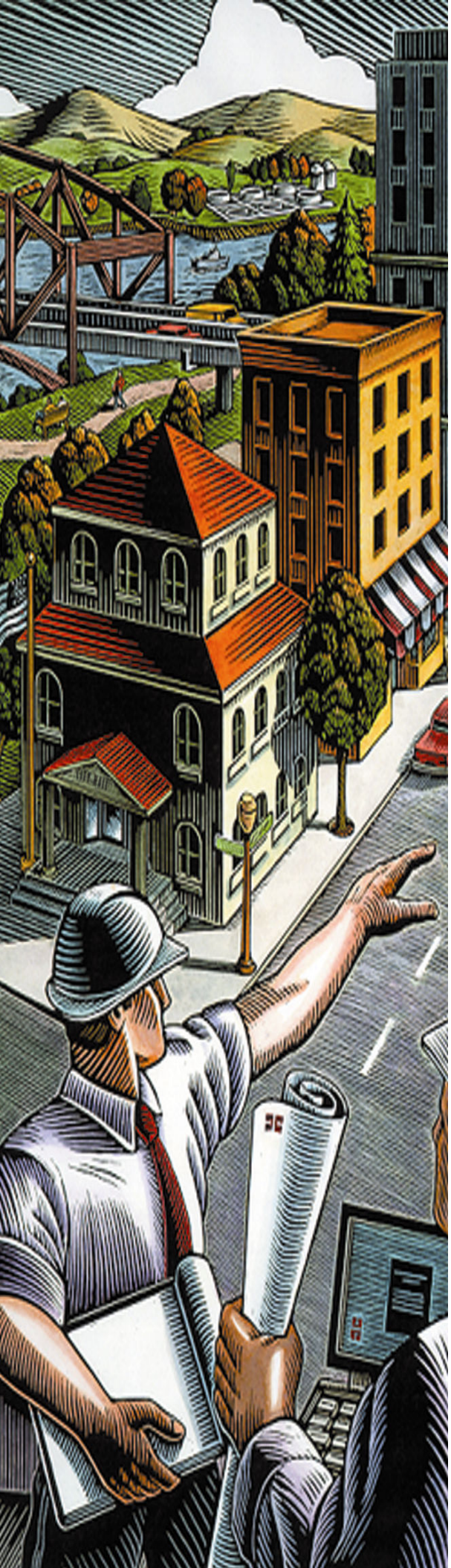

# Rate Analysis Report

for the

## City of Los Altos
## Sewer Service Charge

Prepared by:

Harris & Associates

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## Introduction

A Sanitary Sewer Master Plan was prepared in 2005 that indicated the sewer system of the City of Los Altos (the "City") is in need of significant improvements to the aging system. The City is seeking to revise its rate structure to equitably fund sewer operation and capital costs.

Harris & Associates has been asked to review the methodology options for rate structures for the Sewer Service Charge, including the impacts of Proposition 218, and provide a recommendation as to the most appropriate methodology.

## Proposition 218 Requirements

***Methodology Requirements.*** Because the rates will be increasing, the Sewer Service Charge must comply with the provisions of Article XIIID of the California Constitution (Proposition 218). Section 6(b) of Proposition 218 has the following requirements for all "new, extended, imposed or increased" fees and charges:

1) "Revenues derived from the fee or charge shall not exceed the funds required to provide the property-related service."

2) "Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed."

3) "The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel."

4) "No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of service are not permitted. Standby charges, whether characterized as charges or assessments, shall be classified as assessments and shall not be imposed without compliance with [the assessment section of Proposition 218]."

5) "No fee or charge may be imposed for general governmental services including, but not limited to, police, fire, ambulance or library services where the service is available to the public at large in substantially the same manner as it is to property owners."

***Establishment Requirements.*** All new or increased fees and charges now require a public hearing process with mailed notices to all affected property owners. If a majority of the affected properties submit written protests, then the fee or charge may not be imposed.

## Existing Fee Structure

The current rate structure for the City's Sewer Service Charge is set forth in Section 10.12.480 of the Los Altos Municipal Code. Single Family Residential (SFR) parcels are charged 1 Unit of Service, and all other property uses are compared to the SFR with regard to their sewer service charge amount.

The current charge for properties is $23.75 per Unit of Service per month (or $285 per Unit of Service per year) and is collected on the County property tax bills.

