



Staff Report

DISCUSSION AND DIRECTION REGARDING THE SOUTH BAYSIDE SYSTEM AUTHORITY CAPITAL IMPROVEMENT PROGRAM RATE ANALYSIS

Honorable Mayor and Council Members:

Summary

The South Bayside System Authority (SBSA) has proposed a Capital Improvement Program (CIP) that will begin with design this fiscal year and be completed over the next ten years. SBSA is a Joint Power Authority consisting of four member agencies (Belmont, San Carlos, Redwood City and West Bay Sanitary District). The current estimated total cost (FY 2007) is approximately \$340 million dollars. With 4% construction cost inflation, the 10-year total is expected to exceed \$400 million. The planned approach for Belmont to fund the SBSA CIP is to place a new and separate Sewer Treatment Facility Charge (Charge) on the tax bill. A Proposition 218 hearing will be required before the City Council can impose this charge.

A rate analysis report to determine the maximum charge (Exhibit A) has been prepared for City Council review so Council may discuss and provide direction to City staff. If the Council approves the rate analysis, then the next step would be an authorizing resolution (Draft enclosed as Exhibit B), submitted for approval at the February 10, 2009, Council meeting. The authorizing resolution would direct the mailing of the Proposition 218 Notices. The authorizing resolution would set rules for tabulating protests, propose the rate structure, and schedule a public hearing. After the authorizing resolution is mailed, Staff would then commence direct public outreach to provide information regarding the SBSA CIP, including public workshops/meetings to inform property owners about the proposed rates.

Background

On February 26, 2008 SBSA General Manager Dan Child addressed the City Council regarding capital expenditure requirements for the sewer treatment facilities.

On July 8, 2008, City staff and SBSA representatives gave a joint informational presentation to Council and received direction on next steps to be taken in developing the financing of the SBSA CIP. Staff was directed to begin taking the steps necessary to develop a rate proposal, conduct a Proposition 218 process, and consider SBSA's financing mechanism or a stand-alone City debt issue. In addition, staff was directed to review the rate analysis and financing mechanisms with the Finance Commission and the Infrastructure Sub-Committee, and come back to Council with an action plan showing the next steps for the Proposition 218 hearing to establish a new Sewer

Treatment Facility Charge.

On July 14, 2008, the Infrastructure Sub-Committee reviewed preliminary rate analyses methodologies, based on SBSA's financing mechanism. The committee provided direction and input on the preliminary methodology used in the calculations.

On August 14, 2008, the Finance Commission met for a Special Meeting to consider the SBSA CIP Financing proposal. After hearing from the Bond Team that the SBSA proposal would (i) negatively impact the City's current debt holders, (ii) impede the City's ability to issue future debt to improve the City's conveyance system and (iii) provide unlimited authority to SBSA to pass debt and thereby obligate the City to repayment, the Commission recommended that the City issue debt on a stand-alone basis for the SBSA CIP and proceed with a Proposition 218 process for a new charge dedicated to those improvements. They also recommended that the charge be a fixed rate with staff discretion for a mild inflator and separated out from conveyance and treatment charges on rate payers' bills. Lastly, the Commission included in their recommendation a strong suggestion that City staff pursue opportunities to collect State and Federal grants if available.

On August 15, 2008, the Infrastructure Sub-Committee also considered the SBSA CIP Financing proposal. After reviewing the Finance Commission's recommendation, the Committee concurred with the Commission's recommendation and further recommended that a graphic illustrating the elements of the SBSA CIP be provided to the Council.

Based on recommendations from the Finance Commission and Infrastructure Sub-Committee, the action plan for the Proposition 218 Noticing was amended, and SBSA was notified that the City of Belmont staff would be proposing to Council that the City not participate in the SBSA debt issuance.

On September 23, 2008, the City Council directed that City staff issue debt on a stand-alone basis for the SBSA CIP and approved the Action Plan for development of a sewer treatment charge to support the South Bayside System Authority Capital Improvement Program. The Action Plan proposed presentation of a Rate Analysis at the January 13, 2009 City Council meeting. This was to be followed at the February 10, 2009 City Council meeting by consideration of an authorizing resolution directing the mailing of a Proposition 218 Authorizing Notice, setting rules for tabulating protests, establishing the public hearing date, and proposing the rate structure.

