

Sewer Enterprise Study



CITY of CHICO

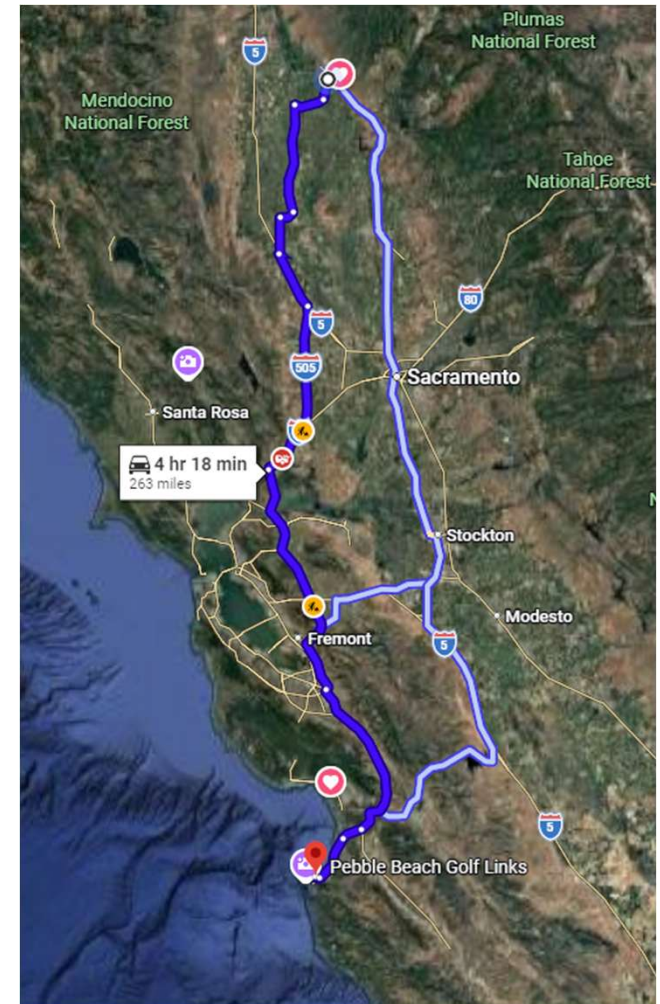
City Council Meeting
June 16, 2026

*David Kehn
Deputy Director
Public Works - Engineering*

**“A safe place to raise a family, an ideal location for business,
and a premier place to live.”**

Overview

- Background
- Alternative Revenue Sources
- CIP Reduction Scenarios
- Reduced Rate Scenarios
- Anticipated Bill Impacts
- Financing Options
- Next Steps