## Rate Structure Analysis

Items 3 and 4 on page 1 of this report comprise the requirements directly affecting the analysis of a user fee rate structure.

> "The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel."
>
> and
>
> "No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question."

Most developed properties within the City, and some parcels outside the City, use the City's sewer infrastructure. The amount that each parcel uses the sewer system is proportional to the amount of effluent the parcel contributes to the system. Per Item 3 of the methodology requirements, the amount of the fee must be proportional to the service attributable to the parcel. Per Item 4, if a property is not connected to the sewer (such as a vacant property or a property with a septic system), the property cannot be charged the Sewer Service Charge.

Because sewer connections are not individually metered, the City does not have a means with which to calculate the exact amount of sewer usage by a parcel. Therefore, we must estimate the amount of use for each parcel.

The following outlines the recommended option for structuring the Sewer Service Charge based on estimated usage of the sewer system.

## Recommended Rate Structure

### Modified Water Consumption

This Method assumes that the three lowest total water usage months in the City are the wettest months in the year and therefore will reflect the lowest amount of water used for irrigation purposes and, therefore, not introduced into the sewer system. Based on this assumption, the individual water consumption for each parcel in these three months is averaged and multiplied by 12 to calculate the total estimated annual sewer usage.

Therefore, for each parcel, the individual water consumption in those three "wettest" months would be averaged and multiplied by 12 to calculate the total estimated annual sewer usage.

For every year that the sewer service charge is in effect, the previous year's water data would be used to determine the lowest water use months and the appropriate "estimated sewer use" to calculate each parcel's charge.

This method for calculating sewer use is often seen as more fair than a "design flow" method such as the City currently uses, which looks at what a home or business is "designed" to use. The "design flow" method treats all properties within a classification the same. With the "modified water consumption method," homes that use more water are charged more than a home that uses less water. Because the "modified water consumption method" is based on actual "usage", it is considered proportional and fair and is therefore recommended for the City's Sewer Service Charge.

For our analysis, calendar year 2007 water consumption data was provided by the California Water Company, which provides water service to the City of Los Altos.

For 2007, the lowest water consumption months were January, February and March, as shown in Table 1.

**Table 1 – Calendar Year 2007 Total Water Consumption for Los Altos**

| JAN | FEB | MAR | APR | MAY | JUN | JUL | AUG | SEP | OCT | NOV | DEC |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 155,114 | 146,655 | 177,724 | 278,586 | 310,583 | 433,927 | 466,981 | 452,365 | 437,632 | 383,842 | 282,795 | 234,995 |

Therefore, for each parcel, the individual water consumption in January, February and March 2007 was averaged and multiplied by 12 to calculate the total estimated annual sewer usage for calendar year 2007.

For every year that the Sewer Service Charge is in effect, the previous year's water data will be used to determine the three lowest use months and the appropriate "estimated sewer use" to calculate each parcel's fee.

Table 2 provides the estimated annual sewer use per the California Water Company data for the City of Los Altos and certain parcels in unincorporated County areas that are connected to the City's system. Additionally, water data from Purissima Hills Water District was used to calculate estimated annual sewer use for Foothill Community College. One unit = 100 cubic feet of sewer use. Sewer Use for the average Single Family Home is 150 units.

**Table 2 – 2007 Estimated Sewer Use - Summary by Land Use ***

| Land Use Description | No. of Parcels | Avg. Sewer Use per Parcel | Total Estimated Yearly Sewer Use |
|---|---|---|---|
| Single Family Home | 10,026 | 150 | 1,507,340 units |
| Condominiums | 721 | 77 | 55,794 units |
| Multi-Family Residence (2 units) | 61 | 161 | 9,842 units |
| Multi-Family Residence (3-4 units) | 12 | 211 | 2,536 units |
| Multi-Family Residence (5+ units) | 20 | 1,039 | 20,784 units |
| Church | 21 | 526 | 11,052 units |
| Commercial / Industrial | 477 | 345 | 164,453 units |
| Institutional | 4 | 12,879 | 51,516 units |
| Park | 9 | 384 | 3,456 units |
| School | 11 | 1,907 | 20,980 units |
| Government | 5 | 595 | 2,975 units |
| | 11,367 | | 1,850,728 units |

Developed properties that are connected to the City's sewer system but for which water consumption information is not available are charged the average sewer use per parcel identified above.

