



City Council Agenda Item Staff Report

CITY OF SAN BRUNO

DATE: April 25, 2023

TO: Honorable Mayor and Members of the City Council

FROM: Alex D. McIntyre, Interim City Manager

PREPARED BY: Bobby Magee, Interim Finance Director
Matthew Lee P.E., Public Works Director

SUBJECT: Consider Adoption of a Resolution Directing Staff to Initiate the Property Owner Notice, Hearing, and Protest Process as Required by Proposition 218 for the Proposed Sewer Rate Increases for FY 2023-24 Through 2027-28

BACKGROUND:

The Wastewater Enterprise Fund accounts for all operational and capital expenditures needed to operate, maintain, and improve these critical utility systems. The Fund operates without tax support as each is funded solely by ratepayers. The City Council last adopted a multi-year sewer rate increase plan on May 23, 2017, setting rates for a five-year period through June 30, 2021. The 2017-21 rates for both the Water and Sewer enterprise Funds were based on a 10-year financial plan and adjusted the same amounts each year. The annual rate increase for Sewer was 5%. The City Council suspended the final year of the 5-year sewer rate increase schedule at the February 9, 2021 City Council Meeting.

The City awarded a contract in March 2022 to Bartle Wells Associates of Berkeley, California, to update the City's sewer and water rate model to ensure revenues continue covering operational costs and necessary infrastructure improvements. Work on the study has been on-going since that time and, as such, staff did not propose rate increases for the current fiscal Year (FY) 2022-23 fiscal year. The combination of the suspended of the 2021 rate increase and the fact that staff did not propose to increase rates in FY 2022-23, has resulted in sewer rates remaining unchanged since 2020.

City Council Meeting History on Sewer Rate Discussion

Staff and the Bartle Wells Associates consultants have met and presented status updates and rate recommendations to the City Council over the last six months. At the December 13, 2022 City Council Meeting, staff provided a brief update on the Rate Study development progress. On February 14 2023 and February 28 2023, the City Council held two Study Sessions on the Sewer Rate Study. Staff reviewed the Rate Study findings, the 5% rate recommendations, and the Proposition 218 notification process. The Water and Sewer Rate Study Report that was reviewed at the City Council meetings is provided in Attachment 3. At the February 28 2023 City Council Meeting, Councilmembers directed staff to return to the City Council to initiate the Proposition 218 Notice. Councilmembers also directed staff to separate the sewer and water rate proposals. Staff are scheduled to present the proposed water rate increases to the City Council in the latter part of 2023 for a January 1, 2024 effective date.

DISCUSSION:

After reviewing the fixed, operational, and capital improvement priorities, City staff and Bartle Wells Associates developed a financial plan to adequately fund these costs over the next 5 years. Below is the proposed rate schedule for sewer utility rate payers.

Proposed Sewer Rate Increases				
July 1 2023	July 1 2024	July 1 2025	July 1 2026	July 1 2027
5%	5%	5%	5%	5%

Following are the proposed sewer rates for FY 2023-24 through 2027-28 fixed and variable sewer rates for residential and commercial services. This table will also be included in the Proposition 218 public notice provided in Attachment 2. Wastewater service charges are billed bi-monthly on the City's combined utility bill.

Proposed Wastewater Rates						
	Current Sewer Rates	Proposed Wastewater Rates Effective On or After				
		July 1 2023	July 1 2024	July 1 2025	July 1 2026	July 1 2027
MONTHLY SERVICE CHARGES						
Fixed monthly charge per account						
Single Family Residential	\$32.27	\$33.96	\$35.74	\$37.61	\$39.59	\$41.66
All Other Customers (Based on Water Meter Size)						
Meter Size						
3/4-inch	\$32.27	\$33.96	\$35.74	\$37.61	\$39.59	\$41.66
1-inch	53.78	56.60	59.57	62.69	65.98	69.43
1-1/2 inch	107.57	113.20	119.14	125.38	131.95	138.87
2-inch	172.11	181.13	190.62	200.61	211.12	222.19
3-inch	322.70	339.61	357.41	376.14	395.85	416.60
4" & Larger	537.83	566.02	595.68	626.90	659.76	694.33
QUANTITY CHARGES						
Billed per hundred cubic feet (hcf) based on customer classification						
Residential	\$12.37	\$12.98	\$13.61	\$14.28	\$14.97	\$15.71
Commercial						
C-1 Light Commercial	\$11.50	\$12.05	\$12.63	\$13.23	\$13.87	\$14.53
C-2 Medium Commercial	12.37	12.98	13.61	14.28	14.97	15.71
C-3 Heavy Commercial	17.61	18.54	19.51	20.54	21.62	22.76
C-4 Special Commercial	22.86	24.11	25.42	26.81	28.27	29.82
Government	12.37	12.98	13.61	14.28	14.97	15.71
Industrial						
I-1 Light Industrial	\$12.37	\$12.98	\$13.61	\$14.28	\$14.97	\$15.71
I-2 Industrial	Flow	8.88	9.27	9.68	10.10	10.54
	COD per lb ³	0.68	0.72	0.76	0.81	0.85
	SS per lb	1.41	1.49	1.58	1.68	1.78

Note: One hundred cubic feet (ccf) equals approximately 748 gallons.

