

**CITY OF SIMI VALLEY
MEMORANDUM**

AGENDA ITEM NO.

8A

August 26, 2019

TO: City Council

FROM: Department of Public Works

SUBJECT: APPROVAL OF PROPOSED SANITATION SERVICE RATES, AUTHORIZATION TO PROCEED WITH THE PROPOSITION 218 PROCESS, AND RECOMMENDATION TO SET A PUBLIC HEARING TO CONSIDER ADOPTION OF NEW SANITATION SERVICE RATES

STAFF RECOMMENDATION

It is recommended that the City Council:

1. Approve the proposed Sanitation Service Rates (fees and charges) and authorize staff to initiate a Proposition 218 process by mailing a notice of proposed Sanitation Service Rates and instructions on protesting the proposal;
2. Set a public hearing for October 28, 2019, to hear and tally protest ballots and consider adopting new Sanitation Service Rates.

BACKGROUND AND OVERVIEW

Sanitation Services for the City is funded by user fees that provide for the daily operation and maintenance of the Water Quality Control Plant (WQCP) and the sewer collection system. Maintenance projects typically include major facility component replacements within the WQCP or sewer system and are budgeted under capital projects for the Sanitation Fund. Sanitation fees primarily include ongoing service fees charged to all customers and connection fees, which are non-recurring, charged only to new customers when establishing service. The current single-family residential customer service fee is \$38.35 per month and is in most cases collected via the homeowner's property tax bill. Non-residential customers are mailed on a bimonthly bill.

Sanitation fees are viewed as property-related fees for a utility service and are subject to specific requirements of the California Constitution Article XIII D § 6(a), commonly referred to as Proposition (Prop) 218. The requirements include:

- The fees must only cover expenses to provide service to the customer assessed.
- An increase in the fee(s) must be approved by the customers under a protest-ballot procedure, where all affected property owners are notified and given the opportunity to protest the increase in writing or at a public hearing, and a majority protest prohibits the increase.
- A multi-year schedule of fee increases is allowed for up to five years.

The current Sanitation Fee Schedule for FY 2015-16 through FY 2019-20 was approved on May 4, 2015, following a Proposition 218 protest-ballot notification process, public hearing, and action by the City Council. With pending expiration of rates, staff is recommending that the City Council approve the proposed Sanitation Service Rates (Attachment A) for the next five-year period and initiate a Proposition 218 notification process.

FINDINGS AND ALTERNATIVES

Adopted FY 2019-20 Sanitation Budget

The current Sanitation annual budget projects total revenues at approximately \$22.4 million and total expenditures at \$24.8 million, resulting in a deficit of \$2.4 million. The primary source of revenues for Sanitation is Service Charges, which comprises approximately 96% of total revenue. Expenditures include Operating costs (salaries, supplies, expenses, transfers to other funds, including the General Fund, etc.), and Capital Projects. The overall Capital Project budget will be adjusted throughout the year to ensure the budget will end the fiscal year balanced.

Staff has been analyzing revenues and expenditures related to sewer services for several months to evaluate and identify the nexus between the proposed fees and the cost to provide services. Two key studies have been prepared: the *2019 Sewer System Reliability Assessment and Financial Plan Update*, and the *2019 Sanitation Rate Study (Draft)*. These reports may be reviewed in full on the City's website, specifically at www.simivalley.org/SanitationStudies, and printed copies may be reviewed at the Simi Valley City Hall Public Works service counter.

Staff and Carollo Engineers (consultant) have prepared the *2019 Sewer System Reliability Assessment and Financial Plan Update* to analyze the City's Sanitation infrastructure. The work began with a comprehensive review of WQCP and sewer system assets. From the review, 56 projects were identified to rehabilitate and replace the aging infrastructure over the next 20 years. The projects were prioritized and scheduled based upon a risk-of-failure rating. Project cost estimates were prepared for all 56 projects resulting in a total of \$168.4 million, with \$44.8 million for the WQCP, \$120.4 million for the sewer system, and \$3.2 million for other projects. These projects do not include the WQCP ESCO Schneider Electric contract that the City Council approved on August 12, 2019.

A utility fee increase requires that the agency prepare a report that clearly shows the nexus between the cost to provide the utility service and the proposed fees to cover costs. The *Sanitation Rate Study (Draft)* has been prepared by Black & Veatch in consultation with City staff to recommend sanitation fees (Service Rates) for the next five fiscal years.

