Part Time)	759	228	152	152	-	228	30.0%	20%	20%	0%	30%
Medicare	9,595	2,879	1,919	1,919	-	2,879	30.0%	20%	20%	0%	30%
Health Insurance Benefits	115,262	34,579	23,052	23,052	-	34,579	30.0%	20%	20%	0%	30%
Life Insurance Benefits	794	238	159	159	-	238	30.0%	20%	20%	0%	30%
Employee Assistance Prog	1,116	335	223	223	-	335	30.0%	20%	20%	0%	30%
Unemployment Insurance	971	291	194	194	-	291	30.0%	20%	20%	0%	30%
Misc Disability Insurance	1,307	392	261	261	-	392	30.0%	20%	20%	0%	30%
Employee Training	3,400	1,020	680	680	-	1,020	30.0%	20%	20%	0%	30%
Employee Travel, Food, Lodge	1,250	375	250	250	-	375	30.0%	20%	20%	0%	30%
Telecommunications	-	-	-	-	-	-	30.0%	20%	20%	0%	30%
Postage	100	30	20	20	-	30	30.0%	20%	20%	0%	30%
Professional Support	-	-	-	-	-	-	30.0%	20%	20%	0%	30%
Contractual Services	66,025	19,808	13,205	13,205	-	19,808	30.0%	20%	20%	0%	30%
Office/Computer Supplies	2,000	600	400	400	-	600	30.0%	20%	20%	0%	30%
Repairs & Maintenance	-	-	-	-	-	-	30.0%	20%	20%	0%	30%
Earned Leave Cashout	-	-	-	-	-	-	30.0%	20%	20%	0%	30%
Tuition	-	-	-	-	-	-	30.0%	20%	20%	0%	30%
Subtotal - Finance Sewer Utility Billing	**$ 1,036,577**	**$ 310,973**	**$ 207,315**	**$ 207,315**	**$ -**	**$ 310,973**	**30%**	**20%**	**20%**	**0%**	**30%**

CITY OF GILROY
SEWER RATE STUDY
Cost-of-Service Analysis

TABLE 19 : CLASSIFICATION OF EXPENSES FOR COST OF SERVICE ANALYSIS, cont.

Classification of Expenses											
Budget Categories	Total Revenue Requirements	Flow	Strength		Direct Alloc. (Monitoring, Pretreat., etc.)	Customer	Basis of Classification				
	FY 2023/24	(VOL)	(BOD)	(TSS)	(DA)	(CA)	(VOL)	(BOD)	(TSS)	(DA)	(CA)
Fund 700 - Sewer Operations											
7520 - Sewer Operations											
Salaries	$ 1,826,894	$ 858,640	$ 456,724	$ 456,724	$ 54,807	$ -	47%	25%	25%	3%	0%
FT Engineer I/II	-	-	-	-	-	-	47%	25%	25%	3%	0%
Wages/Part Time	60,000	28,200	15,000	15,000	1,800	-	47%	25%	25%	3%	0%
Overtime	50,000	23,500	12,500	12,500	1,500	-	47%	25%	25%	3%	0%
Overtime Meals	1,000	470	250	250	30	-	47%	25%	25%	3%	0%
Compensated Absences	-	-	-	-	-	-	47%	25%	25%	3%	0%
Workers Comp	66,947	31,465	16,737	16,737	2,008	-	47%	25%	25%	3%	0%
Retirement (Full Time)	218,375	102,636	54,594	54,594	6,551	-	47%	25%	25%	3%	0%
Retirement (Part Time)	1,350	635	338	338	41	-	47%	25%	25%	3%	0%
Medicare	28,106	13,210	7,027	7,027	843	-	47%	25%	25%	3%	0%
Health Insurance Benefits	375,906	176,676	93,976	93,976	11,277	-	47%	25%	25%	3%	0%
Life Insurance Benefits	2,241	1,053	560	560	67	-	47%	25%	25%	3%	0%
Employee Assistance Prog	3,097	1,456	774	774	93	-	47%	25%	25%	3%	0%
Unemployment Insurance	2,915	1,370	729	729	87	-	47%	25%	25%	3%	0%
Misc Disability Insurance	3,733	1,754	933	933	112	-	47%	25%	25%	3%	0%
RETIREE MEDICAL	1,800	846	450	450	54	-	47%	25%	25%	3%	0%
Employee Training	40,000	18,800	10,000	10,000	1,200	-	47%	25%	25%	3%	0%
Employee Travel, Food, Lodge	15,000	7,050	3,750	3,750	450	-	47%	25%	25%	3%	0%
Telecommunications	2,500	1,175	625	625	75	-	47%	25%	25%	3%	0%
Postage	-	-	-	-	-	-	47%	25%	25%	3%	0%
Professional Support	15,000	7,050	3,750	3,750	450	-	47%	25%	25%	3%	0%
Contractual Services	806,000	378,820	201,500	201,500	24,180	-	47%	25%	25%	3%	0%
Office/Computer Supplies	1,500	705	375	375	45	-	47%	25%	25%	3%	0%
Department Supplies	10,000	4,700	2,500	2,500	300	-	47%	25%	25%	3%	0%
Repairs & Maintenance	100,000	47,000	25,000	25,000	3,000	-	47%	25%	25%	3%	0%
Equipment Rental	10,000	4,700	2,500	2,500	300	-	47%	25%	25%	3%	0%
Equipment/Furniture	-	-	-	-	-	-	47%	25%	25%	3%	0%
Interfund Transfer Out2	390,000	234,000	78,000	78,000	-	-	60%	20%	20%	0%	0%
SCWRA Oper. Costs (less Monit., Sampl., Pre-Tr.Costs)	6,146,815	2,889,003	1,536,704	1,536,704	184,404	-	47%	25%	25%	3%	0%
Monitoring, Sampling, Pretreatment (Non-Resid. Costs)	365,700	-	-	-	365,700	-	0%	0%	0%	100%	0%
Earned Leave Cashout	-	-	-	-	-	-	47%	25%	25%	3%	0%
Deferred Compensation	5,742	2,699	1,436	1,436	172	-	47%	25%	25%	3%	0%
UAL Retirement	284,730	133,823	71,182	71,182	8,542	-	47%	25%	25%	3%	0%
Apparel, Boots, Ppe	9,000	4,230	2,250	2,250	270	-	47%	25%	25%	3%	0%
Utilities	6,000	2,820	1,500	1,500	180	-	47%	25%	25%	3%	0%
Permits	25,000	11,750	6,250	6,250	750	-	47%	25%	25%	3%	0%
Improvements	-	-	-	-	-	-	47%	25%	25%	3%	0%
Subtotal - Wastewater Environmental Compliance	**$ 10,875,351**	**$ 4,990,236**	**$ 2,607,913**	**$ 2,607,913**	**$ 669,290**	**$ -**	**46%**	**24%**	**24%**	**6%**	**0%**

CITY OF GILROY
SEWER RATE STUDY
Cost-of-Service Analysis

TABLE 20 : CLASSIFICATION OF EXPENSES FOR COST OF SERVICE ANALYSIS, cont.

Classification of Expenses, cont.											
Budget Categories	Total Revenue Requirements	Flow	Strength		Direct Alloc. (Monitoring, Pretreat., etc.)	Customer	Basis of Classification				
	FY 2023/24	(VOL)	(BOD)	(TSS)	(DA)	(CA)	(VOL)	(BOD)	(TSS)	(DA)	(CA)
Debt Service Payments											
Outstanding Debt	2,244,000	1,029,676	538,112	538,112	138,100	-	46%	24%	24%	6%	0%
New Debt Issue - SRF Loan	-	-	-	-	-	-	50%	25%	25%	0%	0%
New Debt Issue - Revenue Bond	-	-	-	-	-	-	50%	25%	25%	0%	0%
Total Debt Service Payments	**$ 2,244,000**	**$ 1,029,676**	**$ 538,112**	**$ 538,112**	**$ 138,100**	**$ -**	**46%**	**24%**	**24%**	**0%**	**0%**
Capital Expenditures											
Rate Funded Capital Expenses	$ 75,401	$ 34,598	$ 18,081	$ 18,081	$ 18,081	$ -	46%	24%	24%	0%	0%
TOTAL REVENUE REQUIREMENTS	**$ 18,618,887**	**$ 8,620,172**	**$ 4,330,678**	**$ 4,330,678**	**$ 825,471**	**$ 525,329**	**46%**	**23%**	**23%**	**4%**	**3%**
Less: Non-Rate Revenues											
Other Revenue:											
Misc. Revenue & Interest Earnings2	$ (649,871)	$ (298,198)	$ (155,839)	$ (155,839)	$ (39,994)	$ -	46%	24%	24%	6%	0%
Interfund Transfer In	(2,244,000)	(1,346,400)	(448,800)	(448,800)	-	-	60%	20%	20%	0%	0%
NET REVENUE REQUIREMENTS	**$ 15,725,016**	**$ 6,975,574**	**$ 3,726,039**	**$ 3,726,039**	**$ 785,476**	**$ 525,329**					
Allocation of Revenue Requirements	**100.0%**	**44.4%**	**23.7%**	**23.7%**	**5.0%**	**3.3%**					
Allocations of COSA (Rounded)	**100.0%**	**44.0%**	**24.0%**	**24.0%**	**5.0%**	**3.0%**					

TABLE 21 : NET REVENUE REQUIREMENTS INCLUDING RATE INCREASE

Adjustment to Current Rate Level:	Total	(VOL)	(BOD)	(TSS)	(DA)	(CA)
Projected Rate Revenue at Current Rates	$ 13,512,000					
FY 2023/24 Projected Rate Increase	*4%*					
Additional Rate Revenue from Rate Increase	$ 540,480					
Adjusted Net Revenue Req'ts	**$ 14,052,480**	**$ 6,183,091**	**$ 3,372,595**	**$ 3,372,595**	**$ 702,624**	**$ 421,574**
FY 2023/24 Target Rate Rev. After Rate Incr. (From Fin. Plan)	*$ 14,052,480*					
Percent of Revenue		*44.0%*	*24.0%*	*24.0%*	*5.0%*	*3.0%*

CITY OF GILROY
SEWER RATE STUDY
Cost-of-Service Analysis

TABLE 22 : DEVELOPMENT OF THE FLOW ALLOCATION FACTOR

Customer Class	Consumption (TG/year)[1]	Number of Dwelling Units / Accounts[2]	Winter Consumption (Dec-Feb '21)[3]	Annualized Winter Consumption	Adjusted Annual Volume (gallons)[3]	Percentage of Adjusted Volume
Residential Customers						
Single-Family Residence	1,135,486	12,330	201,429	805,715	805,715,371	**61.6%**
Multi-Family Residence[4]	218,620	4,585	49,505	198,022	198,021,843	**15.1%**
Non-Residential Customers						
Low Strength	77,640	427			77,640,000	**5.9%**
Domestic Strength	98,610	253			98,610,000	**7.5%**
Medium Strength	53,149	55			53,149,000	**4.1%**
High Strength	74,067	128			74,067,000	**5.7%**
Total:	**1,657,571**	**17,778**	**250,934**	**1,003,737**	**1,307,203,214**	**100.0%**

1. Consumption data for residential customers is not available. Calculation of estimated consumption available in source file: FY 2021-22 Billing Journal Totals by Service v7.xlsx.
2. SFR and MFR customers are based on the number of dwelling units and all other customers are based on the number of accounts.
3. Annual consumption for all customer classes based on 12 months of water consumption.
4. MFR dwelling units provided by the City. Source file: *MFR Units.xlsx* .

TABLE 23 : DEVELOPMENT OF THE STRENGTH ALLOCATION FACTOR

Customer Class	Annual Flow (gallons)	Biochemical Oxygen Demand (BOD)				Total Suspended Solids (TSS)			
		Average Strength Factor (mg/l)[1]	Calculated BOD (lbs./yr.)	Adjusted BOD (lbs./yr.)	Percent of Total	Average Strength Factor (mg/l)[1]	Calculated TSS (lbs./yr.)	Adjusted BOD (lbs./yr.)	Percent of Total
Residential Customers									
Single-Family Residence	805,715,371	205	1,377,532	2,755,063	**51.4%**	205	1,377,532	1,744,176	**51.4%**
Multi-Family Residence	198,021,843	205	338,558	677,116	**12.6%**	205	338,558	428,669	**12.6%**
Non-Residential Customers									
Low Strength	77,640,000	167	108,135	216,271	**4.0%**	167	108,135	136,917	**4.0%**
Domestic Strength	98,610,000	225	185,042	370,083	**6.9%**	225	185,042	234,293	**6.9%**
Medium Strength	53,149,000	400	177,305	354,610	**6.6%**	400	177,305	224,497	**6.6%**
High Strength	74,067,000	800	494,175	988,350	**18.4%**	800	494,175	625,705	**18.4%**
Total:	**1,307,203,214**		**2,680,747**	**5,361,493**	**100.0%**		**2,680,747**	**3,394,256**	**100.0%**
		Total Annual from WWTP Data		*5,361,493*	*BOD (lbs./yr.)*			*3,394,256*	*TSS (lbs./yr.)*
				2.00	*BOD Adj. Factor*			*1.27*	*TSS Adj. Factor*

1. Avg. strength factors for BOD and TSS are from the CA State Water Resources Control Board, *Revenue Program Guidelines* (Appendix G), March 1998 Edition.

