



STAFF REPORT

To the Honorable Mayor and City Council From the City Manager

DATE: June 10, 2019

SUBJECT

Public hearing on proposed sewer rate increases and introduction of ordinance amending Chapter 27, Article IX, Section 27.100 Sewer Service Charges

RECOMMENDATION

1. Hold a public hearing on proposed sewer rate increases; and
2. Waive the first reading and introduce an ordinance amending Chapter 27, Article IX, Section 27.100 Sewer Service Charges of the Redwood City Municipal Code.

STRATEGIC INITIATIVE

Government Operations

BACKGROUND

The City owns and operates a sanitary sewer collection system consisting of approximately 200 miles of sewer pipelines and 31 lift stations. The City is also a member of the joint powers authority (JPA) forming the Silicon Valley Clean Water (SVCW) wastewater treatment plant, and is responsible for funding a percentage of the treatment plant's operating and capital costs. The City's sewer collection system is managed by the Public Works Services Department (PWS), which oversees the day-to-day maintenance and operation of system components, and the Engineering Division of the Community Development Department, where capital improvement projects are planned, designed, and constructed.

As a self-supporting enterprise, funding for sewer system operations, maintenance, capital improvements, and wastewater treatment is generated from charges collected through sewer rates. An important aspect of managing the sewer enterprise is forecasting future financial needs and setting appropriate charges to support those needs.

The last assessment of sewer rates was conducted in 2016, which established rates through fiscal year (FY) 2018-19. In November 2018, PWS retained Bartle Wells Associates (BWA) to conduct a utility rate and fee setting study for FY 2019-20 and future years.

ANALYSIS

The *Sewer Financial Plan and Rate Update*, developed by BWA, identifies future sewer revenue obligations and forecasts necessary rates to meet funding needs. Currently, the City's sewer utility is financially stable due to proactive rate setting in prior years. However, the enterprise faces substantial capital costs on the horizon.

A significant portion of future costs includes financing crucial capital improvements to the City's sewer collection system and SVCW's wastewater treatment facilities. SVCW is in the process of completing an \$850 million capital improvement program to rehabilitate the regional wastewater treatment plant and conveyance pipelines. As a member of the JPA, Redwood City is contractually responsible for approximately 48.57 percent of total project costs, or roughly \$410 million. In preparation, the City's share of annual debt service for SVCW's capital program is expected to increase from \$11.1 million in the current fiscal year to \$21.6 million over the next 8 years.

Separately, the City must also secure funding for improvements to the City's maturing system of pipelines and pump stations. To continue to support infrastructure improvements and keep pace with inflation, an increase of 4.5 percent across all rate classes is proposed each year for the next three fiscal years, spanning FY 2019-20 to FY 2021-22.

Table 1 displays the current sewer rates and proposed rates for the next three years.

Table 1: Proposed Sewer Rates				
	Current Sewer Rates	Proposed Rates Effective On or After		
		August 1, 2019	July 1, 2020	July 1, 2021
Sewer Rate Increase		4.5%	4.5%	4.5%
Residential Sewer Rates				
Fixed Monthly Sewer Service Charges per Residential Dwelling Unit				
Residential (with 1-9 Dwelling Units)	\$78.24	\$81.76	\$85.44	\$89.28
Multi-Family (with 10+ Dwelling Units)	\$70.42	\$73.59	\$76.90	\$80.36
Commercial/Non-Residential Sewer Rates				
Volumetric Sewer Rates per Hundred Cubic Feet of Water Use, Subject to a Minimum Monthly Charge				
Class A	\$5.99	\$6.26	\$6.54	\$6.83
Class B	\$6.97	\$7.28	\$7.61	\$7.95
Class C	\$7.37	\$7.70	\$8.05	\$8.41
Class D	\$11.74	\$12.27	\$12.82	\$13.40
Class E	\$17.66	\$18.45	\$19.28	\$20.15
Minimum Monthly Charge	\$70.42	\$73.59	\$76.90	\$80.36

This gradual rate increase is recommended to equitably recover service costs while maintaining a balanced enterprise budget. Even with the proposed rate increases, Redwood City’s sewer charges and combined utility bills are projected to remain in the middle range compared to other regional agencies, as shown in Figures 1 and 2.