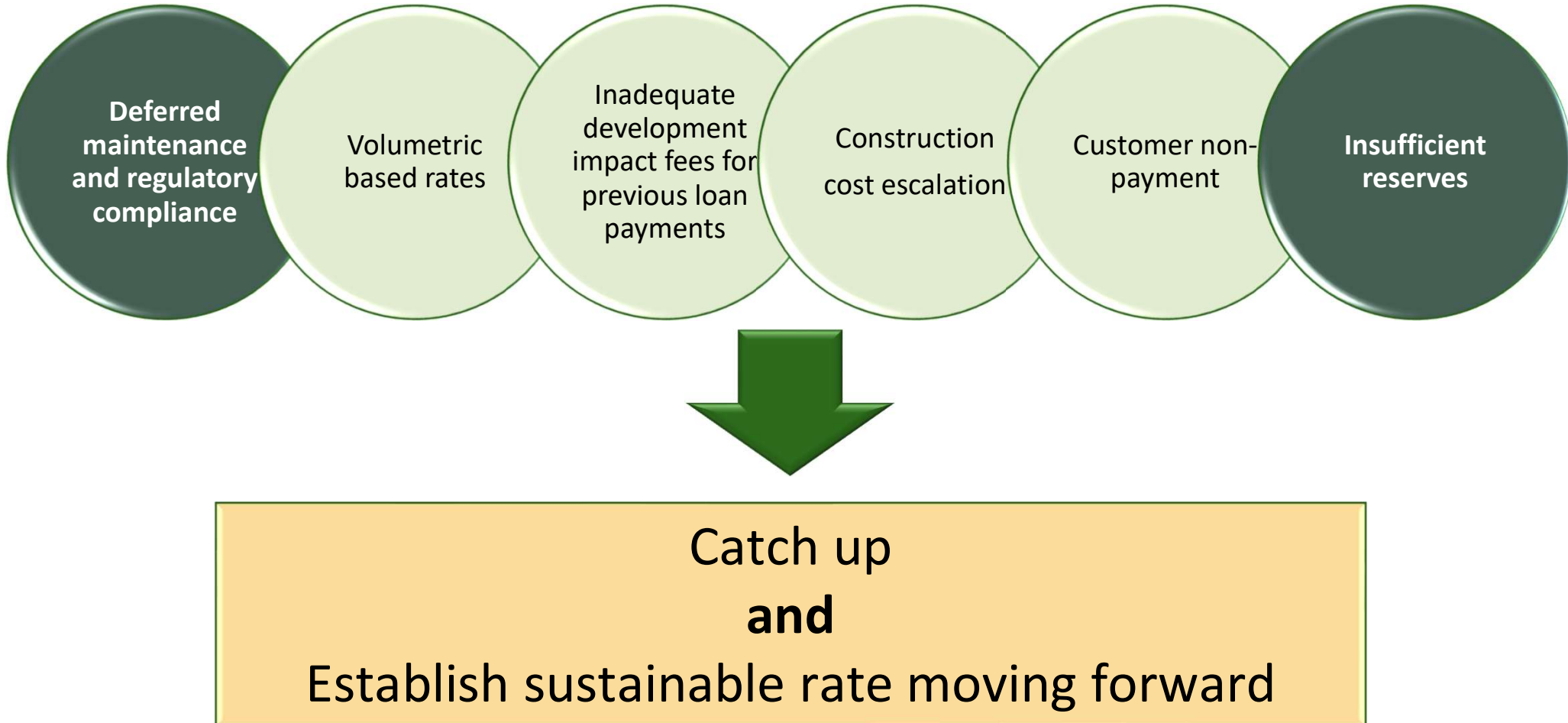


Chico maintains ~288 miles of pipe
(*Chico to Monterey*)



Sewer Fund Financial Condition

Key Challenges



Sewer Fund Financial Condition

Key Challenges

Deferred
maintenance
and regulatory
compliance

Volumetric
based rates

Inadequate
development
impact fees for
previous loan
payments

Construction
cost escalation

Customer non-
payment

Insufficient
reserves



**Catch up
and
Establish sustainable rate moving forward**



Customer Impacts

Cost to treat

| <u>STANDARD CLASSIFICATIONS</u> | <u>BOD₅</u> (ppm) | <u>TSS</u> (ppm) |
|--|---------------------------------|---------------------|
| Residential (average varies depending on average water usage per capita) | 175 to 250 | 175 to 250 |
| Auto Steam Cleaning | 1,150 | 1,250 |
| Bakery, wholesale | 1,000 | 600 |
| Bars without dining facilities | 200 | 200 |
| Car Wash | 20 | 150 |
| Department and Retail Store | 150 | 150 |
| Hospital and Convalescent | 250 | 100 |
| Hotel with dining facilities | 500 | 600 |
| Hotel/Motel without dining | 310 | 120 |
| Industrial Laundry | 670 | 680 |
| Laundromat | 150 | 110 |
| Laundry, commercial | 450 | 240 |
| Market with garbage grinders | 800 | 800 |
| Mortuary | 800 | 800 |
| Professional Office | 130 | 80 |
| Repair Shop and Service Station | 180 | 280 |
| Restaurant | 1,000 | 600 |
| School and College | 130 | 100 |



