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Sponsors:	Debbie Pollart				
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Date	Ver.	Action By	Action	Result
4/2/2019	1	Finance Committee		

Staff Report for the City of San Leandro City Council Finance Committee to Receive Report on Wastewater Utility Financial Plan and Rates Study and Wastewater Utility Capacity Charges Study and Provide Direction to Staff on Proposition 218 Notices

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council Finance Committee receive the attached Wastewater Utility Financial Plan and Rates Study and Wastewater Utility Capacity Charges Study. Staff further recommends that the City Council Finance Committee direct staff to move forward with the Proposition 218 process.

BACKGROUND

The City's wastewater infrastructure serves about 60,000 residents and businesses in the northern two-thirds of the City. The system includes about 130 miles of collection system pipelines, 10 lift stations, and a Water Pollution Control Plant (WPCP) that processes an average of 5 million gallons per day of wastewater. Because of the preponderance of business and industrial users, the WPCP receives some of the strongest wastewater in the Bay Area and processes this water to far exceed stringent requirements set by state and federal regulating agencies.

From 2010-2017, the WPCP underwent a major renovation and upgrade, the largest CIP project to date for the City. The upgrade replaced antiquated equipment and allowed for more consistent treatment during wet weather. However, there were some unforeseen costs of the upgrade that will need to be covered by the existing fund balance.

Construction of a 1-megawatt solar array, which the City received a \$1.9 million California Energy Commission grant covering approximately 50% of the cost, is nearing completion. A project funded

by the San Francisco Bay Restoration Authority (Measure AA) to create plans for building of a Treatment Wetland project, a first in the East Bay, is also under way.

The State Water Resources Control Board has recently placed future requirements on the release of nutrients into the Bay and has indicated that these requirements will become more stringent over time. Through the East Bay Dischargers Authority ("EBDA"), staff consulted with HDR to make an initial estimate of the cost to comply with these requirements. Their report shows that the required upgrades could cost between \$12 and \$91 million (see attached report), largely dependent on how low the EBDA Board sets the future requirements.

Current Fees

The City's current fees are roughly the same as several local agencies, but much less than those of Oakland and San Francisco. The fee for service to a single-family residence is currently \$35.75, compared to \$34.92 for Castro Valley Sanitary District and \$72.78 in Oakland (served by EBMUD). For multi-family homes, San Leandro charges \$25.37 per month, while Castro Valley Sanitary District charges \$34.92 and in Oakland users pay about \$40 per month. See the attached Monthly Fees Survey for residential fees in surrounding areas.

Fiscal Impact

City staff, with the support of Municipal Financial Services, analyzed the adequacy of sewer revenues to meet the projected operating, maintenance, capital and debt service costs of the City's sewer collection system and the Water Pollution Control Plant. In addition, staff analyzed current Capacity Charges paid by new or increased users of the City's sewer and treatment system. Rates and fees were developed for the five-year period from Fiscal Year 2019-20 through Fiscal Year 2023-24.

The financial analysis conducted by Municipal Financial Services found that continuing to adjust current rates by CPI, which has been the practice for the past 3 years, would be insufficient to meet projected expenditures over the next five years. Without increasing rates beyond CPI, the Water Pollution Control fund balance is projected to fall to just above the State-required fund balance and would be insufficient to fund upgrades necessary to meet new State laws and regulations for discharge requirements. This could curtail the City's ability to properly maintain the sewer conveyance and treatment system, expose the General Fund to costs required to meet more stringent water regulations, and affect the ability to secure future funding.

It should be noted that the recommended fee increases listed in the attached report would be the maximum recommended fees that would be presented for Prop. 218 purposes. As has been past practice, City staff will evaluate actual expenses and revenues and will only increase fees annually as required to maintain the appropriate fund balance.

The recommended fee increases would maintain a fund balance that would allow the City's Water Pollution Control Fund to have the resources necessary to address upcoming regulatory changes and unforeseen circumstances, including but not limited to a natural disaster.

Capacity Charges

Capacity charges are assessed to new users of the water treatment system. For example, new homes and businesses are assessed a fee as part of the permitting process. This fee is based on the

projected usage of the system by the new user. Because staff found that the average usage by residential customers has fallen since the last rate study (due in part to the continued installation of water-saving devices, the fee for new residential projects would actually decrease if the City Council adopts the new rates. Fees for non-residential users are based on projections specific to the intended use. These rates would continue to increase at the construction industry CPI, known as the ENR 20 City.

Regulatory Environment

Proposition 218 amended the California Constitution so that property related fees, such as utility service fees, are charged proportional to the actual usage of the utility service, and that ratepayers are provided information in advance of any rate increase. In addition, Prop. 218 provides for a rate payer protest procedure and a public hearing to hear any protests and receive the results of the protest ballot process. Staff engaged Municipal Financial Services to analyze current rates and propose adjustments to meet Proposition 218 requirements.

If the number of protest ballots received by the City regarding the proposed new rates does not garner a 50% +1 majority of the total ratepayers, such that the City Council is thus authorized and subsequently does in fact approve the proposed maximum new rate, then the 2020 rates will be effective January 1, 2020. Subsequent years' rates would be effective July 1 of each successive year. This would provide enough time for rate payers to prepare for the change and for respective public agencies to update billing systems.

ATTACHMENTS

Attachments to Staff Report

- Wastewater Utility Financial Plan and Rates Study
- Wastewater Utility Capacity Charges Study
- Bay Area Clean Water Agencies Nutrient Reduction Study
- Survey of Single-Family Residential Sewer Rates

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