



STAFF REPORT

INFORMATION REPORT ON SEWER RATE SETTING METHODOLOGY

Honorable Mayor and Council Members:

Summary

At the regular City Council meeting of October 9, 2007, the City Council gave staff direction on sewer rate setting methodology that includes using the previous “winter period” water flow data to calculate the next fiscal year rates; and, directed staff to devise a rate setting methodology that would assure adequate revenue for the sewer services provided. (A copy of that staff report is embedded as an attachment in this report.)

Background and Discussion

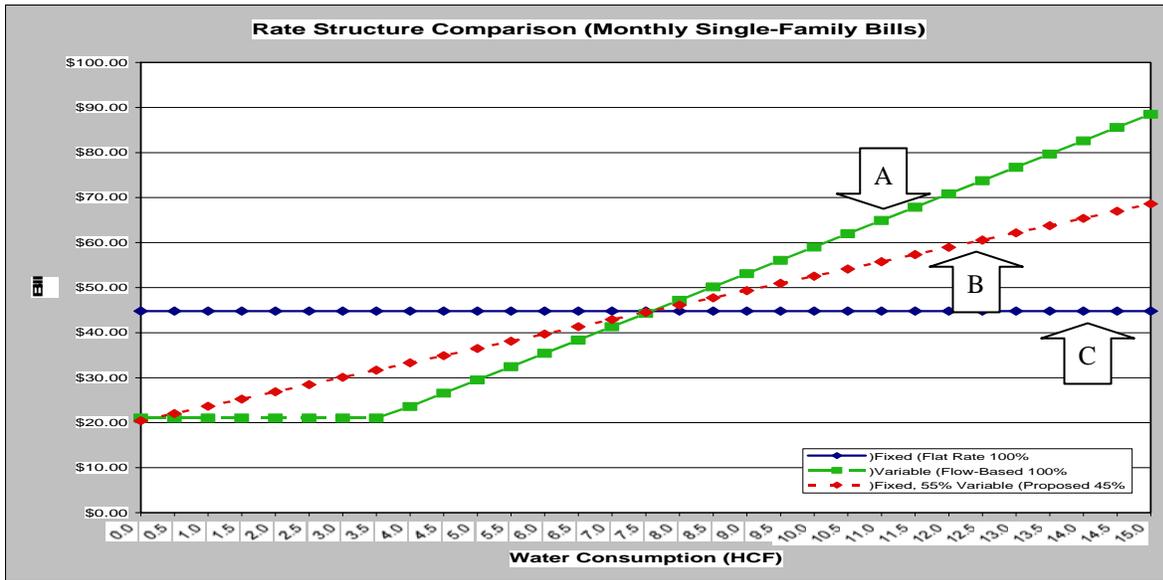
Each year the City conducts proceedings to implement its sewer charges. This involves the adoption of an ordinance setting forth the City’s sewer rates for the upcoming year, followed by approval of a report listing (by assessor’s parcel number) the specific amount of the charge against each parcel receiving sewer services. As a result of the California Supreme Court’s decision in the case of *Bighorn-Desert View Water Agency* (2006), the City altered its schedule for conducting these proceedings in order to comply with the requirements of Proposition 218 (Articles XIIC and XIID of the California Constitution). Specifically, the City must give 45 days written notice to property owners before it can hold each year’s rate revision hearing. In order to comply with the 45 day notice, the City has revised the period in which the flow is calculated to the Winter Period of the previous year between December 1 and March 31, and must also have the sewer rate methodology in place immediately in order to meet the Noticing requirements and place the charges on the tax rolls.

At the meeting of October 9, 2007, the City Council was presented with several options for formulating the methodology that would fairly distribute the costs of sewer service to the rate payers. The City Council directed staff to develop a rate structure that would best result in revenue that appropriately allocates costs between fixed costs and flow-related costs. A conventional cost-of-service analysis indicated that approximately 45% of the costs are fixed and 55% are flow-related based on the FY 2008-09 cost structure analysis. The analysis further allocates the flow-related costs to the loading categories that differentiate between the low-strength and high-strength customers based on the strength of their respective wastewater discharges.