Revenue Program
Guidelines

Strength
Characteristics



Alternative Revenue Sources

Recycled Water

Cost

Benefit

Infrastructure

WPCP
Upgrades

Water supply

We have
these today

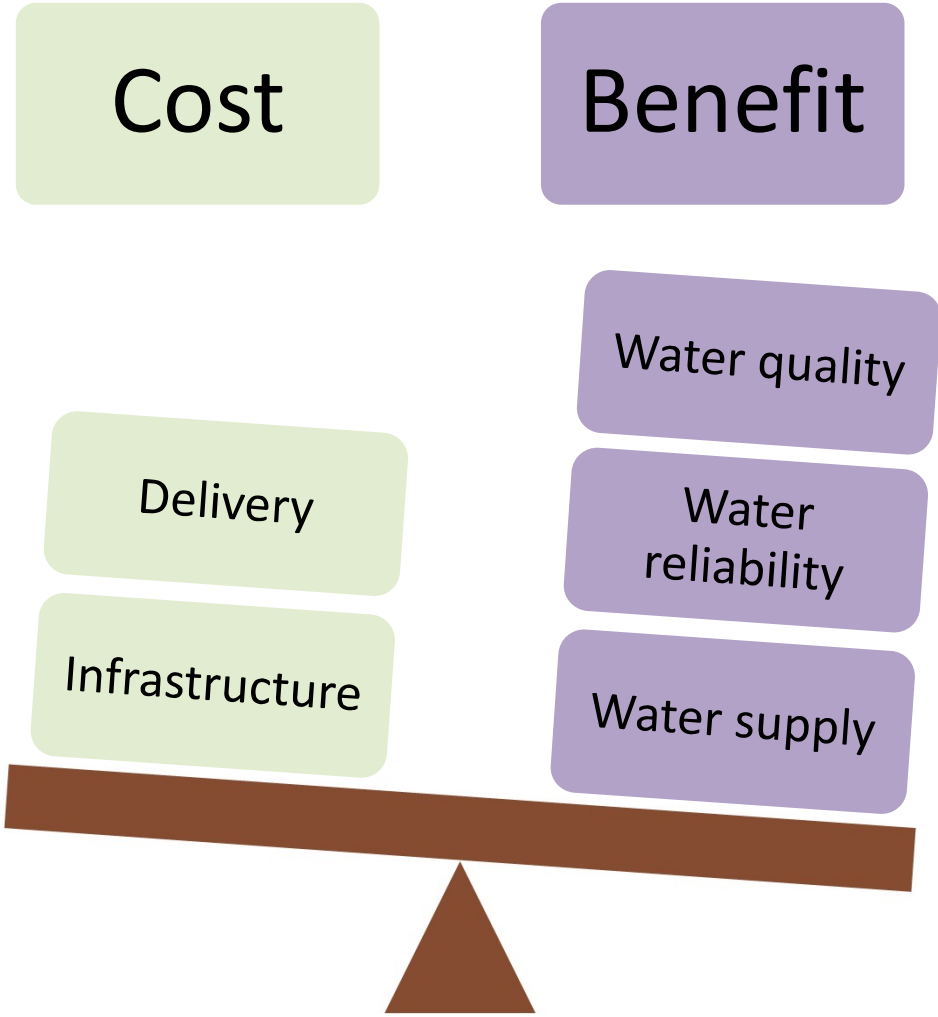
Water quality

Water reliability



Alternative Revenue Sources

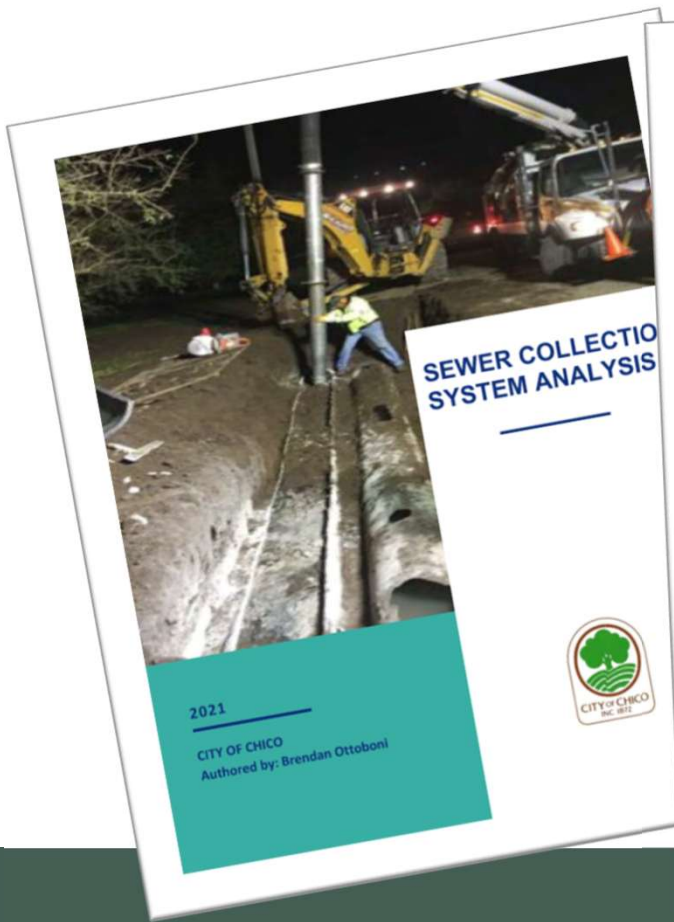
Recycled Water



Capital Improvement Plan

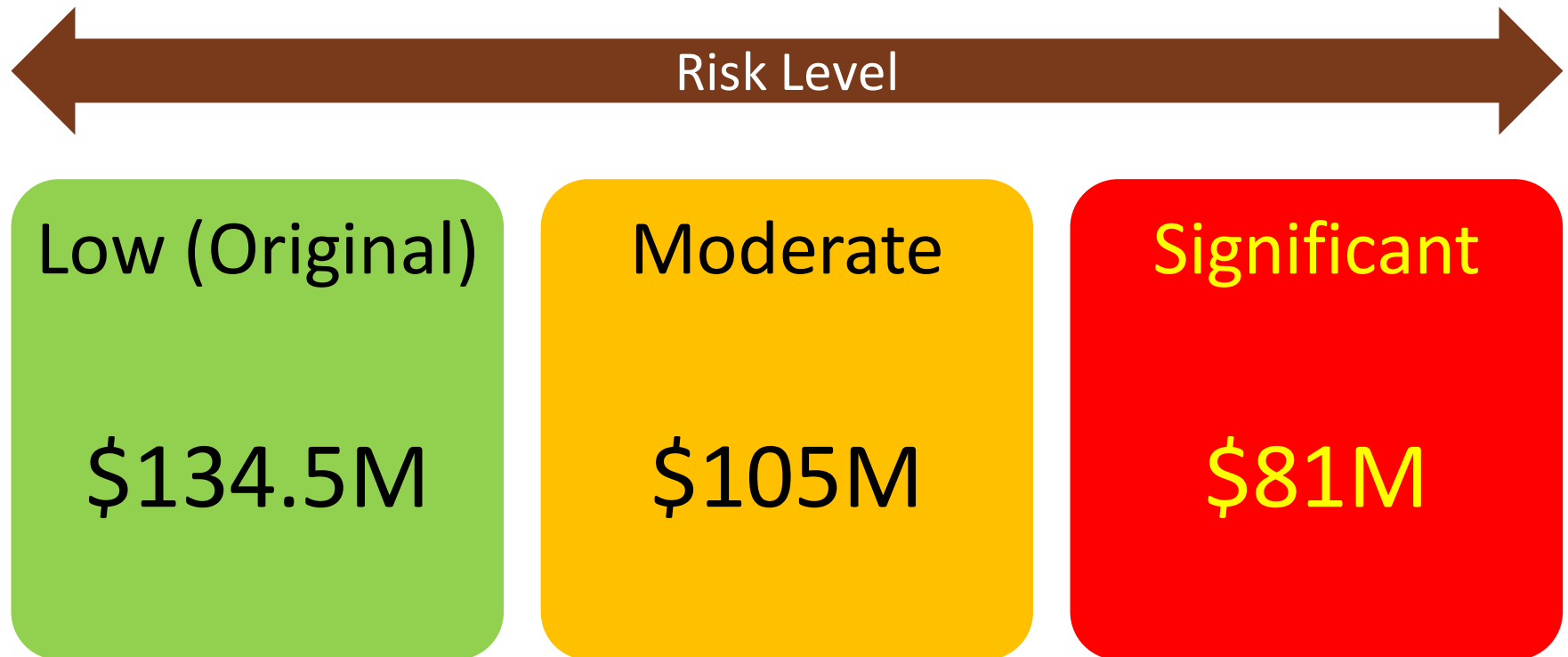
Presented at the March 17, 2026 Council Meeting