Figure 1: Regional Survey of Residential Monthly Sewer Rates

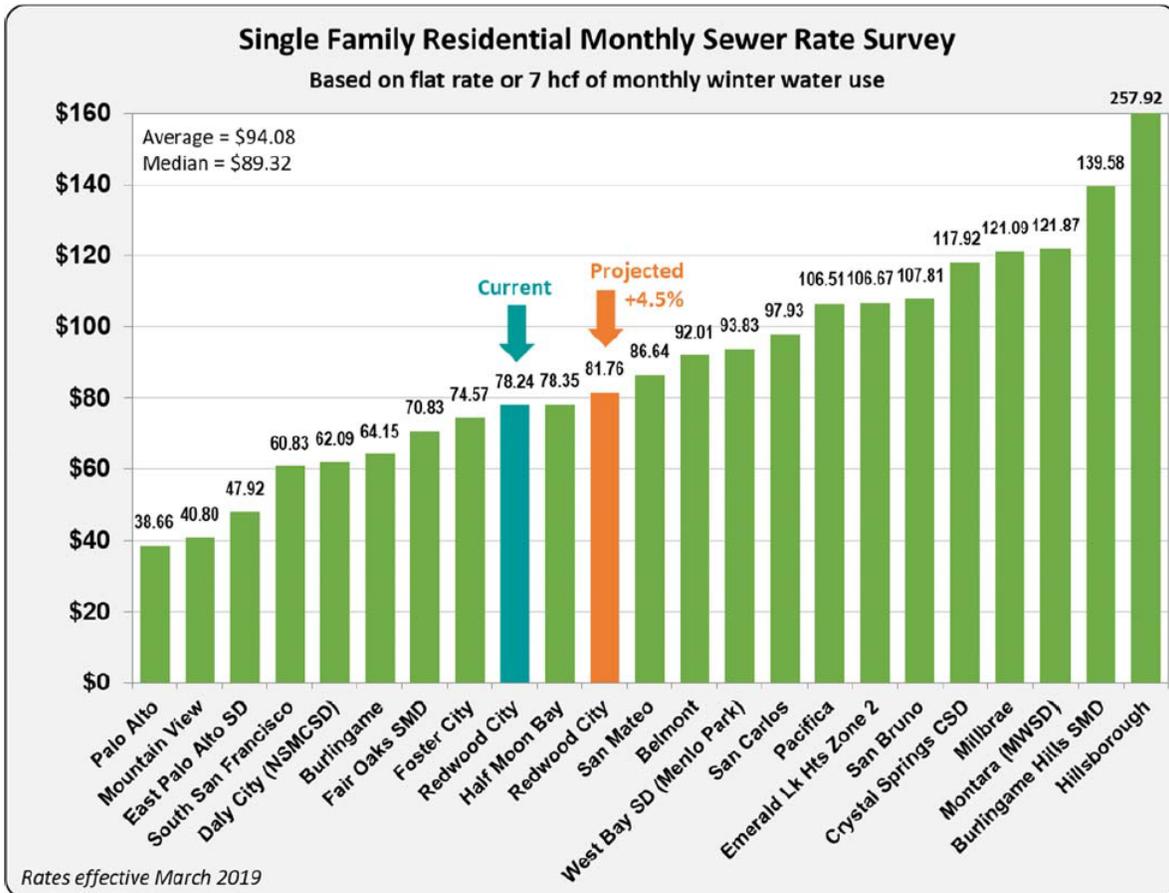
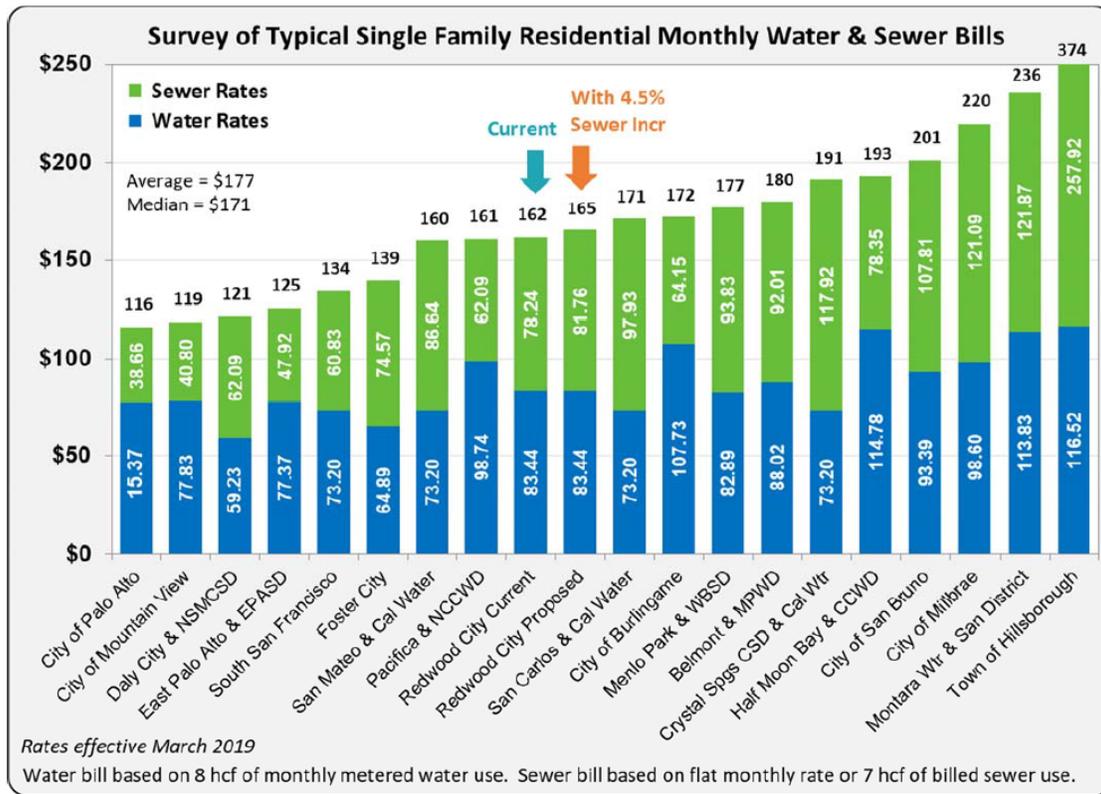


