



Staff Report

DISCUSSION AND DIRECTION ON SEWER RATE ANALYSIS AND ACTION PLAN FOR SEWER RATE INCREASE

Honorable Mayor and Council Members:

Summary

The City of Belmont prepares an annual analysis of the Sewer Enterprise Fund to evaluate the Fund's financial position and to determine whether or not sewer rates need to be increased. The rate analysis and report determining the maximum proposed rates (Attachment A) have been prepared for City Council review so Council may discuss and provide direction to City staff. The rate modeling was done with the goal, during this recession, of keeping this year's rate increase in the single digits. The analysis projects that an increase of 9% to existing Sewer Rates in 2009-10 is needed to cover the revenue requirement. Because of a citywide reduction in water consumption, the proposed 9% increase in rates is projected to result in only 6.7% more revenue to City. Some Capital Improvement Projects planned for fiscal year 2008-09 will need to be delayed until fiscal year 2009-10. The delayed projects are assumed in the analysis to be completed once bonds are sold. A Proposition 218 hearing is required before the City Council can impose an increase in sewer rates. An authorizing resolution, approved by Council, directs the mailing of Proposition 218 Notices. The authorizing resolution sets rules for tabulating protests, proposes the rates and rate structure, and schedules a public hearing. An action plan showing the proposed schedule for the Proposition 218 process is included as Attachment B.

Background

The City's Sewer Rate Revenue is used to fund operations, maintenance and improvements of the City of Belmont's collection system, and also to fund operations and maintenance costs for the South Bayside System Authority's Wastewater Treatment Plant. The City's Sewer Charge is a separate charge from the proposed Sewer Treatment Facility Charge under consideration to fund Capital Improvements to the Wastewater Treatment Plant, as shown in the South Bayside System Authority Capital Improvement Program.

The capital improvement program considered in the current analysis is based on the Sewer Master Plan and Storm Drain Master Plan, both completed in 2007 and reviewed with the City Council at that time. The City files copies of its Sanitary Sewer Rehabilitation Master Plan dated September 2007 with the Regional Water Quality Control Board, as a required element of the City's Sewer System Management Plan (SSMP). The City is required to allocate sufficient resources for the operations, maintenance and repair of the City's collection system. This includes a reliable, consistent, and sufficient funding source for the operations budget as well as

the capital improvement plan. The proposed capital improvement plan includes most of the improvements recommended in the Master Plan, since rate increases developed in conjunction with the capital plan were not approved in prior years.

In 2008, the City approved a new methodology for calculation of Sewer Charges that includes both fixed and volumetric components. The volumetric component is based on annualized winter water consumption from two winters prior to the fiscal year for which the charge is being calculated. The analysis of the proposed Sewer Rate Increase for fiscal year 2008-09 included a projected increase of future year Sewer Rate increases in the analysis. The analysis from 2008-09 projected rate increases of 9% for 2009-10 and 2010-11, 15% for 2011-12 and 25% for 2012-13. The current analysis projects rate increases between 8.5% and 9.5% in future years.

On March 4, 2009, the draft rate analysis results were presented to the Infrastructure Subcommittee. Staff argued that rate increases implemented annually would be smaller in scale than intermittent rate increases. City Consultant, John Farnkopf, of HF&H reviewed results of the rate analysis. The Sewer Charge is based in part on flow measurements that vary from year to year and in part on a fixed charge amount that does not vary with flow. Mr. Farnkopf explained that water use has declined almost 4% and a rate increase is necessary just to remain revenue neutral. The rate modeling was done with the goal, during this recession, of keeping this year's rate increase below 10%. Because of the reduction in water consumption a proposed 9% rate increase results in 6.7% more revenue to City. Since the bond sale originally planned for spring 2009 has been delayed until the end of the calendar year, delaying some Capital Improvement Projects planned for fiscal year 2008-09 until fiscal year 2009-10 was recommended. The delayed projects are assumed to be completed once bonds are sold.

