



Meeting Date: April 14,2020

STAFF REPORT

Agency: City of Belmont

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Agenda Title: Comprehensive Sewer Rate Study – Proposition 218 Notice for Sewer Rate Changes Effective Fiscal Years 2020/2021 and 2021/2022

Agenda Action: Resolution

Recommendation

Adopt a resolution setting the maximum sewer rates for Fiscal Years 2020/2021 and 2021/2022 with a flow stabilization adjustment and setting a Public Hearing for June 9, 2020.

Background

The City's Sewer Operations is a revenue neutral utility, and the sewer fees reflects only those charges sufficient to support the community's sewer conveyance and treatment services. The Sewer Rate Revenue is used to wholly fund operations; maintenance and debt service for the capital improvements associated with of the City of Belmont's sewer utility systems, and to fund City of Belmont's portion of sewer treatment costs at the Wastewater Treatment Plant managed by the Silicon Valley Clean Water (SVCW).

City retained HDR Engineering, Inc. (HDR) to update the comprehensive sewer rate study. This study is based on the previous rate studies in 2016 and 2018 completed by HDR. The conclusions and recommendations of the 2018 study resulted in the approval of rates for a two-year period, of Fiscal Year 2018/2019 through Fiscal Year 2019/2020.

The prior study provided recommendations and rates to fund an adequate level of renewal and replacement, and included the funding of capital projects from prior years. This study reviews the adequacy of the existing sewer rates to meet their system improvement needs, and provide the basis for appropriate rate structures for each customer classification.

In developing the sewer revenue requirement, it was assumed the utility must financially "stand on its own" and be properly funded. As a result, the revenue requirement analysis as developed assumes the full and proper funding needed to operate and maintain the system on a financially sound and prudent basis.

Analysis

HDR prepared and analyzed the revenue requirement for a five-year projected time period (FY 2020/21 – FY 2024/25). Reviewing a multi-year time period is recommended in an attempt to identify any major expenses that may be on the horizon. By anticipating future financial requirements, the City can begin planning for these changes sooner, thereby minimizing short-term rate impacts and planning for long-term rate needs.

The vast majority of the City's rate revenues are derived from residential customers. Currently, the City has two major classes of service: residential and non-residential customers. Non-residential customers are further categorized between low-strength and high-strength customers, depending on amount of water used. The City's sewer rate structure includes a fixed component, as well as a component based on the customers' winter water average consumption. Each year, the City requests the water consumption data from the Mid-Peninsula Water District to develop the proposed sewer rates, and resulting revenue forecast, for the next fiscal year.

For this five-year rate period, the rates include a 9% flow adjustment factor that reduces the 14% drought regulation factor which was implemented during the 2016 rate study. Mid-Peninsula Water District consumption billing data for the winter period, for FY 2019/2020 was not available at the time of the study. The three year periods of FY 2017/2018, 2018/2019, and 2019/2020 billing information were reviewed and an average of the three years led to the 9% flow adjustment factor. The winter water consumption has increased but not returned to prior levels experienced before the 2011-2016 statewide drought. The new, lower 9% flow adjustment factor will allow the City to maintain sufficient revenues during the next five-year period given continued changing winter water consumption levels. The flow adjustment factor will be reviewed again during the next rate study period, and adjusted at that time if need be.

Table 1 below shows the total deficiency of revenues before any sewer rate adjustments ranges from \$842,000 in FY 2020/2021 to \$4.7 million by FY 2024/2025. The calculations are based on meeting the following key prudent financial metric criteria:

- Meet Debt Service Coverage Ratios – DSC target of 2.0.
- Adequate Renewal and Replacement Funding – Annual renewal and replacement funding needs exceed depreciation over the five-year plan.
- Maintain Prudent Reserve Fund Levels – Operating reserve target equal to annual minimum of 180 days of O&M; Capital project reserve target equal to two years of annual depreciation.

The rate adjustments needed to meet the above criteria are 7% in FYs 2021-2023 and 6% in FYs 2024-2025.

It should be noted in FY 2021, the 7% revenue requirement rate adjustment translates to an effective overall monthly bill adjustment of only 4.2% to the average customer. At present rates, a typical residential customer with 800 cubic feet of winter water average usage would pay \$108.54 monthly (8 HCF X 1.14 = 9.12 HCF). Under the proposed rates, the same customer would pay \$113.06 in FY 2021, a \$4.51 monthly increase. The proposed rate adjustment for FY 2021 was 7.0%, however, with the flow factor adjustment from 1.14 to 1.09 (0.05 decrease), resulting in an overall change to the bill of 4.2%. Table 2 below shows the average residential bill for the rate period of FY 2021 to FY 2025.

Table 1
Summary of Sewer Revenue Requirement (\$000s)