CITY OF GILROY
SEWER RATE STUDY
Cost-of-Service Analysis

TABLE 24 : DEVELOPMENT OF THE CUSTOMER ALLOCATION FACTOR

Customer Class	Number of Dwelling Units / Accounts	Percent of Total
Residential Customers		
Single-Family Residence	12,330	**66.2%**
Multi-Family Residence	4,585	**24.6%**
Non-Residential Customers - Strength Classes		
Low Strength	427	**2.29%**
Domestic Strength	253	**1.36%**
Medium Strength	55	**0.30%**
High Strength	128	**0.69%**
Non-Residential Customers - Categorical Classes		
Significant/Categorical	6	**0.03%**
Non-Significant/Categorical	458	**2.46%**
Other Non-Residential	387	**2.08%**
Total:	**18,628**	**100.0%**

CITY OF GILROY
SEWER RATE STUDY
Cost-of-Service Analysis

TABLE 25 : ALLOCATION OF SEWER REVENUE REQUIREMENTS

Classification Components	COSA Results - Net Rev. Reqts. (49% Fixed / 51% Vol.)	
Commodity-Related Costs	$ 6,183,091	*44.0%*
Capacity-Related Costs	6,745,190	*48.0%*
Monit., Sampl., Pretreat. (Non-Resid. Costs)	702,624	*5.0%*
Customer-Related Costs	421,574	*3.0%*
Net Revenue Requirement	**$ 14,052,480**	*100.0%*

1. Reflects COSA calculation of the fixed and volumetric charges. See *Funct. & Classification* tab.

TABLE 26 : ALLOCATION OF NET REVENUE REQUIREMENTS TO CUSTOMER CLASSES

COSA Results - Net Revenue Requirement (Including Rate Increases)

Customer Class	Cost Classification Components						Cost of Service Net Rev. Req'ts.	% of COS Net Revenue Req'ts.
	Commodity	Capacity		Direct Allocation (Monitoring, Pretreat., etc.)		Customer		
		BOD	TSS	$	Alloca. %			
Residential Customers								
Single-Family Residence	$ 3,811,046	$ 1,733,046	$ 1,733,046			$ 279,038	$ 7,556,175	53.8%
Multi-Family Residence	936,646	425,933	425,933			103,762	1,892,275	13.5%
Non-Residential Customers								
Low Strength	$ 367,238	$ 136,043	$ 136,043			$ 9,663	$ 648,988	4.6%
Domestic Strength	466,427	232,797	232,797			5,726	937,747	6.7%
Medium Strength	251,396	223,064	223,064			1,245	698,768	5.0%
High Strength	350,338	621,712	621,712			2,897	1,596,659	11.4%
Non-Residential Customers (Monitoring, Sampling, Pretreatment Costs Only)						***Fixed Charge Rev. Reqts.***		
Significant/Categorical				$20,542	2.9%	136	$20,678	0.1%
Non-Significant/Categorical				$619,036	88.1%	10,354	$629,390	4.5%
Other Non-Residential				$63,046	9.0%	8,754	$71,800	0.5%
Total	**$ 6,183,091**	**$3,372,595**	**$3,372,595**	**$ 702,624**		**$ 421,574**	**$ 14,052,480**	**100.0%**

1. Non-Residential Customers (Monitoring, Sampling, Pretreatment Costs are allocated on the basis of current/historical share of this program.

-

CITY OF GILROY
SEWER RATE STUDY
Cost-of-Service Analysis

TABLE 27 : CALCULATION OF PROPOSED SEWER RATES

Rate Alt. 1 (COSA Fixed Rev. = 26%)

Customer Class	No. of Dwelling Units / Accounts[1]	Annualized Consumption (Gallons)[2]	Annual Revenue Requirement			Mo. Fixed Charge Per EDU (Resid.) or Account (Non-Resid)	Volumetric Charge ($/1,000 Gal.)
			Total	Fixed	Volumetric		
Residential - Monthly Fixed Rate							
Single-Family Residence	12,330	805,715,371	$ 7,556,175	$ 7,556,175		**$51.07**	
Multi-Family Residence	4,585	198,021,843	1,892,275	1,892,275		**$34.39**	
Non-Residential Customers							
Low Strength	427	77,640,000	$ 648,988		$ 648,988		**$8.36**
Domestic Strength	253	98,610,000	937,747		937,747		**$9.51**
Medium Strength	55	53,149,000	698,768		698,768		**$13.15**
High Strength	128	74,067,000	1,596,659		1,596,659		**$21.56**
Total	**17,778**	**############**	**$ 13,330,612**	**$ 9,448,450**	**$ 3,882,162**		
Non-Residential Customers (Monitoring, Sampling, Pretreatment Costs Only)							
Significant/Categorical[3]	6		$20,678	$ 20,678		**$287.19**	
Non-Significant/Categorical[3]	458		629,390	629,390		**$114.64**	
Other Non-Residential[3]	387		71,800	71,800		**$15.47**	
*Percent of **Non-Resid .** Rev. from Fixed vs. Vol. Charges*			*100.0%*	*0.0%*	*100.0%*		

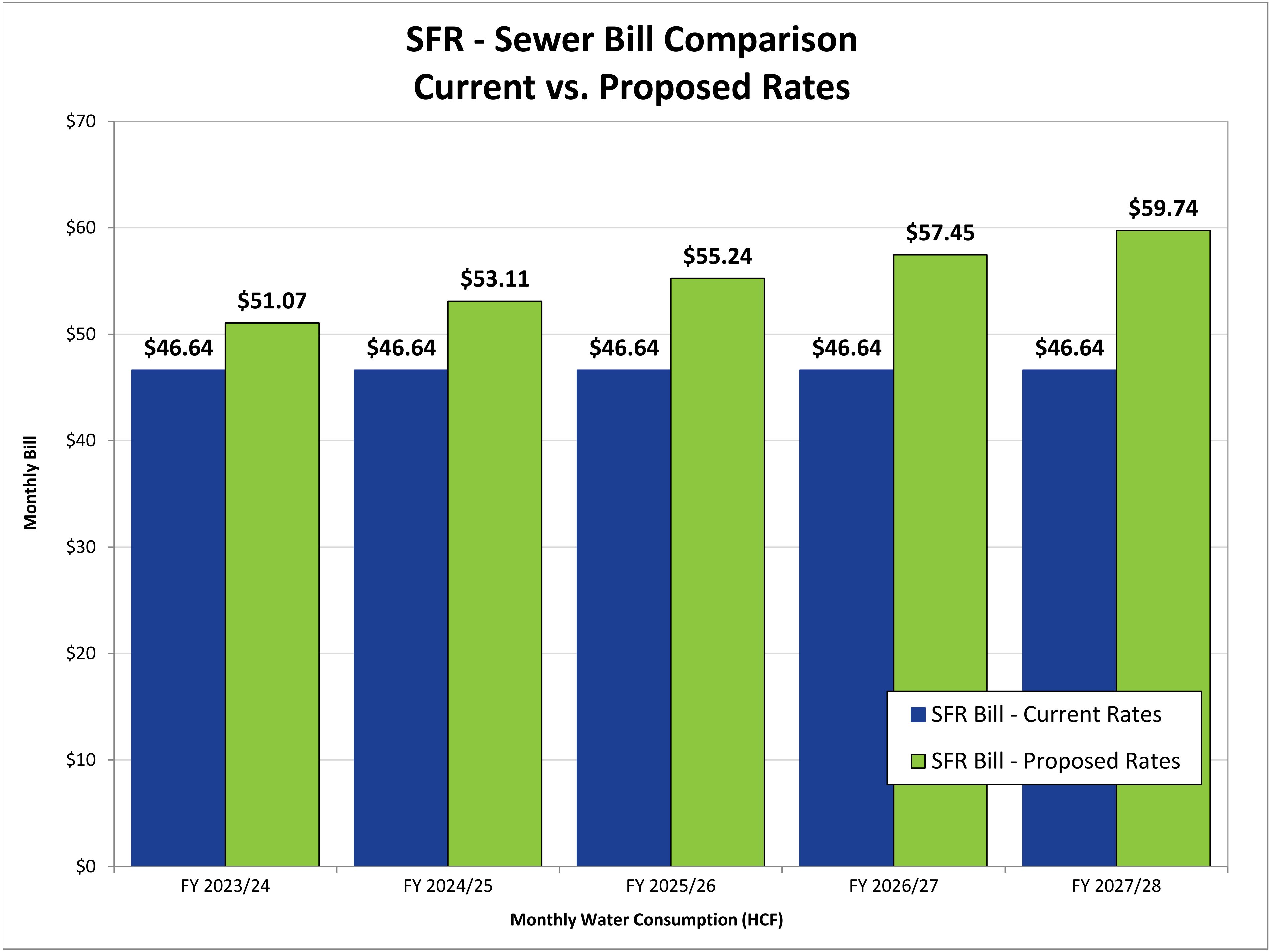
1. SFR and MFR customers are based on the number of dwelling units and all other customers are based on the number of accounts.
2. Residential customer consumption is the annualized average winter water consumption. Non-residential customers is total annual consumption.
3. Number of accounts estimated by dividing the annual fixed charge revenues by the current fixed charges ($/account/month). Also, the Significant, Non-Significant and Other Non-Residential accounts are included in the non-residential strength classes. They are shown here only for the calculation of the Monitoring, Sampling, and Pre-Treatment fixed charges.

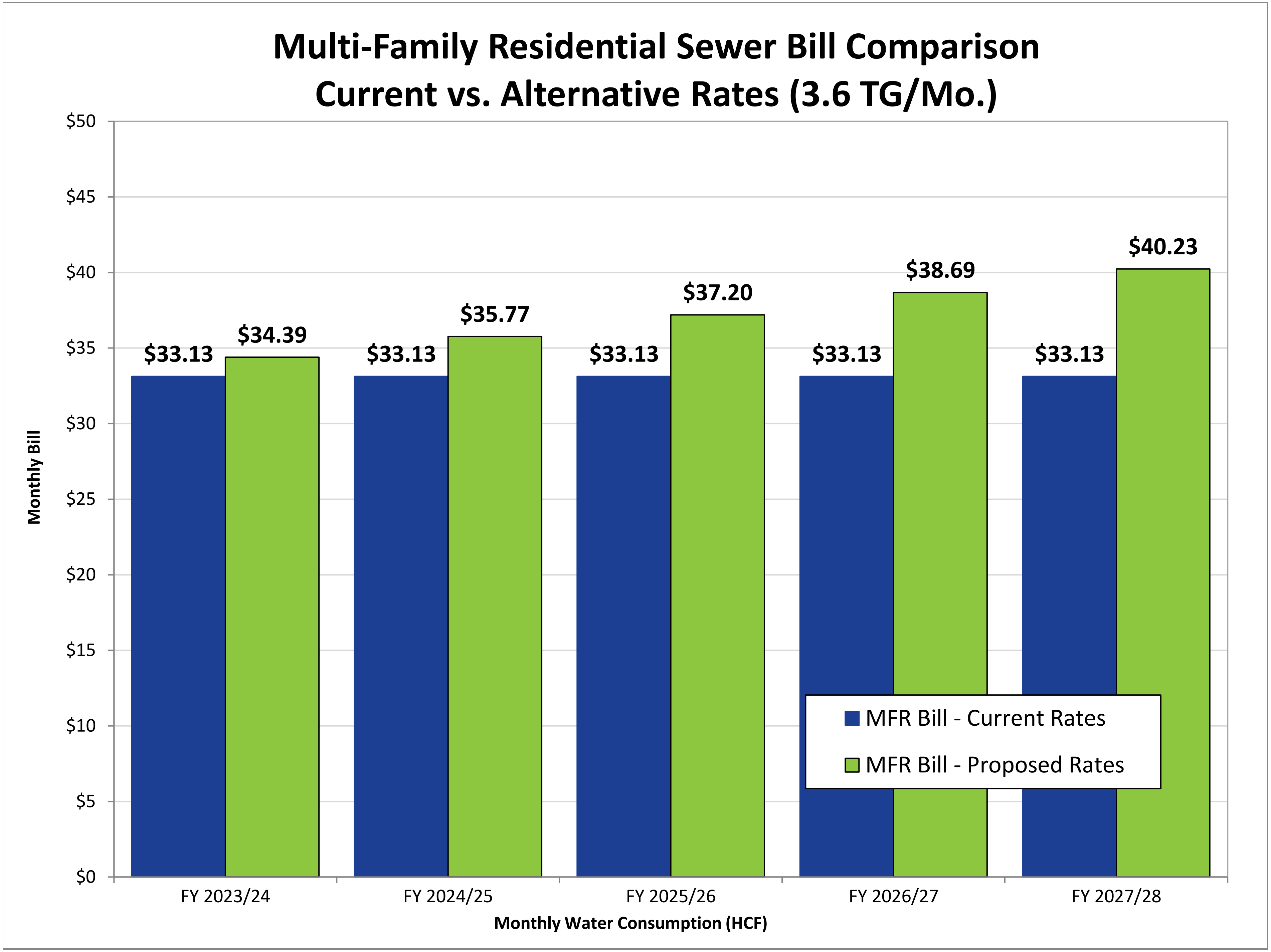
TABLE 28 : CURRENT VS. PROPOSED SEWER RATES

