



City of Santa Cruz
Transportation and
Public Works Commission
Agenda Report

DATE: October 11, 2013

AGENDA OF: November 18, 2013
DEPARTMENT: Public Works
SUBJECT: User Charges for Wastewater Services – Proposed 4 Year Increase

RECOMMENDATION: That the Transportation and Public Works Commission recommend that the City Council: 1) Set a Public Hearing on the proposed increase of wastewater use rates (Scenario 1) for February 25, 2014; and 2) Approve mailing of written notices to wastewater user customers regarding the proposed increases and Public Hearing.

BACKGROUND: The City's Wastewater Enterprise Fund exclusively funds all operations, maintenance and construction needed to properly operate the wastewater system. That system includes 160 miles of pipelines within the City, 25 pump stations, a state certified testing laboratory, and a Regional Wastewater Treatment Facility that treats 10 million gallons of wastewater each day. The regional facility treats all water used indoors in Santa Cruz, Live Oak, Capitola, and Aptos and at the University of California. Approximately one half of the wastewater flow is piped to the treatment facility from Live Oak, Capitola, and Aptos by the Santa Cruz County Sanitation District (SCCSD). The SCCSD pays their share of the cost incurred at the regional treatment facility.

On May 22, 2007, the City Council adopted a series of new wastewater rates which included rate increases effective July 1 of the years 2007, 2008, 2009 and 2010. The 2007 and 2008 increases took effect as scheduled, but at the recommendation of staff, the City Council postponed the last two increases for two years. That delay was based on healthy projected wastewater ending fund balances in FY2009 and FY2010 and the poor condition of the economy. Those two rate increases were implemented at the end of FY2011 and FY2012. Therefore, the last rate increase was July 1, 2012. The State requires that the rates for sewer users be based on cost of service.

The adopted FY2014 budget shows that annual wastewater fund expenses are expected to exceed annual revenues by approximately \$1.1 million. The remaining fund balance is projected to be \$8.8 million at the end of the fiscal year. The appropriate reserve fund balance for a critical operation like the Wastewater Fund should be equal to six (6) months of operating expenses (including debt service and capital cost) minus the operational and capital costs paid by the SCCSD (for that same 6 month period). Staff includes capital costs in with operating expenses since capital projects are typically not discretionary, but are required to meet permit requirements

and to maintain a comprehensive wastewater system. The appropriate reserve fund balance for the Wastewater Fund is approximately \$7 million.

DISCUSSION: The projected wastewater fund balance of \$8.8 million at the end of the current fiscal year provides a small buffer to allow a gradual increase of rates to close the gap between expenditures and revenue. Staff has developed two scenarios to reach a balanced annual budget.

Scenario 1 balances the annual budget in the third year of the rate increase (FY2017) and maintains approximately \$6 million as a fund balance. The average increase for all Santa Cruz users would be approximately 6% per year for the first three years and then a smaller 2.5% percent increase in the 4th year.

Scenario 2 balances the annual budget in the fourth year of the rate increases (FY2018) and maintains approximately \$5 million as a fund balance. The average increase for all Santa Cruz users would be approximately 5% per year for each of the 4 increases.

Both scenarios would have the same rates after the 4th and final increase on July 1, 2017. The chart exhibits the average rate increase on several user classifications.

First Year Cost Comparison between Scenarios

Classification	Current Cost per Month	Scenario 1 Monthly Cost	Scenario 2 Monthly Cost	Cost Difference Scenario 1 to Scenario 2	
				Monthly	Annual
Single Family	\$40.50	\$42.30	\$42.00	\$0.30	\$3.60
Low Strength Business	\$76.00	\$81.38	\$80.57	\$0.81	\$9.72
High Strength Business	\$418.00	\$446.45	\$442.18	\$4.27	\$51.24
Hotels/Motels	\$293.00	\$315.41	\$312.07	\$3.44	\$40.08

The largest impact to user cost would be in the 3rd year which is shown below:

Third Year Cost Comparison between Scenarios

Classification	Current Cost per Month	Scenario 1 Monthly Cost	Scenario 2 Monthly Cost	Cost Difference Scenario 1 to Scenario 2	
				Monthly	Annual
Single Family	\$40.50	\$46.30	\$45.30	\$1.00	\$12.00
Low Strength Business	\$76.00	\$92.93	\$90.04	\$2.89	\$34.68
High Strength Business	\$418.00	\$509.78	\$494.42	\$15.32	\$184.32
Hotels/Motels	\$293.00	\$365.61	\$353.57	\$12.04	\$144.48

Typical Low Strength Businesses are offices and retail stores.

Typical High Strength Businesses are restaurants

In both scenarios the fund balance would be less than the recommended \$7 million, however both scenarios include sufficient conservative assumptions to provide adequate funding for the proper maintenance and operation of the system. Scenario 1 provides a greater buffer by \$1 million to withstand changes that could require either: 1) an upward adjustment to rates before the four years is complete, or 2) a higher rate increase at the end of the four years to reestablish a higher fund balance. Scenario 2 reflects a slowly recovering economy and provides a slower rate increase that would better match very conservative economic outlooks. Unfortunately Scenario 2 provides very little margin for error and could lead to an insufficient fund balance in the wastewater fund. Therefore staff is recommending the Scenario 1 rate increases as detailed below.