Explanation of Basis for Rate Increases

Reliable and safe sewer collection and treatment is among the most fundamental and important services delivered to our community. These services are funded solely from sewer customer rates.

The proposed annual 5% rate increases for each of the next five years will provide necessary revenue to cover the projected operational and maintenance costs for the City's sewer utility. The proposed rates also continue the Capital Improvement Program to provide for the necessary investment in improving and replacing the City's aging and deteriorating sewer infrastructure.

Approximately \$54 million of sewer system capital improvements over the next five years primarily consist of rehabilitation and replacement of aging sewer pipelines, but also include pump station improvements and the City's share of the capital improvement projects of the

Water Quality Control Plant (WQCP). The improvements are needed to address existing deficiencies, rehabilitation and/or replace aging infrastructure that has reached the end of its useful life, and to support safe and reliable service. In addition, the WQCP anticipates a future debt issuance to support a major upgrade to its biosolids handling process. San Bruno's share of debt service is estimated at approximately \$800,000 per year starting FY 2026-27. The detailed analysis of the improvements needed are included in the final Water and Sewer Rate Study Report provided in Attachment 3.

Sewer Capital Projects

Over the last five years, prioritization was given to wastewater projects to ensure compliance with the 2011 Baykeeper Consent Decree (CD) and Regional Water Board's Cease and Desist Order (CDO). The City's compliance obligations ended in 2021. Of the projects identified in the 2017 Rate Study, 80% were completed. For those projects not yet completed, 100% was due to delays caused by an outside entity.

The most significant factor impacting the Wastewater utility system is the age of infrastructure. The average sewer pipeline age is over 60 years old with some sections over 100 years old.

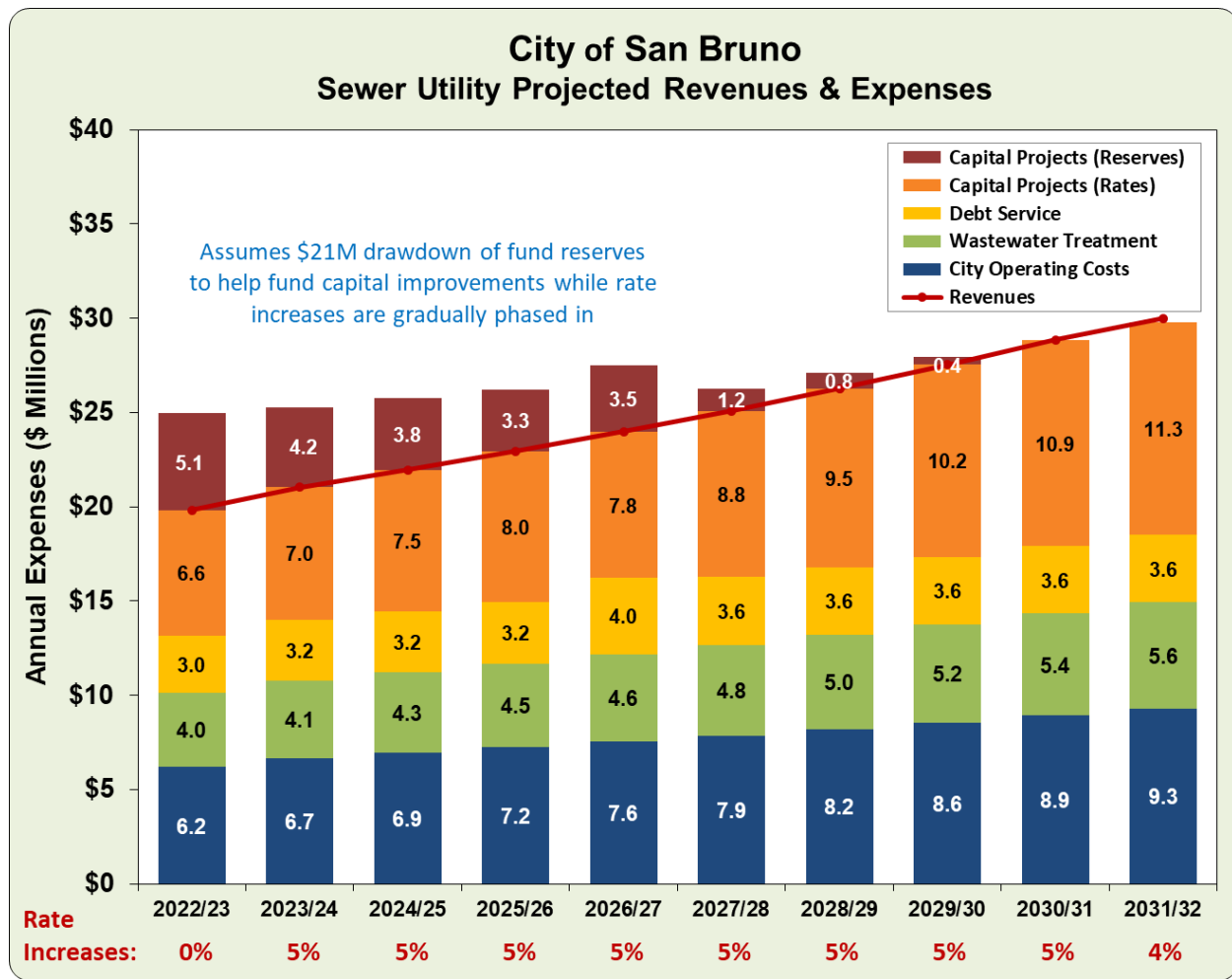
Below is a Sewer CIP expenditure summary over the last five years. The pandemic and staffing shortages limited capital project construction during FY2021-22.