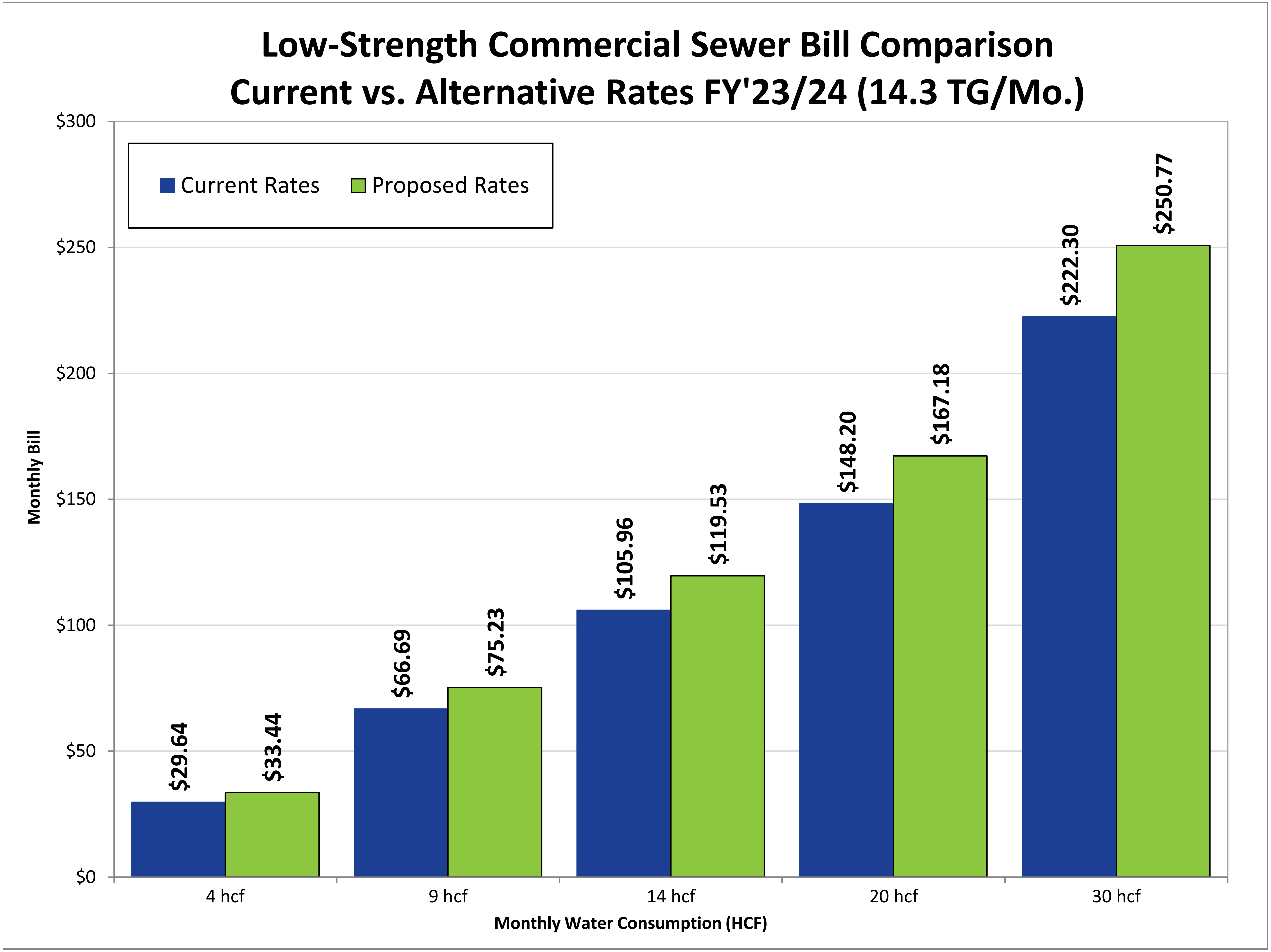
Rate Alt. 1 (COSA Fixed Rev. = 26%)

Sewer Rate Schedule	Current Rates	Proposed Sewer Rates				
		FY 2023/24	FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
Monthly Fixed Charge						
Residential (100% Fixed)						
Single-Family Residence	$46.64	$51.07	$53.11	$55.24	$57.45	$59.74
Multi-Family Residence	$33.13	$34.39	$35.77	$37.20	$38.69	$40.23
Non-Residential Volumetric Rates						
Low Strength	$7.41	$8.36	$8.69	$9.04	$9.40	$9.78
Domestic Strength	$9.21	$9.51	$9.89	$10.29	$10.70	$11.12
Medium Strength	$12.08	$13.15	$13.67	$14.22	$14.79	$15.38
High Strength	$18.63	$21.56	$22.42	$23.32	$24.25	$25.22
Non-Residential - Monitoring & Pretreatment Program Base Rate Monthly Charges						
Significant/Categorical	$240.95	$287.19	$298.68	$310.63	$323.05	$335.98
Non-Significant/Categorical	$95.22	$114.64	$119.22	$123.99	$128.95	$134.11
Other Non-Residential	$11.47	$15.47	$16.09	$16.73	$17.40	$18.09

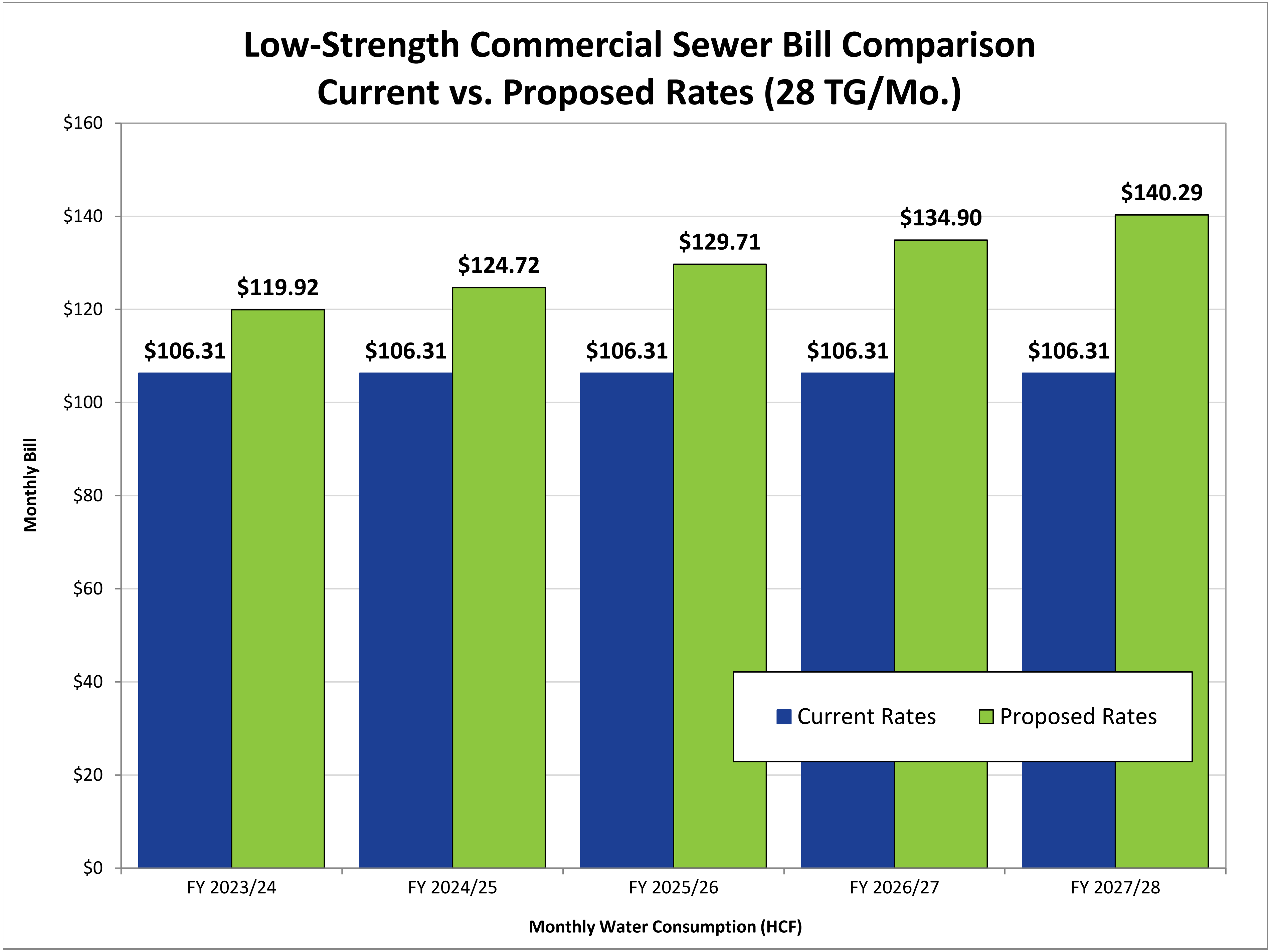
Note: The City recently transitioned from July1-June 30 fiscal years to calendar years (January to December).

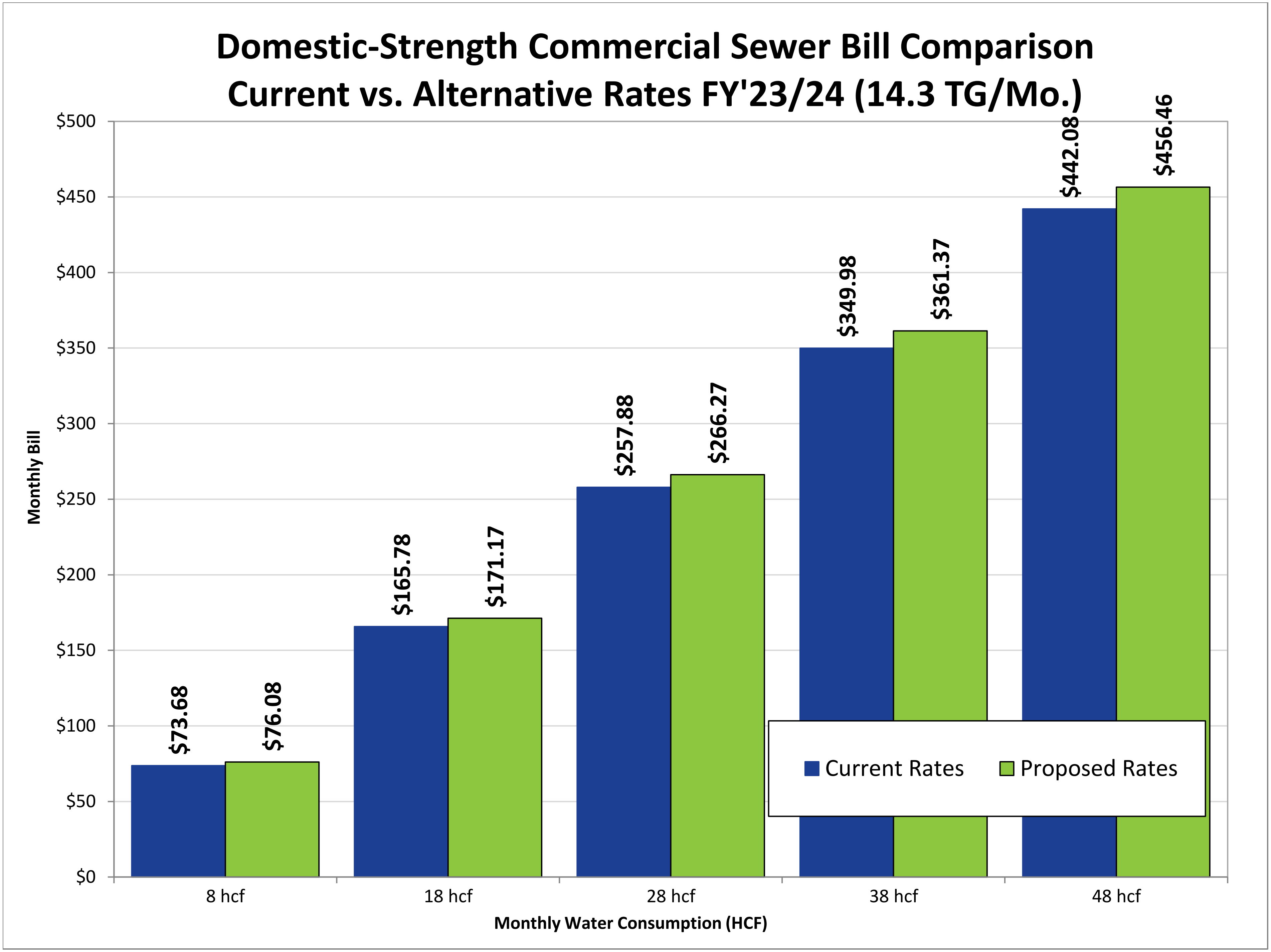

SFR - Sewer Bill Comparison
Current vs. Proposed Rates
$70
$60
$50
$40
$30
$20
$10
$0
Monthly Bill
$46.64
$51.07
$46.64
$53.11
$46.64
$55.24
$46.64
$57.45
$46.64
$59.74
FY 2023/24
FY 2024/25
FY 2025/26
FY 2026/27
FY 2027/28
Monthly Water Consumption (HCF)
SFR Bill - Current Rates
SFR Bill - Proposed Rates