On December 8, 2008, the Infrastructure Sub-Committee heard a detailed presentation of the Rate Analysis, prepared in accordance with previous recommendations to develop a fixed rate, and the Rate Analysis Methodology was recommended for approval. In addition the Committee made a strong recommendation that after the Authorizing Notice is approved, that the City provides direct public outreach to residents and businesses informing them of the proposed charge, its need, and/or its basis.

Following the Infrastructure Sub-Committee meeting the analysis was further reviewed and final amendments made to develop the recommendation. The recommendation is that City of Belmont use the Los Angeles County Sanitation District methodology in determining the Sewer Treatment Facility Charge to fund the City of Belmont portion of the SBSA CIP. The recommendation is discussed in detail in HF&H's final rate analysis report.

Discussion

The CIP future project cost is estimated at approximately \$400 million dollars. Belmont's share of the future dollar cost is \$45 million dollars. The program cost is fairly evenly split between the treatment plant improvement cost (\$14 million), the Belmont pump station (\$15 million) and the force main (\$16 million).

The Rate analysis was prepared based on recommendation from the Finance Commission and Infrastructure Sub-Committee that the charge be a fixed rate with staff discretion for a mild inflator. In order to structure the Treatment Facility Charge so that proceeds will have minimal fluctuation from year-to-year, HF&H Consultants, LLC recommended the use of the Los Angeles County Sanitation Districts' (LACSD) rate structure. This rate structure has been used for many years by LACSD and has been adopted by other jurisdictions outside the LACSD as well. The unit charges for each customer class are based on flow and loading strength studies. The rate structure that results is one of fixed rates per unit for each class (not based on metered water use data) that is not anticipated to require adjustment on an annual basis; however, it is anticipated that an annual review will be necessary to ensure the revenues collected are sufficient to meet the debt service requirements. As with any projection, should the assumptions upon which the rate analysis is based change, the rates will also need to be adjusted.

The rate structure derived by LACSD uses single-family residential flow and loading strength characteristics as the baseline, or one equivalent dwelling unit (EDU). The strength of each other customer class is expressed relative to the strength of single-family residential flow. Once these strength factors are determined for each class, the calculation of the proposed rates per billing unit is a relatively simple one.

The strength factor for each customer class is multiplied by the number of billing units (dwelling units, 1,000 square feet, etc.) in that class to reach the number of EDUs in each class. The EDUs from all classes are totaled. The annual revenue requirement is divided by the total number of EDUs to reach the annual rate for one billing unit. This amount is multiplied by each class' strength factor to arrive at the rate per unit for each class. **Figure 1** shows the annual rate per billing unit for all customer classes. Charges for each parcel are calculated by multiplying the number of billing units on that parcel by the rate per billing unit for each parcel's class.

