



STAFF REPORT

SAUSALITO CITY COUNCIL

AGENDA TITLE:

Report from NBS regarding sewer rate fee study, intent to establish a sanitary sewer fee effective fiscal year 2014-15 through 2018-19 and setting a public hearing for May 6, 2014.

RECOMMENDED MOTION:

Accept report from NBS regarding sewer rate fee study and adopt a resolution of the City Council of the City of Sausalito stating its intention to establish a sanitary sewer fee effective for fiscal years 2014-15 through 2018-19 and set a public hearing for May 6, 2014.

BACKGROUND

The City of Sausalito owns and operates portions of the sanitary sewer system conveying wastewater to the Sausalito-Marin City Sanitary District (SMCSD) for treatment and discharge to the Bay. Sausalito's sewer system is 75 years old, deteriorated and needs upgrades.

The rates charged by the City for collection-related service are based on a financial plan prepared in 2009, with rates enacted through 2014. The rates are collected citywide from parcel owners billed by the County Assessor's Office on Property Tax Rolls. (SMCSD's treatment and discharge charges are separate, but also collected on the property tax bill).

While the current rates have allowed the City to increase the maintenance, evaluation, and repairs of our sewer system, they do not provide the resources necessary to implement critical upgrades to our sewer pipes and infrastructure. These crumbling pipes are literally falling apart and cannot keep hazardous sewage from spilling into our environment and polluting the Bay. We need to address these urgent sewer needs to protect the environment and the health and safety of Sausalito residents and to avoid fines for non-compliance with water quality laws.

The City retained NBS to prepare a Sanitary Sewer Fee Study for the City of Sausalito. The overall goal for the Sanitary Sewer Fee Study was to identify equitable sewer charges in support of sustainable utility services that address essential sewer upgrade needs. The study took into account the facts that:

- City sewers are operating under a United States Environmental Protection Agency (EPA) Administrative Order due to a history of spills.

- Sewer system management is regulated by State Waste Discharge Requirements (WDRs) mandating pipeline cleaning and repair.
- SMCS D fees are also likely to continue to be increased.

Sanitary Sewer fees must comply with state law, and must be sufficient to fund programs mandated by state regulations and EPA orders. Therefore, the Department of Public Works has provided NBS with an updated capital improvement program based on the results of both EPA Order assessments and routine capital improvement planning, as well as necessary annual sewer maintenance and repair. Even with the increased maintenance and repairs of our deteriorated sewer system, infrastructure upgrades are needed to continue to reduce sewage spills and protect our rate-payers, residents, the environment and the Bay. Additionally, these capital improvement upgrades ensure the City's continued compliance with the EPA Order and clean water requirements. Specifically, the capital improvement program requires \$5 million in infrastructure projects (\$1 million per year) during the next five years.

The City is prepared for this next phase of sewer infrastructure upgrades because of its concentrated focus on sewer maintenance and repairs over the last five years. Better management of ongoing repair needs enables us to shift more attention to upgrading and replacing our crumbling sewer infrastructure. In fact, recently completed sewer infrastructure projects combined with accelerated sewer maintenance and repairs has allowed the City to reduce staffing levels for annual sewer maintenance and repairs from 9.1 Full Time Equivalent (FTE) to 8.1 FTEs.

Staff projections, and financial plan findings, infrastructure investment and maintenance alternatives, cost of service allocation and development of a rate alternative were thoroughly discussed throughout the study with the City's Finance Committee during their regularly scheduled and noticed public meetings in September, October, November and December of 2013 and January and February of 2014.

Financial plan findings made by NBS on the basis of these staff projections were presented to the City Council at its regularly scheduled January 28, 2014 meeting. Cost of Service Allocation findings, and the Development of Rate Alternative were presented to the City Council at its regularly scheduled February 11, 2014 meeting.

SUMMARY OF RATE STUDY RESULTS

After extensive review of financial plans, including capital improvements and new debt issuance, the report concluded that an initial 30% increase in the annual revenue from sewer rates will be needed in FY 2014/15, followed by smaller increases of 3% and 4% in FY 2015/16 through FY 2018/19. Additionally, winter water consumption data for residential customers and effluent generation estimates for each customer class have resulted in changes in how costs are allocated to each customer class. As a result, the scale of rate increases for individual customer classes has also changed. Other recommendations include:

- For residential customers, add a volumetric charge based on the most recent (i.e., 2013) winter water consumption data to incentivize conservation.

- For non-residential customers
 - Change the City’s current practice of using the maximum annual consumption over the previous five years, and instead apply the most recent year’s annual water consumption to calculate their volumetric charges, again, to incentivize conservation.
 - Instead of collecting fixed charges on a per parcel basis (the City’s current practice), fixed charges will be collected based on the number of equivalent dwelling units per non-residential parcel to more equitably assign costs to those who generate them and to incentivize conservation.
- Both residential and non-residential volumetric rates should collect 12% of the rate revenue based on NBS’ analysis of the nature of the City’s costs as between fixed costs and those which vary with the volume of effluent.