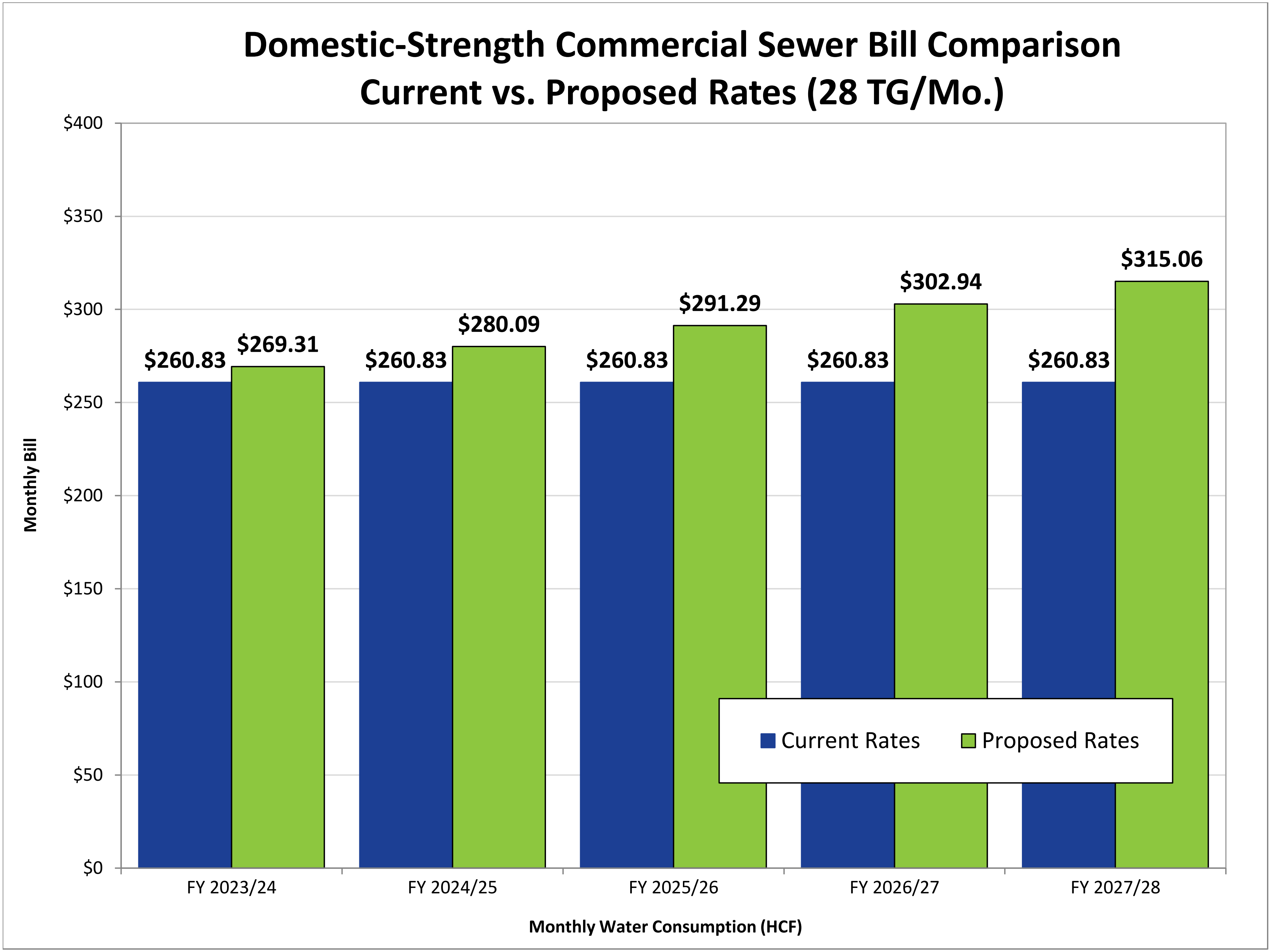

Multi-Family Residential Sewer Bill Comparison
Current vs. Alternative Rates (3.6 TG/Mo.)
$50
$45
$40
$35
$30
$25
$20
$15
$10
$5
$0
Monthly Bill
$33.13
$34.39
$33.13
$35.77
$33.13
$37.20
$33.13
$38.69
$33.13
$40.23
FY 2023/24
FY 2024/25
FY 2025/26
FY 2026/27
FY 2027/28
Monthly Water Consumption (HCF)
MFR Bill - Current Rates
MFR Bill - Proposed Rates

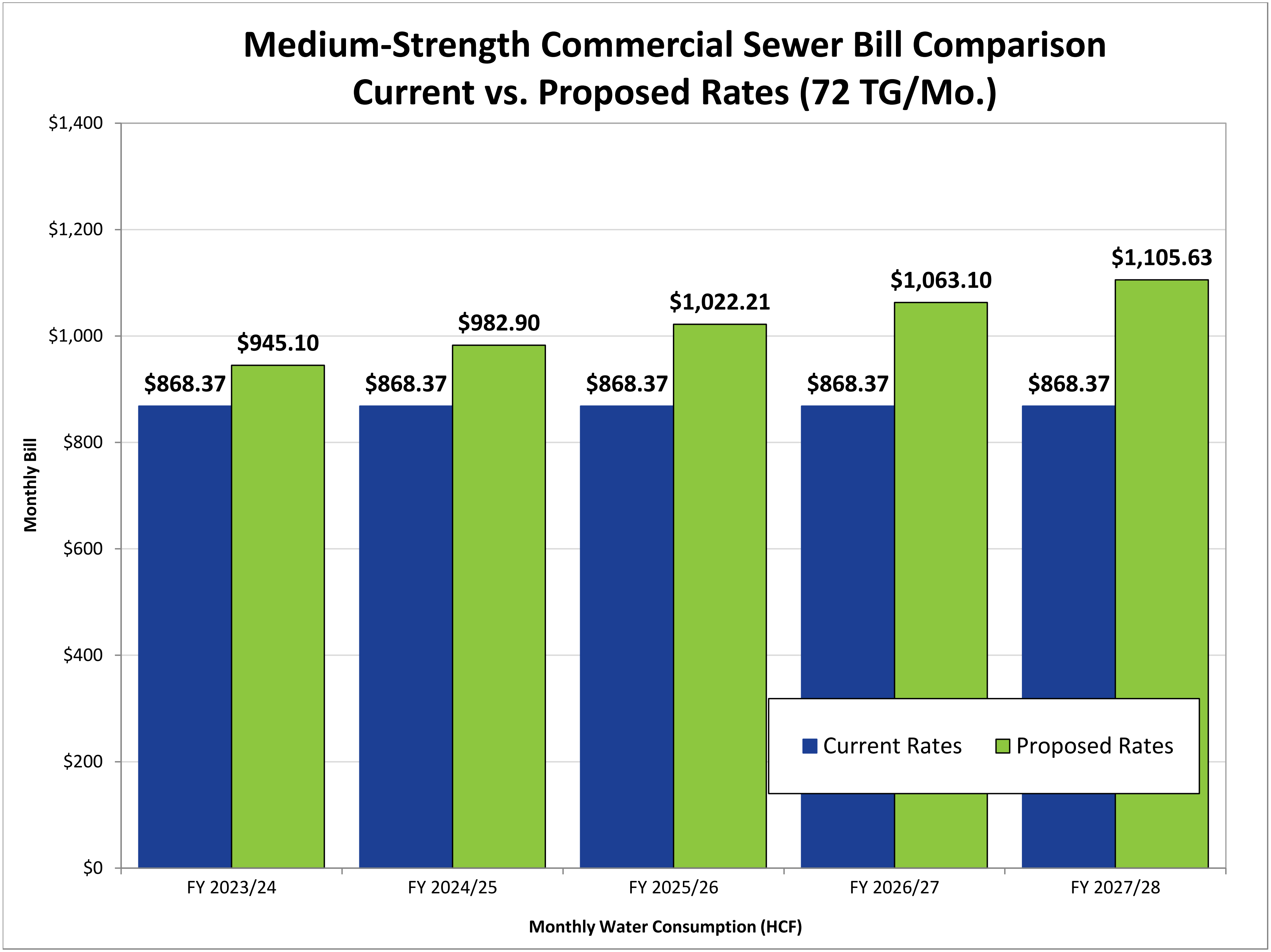


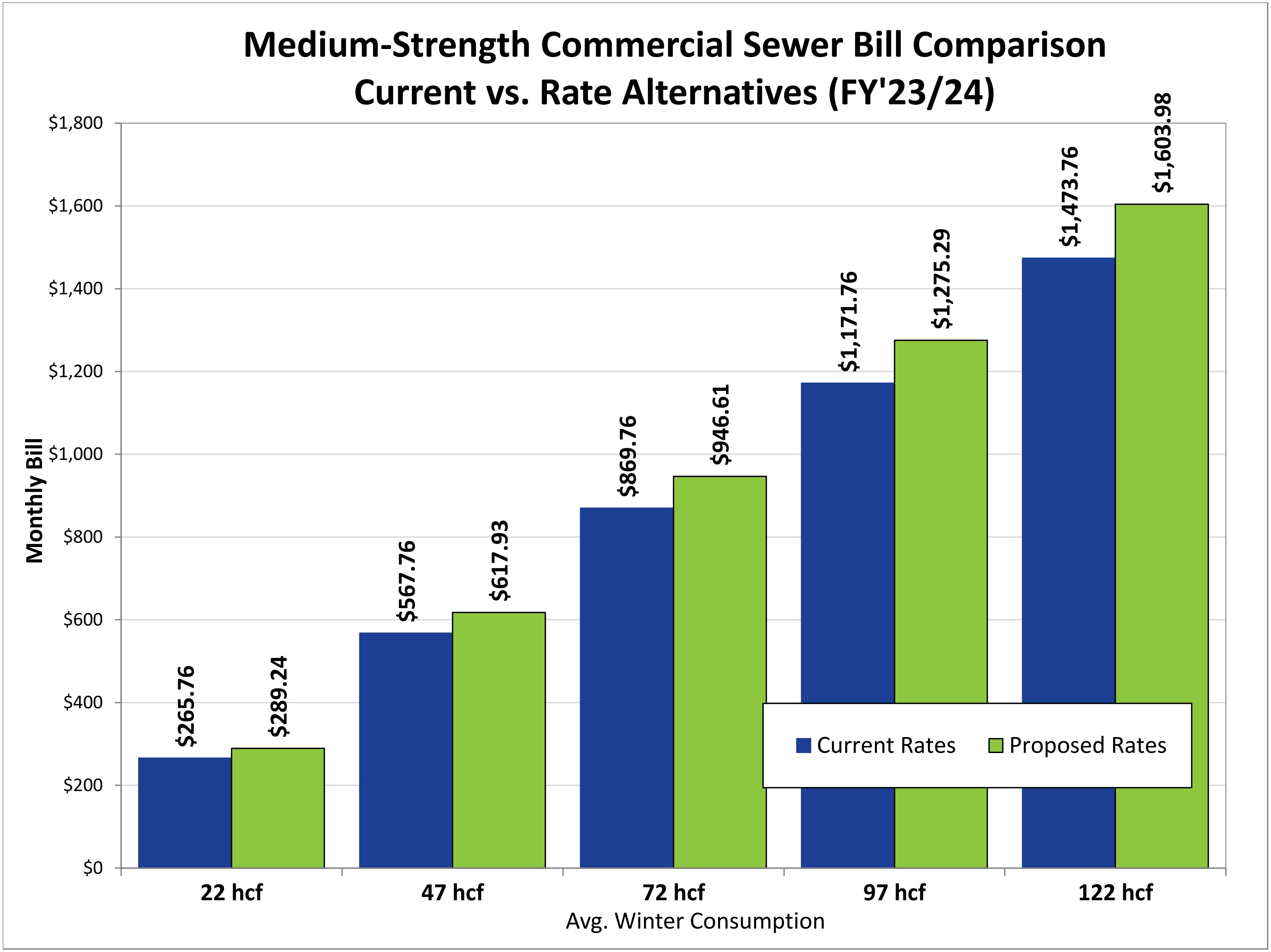
Low-Strength Commercial Sewer Bill Comparison
Current vs. Alternative Rates FY'23/24 (14.3 TG/Mo.)
Current Rates
Proposed Rates
Monthly Bill
$300
$250
$200
$150
$100
$50
$0
$29.64
$33.44
$66.69
$75.23
$105.96
$119.53
$148.20
$167.18
$222.30
$250.77
4 hcf
9 hcf
14 hcf
20 hcf
30 hcf
Monthly Water Consumption (HCF)


Low-Strength Commercial Sewer Bill Comparison
Current vs. Proposed Rates (28 TG/Mo.)
$160
$140
$120
$100
$80
$60
$40
$20
$0
Monthly Bill
$106.31
$119.92
$106.31
$124.72
$106.31
$129.71
$106.31
$134.90
$106.31
$140.29
FY 2023/24
FY 2024/25
FY 2025/26
FY 2026/27
FY 2027/28
Monthly Water Consumption (HCF)
Current Rates
Proposed Rates