**Low (Original) Risk CIP Scenario – Option 1
(\$134.5 M 5-year CIP)**



Capital Improvement Plan

Reduced 5-Year CIP Scenarios



Capital Improvement Plan

Reduced 5-Year CIP Scenarios

Moderate Risk CIP Scenario – Option 4a, 4b, and 4c (\$105M 5-year CIP)

| Project Driver | Project | 5-Year Reduction |
|-------------------|--|--|
| Regulatory Driven | Pond Lining Project | \$48M to \$34M |
| | Remove Abandoned Outfall | \$2.7M to \$0 |
| Condition Driven | 2027 Sewer Pipe Replacement Project | \$4.2M to \$0 |
| | 2028 – 2032 Sewer Pipe Replacement Projects | \$21.6M to \$16.2M (\$5.4M reduction) |
| Capacity Driven | SSMP Existing User Contribution | \$4.3M to \$2.15M (\$2.15M reduction) |



Capital Improvement Plan

Reduced 5-Year CIP Scenarios

**Significant Risk CIP Scenario – Options 5a, 5b, and 5c
(\$81M 5-year CIP)**

| Project Driver | Project | 5-Year Reduction |
|-------------------|--|---|
| Regulatory Driven | Pond Lining Project | \$48M to \$34M |
| | Remove Abandoned Outfall | \$2.7M to \$0 |
| Condition Driven | 2027 Sewer Pipe Replacement Project | \$4.2M to \$0 |
| | 2028 – 2032 Sewer Pipe Replacement Projects | \$21.6M to \$10.8M (\$10.8M reduction) |
| | WPCP Projects >\$1M | \$34.4M to \$17.2M (\$17.2M reduction) |
| Capacity Driven | SSMP Existing User Contribution | \$4.3M to \$0 |

Risk: Significant rate increases are likely in 2032-2037.



Financing Options

Presented at March 17, 2026 City Council Meeting

Low Risk

Option 1

Cash Funded

- Large increase Year 1, small increases moving forward



Financing Options

Cash Funded and Debt Financing

Moderate
Risk

Option 4a

Option 4b

Option 4c

Increase
schedule

Large year 1,
small years 2-5

Moderate year 1-2,
small years 3-5

Moderate year 1-2,
small years 3-5
Debt Financing

Significant
Risk

Option 5a

Option 5b

Option 5c



Debt Financing Options

Loan Amount Driver

| Option | Loan Amount | Interest Rate | Loan Term (Years) | Annual Debt Service | Total Interest Paid Over Loan Term |
|--------|-------------|---------------|-------------------|---------------------|------------------------------------|
| 4c | \$30M | 4% | 20 | \$2,395,712 | \$15,355,730 |
| 5c | \$30M | 4% | 20 | \$2,395,712 | \$15,355,730 |



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| 4c | \$30M | 4% | 20 | \$2,395,712 | \$15,355,730 |
| 5c | \$30M | 4% | 20 | \$2,395,712 | \$15,355,730 |

~\$750,000 in interest annually



Financing Options

Revenue Requirements

| Risk | Option | Financing | FY 2027 | FY 2028 | FY 2029 | FY 2030 | FY 2031 | 5-Year Cumulative Revenue Increase | Rate Changes** FY 32-37 |
|----------------|--------|--------------|---------|---------|---------|---------|---------|------------------------------------|-------------------------|
| Low (Original) | 1 | Cash | 180% | 3% | 3% | 3% | 3% | 215.1% | 3%-5% |
| Moderate | 4a | Cash | 130% | 3% | 3% | 3% | 3% | 158.9% | 5%-10% |
| | 4b | Cash | 55% | 55% | 3% | 3% | 3% | 162.5% | 5%-10% |
| | 4c | Debt (\$30M) | 50% | 50% | 3% | 3% | 3% | 145.9% | 5%-10% |
| Significant | 5a | Cash | 95% | 3% | 3% | 3% | 3% | 119.5% | 25%-50% |
| | 5b | Cash | 45% | 45% | 3% | 3% | 3% | 129.7% | 25%-50% |
| | 5c | Debt (\$30M) | 40% | 35% | 3% | 3% | 3% | 106.5% | 25%-50% |