If the Rate Analysis and subsequent Notice is approved, the Subcommittee recommended that information be posted on the Hot Topics section of the City's web page. A review of restaurant and supermarket water usage was also requested, as water usage had increased significantly for these property types. A draft schedule for the sewer charge increase was reviewed and the Subcommittee recommended the schedule be presented to Council for approval.

Discussion

The Rate Analysis modeling utilized the same methodology used to predict necessary rate increases for fiscal year 2008-09. An alternative presented for Council consideration, either for the fiscal year 2009-10 or for consideration during next year's review, is to propose a multi-year increase for a maximum of five years. Annual review of the financial picture would still be recommended, and the City Council could retain discretion to approve yearly increases in an amount up to the approved rate increase amount. Direction on whether or not to evaluate a multi-year increase next year is requested.

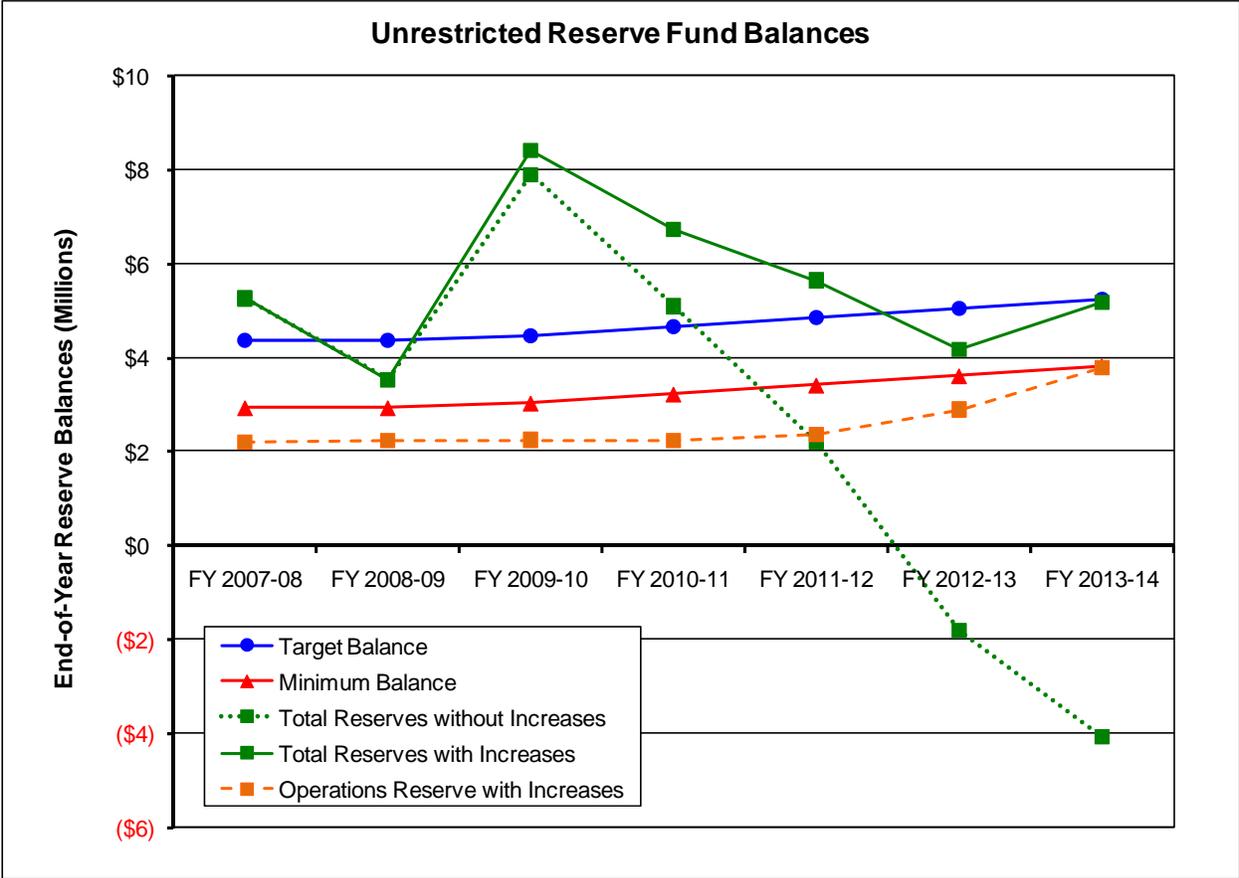
The following table shows the annual projected revenue requirements, rate revenue, combined fund balance (operations plus capital improvement), rate increase, change in water consumption and number of accounts and the increase in revenue from rates, all assuming the proposed rate increases go into effect. The 9.0% rate increase projected for FY 2009-10 is consistent with last year's projection. However, as a result of reduced average winter water consumption, a 9.0% rate increase will only yield a 6.7% increase in rate revenue.