The following table summarizes the current and proposed sewer rates over the next five years:

Sewer Rates	Current Rates	Proposed Rates				
	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19
Proposed Residential Rates <i>(\$/year/Dwelling Unit, Fixed Charge plus a volumetric charge based on average winter water use)</i>						
Single-Family	\$492.33	\$476.25	\$490.53	\$505.25	\$525.46	\$546.48
Single-Family Attached	\$327.07	\$341.40	\$351.65	\$362.20	\$376.68	\$391.75
Duplexes	N.A.	\$366.89	\$377.89	\$389.23	\$404.80	\$420.99
Multi-Family Residential	\$243.36	\$270.36	\$278.48	\$286.83	\$298.30	\$310.24
Volumetric Rate (\$/ccf) ¹	N.A.	\$0.91	\$0.98	\$1.01	\$1.05	\$1.10
Non-Residential Rates <i>(Allocated Capacity based on Historic Maximum Water Use)</i>						
Commercial (\$/year) ²	\$305.04	\$476.25	\$490.53	\$505.25	\$525.46	\$546.48
Volumetric Rate (\$/ccf) ³	\$2.45	\$0.91	\$0.98	\$1.01	\$1.05	\$1.10

1. The volumetric rate is applied to previous year’s 2-month winter water use (annualized by multiplying by 6). The FY 2015/16 rate has been adjusted assuming there is a 5% reduction in winter water use after FY 2014/15.
 2. Current rate is applied on a per-parcel basis; new rates (after FY 2013/14) are applied to the number of equivalent dwelling units per-parcel.
 3. The current volumetric rate is applied to the maximum annual water use over the previous five-year period. The proposed rate is applied to just the previous year’s total annual water consumption. The FY 2015/16 rate has been adjusted assuming there is a 5% reduction in annual water use after FY 2014/15.

The City Council directed staff to return to the City Council at the March 4, 2014, City Council meeting with an authorizing resolution stating the City’s intention to implement the proposed Sanitary Sewer Fee for residential and commercial customer classes, as depicted above, effective for fiscal years 2014-15 through 2018-19 and a resolution to set the public hearing required by Proposition 218 for May 6, 2014..

The complete NBS Sewer Fee Study report is attached to this staff report.

DISCUSSION

Pursuant to Section 6 of Article XIID of the California Constitution (a provision of Proposition 218), the City must give notice by mail to each property owner of record as of the last equalized assessment roll. A copy of the proposed Notice language is attached.

Property owners have the right to submit written protests against the proposed charge and may do so by mail or in person to the City Clerk before the end of the Public Hearing. Guidelines for the submission and tabulation of protests were adopted by the City Council on April 14, 2009 within Resolution 5018 and are attached for reference.

At the Public Hearing, the City Council will consider all protests against the proposed charge. If written protests against the charge are presented by owners of a majority of the affected parcels, the City Council may not impose the revised charges. The sample Notice included with the Staff Report, was reviewed by City Staff, consultants and outside Counsel. The final Notice will be formatted for ease of mailing and ease of display of the information. In addition City Staff will establish links and other information on the City web page, where City residents may easily find background and other information regarding the Sanitary Sewer system and the proposed charge. Should the City Council approve the resolution, the web page site will be activated once the Notice has been mailed, and additional efforts will be made to disseminate facts to the public about the need for the rate increases. As required by statute, the City will give notice of the time and place of the Public Hearing to all property owners and rate payers within the City by publishing notice in the local newspapers for two consecutive weeks not less than 14 days before the date of the Public Hearing, and by posting a copy of this Resolution on the official bulletin board customarily used by the City Council for the posting of notices.

As set forth in 14 California Code of Regulation Section 15273, the California Environmental Quality Act does not apply to the establishment, modification, structuring, restructuring, or approval of rates and other charges by public agencies which are for the purpose of meeting operating expenses, purchasing or leasing supplies, equipment, or materials, meeting financial reserve needs and requirements, and/or obtaining funds for capital projects, necessary to maintain service within existing service areas.

FISCAL IMPACT

Approval of this action does not establish rates; however, should the City Council implement the rate structure shown in the Notice following the Proposition 218 hearing, the revenue received will match the requirements for fiscal years 2014-15 through 2018-19 for the Sewer Fund Budget.

FINANCE COMMITTEE / STAFF RECOMMENDATIONS

Staff and Finance Committee recommend that the City Council accept the sewer rate study (attached) and adopt a resolution of the City Council of the City of Sausalito stating its intention to establish a sanitary sewer fee effective for fiscal years 2014-15 through 2018-19 and setting the Proposition 218 public hearing for May 6, 2014.

ATTACHMENTS

1. Resolution of the City Council of the City of Sausalito stating its intention to establish a sanitary sewer fee effective for fiscal years 2014-15 through 2018-19 and setting a Proposition 218 public hearing for May 6, 2014.
2. Sewer Fee Study – NBS
3. Draft Public Notice

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