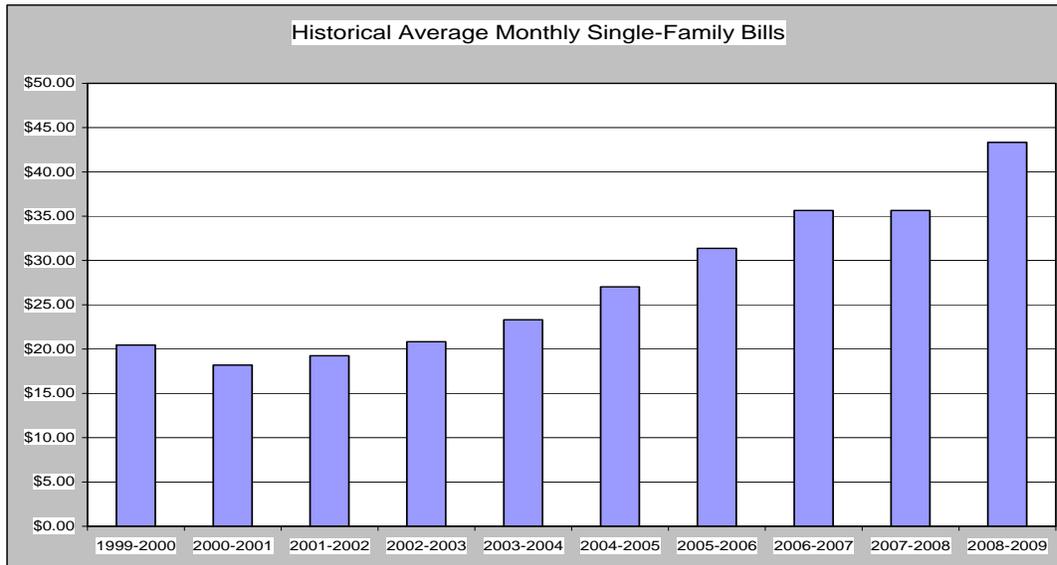
A purely “textbook” application of the findings results in a hybrid version of the rate structure. Prior to the development of the current rate structure in 2000, residential rate payers paid 0% of

their revenue from flow-related charges, which was viewed as inequitable. The currently used rate structure shifted 100% of the charges to flow, including a minimum charge, which, although equitable, made the revenue too dependent on fluctuating annual flows. The proposed approach moderates these fluctuations by aligning the charges with the costs so that 45% of the cost is paid from a fixed charge referred to as a “service charge.” The service charge would be charged per account based on the principle that all accounts place a minimum, equivalent burden on the facilities that must be recovered regardless of the load that each customer places on the facilities. In this respect, the service charge resembles the current minimum charge; however, the service charge would be paid by all accounts regardless of flow, whereas the minimum charge currently only applies to customers using less than half the average for the customer class.

Below are two graphs that give you an idea of how the different rate calculation models affect the rates of single family rate payers. On the first graph, the flat line represents the flat rate that was used previously. Line A (green) reflects the rates using the current methodology of a minimum rate or volumetric, and the Line B (red) represents the recommended new methodology based on a fixed rate for all ratepayers plus the volumetric usage per ratepayer. Line C (blue) represents a flat rate.



The graph below demonstrates the historical average monthly rates for single family properties including where that average will be using the new recommended methodology of fixed rate plus volumetric usage.



The remaining 55% of flow-related cost would be converted to an average charge per hundred cubic feet (hcf) for the low-strength and high-strength customer classes to reflect the differences in the strength of their respective discharges. Because approximately 37% more revenue is generated by the service charge compared to the current minimum charge, the proposed flow-related charges decrease considerably. The combined effect of restructuring the fixed and flow-related charges significantly changes some customers' bills. At the meeting of February 26, the City Council will hear a presentation from John Farnkopf explaining the updated rates projections over the next 5-year period, which indicates the need for an 8.5% rate increase in FY 2008-09 for the revenue requirement. He will further describe the proposed new rate structure and also assist the City Council in evaluating options, if needed. Also, at the meeting of February 26, the City Council will be asked to adopt a resolution which sets the rules for tabulating the protests, schedules a public hearing; and proposes the new rate structure. Please see the attached calendar of required events necessary to meet the Proposition 218 guidelines.