Figure 1. Treatment Facility Charges Per Billing Unit

Customer Class	Billing Units	Annual Rate per Billing Unit	Customer Class	Billing Units	Annual Rate per Billing Unit
Residential			Commercial (continued)		
Single Family Home	Dwelling Unit	\$249.58	Light Manufacturing	1000 ft ²	\$95.02
Multi-Unit Residential	Dwelling Unit	\$174.92	Lumber Yard	1000 ft ²	\$50.66
Condominiums	Dwelling Unit	\$200.96	Warehousing	1000 ft ²	\$71.95
Mobile Home Parks	Spaces	\$224.47	Open Storage	1000 ft ²	\$471.17
Commercial			Drive-in Theatre	1000 ft ²	\$33.65
Hotel/Motel/Rooming House	Rooms	\$143.24	Night Club	1000 ft ²	\$562.51
Store	1000 ft ²	\$137.53	Bowling/Skating	1000 ft ²	\$447.41
Supermarket	1000 ft ²	\$571.01	Club & Lodge Halls	1000 ft ²	\$50.96
Shopping Center	1000 ft ²	\$553.33	Auditorium, Amusement	1000 ft ²	\$562.51
Regional Mall	1000 ft ²	\$537.59	Golf Course and Park	1000 ft ²	\$360.94
Office Building	1000 ft ²	\$89.23	Campground, Marina, RV Park	Sites, Slips, or Spaces	\$106.97
Medical, Dental, Veterinary	1000 ft ²	\$276.30	Convalescent Home	Beds	\$152.24
Restaurant	1000 ft ²	\$1,435.29	Horse Stables	Stalls	\$64.69
Indoor Theatre	1000 ft ²	\$201.17	Laundromat	1000 ft ²	\$6,144.35
Car Wash			Mortuary, Funeral Home	1000 ft ²	\$131.67
Tunnel - No Recycling	1000 ft ²	\$5,943.18	Health Spa, Gym with Showers	1000 ft ²	\$964.84
Tunnel - Recycling	1000 ft ²	\$4,376.43	Health Spa, Gym without Showers	1000 ft ²	\$299.01
Wand	1000 ft ²	\$1,125.02	Convention Center, Fairground, Racetrack, Sports Stadium/Arena	Avg. Daily Attendance	\$15.19
Bank, Credit Union	1000 ft ²	\$161.69	Institutional		
Service Shop, Vehicle Maint. & Repair	1000 ft ²	\$172.25	College/University	Students	\$28.35
Animal Kennels	1000 ft ²	\$161.69	School	1000 ft ²	\$163.69
Gas Station	1000 ft ²	\$284.52	Library, Museum	1000 ft ²	\$105.57
Auto Sales	1000 ft ²	\$97.27	Post Office (Local)	1000 ft ²	\$161.69
Wholesale Outlet	1000 ft ²	\$161.69	Post Office (Regional)	1000 ft ²	\$64.69
Nursery/Greenhouse	1000 ft ²	\$41.24	Church	1000 ft ²	\$65.59
Manufacturing	1000 ft ²	\$517.00			

It is noted that the maximum annual rate per billing unit that will be adopted by the City will include unit rates for customer classes that currently do not exist in the City of Belmont, but that do exist in the LACSD service area. These rates are proposed to be adopted by the City of Belmont, so that should the City have new commercial development in the future that is of a type not currently existing in the City, the City will have the flexibility to readily determine an appropriate rate for that new customer class.

To evaluate the impact of the Charge, the amount of the median and largest bills in each customer class was calculated. For residential customers, the bill for the proposed Sewer Treatment Facility Charge is about half the size of the bill for the existing local sewer system charge, for those customers with average flow. For restaurants and supermarkets, bills will be similar in size to the local system charge. For other business types, this comparison is difficult to make in summary form. The amount of the median and maximum bill for each use is shown in **Figure 2**. The median bill is the charge to the parcel in the middle of each class when the parcels are ordered by number of billing units. The maximum bill is the charge to the parcel with the most billing units in each class.

Figure 2. Median and Largest Bills Per Customer Class

Residential	Median Bill	Largest Bill
Single Family Home	\$249.58	\$249.58
Multi-Unit Residential	\$874.60	\$31,835.29
Condominiums	\$200.96	\$200.96
Non-Residential		
Hotel/Motel/Rooming House (Room)	\$3,294.42	\$38,100.73
Store	\$479.29	\$3,062.76
Supermarket	\$13,976.62	\$18,329.44
Shopping Center	\$13,513.35	\$29,434.77
Office Building	\$533.16	\$14,053.89
Medical, Dental, Veterinary	\$1,066.51	\$5,277.56
Restaurant	\$3,284.66	\$9,114.09
Service Shop, Vehicle Maint	\$465.42	\$709.84
Gas Station	\$390.22	\$1,190.44
Auto Sales	\$248.24	\$3,945.18
Light Manufacturing	\$339.21	\$6,779.55
Lumber Yard	\$163.93	\$196.55
Warehousing	\$345.38	\$3,615.29
Open Storage	\$148.89	\$148.89
Club & Lodge Halls	\$157.36	\$157.36
Golf Course and Park	\$6,763.60	\$6,763.60
Health Club, Gym without Showers	\$5,092.68	\$6,578.15
College/University	\$42,276.54	\$42,276.54
School	\$6,347.10	\$14,287.90
Mortuary, Funeral Home	\$709.69	\$709.69
Convalescent Home	\$10,200.35	\$24,968.02
Church	\$675.01	\$1,414.36
Library	\$2,115.61	\$2,115.61