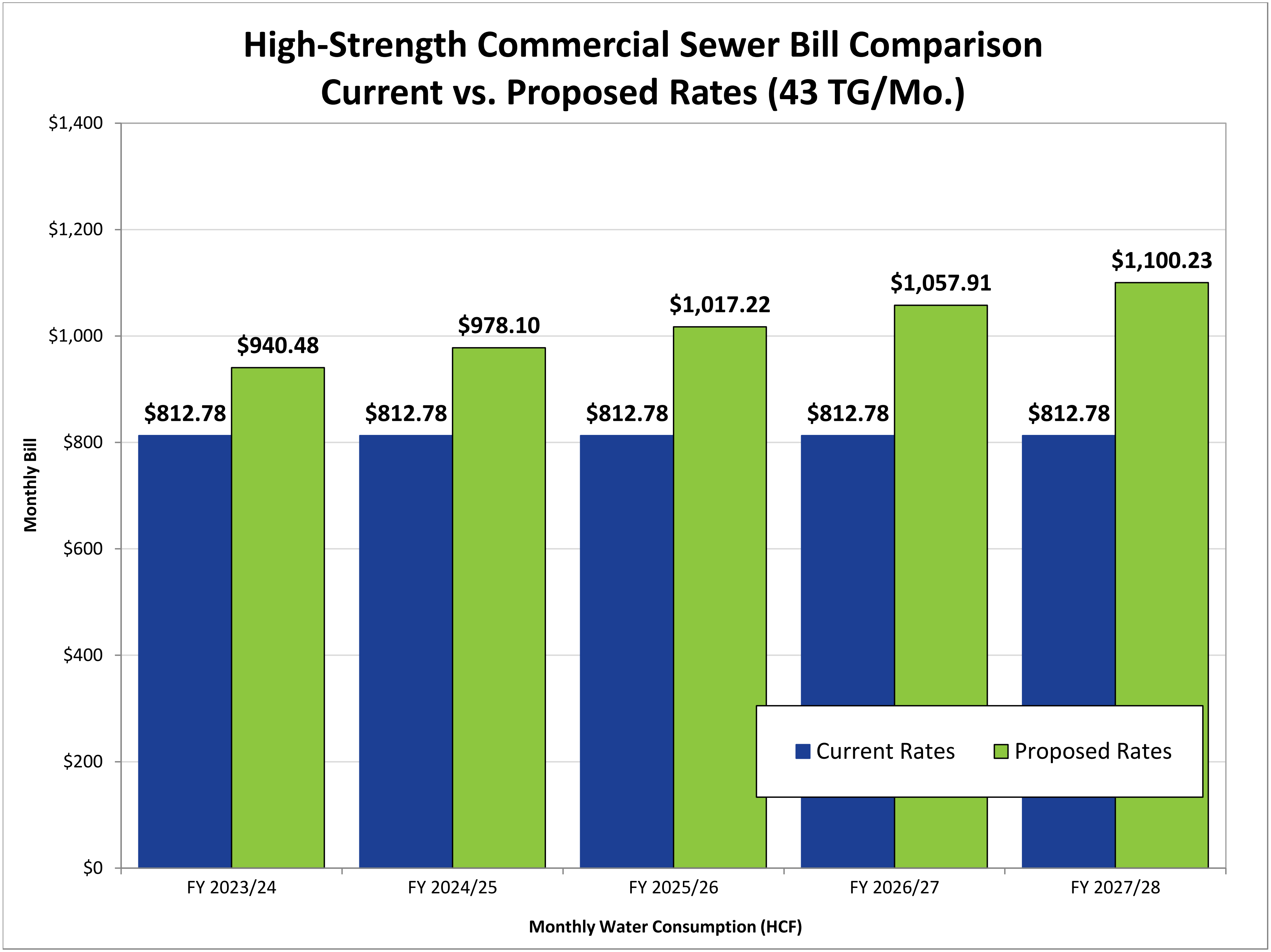

Domestic-Strength Commercial Sewer Bill Comparison
Current vs. Alternative Rates FY'23/24 (14.3 TG/Mo.)
Monthly Bill
$500
$450
$400
$350
$300
$250
$200
$150
$100
$50
$0
$73.68
$76.08
$165.78
$171.17
$257.88
$266.27
$349.98
$361.37
$442.08
$456.46
8 hcf
18 hcf
28 hcf
38 hcf
48 hcf
Monthly Water Consumption (HCF)
Current Rates
Proposed Rates

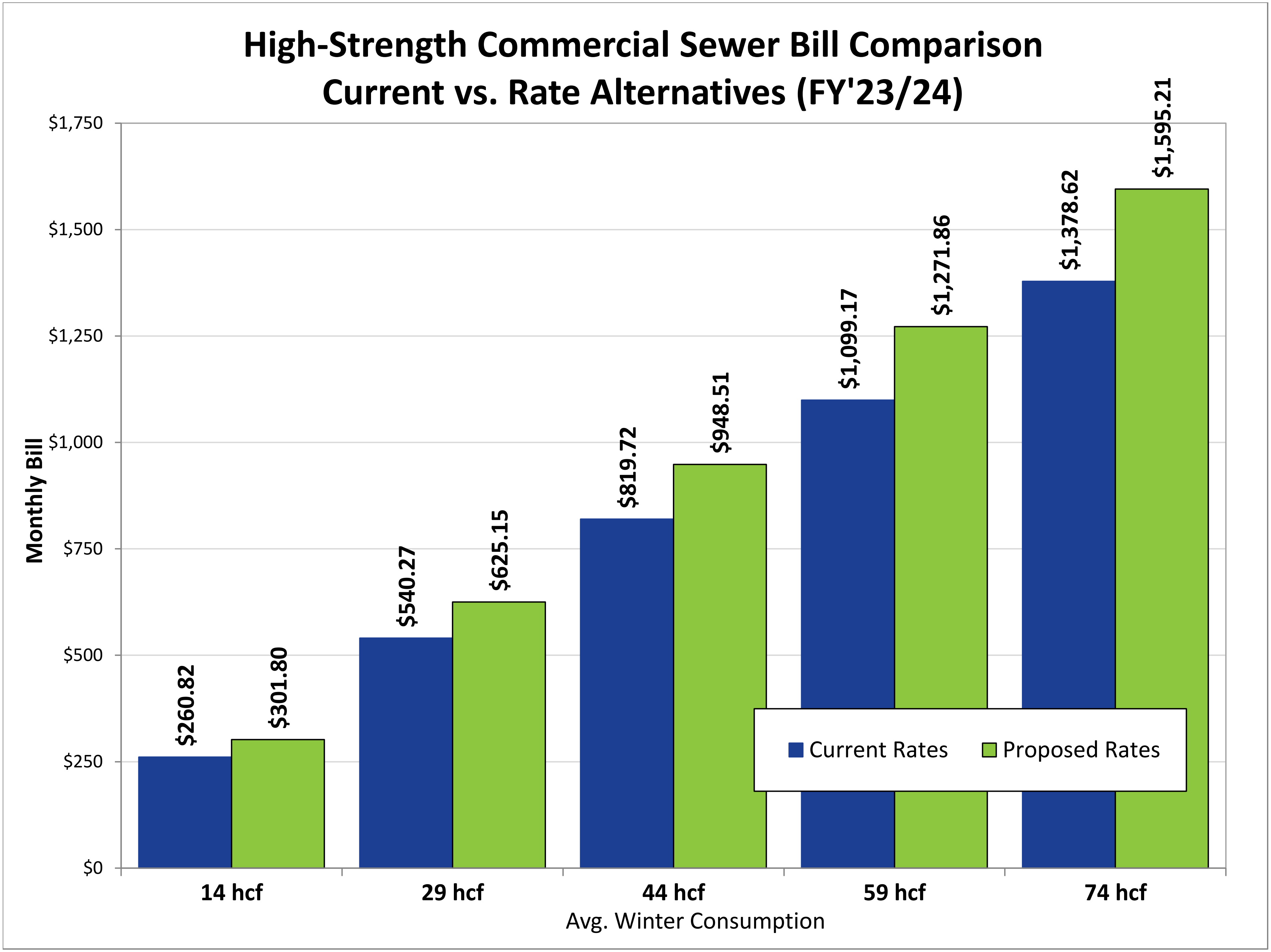

Domestic-Strength Commercial Sewer Bill Comparison
Current vs. Proposed Rates (28 TG/Mo.)
$400
$350
$300
$250
$200
$150
$100
$50
$0
Monthly Bill
$260.83
$269.31
$260.83
$280.09
$260.83
$291.29
$260.83
$302.94
$260.83
$315.06
Current Rates
Proposed Rates
FY 2023/24
FY 2024/25
FY 2025/26
FY 2026/27
FY 2027/28
Monthly Water Consumption (HCF)


Medium-Strength Commercial Sewer Bill Comparison
Current vs. Proposed Rates (72 TG/Mo.)
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
Monthly Bill
$868.37
$945.10
$868.37
$982.90
$868.37
$1,022.21
$868.37
$1,063.10
$868.37
$1,105.63
FY 2023/24
FY 2024/25
FY 2025/26
FY 2026/27
FY 2027/28
Monthly Water Consumption (HCF)
Current Rates
Proposed Rates



Medium-Strength Commercial Sewer Bill Comparison
Current vs. Rate Alternatives (FY'23/24)
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
Monthly Bill
$265.76
$289.24
$567.76
$617.93
$869.76
$946.61
$1,171.76
$1,275.29
$1,473.76
$1,603.98
Current Rates
Proposed Rates
22 hcf
47 hcf
72 hcf
97 hcf
122 hcf
Avg. Winter Consumption


High-Strength Commercial Sewer Bill Comparison
Current vs. Proposed Rates (43 TG/Mo.)
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
Monthly Bill
$812.78
$940.48
$812.78
$978.10
$812.78
$1,017.22
$812.78
$1,057.91
$812.78
$1,100.23
FY 2023/24
FY 2024/25
FY 2025/26
FY 2026/27
FY 2027/28
Monthly Water Consumption (HCF)
Current Rates
Proposed Rates


High-Strength Commercial Sewer Bill Comparison
Current vs. Rate Alternatives (FY'23/24)
Monthly Bill
$1,750
$1,500
$1,250
$1,000
$750
$500
$250
$0
$260.82
$301.80
$540.27
$625.15
$819.72
$948.51
$1,099.17
$1,271.86
$1,378.62
$1,595.21
Current Rates
Proposed Rates
14 hcf
29 hcf
44 hcf
59 hcf
74 hcf
Avg. Winter Consumption

10.1. Recommendations for Updates/Improvements to the Gilroy Garlic Festival Memorial at Christmas Hill Park

1. Staff Report:
2. Public Comment
3. Possible Action:

   Discussion and direction regarding proposed updates/improvements to the Gilroy Garlic Festival Memorial at Christmas Hill Park.

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Recommendations for Updates/Improvements to the Gilroy Garlic Festival Memorial at Christmas Hill Park**
Meeting Date:	October 16, 2023
From:	Jimmy Forbis, City Administrator
Department:	Administration
Submitted By:	Jimmy Forbis, City Administrator
Prepared By:	Jimmy Forbis, City Administrator

STRATEGIC PLAN GOALS Maintain and Improve City Infrastructure

RECOMMENDATION

Discussion and direction regarding proposed updates/improvements to the Gilroy Garlic Festival Memorial at Christmas Hill Park.

BACKGROUND

In September 2019 a temporary memorial to the victims of the Gilroy Garlic Festival shooting was erected to honor the three deaths and 17 wounded on July 28, 2019. At the time, the memorial, designed by Gilroy landscape artist Karen Aitken, was originally intended to be a temporary memorial located on the ranch side of Christmas Hill Park.

A plan for a permanent memorial never developed; thus, on October 19, 2020, the City Council declared that the temporary memorial would be designated as the permanent memorial going forward. The memorial, in its current form, is comprised of a large palm tree and three flag-laden ropes going from the tree to a ranch-style fence. There is also landscaping and a plaque memorializing the three victims who lost their lives on that date - Stephen Romero, Keyla Salazar, and Trevor Irby.

On September 11, 2023, staff returned to the Council to provide a report and receive feedback on repairs and upgrades to the Gilroy Garlic Festival Memorial (GGFM). Feedback from the Council at the meeting included for staff to prepare a concept based on the following:

- Garden only.
- Plan for a raised monument.
- Remove the draped ropes.
- Evaluate options for removing the existing palm tree and installation of three replacement trees.
- Evaluate possible hardscape to help control the squirrels.
- Look at the possibility of a bench being added.

Based on feedback from that meeting, staff is proposing to undertake work as described below.

ANALYSIS

Memorial

Presently, the GGFM features a memorial plaque placed at ground level, flat along the ground in front of the garden area. Staff is proposing that an additional memorial be placed, but with a vertical alignment that can be easily seen and apparent with a raised profile. To do so, staff is proposing a concrete monument to be created with a visible profile to those walking up towards the memorial.

The proposed monument would be 30” high, 30” wide, and 6-8" deep. The memorial would include a base at the bottom and be constructed on a concrete pad to be installed by the City, with a total depth of 6”-8" and being brought flush with ground level. The memorial will feature an inscription that is discussed below. The monument would be a solid block of concrete with the inscription carved into a finished face for the memorial, facing out from the GGFM towards the southeast. This memorial type is durable and is resistant to theft or relocation. The estimate for such a monument is approximately $2,000. An example of a concrete monument, though not the same dimensions or the proposed message design, is below.

The design of the memorial is a simple proposed inscription, with center aligned text. A conceptual mock-up of the added memorial is below.

Mounted on concrete foundation, flush with ground surface.

The foundation will be installed by City staff with City materials. The foundation is necessary to support the upright design and help resist against wind or other external force that may push against the face or back of the memorial.

Trees
One of the issues of discussion has been the presence of a palm tree at the GGFM. The concerns raised include: 1) the maintenance requirements of the tree, including the care and trimming of the tree to reduce the fronds that drop from the tree into the garden, and the difficulty of maintaining the tree overall; and 2) the palm tree is not a species that is indigenous to the area.

Despite these factors, staff does not currently recommend removing the palm tree due to the large root structure underneath, which, when removed, may damage the GGFM garden. Instead, staff will be working with the City's tree maintenance contractor to address the fronds from the palm tree and maintain the tree and clearance of any fronds in a clean and well-ordered manner.

Additionally, staff is able to secure the donation of four oak trees that may be used around the GGFM. Staff is proposing the installation of these trees, which would be donated by Google, to the sides of the GGFM. The trees would be too large to install within the GGFM but would still provide shade in the afternoon to the memorial area when fully matured. This is a general park improvement and not necessarily tied to the GGFM update.

Ropes and posts
The existing GGFM includes a series of three ropes that are draped and bound around the palm tree and lead out to three posts at the corners of the memorial area. While part of the initial temporary design, the ropes represent an ongoing maintenance and replacement need. The ropes, being exposed to the weather of winter rains and summer heat, will continue to deteriorate, including any new ropes that are installed as replacements. Because of the longevity issues of using ropes draped over the GGFM, staff is proposing the removal of the ropes from the tree and removing the corner posts without replacement. If the plants currently in place are dependent upon the posts to survive, they will be removed as well.

Benches
Staff has looked into options for a bench, as well as a picnic table. Staff is not recommending to have any form of bench or table due to issues regarding trash accumulation, vandalism, and use of such seating as a sleeping area, something experienced in other parks and locations.

Hardscape for squirrels
Staff has researched hardscapes that can help deter squirrel activity in the garden. Research has indicated that there are not many options aside from fencing areas (chicken wire, rabbit fencing, hardware cloth, etc.) and landscaping with rocks due to the adaptability of squirrels at overcoming hindrances and the need for the public and staff to access the gardens. Staff is not recommending these options, due to access issues, fundamental changes to the memorial garden, and the increase in cost needed to make these changes. Staff will continue researching non-hardscape options, which

might help deter squirrels and other rodents that may attempt to enter the memorial garden.