Customer bill impact will vary by customer class
 *Rate changes FY 32-37 are illustrative only



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Anticipated Bill Impacts

Reduced Rate Scenarios – Residential (7.2 HCF)

| Option | Existing Bill | Proposed Bill | Proposed Bill | Proposed Bill | Proposed Bill | Proposed Bill | |
|--------|---------------|---------------|---------------|---------------|---------------|---------------|---------|
| | | 2027 | 2028 | 2029 | 2030 | 2031 | |
| Cash | 4a | \$37.83 | \$80.79 | \$83.20 | \$85.66 | \$88.24 | \$90.86 |
| Cash | 4b | \$37.83 | \$54.40 | \$84.32 | \$86.82 | \$89.43 | \$92.09 |
| Debt | 4c | \$37.83 | \$52.69 | \$79.07 | \$81.43 | \$83.90 | \$86.41 |
| Cash | 5a | \$37.83 | \$68.46 | \$70.52 | \$72.62 | \$74.83 | \$77.08 |
| Cash | 5b | \$37.83 | \$50.97 | \$73.89 | \$76.09 | \$78.40 | \$80.74 |
| Debt | 5c | \$37.83 | \$49.18 | \$66.40 | \$68.39 | \$70.43 | \$72.56 |

Risk: Significant rate increases are likely in 2032-2037.



*Customer bill impact will vary Monthly Usage

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| Cash | 4a | \$37.83 | \$80.79 | \$83.20 | \$85.66 | \$88.24 | \$90.86 |
| Cash | 4b | \$37.83 | \$54.40 | \$84.32 | \$86.82 | \$89.43 | \$92.09 |
| Debt | 4c | \$37.83 | \$52.69 | \$79.07 | \$81.43 | \$83.90 | \$86.41 |
| Cash | 5a | \$37.83 | \$68.46 | \$70.52 | \$72.62 | \$74.83 | \$77.08 |
| Cash | 5b | \$37.83 | \$50.97 | \$73.89 | \$76.09 | \$78.40 | \$80.74 |
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| Cash | 5a | \$37.83 | \$68.46 | \$70.52 | \$72.62 | \$74.83 | \$77.08 |
| Cash | 5b | \$37.83 | \$50.97 | \$73.89 | \$76.09 | \$78.40 | \$80.74 |
| Debt | 5c | \$37.83 | \$49.18 | \$66.40 | \$68.39 | \$70.43 | \$72.56 |

Risk: Significant rate increases are likely in 2032-2037.



Option 4c

EXAMPLE ONLY

Debt Financed (\$30M)

| Class | Monthly Usage | Existing Bill | Proposed Bill | Proposed Bill | Proposed Bill | Proposed Bill | Proposed Bill |
|---------------------------|---------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | hcf | | 2027 | 2028 | 2029 | 2030 | 2031 |
| Residential | | | | | | | |
| House | 7.2 | \$ 37.83 | \$ 52.69 | \$ 79.07 | \$ 81.43 | \$ 83.90 | \$ 86.41 |
| Multi-Family | 5.5 | \$ 23.27 | \$ 41.33 | \$ 62.02 | \$ 63.87 | \$ 65.80 | \$ 67.78 |
| Duplex - 2 Meters | 5.6 | \$ 16.50 | \$ 44.64 | \$ 66.99 | \$ 68.99 | \$ 71.08 | \$ 73.21 |
| Duplex - 1 Meter | 5.6 | \$ 25.76 | \$ 44.64 | \$ 66.99 | \$ 68.99 | \$ 71.08 | \$ 73.21 |
| Commercial | | | | | | | |
| Bars w/o Dining | 23.7 | \$ 111.27 | \$ 181.13 | \$ 271.69 | \$ 279.94 | \$ 288.33 | \$ 296.86 |
| Brewery | 51.3 | \$ 608.80 | \$ 861.00 | \$ 1,291.76 | \$ 1,330.50 | \$ 1,370.44 | \$ 1,411.59 |
| Car Wash | 74.2 | \$ 242.34 | \$ 430.19 | \$ 645.66 | \$ 664.87 | \$ 685.15 | \$ 705.75 |
| Dorms | 369.0 | \$ 1,592.25 | \$ 2,632.62 | \$ 3,950.77 | \$ 4,067.89 | \$ 4,190.75 | \$ 4,315.66 |
| Hospital & Convalescent | 128.4 | \$ 550.21 | \$ 913.50 | \$ 1,370.89 | \$ 1,411.64 | \$ 1,454.39 | \$ 1,497.86 |
| Hotels w/o Dining | 206.6 | \$ 986.44 | \$ 1,593.96 | \$ 2,391.98 | \$ 2,463.16 | \$ 2,537.66 | \$ 2,613.41 |
| Hotels with Dining | 8.5 | \$ 75.99 | \$ 113.25 | \$ 169.92 | \$ 175.01 | \$ 180.26 | \$ 185.69 |
| Industrial Laundry | 575.8 | \$ 6,004.90 | \$ 8,570.12 | \$ 12,855.19 | \$ 13,241.88 | \$ 13,641.18 | \$ 14,047.33 |
| Laundromat | 113.4 | \$ 431.56 | \$ 730.99 | \$ 1,097.05 | \$ 1,129.73 | \$ 1,164.10 | \$ 1,199.04 |
| Markets/Bakeries | 82.4 | \$ 989.40 | \$ 1,388.75 | \$ 2,083.12 | \$ 2,145.34 | \$ 2,209.50 | \$ 2,275.59 |
| Mortuary | 12.2 | \$ 152.10 | \$ 208.18 | \$ 312.33 | \$ 321.66 | \$ 331.28 | \$ 341.19 |
| Restaurants (low) | 15.0 | \$ 179.81 | \$ 251.91 | \$ 377.86 | \$ 389.19 | \$ 400.86 | \$ 412.90 |
| Restaurants (mid) | 25.0 | \$ 299.69 | \$ 419.84 | \$ 629.76 | \$ 648.64 | \$ 668.11 | \$ 688.16 |
| Restaurants (high) | 71.2 | \$ 853.51 | \$ 1,195.71 | \$ 1,793.57 | \$ 1,847.33 | \$ 1,902.77 | \$ 1,959.88 |
| School | 72.4 | \$ 261.06 | \$ 450.57 | \$ 676.22 | \$ 696.61 | \$ 717.35 | \$ 739.17 |
| All Other | 18.9 | \$ 86.09 | \$ 137.68 | \$ 206.51 | \$ 212.70 | \$ 219.00 | \$ 225.58 |