Charges for sewer service are property-related charges subject to Proposition 218. These charges need not be submitted to an election of voters or property owners, but they are subject to a majority protest proceeding. That process is summarized as follows: (i) an agency calculates a budget sufficient to cover the cost of service and determines how to spread that budget as rates across different kinds of customers (e.g., single-family, multi-family, non-residential), (ii) the agency provides 45 days mailed notice of a public hearing on the proposed new rates to every property owner or customer of record who will pay the new rates, (iii) the agency conducts the hearing and accepts written protests from property owners and customers of record, and (iv) the agency tallies the protests; if more than half of the affected property owners and customers of

record protest the new rates in writing before the end of the hearing, the agency cannot impose the new rates; otherwise it may impose the rates at any level which does not exceed the rates stated in the notice. Majority protests under these rules are not common except when a very small number of ratepayers are involved. Accordingly, the primary consequences of this process are the delay and cost associated with the noticed hearing and the opportunity for public input on the decision.

City bond counsel is developing a draft supplement to the SBSA Joint Powers Agreement which complies with Section 5.9(b) of the Joint Powers Agreement. Staff anticipates that the draft supplement will be closely modeled on the existing Sections 5.4, 5.6 and 5.9 of the Joint Powers Agreement. At the same time, City staff would work with the City finance team to assure that the City financing can be accomplished in a timely manner. Amongst other things, this supplement will spell out the terms and conditions for payment of Belmont's share of the SBSA CIP.

Typically, the City conducts rate hearings later in the spring. However, an earlier hearing will provide additional flexibility in the timing of the debt issuance, and will also address concerns that the City won't have sufficient funds to finance the SBSA CIP when needed.

General Plan/Vision Statement

There is no impact from this report. Maintenance of existing City's infrastructure is consistent with the City's goals and policies.

Fiscal Impact

No fiscal impact on City funds. The proposed charge will generate approximately \$3.1 million in its first year to make debt service payments for the SBSA CIP and will be sufficient to cover the debt service over the life of the bonds. In addition, the City will receive an administrative charge of 2% of the total debt service to offset staff time spent reviewing the rates and status of the financial plan and to pay for related consulting services, as needed. Thus, while there will be a meaningful impact on the City's sewer customers, this transaction will have a minimal impact to the City and its sewer fund. The new sewer charge to fund the SBSA CIP, if approved, will first appear on the individual sewer customer's property tax bill beginning in FY 2010 (bills mailed out in August 2009) and will continue for approximately 35 years until the SBSA Capital bonds are retired.

Public Contact

The Council agenda was posted.

Recommendation

It is recommended that Council approve the Rate Analysis Report attached to this report and direct staff to return to the City Council at the February 10, 2009, City Council meeting with an authorizing resolution stating the City intentions to implement a Sewer Treatment Facility Charge effective tax year 2009-10.

Alternatives

1. Take no action.
2. Refer back to staff for further information.

Attachments

- A. HF&H Report entitled New Sewer Treatment Facility Charge, dated January 7, 2009
- B. DRAFT Resolution Stating Its Intention to Impose a Sewer Treatment Facility Charge

Respectfully submitted,

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Finance Director

Jack R. Crist
City Manager

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ATTACHMENT B

Draft Resolution

RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF BELMONT STATING ITS INTENTION TO IMPOSE A SEWER TREATMENT FACILITY CHARGE

WHEREAS, the South Bayside System Authority (“SBSA”) has informed the City that an extensive capital program is required to extend the operating life of the sewer treatment facilities used by the City and other members of SBSA; and,

WHEREAS, the City’s share of the cost of the capital program is estimated to be \$45.2 million; and,

WHEREAS, it is not possible to absorb this cost into the City’s existing sewer budget; and,

WHEREAS, the City Council desires to impose a new Sewer Treatment Facility Charge to fund these necessary expenses.