The Study recommends rate increases in order to:

- Meet budgeted and projected operating expenses to maintain current service levels. Operations and maintenance costs related to Sanitation's Environmental Compliance Program, Collection System Maintenance, Plant Operations and Maintenance, as well as staff administration is projected to increase an average of 3.5% per year, from \$16.25 million in FY 2020-21 to \$18.62 million in FY 2024-25.

- Meet planned capital expenses; average annual capital expense is \$9.35 million for the next five fiscal years.
- Fund and maintain a 180-day operating reserve plus one-year capital reserve.

On July 29, 2019, the City Council approved the creation of a six-month (180-day) operating expense cash reserve and a Capital Repair and Replacement Reserve funded for unexpected capital costs with a one-year average of Capital Improvement Program (CIP) expenses for the Sanitation Fund. The reserve targets would provide stable funding for operating expenses, capital improvement expenses, and/or emergency repairs. An adequate reserve would result in positive cash flow, allow construction contracts to be awarded quickly, provide rate stabilization during periods of revenue shortages, and be set aside for capital replacements, perhaps on an emergency basis, in case of asset failure.

Black & Veatch recommended a six-month operating expense cash reserve of \$7.9 million and a Capital Repair and Replacement Reserve of \$9.6 million. Based on the current fiscal year budget and the reserve policy established by the City Council, a total Reserve of \$17.5 million is recommended in order to sustain the long term fiscal health of the WQCP. In order to cover operations, maintenance, and future capital projects, an average rate increase of \$3.50 per month will be required to achieve the \$17.5 million reserve target.

The Sanitation Fund currently has a balance that achieves the reserve target of \$17.5 million for FY 2020-21. However, over the next five years normal increases in operations and maintenance costs plus ongoing capital projects will reduce the balance below the reserve target. Although the fund balance will be below the desired reserve level for the next few years, the proposed average rate increase of \$3.50 per month for the next five years is designed to return the fund balance to the desired reserve target at the end of the five year period.

The actual amount of the reserve will fluctuate from year to year depending on expenses and capital projects. It is not known at this time what impact maintaining the reserve will have on future sanitation rates. The rates being proposed are for a five year period. Prior to the end of the five year rate program, a new rate analysis will be conducted which will address the amount needed to maintain the recommended reserve level as well as other Sanitation rates. At that time, the City Council will revisit the appropriate reserve level and a revised rate structure.

The Sanitation Rate Study recommends a revised rate structure to provide an updated nexus between costs and fees and to maintain fair and equitable fees for each customer category. The analysis found that residential customers should pay slightly less for services; therefore, non-residential customers (commercial, industrial, and institutional) should pay more for services to maintain necessary revenues for sustained operations.

The analysis shows that the City is treating less wastewater volume, as each year for the past ten years, the liquid volume has decreased. This is likely due to the efforts on both residential and business customers to conserve water by using water efficient devices and general reduction in water usage. The charge for residential sanitation rates is a flat charge per house, while business customers generally pay a fixed charge plus a variable charge, which varies by the quantity of water used by the business during the billing period.

Based on the proposed rate structure, when a business reduces water use, they pay less for sanitation charges, while a residential customer pays the same sanitation fee regardless of water use. The proposed fee structure corrects for the lower volume of liquid wastewater citywide, recognizing that some of that reduction in volume is due to residential water conservation measures.

Future fee increases for residential and non-residential customers are justified based on future cost requirements largely influenced by the need to maintain (rehabilitate and replace) infrastructure.

Recommended Sanitation Rates

Single family residential is the greatest user of sanitation services and therefore generates the most revenue. The recommended monthly service charge rate for a single-family residential customer for the next five years is as follows:

Current Rate	\$38.35 per month
July 1, 2020	\$41.24 per month
July 1, 2021	\$44.48 per month
July 1, 2022	\$47.97 per month
July 1, 2023	\$51.76 per month
July 1, 2024	\$55.85 per month

The non-residential and non-single family rates recommended for the next five years are as follows:

	CURRENT	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25
RESIDENTIAL FIXED RATES: (\$/MO.) (Non Single Family)						
Multi-Family	\$26.88	\$29.25	\$31.55	\$34.03	\$36.72	\$39.62
Senior Housing	\$20.79	\$22.86	\$24.65	\$26.59	\$28.69	\$30.96
Mobile Home	\$26.88	\$29.25	\$31.55	\$34.03	\$36.72	\$39.62
NON-RESIDENTIAL FIXED RATES: (\$/MO.)						
Office with LM (SCD)	\$33.55	\$39.89	\$43.02	\$46.40	\$50.07	\$54.03
Office without LM (SDL)	\$26.85	\$31.91	\$34.41	\$37.11	\$40.04	\$43.20
Commercial with LM (SCR)	\$40.92	\$48.49	\$52.30	\$56.41	\$60.87	\$65.68
Commercial without LM (SRL)	\$32.74	\$38.79	\$41.84	\$45.12	\$48.68	\$52.53
Restaurant with LM (SRR)	\$48.29	\$57.11	\$61.59	\$66.42	\$71.67	\$77.33
Restaurant without LM (RRL)	\$38.64	\$45.69	\$49.28	\$53.15	\$57.35	\$61.88
Café with LM (SRD)	\$48.29	\$57.11	\$61.59	\$66.42	\$71.67	\$77.33
Café without LM (RDL)	\$38.64	\$45.69	\$49.28	\$53.15	\$57.35	\$61.88
NON-RESIDENTIAL USAGE RATE: (\$/HCF OF WATER USE)						
Office with LM (SCD)	\$4.84	\$4.91	\$5.30	\$5.72	\$6.17	\$6.66
Office without LM (SDL)	\$3.85	\$3.93	\$4.24	\$4.57	\$4.93	\$5.32
Commercial with LM (SCR)	\$5.86	\$6.38	\$6.88	\$7.42	\$8.01	\$8.64
Commercial without LM (SRL)	\$4.71	\$5.11	\$5.51	\$5.94	\$6.41	\$6.92
Restaurant with LM (SRR)	\$6.92	\$7.85	\$8.47	\$9.13	\$9.85	\$10.63
Restaurant without LM (RRL)	\$5.53	\$6.28	\$6.77	\$7.30	\$7.88	\$8.50
Café with LM (SRD)	\$6.92	\$7.85	\$8.47	\$9.13	\$9.85	\$10.63
Café without LM (RDL)	\$5.53	\$6.28	\$6.77	\$7.30	\$7.88	\$8.50
OTHER VARIABLE RATES (\$/UNIT)						
High Schools (\$/STUDENT)	\$1.28	\$1.72	\$1.86	\$2.01	\$2.17	\$2.34
Other Schools (\$/STUDENT)	\$0.85	\$1.15	\$1.24	\$1.34	\$1.45	\$1.56
Septage Hauling (\$/750 GAL LOAD)	\$30.08	\$35.34	\$38.11	\$41.10	\$44.35	\$47.85
Wood Ranch/Big Sky SFR Lift Fee	\$107.47	\$100.43	\$108.32	\$116.82	\$126.05	\$136.01
Duplex Unit Lift Fee	\$74.90	\$73.90	\$79.70	\$85.95	\$92.75	\$100.07

The full schedule of proposed Sanitation rates, including other residential and all non-residential customers, is also presented in Attachment A, page 9. These increases in rates are required in order to fund the anticipated costs for operation, capital expenses, and reserve funding, as found in the *Sanitation Rate Study (Draft)* (Exhibit 1).

Rate Comparison to Neighboring Communities

The following table provides a comparison of the current and proposed single-family residential Sanitation Service Rate compared to neighboring communities. The proposed Sim Valley Sanitation Service Rates would remain among the lowest in the region.

City/District	Monthly Sewer Service Rate
City of Thousand Oaks	\$29.37
City of Port Hueneme	\$36.00
City of Simi Valley, Current	\$38.58
City of Simi Valley (2020-2021) - Proposed	\$41.24
City of Moorpark	\$47.90
City of Los Angeles	\$51.10
City of Santa Barbara	\$53.53
City of Camarillo	\$54.73
City of Oxnard	\$54.89
Triunfo Co. San. District (Oak Park)	\$55.03
Ojai Valley Sanitary District	\$55.36
City of Ventura	\$55.48
Las Virgenes Municipal Water District	\$82.27
City of Santa Paula	\$88.21
City of Fillmore	\$103.36

Proposition 218 Process

Utility service fees (such as sanitation fees) are service-related charges that may only be used to confer a direct benefit, such as sanitation services, directly to the payer. In accordance with court rulings, it has been concluded that Proposition 218 (California Constitution Article XIII D § 6(a)) governs utility fees. The Proposition 218 process entails a protest-ballot whereby property owners are notified of a proposed fee or fee increase and have a 45-day period to issue a protest against the fee increase, either in writing or at a public hearing.