**Customer bill impact will vary Monthly Usage*



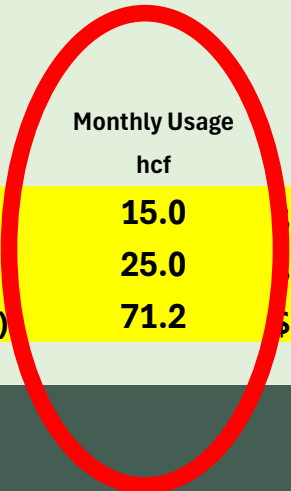
CITY of CHICO

Option 4c

EXAMPLE ONLY

Debt Financed (\$30M)

| Class | Monthly Usage hcf | Existing Bill | Proposed Bill 2027 | Proposed Bill 2028 | Proposed Bill 2029 | Proposed Bill 2030 | Proposed Bill 2031 |
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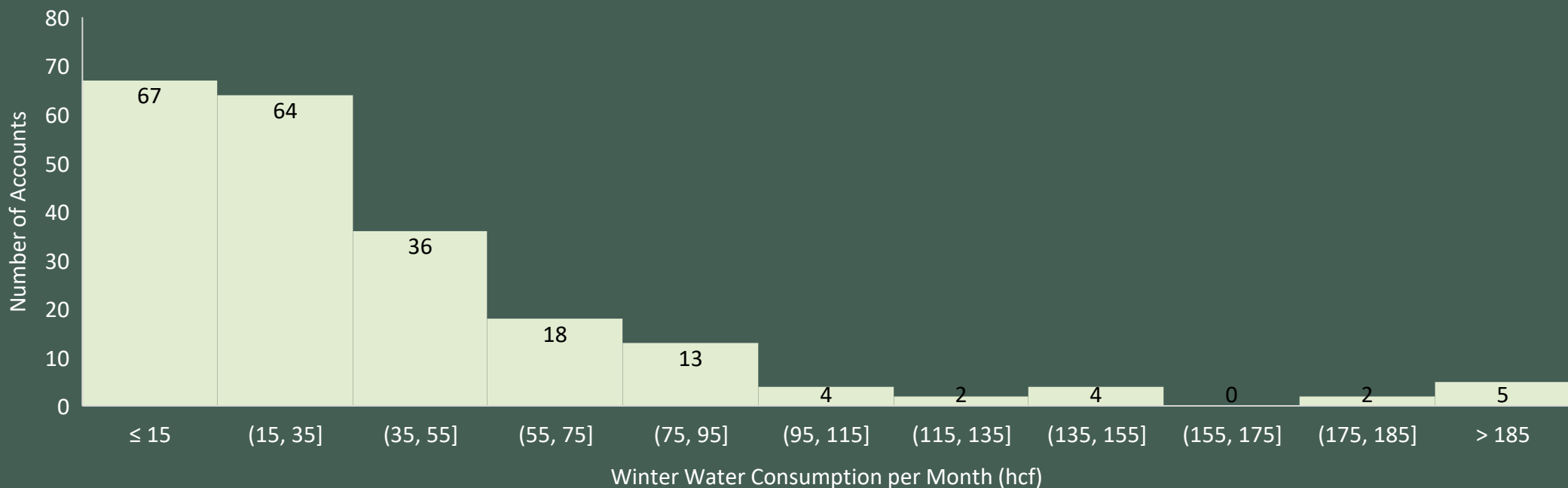


Option 4c

EXAMPLE ONLY

Debt Financed (\$30M)