Conceptual drawing
Below is a rough, conceptual drawing of staff's proposed layout. The image shows the site of the new vertical monument at the front of the memorial garden and the addition of the four trees. No changes are proposed to the garden itself.

ALTERNATIVES

The City Council may issue any direction regarding the recommendations proposed for the work to be done at the GGFM. No specific alternative is currently available for analysis.

FISCAL IMPACT/FUNDING SOURCE

The proposed improvements are estimated to cost $2,000, depending upon final quote prices and shipping charges. The trees are coming from donations and do not contribute to the cost. These funds would come from the City's General Fund in the

Parks and Landscaping Division budget. No budget amendment is requested, as the costs can be absorbed within existing appropriations.

PUBLIC OUTREACH

This item has been discussed previously at the September 11, 2023 City Council Regular Meeting. The item was also included in the publicly posted agenda. Once any direction is received regarding the proposed improvements, staff will engage the public through our Communications and Engagement Office, specifically through social media and the weekly e-newsletter.

NEXT STEPS

Once any final direction is received, staff will commence with the improvements.

11.1. Authorize the City Administrator to Enter into a Three-Year Service Agreement with the County of Santa Clara for Animal Sheltering Services for the Period of July 1, 2023, through June 30, 2026

1. Staff Report:
2. Public Comment
3. Possible Action:

   Authorize the City Administrator to sign a three-year service agreement with the County of Santa Clara for Animal Sheltering Services from July 1, 2023, through June 30, 2026.

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Authorize the City Administrator to Enter into a Three-Year Service Agreement with the County of Santa Clara for Animal Sheltering Services for the Period of July 1, 2023, through June 30, 2026**
Meeting Date:	October 16, 2023
From:	Jimmy Forbis, City Administrator
Department:	Police
Submitted By:	Pedro Espinoza, Police Chief
Prepared By:	Patricia Vigil, Management Analyst

STRATEGIC PLAN GOALS Ensure Neighborhood Equity from City Services

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RECOMMENDATION

Authorize the City Administrator to sign a three-year service agreement with the County of Santa Clara for Animal Sheltering Services from July 1, 2023, through June 30, 2026.

EXECUTIVE SUMMARY

The County of Santa Clara (County) provides animal sheltering services to the City of Gilroy (City). The County provides sheltering services for abandoned, impounded, lost, or stray domestic animals, monitoring of quarantined animals, euthanasia of animals deemed unfit for adoption, and low-cost spay/neuter services to residents of the unincorporated areas of Santa Clara County.

BACKGROUND

In late May, Santa Clara County (SCC) advised the Gilroy Police Department (GPD) of their intent to provide an updated Animal Sheltering Services Agreement, which was ultimately provided to the City on June 15, 2023. The City desires to secure animal sheltering services for domestic animals found within Gilroy's incorporated area for the three fiscal years 2023, 2024, and 2025. The County has the necessary skills to provide sheltering services and veterinary care for such animals during normally staffed hours, Monday-Friday, 8:00 a.m. to 6:00 p.m., and Saturday and Sunday, 8:00 a.m. to 5:00 p.m. No services are provided on County holidays; however, kennels are available to GPD staff to secure animals based on the availability of kennels. Other veterinary offices provide veterinarian services outside of the normal animal shelter staffed hours at the City's expense.

The Police Department has four Community Services Officers (CSO) positions authorized. One of those CSO job functions is to serve as the Animal Control Officer (ACO). The ACO's responsibilities are to respond to calls for service regarding barking dogs, loose/off-leash dogs, dog fights, investigations of animal neglect/cruelty by owners, dog bites, educating the community of the Gilroy Municipal Code (GMC) regarding animals, and the issuance of citations for failure to follow the GMC. Other CSO staff, Detention Service Officers, and Police Officers are cross-trained in ACO duties if the primary ACO is not scheduled to work, is out ill, or is on vacation or training. This service model allows for an expeditious and enhanced level of customer service to the community and increases customer satisfaction.

ANALYSIS

During FY23, the County of Santa Clara Animal Services took in 4,307 animals. Of those, 919 were intakes from Gilroy, or 21% of the total intake of domestic animals. As such, the County has trued up its costs to account for the City's intake of animals.

As part of the Animal Sheltering Services Agreement, the County shall provide the following services:

- Sheltering of abandoned, impounded, lost, or stray domestic animals found in the incorporated areas of Gilroy.
- Quarantine of impounded biting domestic animals,
- Provision for reclaiming abandoned, lost, or stray domestic animals during business hours,
- Euthanasia and disposal of abandoned, lost, impounded, or stray domestic animals that are unclaimed by their owners and deemed unfit for adoption, rescue, or return-to-field,
- Return-to-field of feral and community cats after sterilization and vaccination,
- Acceptance of owner-relinquished and confiscated animals on approval of the County after considering shelter population, space availability, and cost.

As part of veterinary services, the County shall provide the following:

- Veterinarian services during established business hours to treat and provide veterinarian care to stray, injured, or sick domestic animals,
- Monitoring of quarantined animals, and
- Low-cost spay/neuter services provided to residents of the unincorporated areas of Santa Clara County.

ALTERNATIVES

Council may reject approval to authorize the City Administrator to enter into a three-year service agreement with the County of Santa Clara for animal sheltering services. Staff does not recommend this option as it would mean alternative service providers would have to be identified.

FISCAL IMPACT/FUNDING SOURCE

During the FY24 and FY25 budget process, approved funding was allocated for animal sheltering services based on the FY21-23 Santa Clara County Animal Sheltering Agreement compensation schedule. In late May, SCC advised GPD of their intent to provide an updated Animal Sheltering Services Agreement. On June 15, 2023, SCC provided GPD with a FY24-26 Animal Sheltering Services Agreement, which includes a substantial increase due to the truing up of costs. For FY24, the compensation amount is $150,000, an increase of $79,085 from FY23. The FY25 compensation amount is $157,500, and FY26 is $165,375.

GPD will use approved FY24 ($70,015) and FY25 ($73,043) budget allocations in the Police Services Special Revenue Fund (Fund 240) and the anticipated salary savings within the GPD operations (3010) in the General Fund (100) to pay for the increase in the compensation schedule for FY24 ($79,985) and FY25 ($84,457). The FY26 recommended budget allocation of $165,375 will be part of the FY26 and FY27 budget process.

Attachments:

1. Animal Sheltering Services Agreement - Gilroy FY24-26

AGREEMENT BETWEEN THE COUNTY OF SANTA CLARA AND THE CITY OF GILROY FOR ANIMAL SHELTERING SERVICES

The County of Santa Clara ("COUNTY"), and the City of Gilroy, a municipal corporation ("CITY") (together, "PARTIES") enter into this Animal Sheltering Services Agreement ("Agreement") as of _____________, 2023.

RECITALS

WHEREAS, CITY desires to secure animal shelter services for domestic animals found within the incorporated area of Gilroy, and

WHEREAS, COUNTY has the necessary expertise and skill to perform those services and COUNTY's proposal can best meet CITY's needs;

NOW, THEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. AGREEMENT DOCUMENTS

The documents forming the entire Agreement between CITY and COUNTY shall consist of:

This Agreement;
Exhibit A – Scope of Services; and
Exhibit B – Compensation

If any discrepancies or inconsistencies between the provisions of this Agreement and any of the above-referenced Exhibits arise, the provisions of this Agreement prevail.

This Agreement and the Exhibits set forth above contain all of the agreements, representations, and understandings of the PARTIES hereto, and supersede and replace any previous understanding, commitments, or agreements, whether oral or written.

2. SCOPE OF SERVICES

COUNTY shall perform those services specified in detail in the attached Exhibit A, entitled "Scope of Services."

3. TERM OF AGREEMENT

This Agreement is effective from July 1, 2023 to June 30, 2026, unless otherwise terminated under Section 5 (TERMINATION) below.

4. COMPENSATION

CITY shall pay COUNTY for the costs of animal sheltering services under this Agreement. The terms, rate, and schedule of payment are set forth in the attached Exhibit B, entitled "Compensation".

5. TERMINATION

5.1 Termination Without Cause

Either PARTY may terminate this Agreement, without cause, by giving not less than thirty (30) days written notice.

5.2 Termination for Material Breach

Either PARTY may terminate the Agreement in the event of breach of material obligations under this Agreement immediately upon written notice.

5.3 Termination Authority

The Chief of Police of the CITY is empowered to terminate this Agreement on behalf of CITY.

The County Director of Procurement, or their authorized designee, may terminate this Agreement on behalf of the County.

5.4 Consequences of Termination

In the event of termination, COUNTY shall make reasonable and good faith efforts to deliver to CITY records for animals sheltered by COUNTY under this Agreement in a timely manner. COUNTY shall refund the CITY a prorated amount of funds based on the time remaining in the fiscal year.

6. INDEMNIFICATION

City shall indemnify, defend, and hold harmless the COUNTY, its officers, agents and employees from any claim, liability, loss, injury or damage arising out of, or in connection with this Agreement by CITY and/or its agents, employees or sub-contractors, excepting only loss, injury or damage caused by the sole negligence or willful misconduct of personnel employed by the COUNTY. It is the intent of the PARTIES to this Agreement to provide the broadest possible coverage for the COUNTY. CITY shall reimburse the COUNTY for all costs, attorneys' fees, expenses and liabilities incurred with respect to any litigation in which the CITY contests its obligation to indemnify, defend and/or hold harmless the COUNTY under this Agreement and does not prevail in that contest.

7. WAIVER

PARTIES agree that waiver of any breach or violation of any provision of this Agreement shall not be deemed to be a waiver of any other provision or a waiver of any subsequent breach or violation of the same or any other provision.

8. INDEPENDENT CONTRACTOR

COUNTY, in the performance of this Agreement, is an independent contractor. COUNTY shall maintain complete control over all of COUNTY's employees, any subcontracting subcontractors, and COUNTY's operations. Neither COUNTY nor any person retained by COUNTY may represent, act, or purport to act as the agent, representative or employee of CITY. Neither COUNTY nor CITY is granted any right or authority to assume or create any obligation on behalf of the other.

9. COMPLIANCE WITH LAWS

PARTIES shall comply with all applicable laws, ordinances, codes and regulations (collectively, "laws") of the federal, state and local governments, including without limitation, any and all laws specified elsewhere in this Agreement.

10. CONFLICT OF INTEREST

PARTIES shall avoid all conflict of interest or the appearance of conflict of interest in performance of this Agreement.

11. NONDISCRIMINATION

PARTIES agree that it shall not discriminate against, or segregate, any person, on account of race, sex, color, age, religion, sexual orientation, actual or perceived gender identity, disability, ethnicity, national origin, marital status, or family status, in connection with or related to the performance of this Agreement.

12. CALIFORNIA PUBLIC RECORDS ACT

The COUNTY is a public agency subject to the disclosure requirements of the California Public Records Act ("CPRA"). If CITY's proprietary information is contained in documents or information submitted to COUNTY, and CITY claims that such information falls within one or more CPRA exemptions, CITY must clearly mark such information "CONFIDENTIAL AND PROPRIETARY," and identify the specific lines containing the information. In the event of a request for such information, the COUNTY will make best efforts to provide notice to CITY prior to such disclosure. If CITY contends that any documents are exempt from the CPRA and wishes to prevent disclosure, it is required to obtain a protective order, injunctive relief or other appropriate remedy from a court of law in Santa Clara COUNTY before the COUNTY is required to respond to the CPRA request. If CITY fails to obtain such remedy within the time the COUNTY is required to respond to the CPRA request, COUNTY may disclose the requested information.

CITY further agrees that it shall defend, indemnify and hold COUNTY harmless against any claim, action or litigation (including but not limited to all judgments, costs, fees, and attorney's fees) that may result from denial by COUNTY of a CPRA request for information arising from any representation, or any action (or inaction), by the CITY.

13. COUNTY'S RECORDS

13.1 Maintenance during Term
COUNTY shall maintain records, including any ledgers, books of account, invoices, vouchers, canceled checks, and other documents evidencing or relating to charges for services, or expenditures and disbursements charged to CITY for a minimum period of three (3) years, or for any longer period required by law, from the date of final payment to COUNTY pursuant to this Agreement.

13.2 Maintenance after Term
COUNTY shall maintain all documents which demonstrate performance under this Agreement for a minimum period of three (3) years, or for any longer period required by law, from the date of termination or completion of this Agreement.

14. ASSIGNABILITY

The PARTIES agree that COUNTY's expertise and experience are material considerations for this Agreement. COUNTY may not assign the performance of any obligation or interest under this Agreement, except as authorized under Section 16 on "Subcontractors" below.

15. SUBCONTRACTORS

15.1 Authorized Subcontractors
Notwithstanding Section 15 (ASSIGNABILITY) above, COUNTY may use subcontractors in performing COUNTY's services. COUNTY shall be responsible for directing the work of the approved subcontractors and for any compensation due to subcontractors.

16. GOVERNING LAW

This Agreement must be construed, and its performance enforced under California law.

17. VENUE

In the event that either PARTY brings suit, the PARTIES agree that venue is vested in Santa Clara County Superior Court or United States District Court, Northern District of California, San José, California.

18. NOTICE

All notices and other communications required or permitted to be given under this Agreement must be in writing and must be personally served, or mailed, postage prepaid via U.S. mail, or sent via courier service, addressed to the respective parties as follows:

CITY:	City Administrator City of Gilroy 7301 Hanna Street Gilroy, CA 95020 408/846-0300
COUNTY:	Program Manager County of Santa Clara Animal Services 12425 Monterey Road San Martin, CA 95046

Notice will be effective on the date personally delivered or if sent by courier service, on the date of receipt. If mailed, notice will be effective three (3) days after deposit in the mail. The PARTIES may change their respective addresses in accordance with the provisions of this Section.