For the proposed Sanitation Service rates, the City Council would ultimately determine whether to increase the fees after a public hearing is conducted and all protest ballots are tallied. If a majority of property owner's protest, then the fee cannot be adopted or increased. However, if the protest ballots do not constitute a majority of the parcel ownership, the Council may decide to either increase the fee or not. Based on the number of parcels with Sanitation services (approximately 38,000), a majority protest would require approximately 19,000 protests to be received. The Council then must also decide whether to continue to collect residential service fees via the tax roll, as has been done historically.

If the Council wishes to adopt the Sanitation Service Rates and collect those fees on the tax roll, the Council must pass an ordinance adopted by a four-fifths majority pursuant to Section 5470 et seq. of the California Health and Safety Code.

It should be noted that the Prop 218 notices will provide information on the maximum rate increase the City Council will be allowed to consider. After the public hearing, the City Council may choose to adopt the proposed rate increase or a lesser rate. Staff recommends the Council approve the draft Proposition 218 Notice for Sanitation Rates, FY 2020-21 to FY 2024-25 (Attachment B, page 10) and set October 28, 2019, at 6:30 p.m. as the date and time for the public hearing to consider adoption of new Sanitation Service Rates.

It should be noted that the recommended proposed rates are only being tentatively approved by the City Council. Approving the proposed rates this evening allows for the rate adjustment process to proceed. At the October 28, 2019 public hearing, the City Council will adopt a final rate schedule that cannot exceed the rates proposed this evening. At this October hearing, the City Council has the option to adopt final rates that are less than those proposed in this report.

Public Outreach

Following the approval of the proposed Sanitation Service Rates, staff will conduct public outreach to better inform the public on the need to increase rates. Outreach will include the following:

- Posting a notice to the City's website
- Providing a notice on Simi Valley Television (SVTV)
- Presentations at Neighborhood Councils
- Presentation at the Chamber of Commerce
- Presentation to the Budget Advisory Committee
- Conducting a special public meeting to provide an opportunity to discuss and ask questions about proposed Sanitation Service Rates.

The following alternatives are available to the City Council:

1. Approve the proposed Sanitation Service Rates and authorize staff to initiate a Proposition 218 process by mailing a notice of proposed Sanitation Service Rates and instructions on protesting the proposal;
2. Set a public hearing for October 28, 2019, to consider adopting new Sanitation Service Rates;
3. Provide staff with other direction.

Staff recommends Alternative Nos. 1 and 2.

SUGGESTED CITY COUNCIL MOTION

I move that the City Council approve the proposed Sanitation Service Rates, authorize staff to initiate a Proposition 218 process by mailing a notice of proposed Sanitation Service Rates, and set a public hearing for October 28, 2019, to consider adopting new Sanitation Service Rates.

SUMMARY

Sanitation Services for the City is funded by user fees that provide for the daily operation and maintenance of the Water Quality Control Plant (WQCP) and the sewer system, as well as funding infrastructure maintenance, including rehabilitation and replacement. Current sanitation fees were adopted on May 4, 2015.

The current single-family residential customer service fee is \$38.35 per month and is collected via the homeowner's property tax bill. The proposed monthly rate for a single family residential customer for the next five years is as follows:

Current Rate	\$38.35 per month
July 1, 2020	\$41.24 per month
July 1, 2021	\$44.48 per month
July 1, 2022	\$47.97 per month
July 1, 2023	\$51.76 per month
July 1, 2024	\$55.85 per month

Proposed rates for other residential and non-residential customers are outlined in Attachment A, page 9.

Staff recommends that the City Council approve the proposed Sanitation Service Rates, authorize staff to initiate a Proposition 218 process by mailing a notice of proposed sanitation rates, and set October 28, 2019, at 6:30 p.m. as the date and time for the public hearing to consider adoption of new Sanitation Service Rates.


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 Public Works Director

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