Fiscal Year	Wastewater CIP
2017-18	\$ 5,086,120
2018-19	6,677,943
2019-20	7,585,130
2020-21	3,633,794
2021-22	1,181,922
TOTAL	\$ 24,164,909

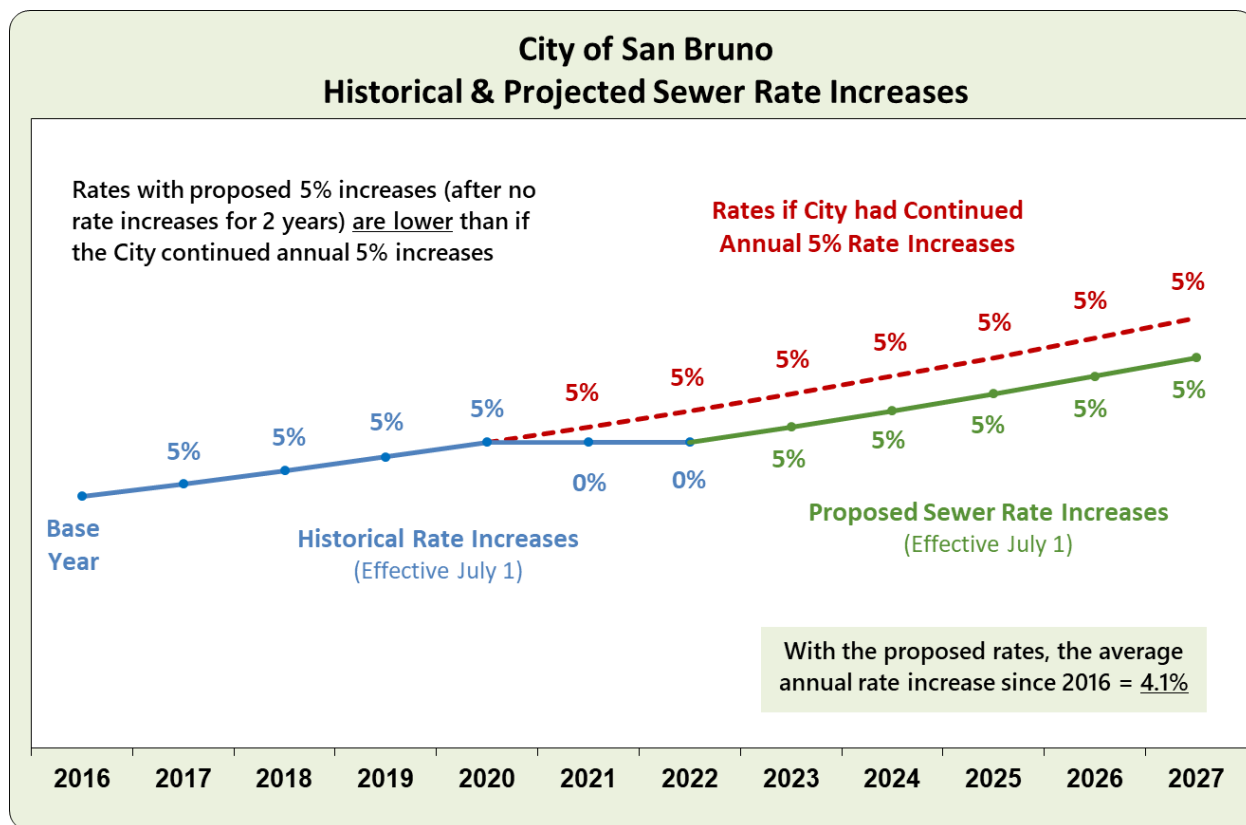
Annual sewer operational expenditures are relatively consistent from year to year. For FY 2022-23, the operations budget is \$11,495,848.