Financial Projections

| | Actual | Budget | | | | | |
|------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | FY 2007-08 | FY 2008-09 | FY 2009-10 | FY 2010-11 | FY 2011-12 | FY 2012-13 | FY 2013-14 |
| Revenue Requirements | \$5,280,516 | \$5,747,284 | \$6,157,359 | \$6,806,111 | \$7,332,120 | \$7,726,372 | \$8,119,896 |
| Revenue from Rates | \$5,400,917 | \$5,718,364 | \$6,101,033 | \$6,714,075 | \$7,407,154 | \$8,171,778 | \$8,910,766 |
| Total Fund Balance | \$5,274,626 | \$3,538,566 | \$8,420,150 | \$6,747,881 | \$5,651,350 | \$4,185,288 | \$5,185,894 |
| Rate Increase | 0.0% | 8.5% | 9.0% | 9.5% | 9.5% | 9.5% | 8.5% |
| Change in Water Demand | | | -3.85% | 0.50% | 0.75% | 0.75% | 0.50% |
| Change in Accounts | | | 0.00% | 0.50% | 0.75% | 0.75% | 0.50% |
| Revenue Increase | | 5.9% | 6.7% | 10.0% | 10.3% | 10.3% | 9.0% |

The following table shows the difference in the Fund Balance with and without the projected increases in rate revenue. The fund balance is shown to increase steeply in FY 2009-10 because of the addition of \$8 million in bond proceeds, without which the fund balance would drop further below the target balance. If the City were to convert to a pay as you go financing, substantially larger rate increases would be required, or the capital improvement program would need to be reduced. The analysis utilizes capital reserves to supplement the operations reserve, until the minimum balance for the operations reserve is achieved.

Fund Balance With and Without Increased Rate Revenue



The following table compares the current and projected rates, average annual consumption per customer class, and average annual bills for fiscal year 2008-09 with fiscal year 2009-10. The overall water demand decreased 3.76%, but varied from as much as an 83.48% decrease for other non residential parcels to a 48.36% increase for restaurants. A review of individual restaurant parcels indicates both increases and decreases in water demand; three parcels with no flow were reclassified to standby status. Supermarket water demand was generally greater for most parcels. For single family residential customers the average bill would increase \$2.87 per month.