	Budget			Projected		
	2019/20^[1]	2020/21	2021/22	2022/23	2023/24	2024/25
Revenues						
Retail Rate Revenues	\$12,325	\$12,033	\$12,153	\$12,275	\$12,397	\$12,521
Other Revenues	<u>685</u>	<u>447</u>	<u>430</u>	<u>419</u>	<u>471</u>	<u>451</u>
Total Revenues	\$13,010	\$12,480	\$12,583	\$12,694	\$12,868	\$12,972
Expenses						
Collection O&M Expenses	\$4,174	\$4,297	\$4,425	\$4,558	\$4,697	\$4,841
Treatment O&M Expenses	3,441	3,565	3,707	3,855	4,010	4,170
Repair & Replace. Funding	1,600	1,750	1,900	2,050	2,200	2,350
I/I Capital Funding	595	611	627	644	661	679
Total Debt Service	1,514	2,412	2,502	2,979	3,742	3,745
Change in Working Capital +/-	<u>1,614</u>	<u>688</u>	<u>1,182</u>	<u>1,369</u>	<u>1,259</u>	<u>1,901</u>
Total Expenses	\$12,938	\$13,322	\$14,344	\$15,456	\$16,569	\$17,685
Balance/(Deficiency) of Funds	\$72	(\$842)	(\$1,761)	(\$2,762)	(\$3,701)	(\$4,713)
Cumulative as a % of Rates	0.0%	7.0%	14.5%	22.5%	29.9%	37.6%
Proposed Rate Adjustments	0.0%	7.0%	7.0%	7.0%	6.0%	6.0%
Debt Service Coverage Ratio						
Before Rate Adjustment	3.33	1.77	1.64	1.32	1.02	0.96
After Rate Adjustment	3.33	2.12	2.34	2.25	2.01	2.22

Table 2
Present and Proposed Sewer Rates (Monthly)

	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
<i>Proposed Revenue Adjustment</i>	7.0%	7.0%	7.0%	6.0%	6.0%
Present Average Monthly Bill	\$108.54				
After Proposed Rate Adj.	\$113.06	\$120.97	\$129.44	\$137.20	\$145.44
Monthly Bill Difference	\$4.51	\$7.92	\$8.46	\$7.77	\$8.23
Cumulative Bill Difference	\$4.51	\$12.43	\$20.89	\$28.66	\$36.90
<i>% Change to Monthly Bill</i>	4.2%	7.0%	7.0%	7.0%	6.0%

[1] - Average bill based on 8 HCF X 1.09 flow adjustment factor = 8.72 HCF per month.

Staff is recommending that the City Council set the maximum sewer rates with a flow adjustment factor as noted in the Table 3 below for FY 2020/2021 and FY 2021/2022.

Table 3 Present and Proposed Sewer Rates (Annually)						
	Present Rates	Proposed Rates FY 2020/21	Proposed Rates FY 2021/22	Proposed Rates FY 2022/23	Proposed Rates FY 2023/24	Proposed Rates FY 2024/25
COLLECTION						
<u>Residential</u>						
Base Charge	\$337.96	\$361.62	\$386.93	\$414.02	\$438.86	\$465.19
Flow Charge (\$/HCF) ^[1]	\$4.81	\$5.15	\$5.51	\$5.89	\$6.25	\$6.62
<u>Non-Residential</u>						
Base Charge	\$337.96	\$361.62	\$386.93	\$414.02	\$438.86	\$465.19
Flow Charge Low Strength (\$/HCF) ^[1]	\$4.81	\$5.15	\$5.51	\$5.89	\$6.25	\$6.62
Flow Charge High Strength (\$/HCF) ^[1]	\$9.35	\$10.00	\$10.70	\$11.45	\$12.14	\$12.87
TREATMENT						
<u>Residential</u>						
Base Charge	\$177.62	\$190.05	\$203.36	\$217.59	\$230.65	\$244.49
Flow Charge (\$/HCF) ^[1]	\$2.38	\$2.55	\$2.72	\$2.92	\$3.09	\$3.28
<u>Non-Residential</u>						
Base Charge	\$177.62	\$190.05	\$203.36	\$217.59	\$230.65	\$244.49
Flow Charge Low Strength (\$/HCF) ^[1]	\$2.38	\$2.55	\$2.72	\$2.92	\$3.09	\$3.28
Flow Charge High Strength (\$/HCF) ^[1]	\$4.63	\$4.95	\$5.30	\$5.67	\$6.01	\$6.37
COMBINED						
<u>Residential</u>						
Base Charge	\$515.58	\$551.67	\$590.29	\$631.61	\$669.50	\$709.67
Flow Charge (\$/HCF) ^[1]	\$7.19	\$7.69	\$8.23	\$8.81	\$9.34	\$9.90
<u>Non-Residential</u>						
Base Charge	\$515.58	\$551.67	\$590.29	\$631.61	\$669.50	\$709.67
Flow Charge Low Strength (\$/HCF) ^[1]	\$7.19	\$7.69	\$8.23	\$8.81	\$9.34	\$9.90
Flow Charge High Strength (\$/HCF) ^[1]	\$13.98	\$14.96	\$16.01	\$17.13	\$18.15	\$19.24

[1] Present Drought Regulation Adjustments is Hundred Cubic Feet (HCF) X 1.14 X \$/HCF; Proposed is HCF X 1.09 X \$/HCF.

Upon City Council review and direction on staff’s recommendation for the proposed adjustments in rates, staff is requesting Council direction to provide notice for setting a hearing date for consideration of the maximum rates per the Proposition 218 process as described below. Based on Council direction, staff will prepare a Notice for distribution to customers and an authorizing Resolution stating the City’s intention to increase Sewer Rates effective FY 2020/2021 and 2021/2022, and schedule a public hearing on the proposed rate structure.

Proposition 218

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: (1) the City 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), (2) the City 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, (3) the City conducts the hearing and accepts written protests from property owners and customers of record, and (4) the City 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.

Alternatives

- 1. Refer to Staff for additional information
- 2. Take no action

Attachments

- A. Resolution
- B. Draft Comprehensive Sewer Rate Study

Fiscal Impact

- No Impact/Not Applicable
- Funding Source Confirmed:

Source:

- Council
- Staff
- Citizen Initiated
- Other*

Purpose:

- Statutory/Contractual Requirement
- Council Vision/Priority
- Discretionary Action
- Plan Implementation*

Public Outreach:

- Posting of Agenda
- Other*

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