



CITY OF SANTA FE

Memorandum

Date: October 17, 2025

To: Governing Body; Public Works and Utilities Committee; Finance Committee

From: Jesse Roach, Interim Public Utilities Director

RE: Water rate increase and rate structure change

EXECUTIVE SUMMARY:

This bill would increase the rates for City of Santa Fe Water (CoSF Water) utility service beginning in February of 2026 and then each January through 2030 for a total of five increases. This bill would also change the rate structure for residential accounts starting in 2027 by adding a third tier to residential water use rates. The average residential water bill would increase due to the combined effect of the rate increase and rate structure change, average users would see an increase in average monthly water bill in 2026, 2028, 2029, and 2030 with a one-time decrease in 2027 when the new rate structure goes into effect. Higher water users would see a greater water bill increase due to the implementation of the new rate structure.

BACKGROUND AND JUSTIFICATION:

Need for Rate Increase

Since water rates were last increased in 2013, general cost inflation has risen 41%, meaning CoSF Water's ability to fund operations and projects with rate revenue is significantly reduced. In addition, CoSF Water has four critically important capital projects in the planning or construction phases that must be completed to ensure a continued ability to provide a safe, reliable, and resilient supply of water to meet the needs of Santa Fe. These include major dam rehabilitation projects at both Nichols Dam and McClure Dam on the upper Santa Fe River, an upgrade to old and obsolete treatment plant processes at the Canyon Road Water Treatment Plant, and the San Juan Chama Return Flow Project, which is a key project to ensure future water resiliency. For a more in-depth explanation of the need for rate increases, please see the 16-minute presentation to City of Santa Fe Governing Body on April 30th, 2025. This presentation is available on the City's YouTube channel (<https://www.youtube.com/@cityofsantafe>) from minutes 16:50 – 32:50 of the meeting recording.

Desire for Rate Structure Change

In 2019 and 2020, a taskforce was assembled to engage with the City's financial consultant (FCS) on potential changes to the water rate structure. The taskforce included Public Utilities Department staff (PUD Department Director, Water Division Director, and Water Engineering Supervisor), two City Councilors (Rivera and Romero-Wirth), and three members of the public. The outcome of that effort included three recommendations:

1. Addition of a third tier to residential rates.



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2. Consider breaking multi-family accounts into two groups, one with more than 8 units, and another with 8 or fewer under the assumption that multi-family accounts serving fewer units would have water usage similar to residential customers, and those with a high number of units would have water usage similar to commercial customers.
3. Delay a change to the rate structure until a rate increase was needed.

The rate structure proposed here addresses the first recommendation and the third. An analysis of multi-family customer water usage suggests no obvious change in water usage patterns as a function of number of units, so splitting that group is not currently under consideration.

Proposed Residential Rate Structure Change

The rate structure proposed here would add a third usage tier to the residential rate structure, and remove the current seasonality of the residential tiers, but leave all other rates with the current structure. The proposed, residential tier breaks are set at 4000 gallons and 7000 gallons per month based on average residential winter use of less than 4000 gallons per month, and the current 7000 gallon winter tier break. The new third tier (more than 7000 gallons per month year-round) volumetric cost is set to be equivalent to the current second tier cost, and then the first and second tier cost set to result in a revenue neutral structure change. 4000 gallons per month represents essential indoor use, and residential customers will pay less for these first 4000 gallons with the new rate structure than they have over the past decade. The first-tier size also matches the first tier of Santa Fe County water use rates. The amount charged for the new tiers is selected to reward low water use (customers who use less than 6000 gallons per month will see their average summer and winter bills both go down) and send a strong financial signal to high water users. In summary, the structure proposed here is only a change for the residential usage class and will reward conservation and recover additional revenue from higher water users (typically due to outdoor use). Due to active changes to the City's utility billing software the rate structure change would not be implemented until January 1, 2027. The rate structure and impacts to summer and winter bills for different usage amounts is shown on the final page of this memo.

Expected Change to Water Utility Bills

Effective February 1, 2026, water rates would increase under this proposal. The average water bill would increase about \$2 per month, going from the current average of \$44 per month to around \$46 per month. Effective January 1, 2027, the new rate structure would be implemented with an additional rate increase. The effect of this combined rate structure change and rate increase would mean that starting in 2027, 75% of residential customers would see a one-year bill decrease during both the winter and summer. The customers representing the highest 5% of residential water users would see their bills rise in both winter and summer, while customers representing the highest 25% of residential water users would only see their summer bills rise. The average monthly residential bill of \$46 in 2026 will go to \$43 in 2027. In January of 2028, 2029, and 2030, the final three water rate increases proposed here would take effect, taking the average bill to \$45, \$47, and \$49 respectively.

ATTACHMENTS:

Bill and FIR



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Proposed Residential Rate Structure

	Tier 1	Tier 2	Tier 3
Tier Thresholds (kgals)	4	7	7+

2027 Rates (per kgal)	\$5.50	\$8.30	\$23.50
Ratio of Tiers	1.0	1.5	4.27

Tier 3 Fixed at \$23.50 - (\$21.72 current w/ 4 % increase FY26 & FY27)