Rates and Average Consumption and Bills

| Customer Classes | FY 2008-09 | | | | FY 2009-10 | | | | Change in Avg. Cons. | Change in Avg. Bill |
|-------------------------------------|-----------------------|-------------------------|------------------------------|---------------------|-----------------------|-------------------------|------------------------------|---------------------|----------------------|---------------------|
| | Fixed Charge per Unit | Variable Charge per HCF | Avg. Annual Consumption, HCF | Average Annual Bill | Fixed Charge per Unit | Variable Charge per HCF | Avg. Annual Consumption, HCF | Average Annual Bill | | |
| Low-strength residential | | | | | | | | | | |
| <i>Single family</i> | \$238.16 | \$3.12 | 85.06 | \$503.55 | \$259.59 | \$3.40 | 81.89 | \$538.02 | -3.73% | 6.85% |
| <i>2-4 units</i> | \$238.16 | \$3.12 | 137.93 | \$948.57 | \$259.59 | \$3.40 | 141.40 | \$1,084.55 | 2.52% | 14.33% |
| <i>Five or more units</i> | \$238.16 | \$3.12 | 1,274.43 | \$9,091.23 | \$259.59 | \$3.40 | 1,274.86 | \$9,793.82 | 0.03% | 7.73% |
| <i>Residential Condominium</i> | \$238.16 | \$3.12 | 68.47 | \$451.79 | \$259.59 | \$3.40 | 63.92 | \$476.92 | -6.65% | 5.56% |
| Low-strength non-residential | | | | | | | | | | |
| <i>Hotel/boarding house</i> | \$238.16 | \$3.12 | 3,658.76 | \$11,653.49 | \$259.59 | \$3.40 | 3,053.28 | \$10,640.74 | -16.55% | -8.69% |
| <i>Store/office/shopping center</i> | \$238.16 | \$3.12 | 528.55 | \$1,887.24 | \$259.59 | \$3.40 | 433.11 | \$1,732.16 | -18.06% | -8.22% |
| <i>Other commercial</i> | \$238.16 | \$3.12 | 187.82 | \$824.16 | \$259.59 | \$3.40 | 193.22 | \$916.54 | 2.88% | 11.21% |
| <i>Institutional</i> | \$238.16 | \$3.12 | 1,957.12 | \$6,344.37 | \$259.59 | \$3.40 | 1,948.11 | \$6,883.16 | -0.46% | 8.49% |
| <i>Other parcels</i> | \$238.16 | \$3.12 | 299.19 | \$1,171.63 | \$259.59 | \$3.40 | 49.42 | \$427.62 | -83.48% | -63.50% |
| High-strength commercial | | | | | | | | | | |
| <i>Restaurant¹</i> | \$238.16 | \$6.08 | 453.58 | \$2,995.93 | \$259.59 | \$6.63 | 672.94 | \$4,721.18 | 48.36% | 57.59% |
| <i>Supermarket²</i> | \$238.16 | \$6.08 | 1,989.55 | \$12,334.62 | \$259.59 | \$6.63 | 2,656.49 | \$17,872.12 | 33.52% | 44.89% |
| Total | | | 128.87 | \$749.21 | | | 124.03 | \$799.00 | -3.76% | 6.65% |

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.

Typically, the City conducts rate hearings earlier in the spring. However, the City of Belmont has been considering a new and separate Sewer Treatment Facility Charge to fund the South Bayside System Authority’s Capital Improvement Program, and this resulted in the regular Sewer Rate Analysis completion being delayed.

An Action Plan showing the proposed schedule for a Sewer Rate increase is attached as Exhibit B to this report. The proposed schedule includes consideration of an authorizing resolution at the April 14, 2009 City Council meeting. If the City Council cannot approve the rate analysis and authorize mailing of the Proposition Notice at the April 14 City Council meeting, an emergency ordinance would be required in order to approve an increase in sewer rates for fiscal year 2009-10.

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

Approval of this action does not establish rates; however, should the City Council implement the rates shown in the Notice, the revenue received is projected to equal the requirement for fiscal year 2009-10 of \$6,157,359.

Public Contact

The Council agenda was posted.

Recommendation

It is recommended that Council approve the Rate Analysis Report and Action Plan attached to this report and direct staff to return to the City Council at the April 14, 2009, City Council meeting with an authorizing resolution stating the City’s intentions to increase Sewer Rates effective fiscal year 2009-10 and to schedule the public hearing and propose the rate structure.

Alternatives

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

Attachments

- A. HF&H Report entitled Sewer Rate Update – FY 2009-10, dated March 19, 2009
- B. Action Plan/Schedule
- C. DRAFT Resolution Stating Its Intention to Increase Sewer Charge

Respectfully submitted,

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