Restaurant Accounts and Monthly Usage



| Class | Monthly Usage hcf | Existing Bill | Proposed Bill 2027 | Proposed Bill 2028 | Proposed Bill 2029 | Proposed Bill 2030 | Proposed Bill 2031 |
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**Customer bill impact will vary Monthly Usage*

**Number of accounts changes monthly*

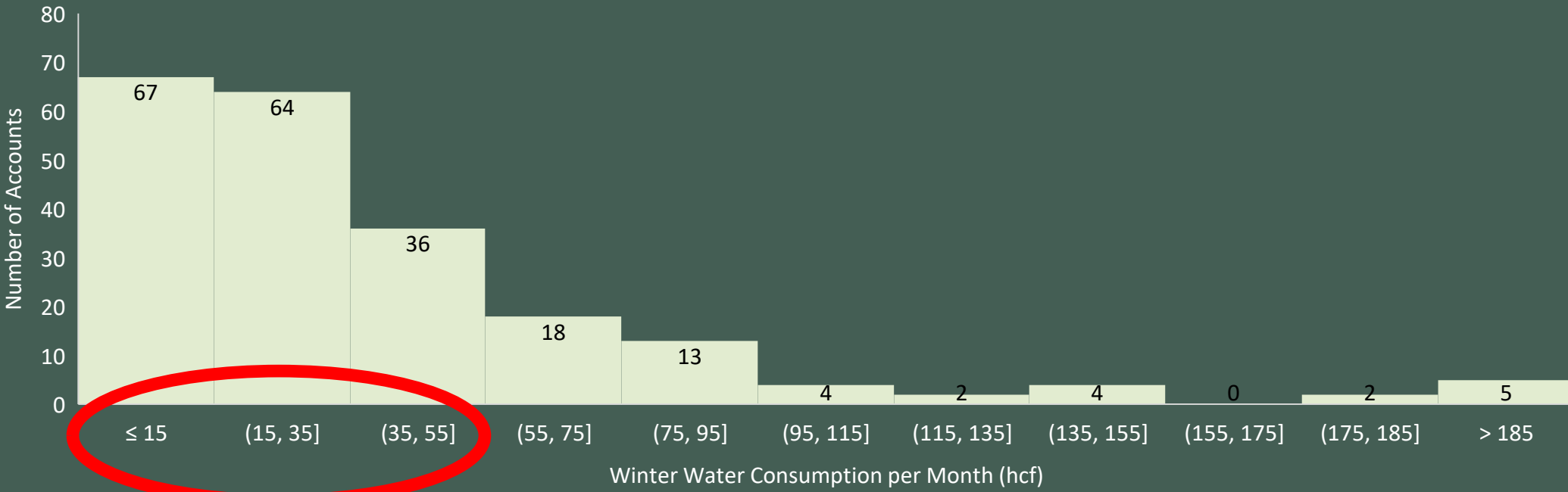


Option 4c

EXAMPLE ONLY

Debt Financed (\$30M)

Restaurant Accounts and Monthly Usage



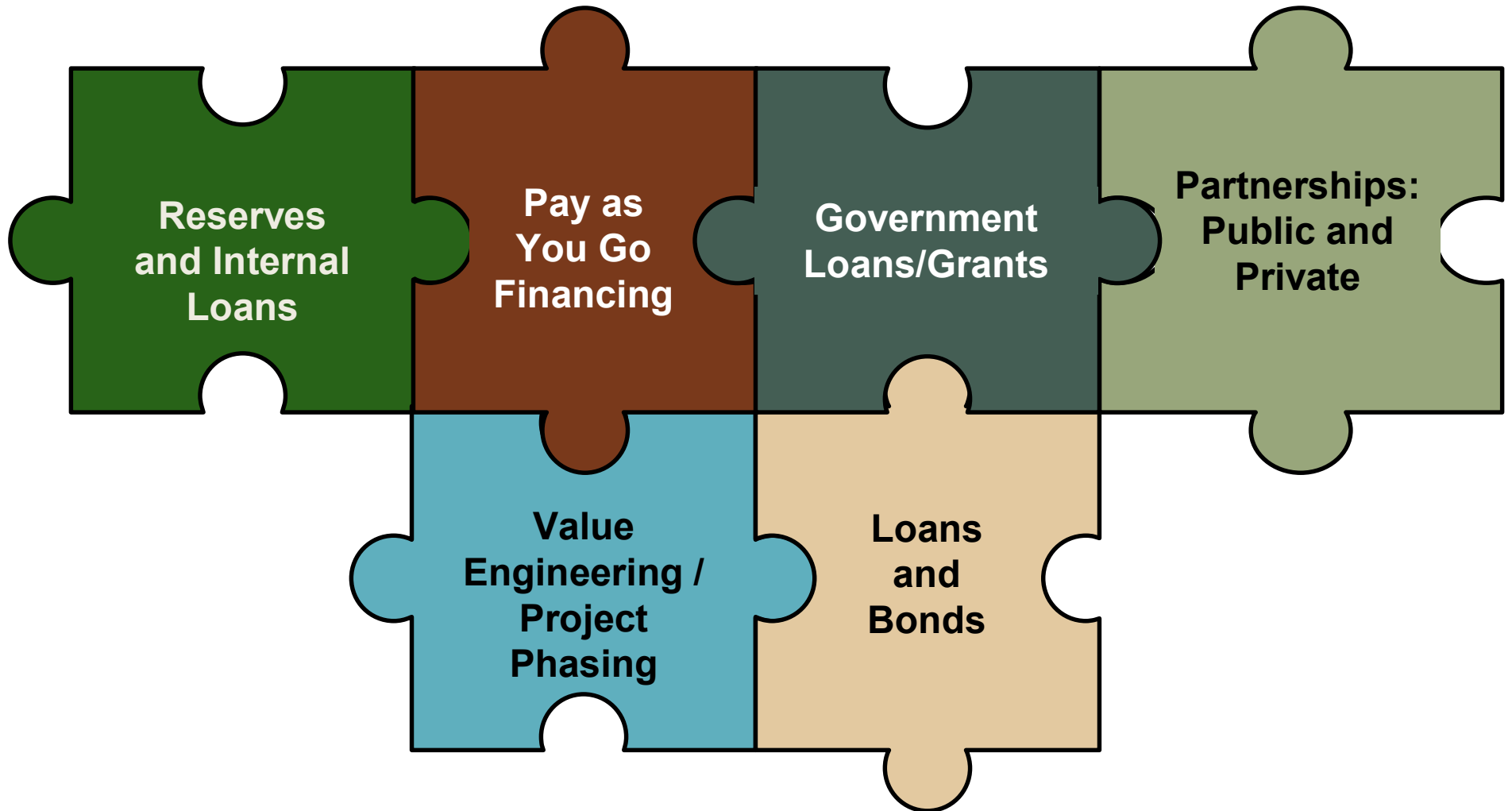
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**Number of accounts changes monthly*