* Usage data includes all parcels in the City of Los Altos and in unincorporated Santa Clara County served by the City of Los Altos's sewer program. The City's program uses capacity and facilities provided to the program by the City of Mountain View to serve some parcels in the City of Los Altos. These parcels are charged a sewer service charge by the City of Los Altos, and data for these parcels is included in the above table. The City of Los Altos compensates the City of Mountain View for access to the Mountain View sewer system by providing the Mountain View's sewer program with access to a similar volume of service from the Los Altos system. Parcels located in Mountain View, but connected to the Los Altos sewer system, are receiving service from the Mountain View sewer program and are not included in the above table or subject to Los Altos's sewer service charge.

Additionally, the City of Los Altos sells sewer services, in bulk, to the Town of Los Altos Hills, and the Town uses these services to serve parcels located in Los Altos Hills. Usage by parcels in Los Altos Hills is not shown in the above table because these parcels are not subject to the Los Altos sewer service charge. Instead, the full cost of the services indirectly provided by the City of Los Altos to these Los Altos Hills parcels is covered by the direct payment to the City from the Town of Los Altos Hills. Costs of these services are not spread to parcels directly served by the City of Los Altos sewer program.

## Cost Estimate

The estimated FY 08-09 annual sewer operations and maintenance budget is shown below in Table 3.

**Table 3 –FY 2008-09 Estimated Annual Sewer Costs**

| | |
|---|---|
| **Personnel (6.75 FTE's)** | $791,443 |
| **Maintenance & Inspection** | $1,262,900 |
| **Capital Projects** [1] | $1,640,000 |
| **Treatment Plant** | $2,355,843 |
| **Total Sanitary Sewer Expenses:** | **$6,050,186** |
| Fund Balance from prior FY (positive amount) | ($7,000,000) |
| Capital Projects Reserve | $5,000,000 |
| Los Altos Hills Sewer Charge (positive amount) | ($500,000) |
| Reserve (Cash flow/Contingency) | $2,050,000 |
| **FY 08-09 Sewer Service Charge Requirement:** | **$5,600,186** |

[1] Estimated annual cost of on-going major rehabiliation and capital projects, based on anticipated 2008-09 costs for Corrosion Rehab Project "A" and Replacement Project PCR A, Phase 2.

## Rate Calculation

The annual Sewer Service Charge rate is calculated by dividing the total annual budget by the total estimated sewer use:

**Sewer Service Charge Rate** = (annual budget) ÷ (total estimated sewer usage) = **$/unit of use**

A maximum Sewer Service Charge Rate ($/unit of use) would be set by City ordinance, along with an annual escalator to help ensure that the revenue generated by the charge will increase with the estimated cost of living each year.

The maximum Sewer Service Charge Rate for FY 2008-09 is calculated as follows:

$5,600,186 / 1,850,728 units = **$3.03 / unit**

To keep up with inflation, this maximum Sewer Service Charge Rate will be increased automatically each year by the annual change in the Consumer Price Index (CPI), All Urban Consumers, for the San Francisco – Bay Area area, as of January of each year.

Table 4, below, provides the average charge per parcel for the various land uses in the City.

**Table 4 – Average Sewer Service Charge for Various Land Uses**

| Land Use Description | Avg. Sewer Use per Parcel | Avg. Annual Sewer Charge | Avg. Monthly Sewer Charge |
|---|---|---|---|
| Single Family Home | 150 | $455.54 | $37.96 |
| Condominiums | 77 | $234.47 | $19.54 |
| Multi-Family Residence (2 units) | 161 | $488.87 | $40.74 |
| Multi-Family Residence (3-4 units) | 211 | $640.34 | $53.36 |
| Multi-Family Residence (5+ units) | 1,039 | $3,148.78 | $262.40 |
| Church | 526 | $1,594.65 | $132.89 |
| Commercial / Industrial | 345 | $1,044.64 | $87.05 |
| Institutional | 12,879 | $39,023.37 | $3,251.95 |
| Park | 384 | $1,163.52 | $96.96 |
| School | 1,907 | $5,779.04 | $481.59 |
| Government | 595 | $1,802.85 | $150.24 |

The Preliminary Sewer Service Charge Roll, which is a listing of each parcel within the City's sewer service area, and its proposed Sewer Service Charge for FY 2008-09, is on file in the City Clerk's office.

Respectfully submitted:

**Harris & Associates**

Joan E. Cox, PE
Senior Project Manager