19. MISCELLANEOUS

21.1 Survival of Provisions

If any part of this Agreement is for any reason found to be unenforceable, all other parts nevertheless shall remain enforceable.

21.2 Assignment

Subject to the provisions of Section 15 (ASSIGNABILITY), this Agreement binds and inures to the benefit of the PARTIES and their respective successors and assigns.

21.3 Headings

The headings of the sections of this Agreement are inserted for convenience only. They do not constitute part of this Agreement and are not to be used in its construction.

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20. CONTRACT EXECUTION

Unless otherwise prohibited by law or COUNTY policy, the parties agree that an electronic copy of a signed contract, or an electronically signed contract has the same force and legal effect as a contract executed with an original ink signature. The term "electronic copy of a signed contract" refers to a transmission by facsimile, electronic mail, or other electronic means of a copy of an original signed contract in a portable document format. The term "electronically signed contract" means a contract that is executed by applying an electronic signature using technology approved by the COUNTY.

WITNESS THE EXECUTION HEREOF on the day and year first written above.

CITY OF GILROY

APPROVED AS TO FORM:	CITY OF GILROY, a municipal corporation
By: __________________________ ANDREW L. FABER, ESQ. Berliner Cohen, LLP	By: __________________________ JIMMY FORBIS City Administrator, City of Gilroy
Date: __________________________	Date: __________________________

COUNTY OF SANTA CLARA

APPROVED:

By: __________________________
MATTHEW HADA
Chief Procurement Officer

Date: __________________________

APPROVED AS TO FORM AND LEGALITY:

By: __________________________
WILLIE NGUYEN
Deputy County Counsel

Date: __________________________

EXHIBIT A
SCOPE OF SERVICES

COUNTY shall provide:

1. Sheltering of abandoned, impounded, lost or stray domestic animals found in the incorporated area of CITY;
2. Quarantine of impounded biting domestic animals;
3. Provision for reclaim of abandoned, lost or stray domestic animals during established business hours;
4. Euthanization and disposal of abandoned, lost, impounded, or stray domestic animals that are unclaimed by their owners and are deemed unfit for adoption, rescue or return-to-field;
5. Return-to-field of feral and community cats after sterilization and vaccination; and
6. Acceptance of owner-relinquished animals and confiscated animals on approval of the COUNTY Animal Services Program Manager after consideration of shelter population, space availability, and costs.

As part of the Shelter Services, COUNTY shall provide the following veterinary services:

1. Veterinarian services during established business hours to treat and provide veterinarian care to stray, injured, or sick dogs, cats, and other impounded domestic animals;
2. Monitoring of quarantined animals; and
3. Low-cost spay/neuter services as provided to residents of the unincorporated areas of Santa Clara County.

COUNTY shall provide sheltering and veterinary care of domestic animals during normally staffed hours, which are Monday thru Friday from 8:00 am thru 6:00 pm and Saturday and Sunday from 8:00 am thru 5:00 pm. Services will not be available on COUNTY holidays, however, CITY will have access to “night drop” kennels based on availability. Only dogs that appear to be free of injury may be left in the “night drop” kennels by authorized CITY staff. Dogs that are not bright, alert and active, have open wounds, broken limbs or have been hit by a car must be taken to an emergency veterinarian at the CITY’S expense, but may be transported to the shelter by the CITY during operational hours for continued care.

Animals taken into custody by CITY that are to be impounded by COUNTY are to be transported promptly and humanely, and shall be made available for owner redemption as required by law. Animals requiring a quarantine hold will be made available following the quarantine period. Whenever an animal is impounded with identification, COUNTY will make reasonable attempt to notify owners of the animal's impoundment. Under any other circumstance which CITY requests that an animal not be made available for reclaim, adoption, rescue or return-to-field, such request must be approved by the Animal Services Program Manager prior to impoundment. COUNTY will require an address (in the case of cats) or a street and cross street (in the case of all other animals) where each animal was found from both CITY and its residents, prior to accepting an animal for impound.

COUNTY may collect fees from the public in connection with a portion of Animal Sheltering Services provided under this agreement and as consistent with the County Ordinance, including but not limited to impound, boarding and quarantine fees. These fees shall be at the rates established by COUNTY.

EXHIBIT B
COMPENSATION

Invoicing and Payment

1. Payment to COUNTY

For Animal Sheltering Services provided by COUNTY to the CITY Under this Agreement, CITY shall pay COUNTY for the costs of animal shelter and other services for the period of July 1, 2023 through June 30, 2026 at the following rate:

July 1, 2023 – June 30, 2024	$150,000	Due August 11, 2023
July 1, 2024 - June 30, 2025	157,500	Due July 11, 2024
July 1, 2025 - June 30, 2026	165,375	Due July 11, 2025

From: [redacted]
To: All Council Members
Subject: EXTERNAL - Renewal of the Animal Services Agreement
Date: Thursday, October 12, 2023 9:14:18 AM

Please approve the renewal of this agreement

Rhinda Bal

11.2. Annual Review and Adoption of the City's Investment Policy

1. Staff Report:
2. Public Comment
3. Possible Action:

   Adopt a resolution establishing the City’s updated Investment Policy.

City of Gilroy

STAFF REPORT

Agenda Item Title:	**Annual Review and Adoption of the City's Investment Policy**
Meeting Date:	October 16, 2023
From:	Jimmy Forbis, City Administrator
Department:	Finance
Submitted By:	Harjot Sangha, Finance Director
Prepared By:	Harjot Sangha, Finance Director

STRATEGIC PLAN GOALS Develop a Financially Resilient Organization

RECOMMENDATION

Adopt a resolution establishing the City's updated Investment Policy.

BACKGROUND

Per California Code Section 53646(a) and the City's Investment Policy, the City Administrator shall annually render to the City Council a statement of investment policy, which shall be considered by the Council at a public meeting to ensure its consistency with respect to the overall objectives of safety, liquidity, and yield. The City Council last reviewed the policy in November 2022.

Per the City's Investment Policy, temporarily idle or surplus funds of the City shall be invested in accordance with principles of sound treasury management. The three basic objectives of Gilroy's Investment Program are, in order of priority, (1) safety of invested funds, (2) maintenance of sufficient liquidity to meet cash flow needs of the City; and (3) attainment of the maximum yield possible consistent with the first two objectives.

ANALYSIS

The City's idle cash is primarily invested in the Local Agency Investment Fund (LAIF) which is a program offered to local agencies to participate in a major portfolio managed by the California State Controller with 2,359 participants and $22.4 billion in assets at the end of August 2023. All securities purchased by the pool follow Government Code Section 16430 and 14680.4. One of the advantages of investing in LAIF is that it provides great "daily liquidity", meaning on any given day the City can withdraw large sums of money the same day or within a day's notice, while earning interest. A portion, approximately 33% or $61.5 million, of the City's portfolio is invested in US Treasury securities which has allowed the City's idle funds to earn additional interest as rates, or yields, have increased over the last year.

With this annual review of the investment policy, staff recommends adding California Cooperative Liquid Assets Securities System (CLASS) to the eligible securities list, limited to 15% of the total portfolio. As previously mentioned, most of the City's cash is invested in LAIF. One of the limitations of LAIF is that it carries a maximum deposit limit of $75.0 million. The City reached that limit on the two accounts it maintains with LAIF in the last year. One of the two accounts currently remains at the limit, while the second is at $45.0 million, excluding the $61.5 million in US Treasury securities held in the City investment account with the US Bank.

California CLASS is a pooled investment option that was created in 2022 via a joint exercise of powers agreement by and among California public agencies. Participation in California CLASS is open to all public agencies in the state of California that have the authority to invest their treasury funds. California CLASS is an alternative to LAIF. Similar to LAIF, California CLASS provides California public agencies with a convenient method for investing in high-quality, short to medium-term securities selected to optimize interest earnings while maximizing safety and liquidity. CLASS's Prime fund offers similar daily liquidity, and the performance is also better than LAIF. For example, for Fiscal Year 2023 LAIF's reported average annual yield was 2.17% vs. CalCLASS' Prime which reported 3.96% for the year. Expanding the list of eligible securities would allow the City an additional option to increase the City portfolio's short-term returns while maintaining the City's investment objectives of safety, liquidity, and yield.

ALTERNATIVES

The City Council could approve or reject the proposed change to the policy. The Council could also direct staff to amend any of the other sections of the policy. The current policy, with the proposed updates, provides adequate guidance for the City's investment program.

FISCAL IMPACT/FUNDING SOURCE

There is no fiscal impact to adopting the City's General Investment Policy. Review and update of the investment policy is an activity that is included in the Finance Department's annual and ongoing workplan.

Attachments:

1. Draft Resolution
2. Exhibit A – Investment Policy - Redline

RESOLUTION NO. 2023-XX

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF GILROY ADOPTING THE CITY'S INVESTMENT POLICY

WHEREAS, the City has a responsibility to ensure it handles public funds appropriately and

WHEREAS, Section 53646 of the Government Code allows local agencies to annually approve a Statement of Investment Policy, which has been prepared by the chief fiscal officer of such local agency; and

WHEREAS, the Investment Policy describes the investments the City can utilize in compliance with California Government Code Section 53646, and good practice dictates that local agencies prepare a written investment policy and

WHEREAS, the City Council formally adopts the investment policy via a resolution that promotes sound financial management practices designed to meet the City Council's goals and objectives; and

WHEREAS, the City Council has been presented with a statement of Investment Policy annually which is designed to conform with the requirements of the Investment Act and

WHEREAS, the primary objective of the Investment Policy is to establish a conservative set of investment criteria that will prudently protect the City's assets, provide liquidity to meet the City's cash needs and enable the City to generate a market rate of return from its investment activities; and

WHEREAS, the City Council has reviewed the Investment Policy and delegates investment authority to the City Treasurer pursuant to California Government Code Section 53607.

NOW, THEREFORE, the City Council of the City of Gilroy hereby adopts the amended Investment Policy attached hereto as Exhibit A, a copy of which is on file at the City offices and is available for inspection by the public.

PASSED, APPROVED, AND ADOPTED by the City Council of the City of Gilroy at its meeting held on this 16th day of October 2023 by the following vote:

AYES: **COUNCIL MEMBERS:**

NOES: **COUNCIL MEMBERS:**

ABSTAIN: **COUNCIL MEMBERS:**

ABSENT: **COUNCIL MEMBERS:**

APPROVED:

____
Marie Blankley, Mayor

ATTEST:

____
Thai Nam Pham, City Clerk

INVESTMENT POLICY
FOR
CITY OF GILROY

Revised: ~~November 2022~~October 2023

I. STATEMENT OF OBJECTIVES

The purpose of this Investment Policy ("Policy") is to identify elements that will foster a prudent and systematic investment program that meet the City of Gilroy's objectives through a diversified investment portfolio. This policy also serves to organize and formalize the City's investment related activities, while complying with all applicable statutes governing the investment of public funds.

Temporarily idle or surplus funds of the City of Gilroy shall be invested in accordance with principles of sound treasury management and in accordance with the provisions of California Government Code Sections 53600, et seq., the Municipal Code, guidelines established by the California Municipal Treasurer's Association and the California Society of Municipal Finance Officers, and this Investment Policy.

A. Overall Risk Profile

The three basic objectives of Gilroy's Investment Program are, in order of priority:

1. Safety of invested funds;
2. Maintenance of sufficient liquidity to meet cash flow needs of the City; and
3. Attainment of the maximum yield possible consistent with the first two objectives.

The achievement of these objectives shall be accomplished in the manner described below:

1. Safety of Invested Funds

The City shall ensure the safety of its invested idle funds by limiting credit and interest rate risks. Credit risk is the risk of loss due to the failure of the security issuer or backer. Interest rate risk is the risk that the market value portfolio securities will fall due to an increase in general interest rates.

a. Credit risk will be mitigated by:

   i. Limiting investments to the safest types of securities as outlined in this policy;
   ii. By prequalifying the financial institutions with which it will do business; and
   iii. By diversifying the investment portfolio so that the failure of any one issuer or backer will not place an undue financial burden on the City.

b. Interest rate risk will be mitigated by:

i. Maintaining adequate sums in 30 day or less funds.
ii. Structuring the City's portfolio so that securities mature to meet the City's cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to their maturation to meet those specific needs; and
iii. Investing primarily in shorter term securities (five years or less).

c. The physical security or safekeeping of the City's investments is also an important element of safety. Detailed safekeeping requirements are defined in Section III of this Policy.

2. Liquidity

The City's investment portfolio shall be structured in a manner which strives to achieve that securities mature at the same time as cash is needed to meet anticipated demands (static liquidity). Additionally, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity).

Funds equal to 20% of the total annual expenditure budget less any capital expenditures for which bond proceeds are available, less internal service fund charges and less Trust and Agency fund expenditures, as first adopted for each fiscal year, shall be invested in the California State LAIF or other 30 day or less securities for call requirements. However, this provision shall not require the sale of any investment due solely to the adoption of a new budget, or amendment to a budget, which would have the effect of increasing the dollar amount needed to maintain this 20% requirement in 30 day or less funds. At such time that the 30 day or less funds falls below 20% of the annual expenditurebudget, the City Treasurer, within 30 days, will notify the Investment Committee with a proposed action plan. The City Council will be subsequently notified of the action taken. The specific percentage mix of different investment instruments and maturities is described in Section II of this Policy.

3. Yield

Yield on the City's investment portfolio is of secondary importance compared to the safety and liquidity objectives described above. Investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. While it may occasionally be necessary or strategically prudent of the City to sell a security prior to maturity to either meet unanticipated cash needs or to restructure the portfolio, this Policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates.