Financing Options

Identify All Potential Resources



Financing Options

SRF, IBank, WIFIA, Bonds

| | SRF Loan | IBank Loan | WIFIA | Publicly Offered Revenue Bonds | Private Placement Revenue Bonds |
|--|--|-----------------------------------|---|---|------------------------------------|
| Limitations on Loan Sizes | \$50M (Currently) | \$65M (Currently) | No dollar limit, but cannot Fund >49% of cost | None; Only limited by ability to pay debt service | None; but typically under \$15-20M |
| Maximum Term | 30 years (After project completion) | 30 years | 40-year max (35-year amortization) | 30 years (sometimes 35 years) | 20 years |
| Structuring Flexibility | Level Debt Service Only | Level Debt Service Only | Flexible ("Wrap Around") | Flexible ("Wrap Around") | Flexible ("Wrap Around") |
| Timing from Start to Funding Date | ~1.5 – 2.5 years | ~4-6 months | ~1.5 Years | ~4 months | ~3 months |
| Prepayment without Penalty? | Not without State Approval | Not for 10 years (non-negotiable) | Most flexible (prepay starting year 1 after construction) | Usually 9-10 Years, but shorter is viable (negotiable) | Most flexible |
| Credit Rating Needed | No | No (but helpful) | Investment Grade Required | Yes | No (but helpful) |
| Est. Interest Rates Based on Current Market Conditions | 2.00% - 3.00% | 3.90% (20 Yr) – 4.50% (30 Yr) | 4.75% (35-Year) | 4.00% (20 Yr) – 4.50% (30 Yr) | 5.00% (20 Yr) |




Outreach

Home > Departments > Public Works > Sewer/Storm Drains Engineering > Sewer Enterprise Study

Sewer Enterprise Study

The City of Chico is evaluating sewer rates to ensure the long-term reliability and financial sustainability of the sewer system, addressing the costs of operating and maintaining critical infrastructure, meeting regulatory requirements, and planning for future system needs.




City of Chico's Water Pollution Control Plant: Spots

City of Chico



Watch on  YouTube

Proposed Changes to Sewer Service Charges



Chico Water Pollution Control Plant

Notice of Public Hearing

6:00 PM

Chico City Council Chambers
421 Main Street
Chico, CA 95928

City of Chico Estimated Sewer Bill Calculator

| User Inputs | |
|----------------------|--------------|
| Fiscal Year | FY 2026/2027 |
| Class (EDU) | House |
| Winter Average (hcf) | 5 |

Average winter water use (December to February) in hcf.

| | | | | | | | |
|---------------------------------|------|---|--------|---------|---|-----------------|---------|
| Class (EDU) | 1.00 | × | \$/EDU | \$57.00 | = | Fixed Charge | \$57.00 |
| Winter Average (hcf) | 5 | × | \$/hcf | \$5.74 | = | Variable Charge | \$28.70 |
| Total Monthly Sewer Bill | | | | | | | |
| \$85.70 | | | | | | | |

DRAFT

Estimate only. Charges are calculated from unrounded values and the total is rounded up to the nearest cent. Your actual bill may differ. The displayed fiscal years reflect the proposed 5-year rate schedule and are subject to change pending City Council action. Contact the City of Chico with billing questions.

Next Steps

June 2026

City Council approve
rate schedule and
initiate Prop 218

October 2026

City Council adopt a
resolution approving
new sewer rates

November 2026

New rates go into
effect



Staff Recommendation

Adopt a proposed sewer rate schedule.

Direct staff to initiate the Proposition 218 process, including preparation and distribution of the public hearing notice.