Explanation of Proposed Rate Increases

The proposed rate increases are designed to put the City on a long-term path toward supporting balanced budgets while providing adequate funding for ongoing rehabilitation and replacement of aging sewer system infrastructure to support safe and reliable service. As shown in the chart below, the projections assume the City draws down approximately \$21 million of fund reserves to help fund projected capital improvements while rates are being phased in.



The cash flow projections indicate the need to raise sewer rates by 5% each year for the next 5 years in order to support the sewer utility's projected operating and capital funding needs. These projected rate increases follow a period of no rate increases over the past two years as shown below. With the proposed rates, the average annual sewer rate increase since 2016 equates to approximately 4.1% as shown in the chart below.



The 5% sewer rate increases represent the overall level of annual rate increases proposed. Actual impacts to customers monthly water bills may vary a little based on customer class and billed usage due to minor modifications to the rate structure designed to keep sewer rates aligned with the cost of providing service.

Property Owner Notice and Protest Process

The proposed rate adjustments are subject to Section 6 of Article XIIID of the California Constitution (Proposition 218). Therefore, at this time staff proposes to initiate the public hearing process required by Proposition 218 for the City Council to consider adopting the new FY 2023-24 through FY 2027-28 rates by resolution effective July 1, 2023.

In summary, Proposition 218 requires the City Council to hold a noticed public hearing on the rates. The hearing cannot occur less than 45 days after mailing a notice of the proposed rates to the record owners of property and to the customers subject to the rates. At the conclusion of the public hearing, the City must tabulate the written protests against the proposed rates and determine if a majority protest exists. A majority protest will exist if written protests have been presented, and not withdrawn, by the record owners or customers of record of a majority of the parcels subject to the rates. If a majority protest exists, the City Council cannot adopt the proposed rates.

Rate Adjustment Adoption Timeline

As directed by the City Council at the February 28, 2023 City Council Meeting, the Proposed Sewer Rate Increases for FY 2023-24 Through 2027-28 are planned to be adopted by Resolution at the June 13, 2023 City Council meeting. Proposition 218 requires that all property owners be notified of increases to water and wastewater utility rates. If a majority of property owners file written protests the proposed rate increase cannot be implemented. In order to establish a new rate structure for 2023-24 by July 1, 2023, the following schedule is proposed for this effort:

April 25, 2023	City Council authorizes mailing 45-day notice to property owners per Proposition 218 in rate adoption process
April 26 to 29, 2023	All notices mailed / start 45-day period, on or before April 29 (Exact date to be determined)
June 13, 2023	City Council holds public hearing, considers any protests, takes action to adopt new FY 2023-24 through FY 2027-28 rates by resolution effective July 1, 2023
July 1, 2023	New rates take effect

FISCAL IMPACT:

Administering the Proposition 218 process will cost approximately \$12,200 for the mailing and postage which will be funded from the available Wastewater (Sewer) Enterprise Fund balance.

The proposed rate structure will provide 5% in total additional revenues to support operational and capital needs, including replacement of aging infrastructure, for the 5-year time period from 2023-24 through 2027-28.

Over the 5-year financial planning period, total planned wastewater capital investment is \$54 million. The proposed rate model was structured so that rate revenue alone will be sufficient to cover operational and capital costs over the 5-year period and the City does not anticipate debt-financing will be necessary.

ENVIRONMENTAL IMPACT:

The action is not a project subject to CEQA. City Council's action is not considered a "Project" per CEQA Guidelines and therefore no further environmental analysis is required.

RECOMMENDATION:

Consider adoption of a Resolution directing staff to initiate the property owner notice, hearing, and protest process as required by Proposition 218 for the proposed sewer rate increases for FY 2023-24 through 2027-28.

ALTERNATIVES:

1. Do not proceed with the process to adopt new rates at this time.

ATTACHMENTS:

1. Resolution
2. Proposition 218 Public Notice
3. Final Water and Sewer Rate Study Report