General Plan/Vision Statement

No impact.

Fiscal Impact

The presentation coming before the City Council at the February 26th meeting will demonstrate the effects on rates using this new methodology and will forecast revenue requirements for the next five years. Currently, indications are that the revenue requirement increase for fiscal year 2008-2009 will be approximately 8.5%, but individual parcel rate increases will vary depending on volumetric usage and the more equitable distribution of fixed costs for the Belmont collection system **only**. Additional revenue will be required for the major capital improvements at the SBSA sewer plant in the very near future. Those costs will either affect the City of Belmont rate increase substantially or those costs will be charged separately by SBSA. The method those

costs will be charged to the ratepayers is yet to be determined, but either way will result in a substantial impact on the rate payers property tax bill.

Public Contact

Posting of the City Council agenda.

Recommendation

Information only. The City Council directed the staff to formulate a methodology to guarantee the revenue to cover the cost of the services.

Alternatives

None identified.

Attachments

- A. Calendar of Required Events/Actions
- B. October 9, 2007 Staff Report - Sewer Rates

Respectfully submitted,

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**Schedule for Sewer Service Charges Revisions
Fiscal Year 2008-2009**

2008

January 18	Staff meets with Bartle Wells & Associates regarding SBSA Financial Planning
January 24	Review recommended rate increase with City staff (John Farnkopf)
February 12	Staff Report - Information on rate setting Methodology (Consent)
February 12	NBS completes preliminary sewer charges per parcel (Tim Seufert)
February 12	SBSA General Manager, Dan Childs, to address City Council regarding Capital Expenditure requirements at the Treatment Plant (Tentative)
February 18	NBS Completes production of draft "45 Day Notice" (Tim Seufert) copy to John Farnkopf
February 19	Farnkopf Presentation of 5-Year rate Analysis due to the City Clerk
February 7	Meeting with SBSA cities' Staff to discuss Infrastructure Financial Planning
February 21	Meeting of City Council Infrastructure Subcommittee to discuss Sewer Rates/Infrastructure Costs
February 26	Report to City Council on recommended sewer rate with draft copy of 45 day Notice (John Farnkopf)
February 26	Adopt Resolution (i) setting rules for tabulating protests, (ii) scheduling public hearing* and (iii)_proposing rate structure*. [portions marked with * included principally for benefit of council/staff coordination, not legally required]
March 11	Reserved for held over action from February 26, if any
March 12	Send 45 day Notice to Printer
March 20	Meeting of City Council Infrastructure Subcommittee to discuss Sewer Rates/Infrastructure Costs
March 26-28	Mail 45 day Notices to property owners (Tim Seufert)
Mar 25-May 13	Track written and verbal responses from property owners (Tim Seufert)
May 8	Meeting of City Council Infrastructure Subcommittee to discuss Sewer Rates/Infrastructure Costs
May 13	(A) Public Hearing and Tally of Protests (Maureen) (B) Introduction (First Reading) of Ordinance Revising the City's Sewer Charges

(Maureen)

May 27 (4)	Second Reading of Ordinance Revising the City's Sewer Charges (consent calendar)
Week of June 16	Filing of 2008-09 Sewer Charge Report (transmittal data) with City Clerk Publish notice of July 8 public hearing on Sewer Charge Report (Maureen Lennon)
Week of June 23	Publish notice of July 8 public hearing on Sewer Charge Report (Maureen Lennon)
June 12	Meeting of City Council Infrastructure Subcommittee to discuss Sewer Rates/Infrastructure Costs
June 26	Rate Ordinance takes effect
July 8	Public Hearing Resolution Approving the Report of Sewer Charges for Fiscal Year 2008-09 and Directing the Filing of Charges for Collection by the County Auditor
August 1	Send new rates for all properties to County of San Mateo for Tax bill