Figure 2: Regional Survey of Single Family Residential Combined Water and Sewer Bills



FISCAL IMPACT

The proposed ordinance will increase sewer rates by 4.5 percent each year from FY 2019-20 to FY 2021-22, and increase revenues collected from sewer service charges. The gradual revenue growth is needed to balance upcoming financial obligations such as the City’s share of SVCW’s capital improvement projects.

ENVIRONMENTAL REVIEW

The ordinance is statutorily exempt from the California Environmental Quality Act (CEQA) review pursuant to Public Resource Code section 21080(b)(8). The sewer service charges are for the purpose of meeting operating expenses, including employee wage rates and fringe benefits, purchasing or leasing supplies, equipment, or materials, meeting financial reserve needs and requirements, and obtaining funds for capital projects necessary to maintain service within existing service areas.

PUBLIC NOTICE

Public Notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting. In addition, staff performed the following:

- Mailed public hearing notices to customers on April 19, 2019;
- Posted a copy of the notice and study online to the City's website;
- Ran two display ads in *The Daily Journal*, on May 17 and May 31; and
- Presented the information at three community meetings.

To date, three protest letters have been received.

ALTERNATIVES

The City Council may choose to reject or direct staff to revise the rate recommendations. The City must receive protests from more than fifty percent of current property owners and rate-paying customers on record to negate the proposed rate increases.

ATTACHMENTS

Attachment A: Ordinance amending Section 27.100 of the Municipal Code

Attachment B: Copy of the Notice of Public Hearing on Proposed Sewer Rate Increases

Attachment C: Sewer Financial Plan and Rate Update

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