B. Time Frame for Investment Decisions

The City's investment portfolio shall be structured to provide that sufficient funds from investments are available every month to meet the City's anticipated cash needs. Subject to the safety provisions outlined above, the choice in investment instruments and maturities shall be based upon an analysis of anticipated cash needs, existing and anticipated revenues, interest rate trends, and specific market opportunities. No investment should have a maturity of more than five (5) years from its date of purchase without receiving City Council approval within the prior 90 days.

C. Pooling of Funds

The City will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles.

D. Definition of Idle or Surplus Funds

Idle or surplus funds for the purpose of this Policy are all City funds which are available for investment at any one time, including the estimated checking account float, excepting those minimum balances required by the City's banks to compensate them for the cost of banking services. This Policy also applies to the idle or surplus funds included in the general fund, special revenue funds, debt service funds, capital projects funds, enterprise funds, internal service funds, trust/agency funds and of other entities for which the City of Gilroy personnel provide financial management services.

E. Applicability of Policy

This policy does not apply to:

1. The City's Deferred Compensation Plan, the investments in which are directed by the participating employees; and

2. Monies held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under agreements, of a local agency, or certificates of participation in such bonds, indebtedness or agreements, the investment of which may be in accordance with the statutory provisions governing the issuance of those bonds, indebtedness or agreements, or to the extent not inconsistent therewith, or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture or agreement of the local agency providing for the issuance.

3. Monies held in a Section 115 trust for Post-Employment Benefits Trust (the “Program”) for the purpose of pre-funding pension obligations and/or OPEB obligations. Investment of such section 115 trust/s are directed by the separate Investment Guidelines Document (IGD) as approved by the Plan Sponsor.

F. Benchmark and Performance Standards

T investment portfolio shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account the City's risk constraints, the cash flow needs, and state and local laws. The performance of the investment portfolio shall be compared to the average yield on the U.S. Treasury bill that most closely corresponds to the investment portfolio's weighted average effective maturity.

II. INVESTMENTS

This section of the Investment Policy identifies policies, types of investments, and related matters pertaining to instruments in which the City will invest its idle funds.

A. Investment Standards

The City of Gilroy operates its temporary pooled idle cash investments under the Prudent Investor Standard, California Government Code, Section 53600.3 [1], and with additional guidancefrom the provisions of the Uniform Prudent Investor Act, California Probate Code Section 16045, et seq [2]. This affords the City a broad spectrum of investment opportunities as long as the investment is deemed prudent and is allowable under currentlegislation of the State of California (Government Code Section 53600, et seq).

B. Eligible Securities

Subject to the Prudent Investor Standard and other applicablelaws and regulations, this policy permits investment in the following:

- Insured Certificates of Deposit (CD's) of California banks and/or savings and loan associations, and/or savings with a Superior or Excellent ranking of 165 or more as provided by IDC Financial Publishing Inc. or similar rating publication) which mature in five (5) years or less, provided that the City's investments shall not exceed Two Hundred Fifty Thousand Dollars ($250,000.00) per institution. If the investment exceeds the insured $250,000.00, the funds are to be collateralized at 110% of the deposit in government securities or 150% in mortgages. *(limited to 15% of theportfolio)*

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[1]Governing bodies of local agencies (e.g., a City Council) or persons authorized to make investment decisions on behalf of those local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, purchasing, acquiring, exchanging, selling, and managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part to an overall strategy, a trustee is authorized to acquire investments as authorized by law.

[2]The standard of care for trustees investing and managing trust assets is the Prudent Investor Standard and takes into consideration the purposes, terms, distribution requirements and other circumstances of the trust, and in satisfying this standard, the trustee is required to exercise reasonable care, skill, and caution in light of the facts and circumstances existing at the time of a trustee's decision or action.

- Local Agency Investment Fund (State Pool) Demand Deposits
- California Cooperative Liquid Assets Securities System (CLASS) *(limited to 15% of the portfolio)*
- Securities of the U.S. Government, or its agencies
- Negotiable Certificates of Deposit (NCDs) placed with federal and state savings and loanassociations and federal and state chartered banks with an office in the State of California. *(limited to 15% of the portfolio)*
- Bankers Acceptances *(limited to 15% of the portfolio)*
- Commercial paper *(limited to 10% of the portfolio)*
- Passbook Savings or Money Market Demand Deposits
- Securities or bonds purchased under a prior investment policy, which may or may not meet the standards of this policy. (Such securities or bonds may be held or sold under this Policy but additional purchases shall not be made.)
- Money Market Mutual Fund (with $1.00 net asset value and which invests only in instruments allowed under Government Code Section 53600, et seq.) - *(limited to 5% of the portfolio)*

C. Investments Deemed Not Appropriate at this Time

The City of Gilroy Investment Policy does not permit investment in the following instruments or securities:

- Corporate bonds or stocks
- Repurchase agreements or reverse repurchase agreements
- Interest only or principal only strips
- Certificates of Deposit issued by institutions not operating within California
- Inverse floaters and range notes
- Financial futures or financial option contracts
- Securities lending or leveraging any portion of the portfolio

D. Collateralization Requirements

Uninsured Time Deposits with banks and savings and loans shall be collateralized in the manner prescribed by law for depositories accepting municipal investment funds.

E. Preformatted Wire Transfers

Wherever possible, the City will use preformatted wire transfers to restrict the transfer of funds to preauthorized accounts only. When transferring funds to an account not previously approved, the bank is required to call back a second employee for confirmation that the transfer is authorized.

F. Qualification of Brokers, Dealers and Financial Institutions

The City Treasurer shall investigate brokers and dealers who wish to do business with the City to determine if they are adequately capitalized, have any pending legal actions against the firm or the individual broker, and that they market securities appropriate to the City's needs.

The City shall annually send a copy of the current edition of the Policy to all institutions and broker/dealers which are approved to handle City of Gilroy investments. Receipt of the Policy, including confirmation that it has been received by persons handling the City's accounts, shall be acknowledged in writing within thirty (30) days.

G. Diversification

The portfolio should consist of a prudent mix of various types of securities, issues and maturities.

H. Confirmation

Receipts for confirmation of purchase or sale of authorized securities should be received by the City Treasurer within five (5) days and include the following information: trade date, par value, rate, price, yield, settlement date, description of securities purchased, agency's name, net amount due, third party custodial information. These are minimum information requirements.

I. Internal Controls

Investment duties shall be separated by having at least three persons perform the following functions for any particular investment: the recordation of investments and disbursements, confirmation receipts, the preparation of Treasurer's reports, wire transfers, bank reconciliations and treasury reconciliations. An independent analysis by the external auditor shall be conducted annually to screen internal control, account activity, including verification of all securities, and compliance with policies and procedures.

J. Interest Earnings

All interest earned on investments authorized by this Policy shall be allocated quarterly to all City funds based on the positive cash balances in each fund as a percentage of the entire pooled portfolio.

III. SAFEKEEPING OF SECURITIES

A. Safekeeping Agreement

The City shall contract with a bank or banks with federally insured deposits for the safekeeping services through a third party custodial agreement, (California Government Code Section 53601)[3] which includes delivery versus payment provisions, for securities which are owned by the City as part of its investment portfolio.

B. Handling of City-Owned Securities and Time Deposit Collateral

All securities owned by the City shall be held by the City or by its third-party custodian, except the collateral for time deposits in banks, savings banks, and savings and loan associations. The collateral for time deposits in banks and savings and loans shall be held in a trust account in the City of Gilroy's name. Dealers or brokers shall not hold any securities for the City. A broker is not an approved depository under California Government Code Section 53630 [4] and Section 53608 [5]

C. Security Transfers

The authorization to release City's securities will be telephoned to the appropriate depository or custodian by a Finance Department member other than the person who initiated the transaction. A written confirmation outlining the details for the transaction and confirming the telephone instructions will be sent to the bank within five (5) working days. A confirming notice documenting the transaction will be sent by the bank to the City within five (5) working days of the transaction.

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[3]Section 53601. Authorized Investments, circumstances. A local agency purchasing or obtaining any security . . . shall require delivery of the securities to the local agency . . . by book entry, physical delivery or by third party custodial agreement.

[4]Section 53630(c) allows state or national banks, state or federal savings banks or savings and loan associations, state or federal credit unions and federally insured industrial loan companies as approved depositories.

[5]Section 53608. Deposit of securities; delegation of authority. The legislative body of a local agency may deposit for safekeeping with a federal or state association, a trust company or a state or national bank located within this state or with the Federal Reserve Bank of San Francisco or any branch thereof within this state, or with any Federal Reserve Bank or with any state or national bank located in any city designated as a reserve city by the Board of Governors of the Federal Reserve System, the bonds, notes, bills, debentures, obligations, certificates or indebtedness, warrants, or other evidences of indebtedness in which the money of the local agency is invested pursuant to this article or pursuant to other legislative authority. The local agency shall take from such financial institution a receipt for securities so deposited. The authority of the legislative body to deposit for safekeeping may be delegated by the legislative body to the treasurer of the local agency; the treasurer shall not be responsible for

securities delivered to and receipted for by a financial institution until they are withdrawn from the financial institution by the treasurer.

D. <u>Verification of Security</u>

Securities held by an agent of depository as collateral securing time deposits will be verified in writing during the year by the City's independent auditors as part of the City's annual independent audit. The City's independent auditors confirm the collateral directly with the bank holding that collateral. Those securities held by that depository or custodian as collateral are subject to audit by the bank's auditors.

IV. <u>STRUCTURE AND RESPONSIBILITY</u>

This section of the Policy defines the overall structure of the investment management program.

A. <u>Responsibilities of the Finance Department</u>

The Finance Department, through its officers and representatives, is charged with the responsibility for maintaining custody of all public funds and securities belonging to or under the control of the City and for the deposit and investment of those funds in accordance with principles of sound treasury management and in accordance with applicable laws and ordinances.

B. <u>Responsibilities and Ethics of the City Treasurer</u>

1. Delegation of Authority

   The authority to manage the City's investment program is derived from the California Government Code Section 53600, et seq, The City Council is responsible for the management of the City's funds, including the administration of this investment policy. The authority of the City Council to invest or to reinvest funds, or to sell or exchange securities so purchased, is hereby delegated to the City Treasurer, who shall thereafter assume full responsibility for those transactions until the delegation is revoked and shall make quarterly reports of those transactions to the City Council. (California Government Code Section 53607).

2. Responsibilities

   The City Treasurer is appointed by the City Administrator and is subject to his direction and supervision. The City Treasurer is charged with the responsibility for the purchase, sale, custody and investment of City funds, and the development of procedures to implement this Investment Policy. In fulfilling his responsibilities, the City Treasurer is subject to the Prudent Investor Standard and shall render reports regarding compliance with the Investment Policy. The City Treasurer is further responsible for the duties and subject to the powers imposed by and applicable to City Treasurers under the general laws of the State of California.

3. Ethical Conduct

   The City Treasurer will demonstrate integrity in all public and personal relationships, protect the public trust, and seek no favor or accept any personal gain which would influence or appear to influence the conduct of the office of Treasurer.

C. Responsibilities of the City Administrator

The City Administrator is responsible for directing and supervising the City Treasurer. He is responsible further to keep the City Council fully advised as to the financial condition of the City and its compliance with this Policy.

D. Responsibilities of the City Council

The City Council shall consider and annually adopt a written investment policy. As provided in that policy, the Council shall receive and review quarterly investment reports and may annually delegate investment authority to the City Treasurer pursuant to California Government Code Section 53607.

E. Responsibilities of the Investment Committee

There shall be an Investment Committee consisting of the City Administrator, City Treasurer/Finance Director, and the Finance Manager. The committee shall meet quarterly to discuss cash flow requirements, monthly and quarterly investment reports, investment strategy, investment and banking procedures, significant investment related work projects being undertaken in each department which will affect the cash flow management of the City Treasurer and to review compliance with the investment policies adopted by the City Council. This will require timely reports from the department heads to the City Treasurer concerning significant future cash flow requirements.

V. REPORTING

The City Treasurer shall prepare a quarterly investment report, including a succinct management summary that provides a clear picture of the status of the current investment portfolio and transactions made over the past quarter by month. This management summary will be prepared in a manner which will allow the City Administrator and City Council to ascertain whether investment activities during the reporting period are in conformance with the City's Investment Policy.

The quarterly investment report will include the following:

A. A listing of individual securities held at the end of the reporting quarter showing the:

1. type of investment
2. institution
3. date of maturity

4. amount of deposit or cost of the security
5. rate of return

B. Unrealized gain or loss resulting from appreciation or depreciation by listing the cost and market value of securities over one year in duration.

C. Average yield of return on the City's investments.

D. Maturity aging for the investments.

E. Compliance of the investment portfolio with the Investment Policy.

F. A statement denoting the ability of the City to meet expenditure requirements for the next six months.

VI. REVIEW OF INVESTMENT MANAGEMENT

A. Statement of Policy

As set forth in California Code Section 53646(a), the City Administrator shall annually render to the City Council a statement of investment policy, which shall be considered by the Council at a public meeting.

B. Policy Review

This Investment Policy shall be reviewed annually by the City Council at a public meeting in accordance with state law to ensure its consistency with respect to the overall objectives of safety, liquidity, and yield. Proposed amendments to the Policy shall be prepared by the City Treasurer and after review by the Investment Committee shall be forwarded to the City Council for consideration at a public meeting.

Any recommended modifications or amendments shall be presented to the City Council for their consideration and adoption.

VII. AUTHORITY

This Policy was duly adopted by authority of the City Council of the City of Gilroy on the 1st day of July 2015 and was most recently re-adopted on ~~November 7, 2022~~October 16, 2023.