NOW, THEREFORE, BE IT RESOLVED that by the City Council of the City of Belmont:

1. The foregoing recitals are all true and correct.
2. The City Council proposes the imposition of the Sewer Treatment Facility Charge at the annual rate described in Exhibit “A” to this Resolution, which is incorporated herein by reference. It is proposed that the Sewer Treatment Facility Charge be collected annually on the property tax roll in addition to the City’s sewer service charge
3. On _____, 2009, at ___ PM or as soon thereafter as may be practicable in the City Council Chambers located at _____, the City Council will hold a public hearing pursuant to Article XIID of the California Constitution with respect to the proposed charge. At this hearing, all interested persons will be permitted to present oral and written testimony with respect to the proposed charge.
4. The City Council further directs staff to give notice of the hearing in the manner required by law.
5. The City will accept and tabulate protests against the proposed charge pursuant to the procedures set forth in Exhibit “B” to this Resolution, which is incorporated herein by reference.

* * * * *

ATTACHMENT B

Draft Resolution

I hereby certify that the foregoing Resolution was duly and regularly passed and adopted by the City Council of the City of Belmont at a regular meeting thereof held on _____, 2009 by the following vote:

AYES, COUNCILMEMBERS: _____

NOES, COUNCILMEMBERS: _____

ABSTAIN, COUNCILMEMBERS: _____

ABSENT, COUNCILMEMBERS: _____

CLERK of the City of Belmont

APPROVED:

MAYOR of the City of Belmont

DRAFT

ATTACHMENT B

EXHIBIT "A"

PROPOSED SEWER TREATMENT FACILITY CHARGE RATE SCHEDULE

Figure 1. Treatment Facility Charges Per Billing Unit

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Nursery/Greenhouse	1000 ft ²	\$41.24	Post Office (Regional)	1000 ft ²	\$64.69
Manufacturing	1000 ft ²	\$517.00	Church	1000 ft ²	\$65.59

ATTACHMENT B

EXHIBIT "B"

GUIDELINES FOR THE SUBMISSION AND TABULATION OF PROTESTS

Submission of Protests

1. Any property owner may submit a written protest to the City Clerk, either by delivery to the office of the City Clerk or by submitting the protest at the public hearing. Protests must be received by the end of the public hearing. No postmarks will be accepted.
2. Each protest must identify the affected property (by assessor's parcel number or street address) and include the signature of the record property owner. Email protests cannot be accepted. Although oral comments at the public hearing will not qualify as a formal protest unless accompanied by a written protest, the City Council welcomes input from the community during the public hearing on the proposed charges.
3. If a parcel served by the City is owned by more than a single record owner, each owner may submit a protest, but only one protest will be counted per parcel and any one protest submitted in accordance with these rules will be sufficient to count as a protest for that property.
4. In order to be valid a protest must bear the original signature of the record owner with respect to the property identified on the protest. Protests not bearing the original signature of a record owner shall not be counted.
5. Any person who submits a protest may withdraw it by submitting to the City Clerk a writing request that the protest be withdrawn. The withdrawal of a protest shall contain sufficient information to identify the affected parcel and the name of the record owner or record customer who submitted both the protest and the request that it be withdrawn.
6. A charge protest proceeding is not an election.
7. To ensure transparency and accountability in the charge protest tabulation, protests shall constitute disclosable public records from and after the time they are received.

Tabulation of Protests

1. The City Clerk shall determine the validity of all protests. The City Clerk shall not accept as valid any protest if the City Clerk determines that any of the following conditions exist:
 - a. The protest does not identify a property served by the City.
 - b. The protest does not bear an original signature of a record owner of the parcel identified on the protest.
 - c. The protest does not state its opposition to the proposed charges.
 - d. The protest was not received by the City Clerk before the close of the public hearing on the proposed charges.
 - e. A request to withdraw the protest is received prior to the close of the public hearing on the proposed charges.
2. The City Clerk's decision that a protest is not valid or does not apply to a specific charge shall constitute a final action of the City and shall not be subject to any internal appeal.

ATTACHMENT B

3. A majority protest exists if written protests are timely submitted and not withdrawn by the record owners of a majority of the properties subject to the proposed charge.
4. At the conclusion of the public hearing, the City Clerk shall complete the tabulation of all protests received, including those received during the public hearing and shall report the results of the tabulation to the City Council upon completion. If review of the protests received demonstrates that the number received is manifestly less than one-half of the parcels served by the City with respect to the charge which is the subject of the protest, then the Clerk may advise the City Council of the absence of a majority protest without determining the validity of all protests.

DRAFT