Low Water User Classification

Starting in 2000 the rate schedule has included a rate for “low water users” who are presumably low sewage generators. Residential users are charged based on the average water use in a particular classification (either single-family, multi-family or low water user). Users that qualify for the low water user classification receive a monthly rate that is approximately 30% or 40% less than the normal multi- or single-family rates, respectively. The proposed Scenario 1 low-water user rate will increase that rate from \$23.80 to \$24.90 per month. To qualify as a low water user the residential customer must have used an average of 225 cubic feet or less of water during 4 of the 5 winter months (December-April) with the highest use month deleted from the average. This is equivalent to approximately 50 gallons per day of use per housing unit. Approximately 3,800 residences currently qualify as “Low Water Users.” Each May the City recalculates all residential customers’ winter water use to determine which customers qualify for the low user rate.

What the rate increase covers

The proposed rates assume that:

- Operating expenses will increase from the FY 2014 budget approximately 3% each year.
- There will be no new customers or increased flow from existing customers.
- The Wastewater Treatment Facility will have annual expenditures of \$2.0 million per year to replace and repair aging equipment. Much of the equipment at the treatment facility was put into service between 1990 and 1998. As this equipment has now been in service over 15 years and in some cases almost 25 years, the need and cost to replace equipment has increased significantly. Current rates reflect \$900,000 expended each year.
- \$1.4 million of capital improvements will be constructed to maintain the wastewater collection system each year. Current rates reflect expenditures of \$1.2 million annually.

How much is the increase?

The first three years of the proposed Scenario 1 annual increases are approximately 4.5 to 5.5% per year for residential users and approximately 7 to 7.5% per year for commercial users. The 4th year increases will be lower at 2 to 3% for most users. The proposed monthly rate increases and monthly rates for classifications with the most users are shown in the following tables. The increases and rates for commercial users are for an average user in each classification shown:

Proposed Monthly Increase

User Type	# of users	Current Monthly Rate	Proposed increase in monthly fees			
			April 1 2014	July 1 2015	July 1 2016	July 1 2017
Single Family	9,959	\$40.50	\$1.80	\$1.90	\$2.10	\$0.90
Multi-Family	8,010	\$32.30	\$1.70	\$1.80	\$2.00	\$0.80
Low Water Users	3,859	\$23.80	\$1.10	\$1.20	\$1.20	\$0.50
Low Strength Business (Average)	869	\$76.00	\$5.00	\$6.00	\$6.00	\$2.00
Medium Strength Business (Average)	176	\$179.00	\$14.00	\$15.00	\$15.00	\$6.00
Hotel/Motels (Average)	78	\$293.00	\$22.00	\$24.00	\$26.00	\$11.00
High Strength Business (Average)	111	\$418.00	\$28.00	\$31.00	\$33.00	\$14.00

Typical Low Strength Businesses are offices and retail stores.

Typical Medium Strength Businesses are bakeries, coffee shops and sandwich shops

Typical High Strength Businesses are restaurants

Proposed Monthly Rates

User Type	Current Monthly Rate	Date new rate will appear on bills			
		April 1 2014	July 1 2015	July 1 2016	July 1 2017
Single Family	\$40.50	\$42.30	\$44.20	\$46.30	\$47.20
Multi-Family	\$32.30	\$34.00	\$35.80	\$37.80	\$38.60
Low Water Users	\$23.80	\$24.90	\$26.10	\$27.30	\$27.80
Low Strength Business (Average)	\$76.00	\$81.00	\$87.00	\$93.00	\$95.00
Medium Strength Business (Average)	\$179.00	\$193.00	\$208.00	\$223.00	\$229.00
Hotel/Motels (Average)	\$293.00	\$315.00	\$339.00	\$365.00	\$376.00
High Strength Business (Average)	\$418.00	\$446.00	\$477.00	\$510.00	\$524.00
Average % increase for all users		5.7%	5.7%	5.9%	2.4%

The proposed written notice (attached) includes the existing and proposed rates for all users.

The following table shows that the City's rates proposed to become effective April 1, 2014 compares favorably with the existing Santa Cruz County Sanitation District's (SCCSD) rates:

User Type	SCCSD Cost per Month	City Cost per Month	Annual Cost Difference for City vs. SCCSD Customer
Single Family	\$57.91	\$42.30	\$187.32
Multi-Family	\$47.71	\$34.00	\$164.52
High Strength User (Average 55 CCF/month)	\$549.65	\$455.05	\$1,135.20
Low Strength User (Average 20 CCF/month)	\$150.35	\$85.70	\$775.80

Schedule

December 10, 2013 - Present proposed rates at City Council meeting and set public hearing date

January 10, 2014 - Mail flyer to all customers a minimum of 45 days before hearing

February 25, 2014 - Hold Public Hearing at City Council meeting

April 1, 2014 - If adopted new rates will appear on customer bills starting on April 1, 2014

FISCAL IMPACT: The estimated Wastewater enterprise fund balance of \$8.8 million at end of FY2014 provides a small buffer to withstand outspending our revenues. This allows the City to wait until the third year of the rate increases to bring revenue in line with spending as proposed by the Scenario 1 rate increases. If the proposed rate increases are approved, estimated spending will equal estimated revenue in FY2017 and the fund balance will be at an adequate level of more than \$6 million, though lower than the recommended \$7 million. Distributing the wastewater rate increases over three years to bring revenue and expenditures in balance and allowing a lower fund balance reduces the impact to customers.

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Attachments:

Proposed Rate Mailer